

TOWN OF THATCHER, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2018, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75. Our opinions are not modified with respect to this matter.

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.

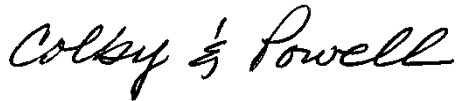
Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 57 through 60, Schedule of the Town's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans on pages 61 through 63, Schedule of Changes in the Town's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans on pages 64 through 65, and Schedule of Town Pension/OPEB Contributions on pages 66 through 68 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 January 16, 2019, 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.

A handwritten signature in cursive script that reads "Colby J. Powell".

January 16, 2019

TOWN OF THATCHER, ARIZONA
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,786,942	\$ 1,919,913	\$ 9,706,855
Restricted cash	-	101,717	101,717
Investment in joint venture	-	442,000	442,000
Receivables - net	233,068	600,705	833,773
Taxes receivable	440,480	-	440,480
Due from other governments	130,797	-	130,797
Net other postemployment benefits asset	141,707	2,811	144,518
Capital assets, not being depreciated	2,320,669	248,126	2,568,795
Capital assets, being depreciated, net	13,216,326	2,499,468	15,715,794
Total assets	24,269,989	5,814,740	30,084,729
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and other postemployment benefits	2,500,008	118,653	2,618,661
LIABILITIES			
Accounts payable	100,011	323,517	423,528
Accrued expenses	166,366	19,838	186,204
Refundable deposits	-	101,717	101,717
Noncurrent liabilities			
Due within 1 year	278,457	63,909	342,366
Due in more than 1 year	7,374,136	1,158,158	8,532,294
Total liabilities	7,918,970	1,667,139	9,586,109
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and other postemployment benefits	492,494	72,020	564,514
NET POSITION			
Net investment in capital assets	13,548,148	2,512,873	16,061,021
Unrestricted	4,810,385	1,681,361	6,491,746
Total net position	\$ 18,358,533	\$ 4,194,234	\$ 22,552,767

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Activities
Year Ended June 30, 2018

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	\$ 1,047,894	\$ 118,828	\$ -	\$ -	\$ (929,066)	\$ -	\$ (929,066)
Public safety	2,596,784	27,401	199,438	511,203	(1,858,742)	-	(1,858,742)
Highways and streets	1,015,518	-	-	564,622	(450,896)	-	(450,896)
Community development	425,263	-	-	34,805	(390,458)	-	(390,458)
Parks and recreation	611,491	91,280	-	332,552	(187,659)	-	(187,659)
Interest on long-term debt	63,111	-	-	-	(63,111)	-	(63,111)
Total governmental activities	5,760,061	237,509	199,438	1,443,182	(3,879,932)	-	(3,879,932)
Business-type activities							
Sewer	463,053	386,650	-	69,840	-	(6,563)	(6,563)
Electric	5,295,481	4,512,536	-	-	-	(782,945)	(782,945)
Sanitation	331,729	295,242	-	-	-	(36,487)	(36,487)
Total business-type activities	6,090,263	5,194,428	-	69,840	-	(825,995)	(825,995)
Total primary government	\$ 11,850,324	\$ 5,431,937	\$ 199,438	\$ 1,513,022	(3,879,932)	(825,995)	(4,705,927)
General revenue:							
Taxes:							
Sales tax					3,478,222	110,347	3,588,569
Franchise tax					34,285	-	34,285
State urban revenue sharing					622,642	-	622,642
Share of state sales taxes					482,829	-	482,829
Share of county auto lieu taxes					293,841	-	293,841
Investment income					132,872	17,519	150,391
Miscellaneous					26,653	-	26,653
Gain on sale of assets					3,807	-	3,807
Total general revenue					5,075,151	127,866	5,203,017
Change in net position					1,195,219	(698,129)	497,090
Net position, beginning of year, as restated					17,163,314	4,892,363	22,055,677
Net position, end of year					\$ 18,358,533	\$ 4,194,234	\$ 22,552,767

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Grants Fund	HURF Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,786,942	\$ -	\$ -	\$ 7,786,942
Accounts receivable - net	233,068	-	-	233,068
Taxes receivable	440,480	-	-	440,480
Due from other funds	27,817	-	-	27,817
Due from other governments	72,086	21,108	37,603	130,797
Total assets	8,560,393	21,108	37,603	8,619,104
LIABILITIES				
Accounts payable	69,117	-	30,894	100,011
Accrued expenses	166,366	-	-	166,366
Due to other funds	-	21,108	6,709	27,817
Total liabilities	235,483	21,108	37,603	294,194
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	273,853	2,709	-	276,562
FUND BALANCES				
Unassigned	8,051,057	(2,709)	-	8,048,348
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,560,393	\$ 21,108	\$ 37,603	\$ 8,619,104

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, 2018

Fund balances-total governmental funds		\$ 8,048,348
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		15,536,995
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue</p>		276,562
<p>Net pension/OPEB assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.</p>		141,707
<p>Liabilities, such as net pension/OPEB liabilities and notes payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.</p>		
<p style="padding-left: 20px;">Compensated absences</p>	(320,258)	
<p style="padding-left: 20px;">Notes payable</p>	(1,761,150)	
<p style="padding-left: 20px;">Net pension/OPEB liability</p>	<u>(5,571,185)</u>	
		(7,652,593)
<p>Deferred outflows and inflows of resources related to pensions/OPEB and deferred charges or credits on debt refundings are applicable to future reporting periods and,</p>		<u>2,007,514</u>
Net position of governmental activities		<u><u>\$ 18,358,533</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, 2018

	General Fund	Grants Fund	HURF Fund	Total Governmental Funds
Revenue:				
Taxes	\$ 3,512,508	\$ -	\$ -	\$ 3,512,508
Intergovernmental	1,399,312	535,925	390,987	2,326,224
Charges for services	239,261	-	-	239,261
Interest	130,698	-	2,174	132,872
Other revenue	43,076	-	-	43,076
Licenses and permits	42,127	-	-	42,127
Fines and forfeitures	26,804	-	-	26,804
Total revenue	<u>5,393,786</u>	<u>535,925</u>	<u>393,161</u>	<u>6,322,872</u>
Expenditures:				
Current				
General government	827,705	-	-	827,705
Public safety	3,222,845	94,559	-	3,317,404
Highways and streets	617,712	-	10,764	628,476
Community development	438,332	-	-	438,332
Parks and recreation	533,815	20,000	-	553,815
Debt service				
Principal	98,517	-	-	98,517
Interest	63,111	-	-	63,111
Capital outlay	1,464,810	462,206	933,764	2,860,780
Total expenditures	<u>7,266,847</u>	<u>576,765</u>	<u>944,528</u>	<u>8,788,140</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,873,061)</u>	<u>(40,840)</u>	<u>(551,367)</u>	<u>(2,465,268)</u>
Other financing sources (uses):				
Installment purchase agreement	543,667	-	-	543,667
Sale of capital assets	3,807	-	-	3,807
Transfers	(391,038)	147,357	243,681	-
Total other financing sources (uses)	<u>156,436</u>	<u>147,357</u>	<u>243,681</u>	<u>547,474</u>
Net change in fund balances	(1,716,625)	106,517	(307,686)	(1,917,794)
Fund balances, beginning of year	9,767,682	(109,226)	307,686	9,966,142
Fund balances, end of year	<u>\$ 8,051,057</u>	<u>\$ (2,709)</u>	<u>\$ -</u>	<u>\$ 8,048,348</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, 2018

Net change in fund balances-total governmental funds		\$ (1,917,794)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation		
Capital outlay	2,860,780	
Depreciation expense	<u>(709,211)</u>	2,151,569
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable grant revenue	(82,156)	
Developer contributed assets	199,554	
Contribution of fire truck	<u>511,203</u>	628,601
Town pension/OPEB 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/OPEB liability is measured a year before the Town's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the		
Town pension/OPEB contributions	1,528,407	
Pension/OPEB expense	<u>(834,216)</u>	694,191
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the		
Debt principal repaid	98,517	
Installment purchase agreement	<u>(543,667)</u>	(445,150)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
PSPRS-Parker lawsuit liability	115,000	
Increase in compensated absences payable	<u>(31,198)</u>	<u>83,802</u>
Change in net position of governmental activities		<u><u>\$ 1,195,219</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 1,919,913	\$ -	\$ 1,919,913
Restricted cash	-	101,717	-	101,717
Investment in joint venture	-	442,000	-	442,000
Accounts receivable, net	50,166	510,180	40,359	600,705
Total current assets	50,166	2,973,810	40,359	3,064,335
Noncurrent assets				
Due from other funds	-	2,444,960	-	2,444,960
Net other postemployment benefits asset	293	2,191	327	2,811
Capital assets, net of accumulated depreciation, where applicable:				
Land	248,126	-	-	248,126
Utilities systems, net	2,074,923	-	-	2,074,923
Automobiles and trucks, net	48,978	133,960	-	182,938
Equipment, net	55,181	32,667	153,759	241,607
Capital assets, net	2,427,208	166,627	153,759	2,747,594
Total noncurrent assets	2,427,501	2,613,778	154,086	5,195,365
Total assets	2,477,667	5,587,588	194,445	8,259,700
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions and other postemployment benefits	12,366	92,501	13,786	118,653

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Net Position - Continued
Proprietary Funds
June 30, 2018

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Electric Fund	Sanitation Fund	Total
LIABILITIES				
Current liabilities				
Accounts payable	23,629	286,797	13,091	323,517
Accrued expenses	1,550	16,534	1,754	19,838
Refundable deposits	-	101,717	-	101,717
Compensated absences, current	2,547	51,520	9,842	63,909
Total current liabilities	27,726	456,568	24,687	508,981
Noncurrent liabilities				
Due to other funds	1,919,938	-	525,022	2,444,960
Note payable	-	305,000	-	305,000
Compensated absences	637	12,880	2,461	15,978
Net pension and other postemployment benefits liability	87,249	652,659	97,272	837,180
Total noncurrent liabilities	2,007,824	970,539	624,755	3,603,118
Total liabilities	2,035,550	1,427,107	649,442	4,112,099
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions and other postemployment benefits	7,506	56,146	8,368	72,020
NET POSITION				
Net investment in capital assets	2,427,208	-	153,759	2,580,967
Unrestricted (deficit)	(1,980,231)	4,196,836	(603,338)	1,613,267
Total net position	\$ 446,977	\$ 4,196,836	\$ (449,579)	\$ 4,194,234

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, 2018

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
Operating revenue:				
Charges for services	\$ 386,650	\$ 4,445,655	\$ 295,242	\$ 5,127,547
Other revenue	-	66,881	-	66,881
Total operating revenue	<u>386,650</u>	<u>4,512,536</u>	<u>295,242</u>	<u>5,194,428</u>
Operating expenses:				
Cost of power	-	3,338,204	-	3,338,204
Personnel	180,689	544,699	105,013	830,401
Repairs and maintenance	60,184	275,910	34,983	371,077
Depreciation	134,609	32,328	31,563	198,500
Landfill	-	-	110,871	110,871
Materials and supplies	30,511	41,989	29,999	102,499
Insurance	28,357	33,087	18,905	80,349
Professional services	23,863	28,953	-	52,816
Other	2,699	17,454	395	20,548
Utilities	2,141	9,335	-	11,476
Total operating expenses	<u>463,053</u>	<u>4,321,959</u>	<u>331,729</u>	<u>5,116,741</u>
Operating income (loss)	<u>(76,403)</u>	<u>190,577</u>	<u>(36,487)</u>	<u>77,687</u>
Nonoperating revenue (expenses):				
Sales taxes	-	110,347	-	110,347
Investment income	-	17,519	-	17,519
Interest expense	-	(15,444)	-	(15,444)
Loss on disposition of assets	-	(958,078)	-	(958,078)
Total nonoperating revenue (expenses)	<u>-</u>	<u>(845,656)</u>	<u>-</u>	<u>(845,656)</u>
Income (loss) before contributions and transfers	<u>(76,403)</u>	<u>(655,079)</u>	<u>(36,487)</u>	<u>(767,969)</u>
Capital contributions	<u>69,840</u>	<u>-</u>	<u>-</u>	<u>69,840</u>
Increase (decrease) in net position	<u>(6,563)</u>	<u>(655,079)</u>	<u>(36,487)</u>	<u>(698,129)</u>
Total net position, beginning of year, as restated	<u>453,540</u>	<u>4,851,915</u>	<u>(413,092)</u>	<u>4,892,363</u>
Total net position, end of year	<u><u>\$ 446,977</u></u>	<u><u>\$ 4,196,836</u></u>	<u><u>\$ (449,579)</u></u>	<u><u>\$ 4,194,234</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
Cash flows from operating activities:				
Receipts from customers	\$ 379,936	\$ 4,333,482	\$ 288,895	\$ 5,002,313
Payments to suppliers and providers of goods and services	(48,773)	(3,555,184)	(197,497)	(3,801,454)
Payments to employees	(180,042)	(562,433)	(104,844)	(847,319)
Net cash provided (used) by operating activities	<u>151,121</u>	<u>215,865</u>	<u>(13,446)</u>	<u>353,540</u>
Cash flows from noncapital financing activities:				
Borrowings paid to other funds	(93,923)	-	-	(93,923)
Borrowings received from other funds	-	80,477	13,446	93,923
Sales taxes received	-	110,347	-	110,347
Net cash provided (used) by noncapital financing activities	<u>(93,923)</u>	<u>190,824</u>	<u>13,446</u>	<u>110,347</u>
Cash flows from capital and related financing activities:				
Principal paid on note payable	-	(24,000)	-	(24,000)
Interest paid on note payable	-	(15,444)	-	(15,444)
Purchase of capital assets	(57,198)	(111,378)	-	(168,576)
Net cash provided (used) by capital and related financing activities	<u>(57,198)</u>	<u>(150,822)</u>	<u>-</u>	<u>(208,020)</u>
Cash flows from investing activities:				
Interest received	-	17,519	-	17,519
Net increase (decrease) in cash and cash equivalents	<u>-</u>	<u>273,386</u>	<u>-</u>	<u>273,386</u>
Cash and cash equivalents, beginning of year	<u>-</u>	<u>1,748,244</u>	<u>-</u>	<u>1,748,244</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>	<u><u>\$ 2,021,630</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,021,630</u></u>
Cash and cash equivalents	\$ -	\$ 1,919,913	\$ -	\$ 1,919,913
Restricted cash	<u>-</u>	<u>101,717</u>	<u>-</u>	<u>101,717</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>	<u><u>\$ 2,021,630</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,021,630</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows - Continued
Proprietary Funds
Year Ended June 30, 2018

	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)	\$ (76,403)	\$ 190,577	\$ (36,487)	\$ 77,687
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	134,609	32,328	31,563	198,500
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	(6,714)	(200,091)	(6,347)	(213,152)
Net pension and other postemployment benefits asset	(293)	(2,191)	(327)	(2,811)
Deferred outflows of resources related to pensions and other postemployment benefits	(12,002)	65,557	9,428	62,983
Accounts payable	16,875	212,082	(417)	228,540
Accrued expenses	(679)	2,722	(707)	1,336
Refundable deposits	-	21,037	-	21,037
Compensated absences payable	1,326	(20,456)	876	(18,254)
Net pension and other postemployment benefits liability	86,896	(55,931)	(6,781)	24,184
Deferred inflows of resources related to pensions and other postemployment benefits	7,506	(29,769)	(4,247)	(26,510)
Net cash provided (used) by operating activities	<u>\$ 151,121</u>	<u>\$ 215,865</u>	<u>\$ (13,446)</u>	<u>\$ 353,540</u>

Noncash investing, capital, and noncapital financing activities: For the year ending June 30, 2018, the Sewer Fund received sewer infrastructure contributed by a developer in the amount of \$69,840.

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

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.

For the year ended June 30, 2018, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

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 statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

Government-wide 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 overall government's financial activities. They also distinguish between the Town's governmental and business-type activities. 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, including special assessments.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the Town levies or imposes, are reported as general revenues.

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 remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund’s principal activity. Accordingly, revenues, such as user charges and insurance premiums, in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

The Town reports the following major governmental funds:

The ***General Fund*** is the Town’s primary operating fund. It accounts for all financial resources of the 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 Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, 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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The Town applies grant resources to such programs before using general revenues.

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 they become both 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. The Town's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, landfill closure and postclosure care costs, and pollution remediation obligations, 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.

D. Cash and Investments

For the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2018, totaled \$8,402, \$106,583, and \$9,765, respectively.

F. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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 are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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 funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council has approved, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

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

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

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

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

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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.

L. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

Expenditures may not legally exceed budgeted appropriations at the department level. The individual budgetary comparison schedules as listed in the table of contents present all major governmental funds which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2018, if any.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position as at June 30, 2017, as restated	\$ 17,043,403	\$ 4,892,257	\$ 21,935,660
Prior period adjustments - implementation of GASB 75:			
Net OPEB asset (measurement date as of June 30, 2016)	119,724	-	119,724
Net OPEB liability (measurement date as of June Deferred outflows-Town contributions made during fiscal year 2017	(5,831)	(3,389)	(9,220)
	<u>6,018</u>	<u>3,495</u>	<u>9,513</u>
Total prior period adjustment	<u>119,911</u>	<u>106</u>	<u>120,017</u>
Net position, as restated, July 1, 2017	<u>\$ 17,163,314</u>	<u>\$ 4,892,363</u>	<u>\$ 22,055,677</u>
	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Sanitation Fund</u>
Net position as previously reported at June 30, 2017	\$ 453,529	\$ 4,851,832	\$ (413,104)
Prior period adjustments - implementation of GASB 75:			
Net OPEB liability (measurement date as of June Deferred outflows-Town contributions made during fiscal year 2017	(353)	(2,642)	(394)
	<u>364</u>	<u>2,725</u>	<u>406</u>
Total prior period adjustment	<u>11</u>	<u>83</u>	<u>12</u>
Net position, as restated, July 1, 2017	<u>\$ 453,540</u>	<u>\$ 4,851,915</u>	<u>\$ (413,092)</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

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

The Town’s investment policy states that the Town will conform with Arizona Revised Statutes. The Town does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS – Continued

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

Deposits—At June 30, 2018, the carrying amount of the Town’s total nonpooled cash in bank was \$1,125,778, and the bank balance was \$1,424,334. 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, 2018, 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>\$ 8,682,294</u>	<u>\$ 8,682,294</u>

Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Deposits	
Cash on hand	\$ 500
Cash in bank	1,125,778
Investments	
State Treasurer’s Investment Pool	<u>8,682,294</u>
Total deposits and investments	9,808,572
Cash - restricted	<u>(101,717)</u>
Total cash and cash equivalents	<u>\$ 9,706,855</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the governmental funds at June 30, 2018, included \$17,114 in state-shared revenue from sales taxes, \$14,188 in state-shared revenue from auto lieu taxes, \$40,784 from the Central Jackson Heights Fire District, \$15,352 from the Arizona Department of Homeland Security, \$3,047 from the Governor’s Office of Highway Safety, \$2,709 from the Arizona Department of Transportation, and \$37,603 from the State of Arizona for HURF revenue.

NOTE 5 – 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.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance <u>July 1, 2017</u>	Increases	Decreases	Balance <u>June 30, 2018</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,085,307	\$ 1,235,362	\$ -	\$ 2,320,669
Capital assets being depreciated:				
Buildings	4,535,510	50,730	-	4,586,240
Vehicles	1,614,247	574,170	(169,326)	2,019,091
Computers and peripherals	55,284	-	-	55,284
Light equipment	614,916	329,426	(62,098)	882,244
Heavy equipment	1,601,749	6,366	(118,606)	1,489,509
Infrastructure	12,447,511	1,375,483	-	13,822,994
Total	<u>20,869,217</u>	<u>2,336,175</u>	<u>(350,030)</u>	<u>22,855,362</u>
Less accumulated depreciation for:				
Buildings	(1,764,389)	(130,698)	-	(1,895,087)
Vehicles	(1,020,729)	(112,147)	169,326	(963,550)
Computers and peripherals	(46,152)	(3,010)	-	(49,162)
Light equipment	(519,801)	(13,267)	62,098	(470,970)
Heavy equipment	(1,424,424)	(51,494)	118,606	(1,357,312)
Infrastructure	(4,504,360)	(398,595)	-	(4,902,955)
Total	<u>(9,279,855)</u>	<u>(709,211)</u>	<u>350,030</u>	<u>(9,639,036)</u>
Total capital assets being depreciated, net	<u>11,589,362</u>	<u>1,626,964</u>	<u>-</u>	<u>13,216,326</u>
Governmental activities capital assets, net	<u>\$ 12,674,669</u>	<u>\$ 2,862,326</u>	<u>\$ -</u>	<u>\$ 15,536,995</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 6 – CAPITAL ASSETS – Continued

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 248,126	\$ -	\$ -	\$ 248,126
Capital assets being depreciated:				
Utility systems	7,932,571	69,840	(2,267,680)	5,734,731
Automobiles and trucks	548,571	150,401	-	698,972
Equipment	988,642	18,175	(186,415)	820,402
Total	<u>9,469,784</u>	<u>238,416</u>	<u>(2,454,095)</u>	<u>7,254,105</u>
Less accumulated depreciation for:				
Utility systems	(4,916,533)	(123,827)	1,380,552	(3,659,808)
Automobiles and trucks	(490,052)	(25,982)	-	(516,034)
Equipment	(645,569)	(48,691)	115,465	(578,795)
Total	<u>(6,052,154)</u>	<u>(198,500)</u>	<u>1,496,017</u>	<u>(4,754,637)</u>
Total capital assets being depreciated, net	<u>3,417,630</u>	<u>39,916</u>	<u>(958,078)</u>	<u>2,499,468</u>
Business-type activities capital assets, net	<u>\$ 3,665,756</u>	<u>\$ 39,916</u>	<u>\$ (958,078)</u>	<u>\$ 2,747,594</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 128,560
Public safety	102,586
Highways and streets	409,496
Parks and recreation	<u>68,569</u>
 Total governmental activities depreciation expense	 <u>\$ 709,211</u>
 Business-type activities:	
Sewer	\$ 134,609
Electric	32,328
Sanitation	<u>31,563</u>
 Total business-type activities depreciation expense	 <u>\$ 198,500</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2018.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities:					
Compensated absences	\$ 289,060	\$ 31,198	\$ -	\$ 320,258	\$ 256,206
Notes payable	1,316,000	543,667	98,517	1,761,150	22,251
Net pension and other postemployment benefits liability	5,694,763	-	123,578	5,571,185	-
Governmental activities long-term liabilities	\$ 7,299,823	\$ 574,865	\$ 222,095	\$ 7,652,593	\$ 278,457
Business-type activities:					
Compensated absences	\$ 98,142	\$ -	\$ 18,255	\$ 79,887	\$ 63,909
Notes payable	329,000	-	24,000	305,000	-
Net pension and other postemployment benefits liability	809,607	27,573	-	837,180	-
Business-type activities long-term liabilities	\$ 1,236,749	\$ 27,573	\$ 42,255	\$ 1,222,067	\$ 63,909

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 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 May 2018, the Town entered into a note agreement for part of the purchase of the Red Lamp Trailer Park. The amount of the note was \$634,526. Monthly payments of \$3,403 are due beginning June 2018 with the note maturing in April 2036. Annual interest is 3.50 percent.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES – Continued

The following details the debt service requirements to maturity for both the GADA and Red Lamp notes:

Year Ending June 30,	Notes payable				Total	
	Governmental Activities		Business-type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2019	\$ 22,251	\$ 76,450	\$ -	\$ 14,466	\$ 22,251	\$ 90,916
2020	123,042	71,421	25,000	13,407	148,042	84,828
2021	127,862	66,231	26,000	12,314	153,862	78,545
2022	132,710	60,708	27,000	11,146	159,710	71,854
2023	137,589	54,842	28,000	9,899	165,589	64,741
2024-2028	790,263	171,878	162,000	27,490	952,263	199,368
2029-2033	317,427	35,987	37,000	308	354,427	36,295
2034-2036	110,006	5,696	-	-	110,006	5,696
Total	<u>\$ 1,761,150</u>	<u>\$ 543,213</u>	<u>\$ 305,000</u>	<u>\$ 89,030</u>	<u>\$ 2,066,150</u>	<u>\$ 632,243</u>

NOTE 8 – 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 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables of the governmental funds consisted of \$72,086 loaned by the General Fund to the Grants and HURF Funds to help meet fund obligations. It is anticipated that this amount will be repaid to the General Fund once receivables are collected.

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 \$1,919,938 and \$525,022, respectively.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – 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, 2018, the Town reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) 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/OPEB assets	\$ 141,707	\$ 2,811	\$ 144,518
Net pension/OPEB liabilities	5,571,185	837,180	6,408,365
Deferred outflows of resources related to pension and OPEB	2,500,008	118,653	2,618,661
Deferred inflows of resources related to pension and OPEB	492,494	72,020	564,514
Pension and OPEB expense	834,216	49,179	883,395

The Town reported \$1,528,407 of pension and OPEB contributions as expenditures in the governmental funds related to all 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-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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:

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 percent for retirement, 0.01 percent for health insurance premium benefit, and 0.13 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the ASRS would typically fill. The Town’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were \$76,481, \$3,087, and \$1,117, respectively.

During fiscal year 2018, the Town paid for ASRS pension and OPEB contributions as follows: 63.25 percent from the General Fund, 3.83 percent from the Sewer Fund, 28.65 percent from the Electric Fund, and 4.27 percent from the Sanitation Fund.

Liability - At June 30, 2018, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB
	<u>(Asset) Liability</u>
Pension	\$ 2,272,838
Health insurance premium benefit	(7,649)
Long-term disability	5,202

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2018, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The Town’s proportion of the net asset or net 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, 2017. The Town’s proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	<u>Proportion</u> <u>June 30, 2017</u>	<u>Increase (decrease)</u> <u>from June 30, 2016</u>
Pension	0.01459%	-0.00045%
Health insurance premium benefit	0.01405%	0.00000%
Long-term disability	0.01435%	0.00000%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town’s net asset and net liabilities as a result of these changes is not known.

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense.

	<u>Pension/OPEB</u> <u>Expense</u>
Pension	\$ 126,574
Health insurance premium benefit	4,473
Long-term disability	2,774

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 68,152	\$ -	\$ -
Changes of assumptions or other inputs	98,715	67,962	-	-
Net difference between projected and actual earnings on pension plan investments	16,317	-	-	8,612
Changes in proportion and differences between Town contributions and proportionate share of contributions	42,964	50,457	-	11
Town contributions subsequent to the measurement date	156,268	-	6,308	-
Total	\$ 314,264	\$ 186,571	\$ 6,308	\$ 8,623
	Long-Term Disability			
	Deferred Outflows of Resources	Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 778		
Town contributions subsequent to the measurement date	2,294	-		
Total	\$ 2,294	\$ 778		

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2019	\$ (77,136)	\$ (2,156)	(195)
2020	77,580	(2,156)	(195)
2021	23,263	(2,156)	(195)
2022	(52,282)	(2,155)	(195)
2023	-	-	-
Thereafter	-	-	-

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

ASRS

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Arithmetic Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	1 % Decrease (7 %)	Current Discount Rate (8 %)	1 % Increase (9 %)
Town's Proportionate share of the			
Net pension liability	\$ 2,917,227	\$ 2,272,838	\$ 1,734,395
Net insurance premium benefit liability (asset)	12,702	(7,649)	(24,944)
Net long-term disability liability	6,220	5,202	4,338

Plan Fiduciary Net Position – Detailed information about the plans’ 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. The EORP pension and OPEB plans were 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, 2018

NOTE 10 – 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:

	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 of service, any age 10 years, age 62 5 years, age 65 5 years, any 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 consecutive months of last 10 years
Benefit percentage		
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, 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, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 8 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 7 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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, 2018, statute required active EORP members to contribute 7 or 13 percent of the annual covered payroll and the Town to contribute 12.16 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. In addition, statute required the Town to contribute 23.5 percent of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the EORP would typically fill. The Town’s contributions to the pension and health insurance premium benefit plans for the year ended June 30, 2018, were \$5,041 and \$0, respectively.

During fiscal year 2018, the Town paid 100 percent of EORP pension contributions from the General Fund.

Liability – At June 30, 2018, 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	\$	474,494
State's proportionate share of the EORP net pension liability associated with the Town		98,479
Total	\$	572,973

The net asset and net liability were measured as of June 30, 2017, and the total liability used to calculate the net asset or net liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return to from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

retirement assumptions. The total pension liability also reflects changes of benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the Town’s net pension liability as a result of the refunds is not known.

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, 2017. The Town’s proportion of the net OPEB asset was based on the Town’s present value of benefits relative to the total of all participating employers’ present value of benefits for the year ended June 30, 2017. The Town’s proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.03894%	-0.00417%
Health insurance premium benefit	0.35636%	0.00000%

Expense – For the year ended June 30, 2018, the Town recognized pension and OPEB expense for EORP of \$145,406 and \$(317), respectively, and revenue of \$33,855 for the Town’s proportionate share of the State’s appropriation to EORP and the designated court fees.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred outflows/inflows of resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,113	\$ 1,578	\$ -
Changes of assumptions or other inputs	18,520	-	446	-
Net difference between projected and actual earnings on pension plan investments	2,908	-	-	2,751
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	18,991	-	-
Town contributions subsequent to the measurement date	5,041	-	-	-
Total	\$ 26,469	\$ 23,104	\$ 2,024	\$ 2,751

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to EORP pensions and OPEB resulting from town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>
2019	\$ (1,075)	\$ 768
2020	200	(119)
2021	768	(688)
2022	(939)	(688)

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

EORP

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

Discount rates – At June 30, 2017, the discount rates used to measure the EORP total pension liability and total OPEB liability were 3.91 percent and 7.4 percent, respectively, which was an increase of 0.23 for pension and a decrease of 0.1 for OPEB from the discount rates used as of June 30, 2016. The projection of cash flows used to determine the discount rates 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 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Municipal GO AA Index as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026. The OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s proportionate share of the EORP net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the Town’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rates noted above, as well as what the Town’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Rate - pension	2.91%	3.91%	4.91%
Town's proportionate share of the net pension liability	\$ 560,502	\$ 474,494	\$ 404,348
Rate - OPEB	6.4%	7.4%	8.4%
Town's proportionate share of the net OPEB (asset)	\$ (28,126)	\$ (32,450)	\$ (36,181)

Plan fiduciary net position – Detailed information about the plans’ 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. The EODCDP is not further disclosed because of its relative insignificance to the Town’s financial statements.

For the year ended June 30, 2018, 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. For the year ended June 30, 2018, the Town recognized pension expense of \$1,053.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – 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 agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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, 2018

NOTE 10 – 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:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 36 consecutive months of last 20 years
Benefit percentage		
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%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
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NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

Employees Covered by Benefit Terms – At June 30, 2018, the following employees were covered by the agent plans’ benefit terms:

	PSPRS Police	
	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	7	7
Inactive employees entitled to but not yet receiving benefits	1	1
Active employees	10	10
Total	18	18

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, 2018, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Active Member- Pension	Town-Pension	Town-Health Insurance Premium Benefit
PSPRS Police	7.65% - 11.65%	46.31%	0.00%

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The Town’s contributions to the plans for the year ended June 30, 2018, were:

	Pension	Health Insurance Premium Benefit
PSPRS Police	\$ 1,379,329	\$ -

During fiscal year 2018, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Liability – At June 30, 2018, the Town reported the following liability:

	Net Pension (Asset) Liability	Net OPEB (Asset) Liability
PSPRS Police	\$ 3,655,831	\$ (104,419)

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the Town’s PSPRS net pension liabilities as a result of the refunds is not known.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

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

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rates – At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Changes in the Net Pension/OPEB Liability (Asset)

	Pension		Net Pension
	Increase (Decrease)		
	Total Pension	Plan Fiduciary Net	Liability (Asset) (a) ·
	Liability (a)	Position (b)	(b)
Balances at June 30, 2017	\$ 6,567,278	\$ 2,897,770	\$ 3,669,508
Changes for the year			
Service Cost	168,777	-	168,777
Interest on the total liability	488,982	-	488,982
Changes of benefit terms	110,926	-	110,926
Differences between expected and actual experience in the measurement of the liability	50,410	-	50,410
Changes of assumptions or other inputs	218,719	-	218,719
Contributions-employer	-	591,829	(591,829)
Contributions-employee	-	83,833	(83,833)
Net investment income	-	379,550	(379,550)
Benefit payments, including refunds of employee contributions	(263,800)	(263,800)	-
Administrative expense	-	(3,758)	3,758
Other changes	-	37	(37)
Net changes	774,014	787,691	(13,677)
Balances at June 30, 2018	\$ 7,341,292	\$ 3,685,461	\$ 3,655,831

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	Health Insurance Premium Benefit		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at June 30, 2017	\$ 108,269	\$ 195,543	\$ (87,274)
Changes for the year			
Service Cost	2,663	-	2,663
Interest on the total liability	8,144	-	8,144
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the liability	(642)	-	(642)
Changes of assumptions or other inputs	(4,586)	-	(4,586)
Contributions-employer	-	-	-
Contributions-employee	-	-	-
Net investment income	-	22,926	(22,926)
Benefit payments, including refunds of employee contributions	(2,025)	(2,025)	-
Administrative expense	-	(202)	202
Other changes	-	-	-
Net changes	3,554	20,699	(17,145)
Balances at June 30, 2018	\$ 111,823	\$ 216,242	\$ (104,419)

Sensitivity of the Town’s Net Pension/OPEB Liability to Changes in the Discount Rate –

The following table presents the Town’s net pension/OPEB (assets) liabilities calculated using the discount rate of 7.4 percent, as well as what the Town’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PSPRS Police			
Net pension (asset) liability	\$ 4,723,440	\$ 3,655,831	\$ 2,791,726
Net OPEB (asset) liability	(88,888)	(104,419)	(117,250)

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2018

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense:

	Pension Expense		OPEB Expense
PSPRS Police	\$ 644,477	\$	(6,137)

Deferred Outflows/Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 127,508	\$ 189,794	\$ -	\$ 532
Changes of assumptions or other inputs	605,902	-	-	3,801
Net difference between projected and actual earnings on pension plan investments	154,563	141,885	-	6,675
Town contributions subsequent to the measurement date	1,379,329	-	-	-
Total	\$ 2,267,302	\$ 331,679	\$ -	\$ 11,008

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	PSPRS Police	
	Pension	Health
2019	\$ 188,543	\$ (2,564)
2020	185,778	(2,564)
2021	103,978	(2,564)
2022	39,076	(2,563)
2023	38,919	(753)
Thereafter	-	-

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$ 3,000,000	\$ 3,000,000	\$ 3,512,508	\$ 512,508
Intergovernmental	1,414,701	1,414,701	1,399,312	(15,389)
Charges for services	167,500	167,500	239,261	71,761
Interest	35,000	35,000	130,698	95,698
Other revenue	20,200	20,200	43,076	22,876
Licenses and permits	17,050	17,050	42,127	25,077
Fines and forfeitures	50	50	26,804	26,754
Total revenue	<u>4,654,501</u>	<u>4,654,501</u>	<u>5,393,786</u>	<u>739,285</u>
Expenditures:				
Current				
General government	3,641,420	3,641,420	827,705	2,813,715
Public safety	2,261,168	2,261,168	3,222,845	(961,677)
Highways and streets	494,467	494,467	617,712	(123,245)
Community development	379,738	379,738	438,332	(58,594)
Parks and recreation	438,488	438,488	533,815	(95,327)
Debt service				
Principal	98,517	98,517	98,517	-
Interest	63,111	63,111	63,111	-
Capital outlay	1,464,810	1,464,810	1,464,810	-
Total expenditures	<u>8,841,719</u>	<u>8,841,719</u>	<u>7,266,847</u>	<u>1,574,872</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(4,187,218)</u>	<u>(4,187,218)</u>	<u>(1,873,061)</u>	<u>(835,587)</u>
Other financing sources (uses):				
Installment purchase agreement	-	-	543,667	(543,667)
Sale of capital assets	6,000	6,000	3,807	2,193
Transfers	-	-	(391,038)	391,038
Total other financing sources (uses)	<u>6,000</u>	<u>6,000</u>	<u>156,436</u>	<u>(150,436)</u>
Net change in fund balances	<u>(4,181,218)</u>	<u>(4,181,218)</u>	<u>(1,716,625)</u>	<u>(986,023)</u>
Fund balances, beginning of year	<u>9,767,682</u>	<u>9,767,682</u>	<u>9,767,682</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,586,464</u>	<u>\$ 5,586,464</u>	<u>\$ 8,051,057</u>	<u>\$ (986,023)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 456,800	\$ 456,800	\$ 535,925	\$ 79,125
Expenditures:				
Current				
Public safety	94,559	94,559	94,559	-
Parks and recreation	20,000	20,000	20,000	-
Capital outlay	342,241	342,241	462,206	(119,965)
Total expenditures	456,800	456,800	576,765	(119,965)
Excess (deficiency) of revenue over (under) expenditures	-	-	(40,840)	199,090
Other financing sources (uses):				
Transfers	-	-	147,357	(147,357)
Net change in fund balances	-	-	106,517	51,733
Fund balances, beginning of year	(109,226)	(109,226)	(109,226)	-
Fund balances, end of year	\$ (109,226)	\$ (109,226)	\$ (2,709)	\$ 51,733

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 421,611	\$ 421,611	\$ 390,987	\$ (30,624)
Interest	-	-	2,174	2,174
Total revenue	<u>421,611</u>	<u>421,611</u>	<u>393,161</u>	<u>(28,450)</u>
Expenditures:				
Current				
Highways and streets	10,764	10,764	10,764	-
Capital outlay	410,847	410,847	933,764	(522,917)
Total expenditures	<u>421,611</u>	<u>421,611</u>	<u>944,528</u>	<u>(522,917)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(551,367)</u>	<u>494,467</u>
Other financing sources (uses):				
Transfers	-	-	243,681	(243,681)
Net change in fund balances	-	-	(307,686)	250,786
Fund balances, beginning of year	<u>307,686</u>	<u>307,686</u>	<u>307,686</u>	-
Fund balances, end of year	<u><u>\$ 307,686</u></u>	<u><u>\$ 307,686</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 250,786</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2018

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 department 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.

NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2018, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Administration, Magistrate, Parks/Recreation, Police, Fire, Shop, Streets, Town Engineer, HURF, and Grants departments.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2018

ASRS-Pension

	Reporting Fiscal Year				
	(Measurement Date)				
	2018	2017	2016	2015	2014
	(2017)	(2016)	(2015)	(2014)	through
					2009
Town's proportion of the net pension liability	0.014590%	0.015040%	0.014460%	0.013757%	Information
Town's proportionate share of the net pension liability	\$ 2,272,838	\$ 2,427,607	\$ 2,252,784	\$ 2,035,552	not available
Town's covered payroll	\$ 1,423,302	\$ 1,408,304	\$ 1,332,103	\$ 1,240,084	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	159.69%	172.38%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	64.27%	68.35%	69.49%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	through
		2009
Town's proportion of the net OPEB (asset)	0.014050%	Information
Town's proportionate share of the net OPEB (asset)	\$ (7,649)	not available
Town's covered payroll	\$ 1,423,302	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.54%	
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	

See accompanying notes to pension plan schedules.

**TOWN OF THATCHER, ARIZONA
 Required Supplementary Information
 Schedule of the Town's Proportionate
 Share of the Net Pension/OPEB Liability
 Cost-Sharing Pension Plans
 June 30, 2018**

ASRS-Long-Term Disability

	Reporting Fiscal Year (Measurement Date)	
	2018 (2017)	2017 through 2009
Town's proportion of the net OPEB (asset)	0.014350%	Information
Town's proportionate share of the net OPEB (asset)	\$ 5,202	not available
Town's covered payroll	\$ 1,423,302	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2018

EORP-Pension

	Reporting Fiscal Year				2014 through 2009
	(Measurement Date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Town's proportion of the net pension liability	0.038940%	0.043107%	0.043169%	0.054174%	Information
Town's proportionate share of the net pension liability	\$ 474,494	\$ 407,255	\$ 337,348	\$ 363,274	not available
State's proportionate share of the net pension liability associated with the Town	98,479	84,088	105,171	111,383	
Total	<u>\$ 572,973</u>	<u>\$ 491,343</u>	<u>\$ 442,519</u>	<u>\$ 474,657</u>	
Town's covered payroll	<u>\$ 30,900</u>	<u>\$ 33,600</u>	<u>\$ 36,300</u>	<u>\$ 49,119</u>	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1535.58%	1212.07%	929.33%	739.58%	
Plan fiduciary net position as a percentage of the total pension liability	17.16%	23.42%	28.32%	31.91%	

EORP-Health Insurance Premium Benefit

	Reporting Fiscal Year	
	(Measurement Date)	
	2018 (2017)	2017 through 2009
Town's proportion of the net OPEB (asset)	0.35636%	Information
Town's proportionate share of the net OPEB (asset)	\$ (32,450)	not available
Town's covered payroll	\$ 30,900	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-105.02%	
Plan fiduciary net position as a percentage of the total OPEB liability	164.84%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension/OPEB Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2018

PSPRS - Police

	Reporting Fiscal Year (Measurement Date)				2014 through 2009
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability					Information not available
Service cost	\$ 168,777	\$ 135,700	\$ 129,706	\$ 132,777	
Interest on the total pension liability	488,982	474,901	440,958	381,545	
Changes of benefit terms	110,926	(37,400)	-	157,716	
Differences between expected and actual experience in the measurement of the pension liability	50,410	(124,787)	177,759	(363,187)	
Changes of assumptions or other inputs	218,719	268,925	-	835,496	
Benefit payments, including refunds of employee contributions	(263,800)	(263,800)	(374,248)	(397,692)	
Net change in total pension liability	774,014	453,539	374,175	746,655	
Total pension liability - beginning	6,567,278	6,113,739	5,739,564	4,992,909	
Total pension liability - ending (a)	<u>\$ 7,341,292</u>	<u>\$ 6,567,278</u>	<u>\$ 6,113,739</u>	<u>\$ 5,739,564</u>	
Plan fiduciary net position					
Contributions - employer	\$ 591,829	\$ 619,120	\$ 235,104	\$ 220,723	
Contributions - employee	83,833	88,964	84,677	74,365	
Net investment income	379,550	16,396	89,394	295,450	
Benefit payments, including refunds of employee contributions	(263,800)	(263,800)	(374,248)	(397,692)	
Administrative expense	(3,758)	(2,759)	(2,553)	-	
Other changes	37	(14,990)	43,248	(154,602)	
Net change in plan fiduciary net position	787,691	442,931	75,622	38,244	
Plan fiduciary net position - beginning	2,897,770	2,454,839	2,379,217	2,340,973	
Plan fiduciary net position - ending (b)	<u>\$ 3,685,461</u>	<u>\$ 2,897,770</u>	<u>\$ 2,454,839</u>	<u>\$ 2,379,217</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 3,655,831</u>	<u>\$ 3,669,508</u>	<u>\$ 3,658,900</u>	<u>\$ 3,360,347</u>	
Plan fiduciary net position as a percentage of the total pension liability	50.20%	44.12%	40.15%	41.45%	
Covered payroll	\$ 760,941	\$ 720,276	\$ 766,307	\$ 722,871	
Town's net pension (asset) liability as a percentage of covered payroll	480.44%	509.46%	477.47%	464.86%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension/OPEB Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2018

PSPRS OPEB - Police

	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	through
	2017)	2009
Total OPEB liability		
Service cost	\$ 2,663	Information
Interest on the total OPEB liability	8,144	not available
Changes of benefit terms	-	
Differences between expected and actual experience in the measurement of the OPEB liability	(642)	
Changes of assumptions or other inputs	(4,586)	
Benefit payments	(2,025)	
Net change in total OPEB liability	3,554	
Total OPEB liability - beginning	108,269	
Total OPEB liability - ending (a)	<u>\$ 111,823</u>	
Plan fiduciary net position		
Contributions - employer	\$ -	
Contributions - employee	-	
Net investment income	22,926	
Benefit payments	(2,025)	
Administrative expense	(202)	
Other changes	-	
Net change in plan fiduciary net position	20,699	
Plan fiduciary net position - beginning	195,543	
Plan fiduciary net position - ending (b)	<u>\$ 216,242</u>	
Town's net OPEB (asset) liability - ending (a) - (b)	<u>\$ (104,419)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	193.38%	
Covered payroll	\$ 760,941	
Town's net OPEB (asset) liability as a percentage of covered payroll	-13.72%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2018

ASRS-Pension

	Reporting Fiscal Year					2013 through 2009
	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 156,268	\$ 153,432	\$ 152,801	\$ 145,066	\$ 132,689	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(156,268)</u>	<u>(153,432)</u>	<u>(152,801)</u>	<u>(145,066)</u>	<u>(132,689)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,433,655</u>	<u>\$ 1,423,302</u>	<u>\$ 1,408,304</u>	<u>\$ 1,332,103</u>	<u>\$ 1,240,084</u>	
Town's contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%	10.70%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year		2016 through 2009
	2018	2017	
Statutorily required contribution	\$ 6,308	\$ 7,562	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(6,308)</u>	<u>(7,562)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,433,655</u>	<u>\$ 1,423,302</u>	
Town's contributions as a percentage of covered payroll	0.44%	0.53%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2018

ASRS-Long-Term Disability

	<u>Reporting Fiscal Year</u>		
	2018	2017	2016 through 2009
Statutorily required contribution	\$ 2,294	\$ 1,951	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(2,294)</u>	<u>(1,951)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,433,655</u>	<u>\$ 1,423,302</u>	
Town's contributions as a percentage of covered payroll	0.16%	0.14%	

PSPRS - Police

	<u>Reporting Fiscal Year</u>					2013 through 2009
	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 1,379,329	\$ 591,829	\$ 619,120	\$ 235,104	\$ 220,723	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(1,379,329)</u>	<u>(591,829)</u>	<u>(619,120)</u>	<u>(235,104)</u>	<u>(220,723)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 839,500</u>	<u>\$ 760,941</u>	<u>\$ 720,276</u>	<u>\$ 766,307</u>	<u>\$ 722,871</u>	
Town's contributions as a percentage of covered payroll	164.30%	77.78%	85.96%	30.68%	30.53%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2018

PSPRS OPEB - Police

	<u>Reporting Fiscal Year</u>		
	2018	2017	2016 through 2009
Actuarially determined contribution	\$ -	\$ -	Information not available
Town's contributions in relation to the actuarially determined contribution	-	-	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 839,500</u>	<u>\$ 760,941</u>	
Town's contributions as a percentage of covered payroll	0.00%	0.00%	

EORP-Pension

	<u>Reporting Fiscal Year</u>					2013 through 2009
	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 5,041	\$ 7,262	\$ 7,896	\$ 9,082	\$ 11,543	Information not available
Town's contributions in relation to the statutorily required contribution	(5,041)	(7,262)	(7,896)	(9,082)	(11,543)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 21,450</u>	<u>\$ 30,900</u>	<u>\$ 33,600</u>	<u>\$ 36,300</u>	<u>\$ 49,119</u>	
Town's contributions as a percentage of covered payroll	23.50%	23.50%	23.50%	25.02%	23.50%	

The Town was not required and did not contribute to the EORP health insurance premium benefit plan for fiscal years 2018 or 2017. Information for fiscal years 2016 through 2009 is not available.

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB plan schedules
June 30, 2018

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-of-pay, closed
Remaining amortization period as of the 2016 actuarial	20 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. 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)

NOTE 2 – FACTORS THAT AFFECT TRENDS

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

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB plan schedules
June 30, 2018

NOTE 2 – FACTORS THAT AFFECT TRENDS – Continued

its actual employer contributions for the refund amounts. As a result, the Town's pension contributions were less than the actuarially or statutorily determined contributions for 2018.



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

To the Town Council
Town of Thatcher, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Thatcher, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Thatcher, Arizona's basic financial statements and have issued our report thereon dated January 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Thatcher, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Thatcher, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Thatcher, Arizona's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule

of findings and responses that we consider to be significant deficiencies. Those findings are indicated as items **2018-001** and **2018-002**.

Compliance and Other Matters

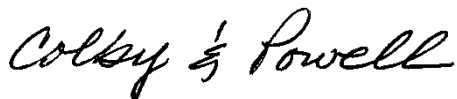
As part of obtaining reasonable assurance about whether the Town of Thatcher, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Thatcher, Arizona's Response to Findings

The Town of Thatcher, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Thatcher, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Colby J. Powell".

January 16, 2019

TOWN OF THATCHER, ARIZONA
Schedule of Findings and Responses
June 30, 2018

Item: 2018-001

Subject: Grant revenues and expenditures

Criteria: Proper accounting for grant revenues and expenditures require a system of accounting that ensures proper compliance with grant requirements and generally accepted accounting principles.

Condition: During our audit we discovered that grant revenues and expenditures were not always being recorded in the same fund. We also found that for cost-reimbursement grants, revenues/unavailable revenues did not always match expenditures.

Recommendation: We recommend that all grants be reconciled on a regular basis to ensure that revenues/unavailable revenues agree with grant expenditures and to ensure that grant expenditures and revenues are recorded in the same fund.

Response: Management agrees with this finding and will ensure that all grants are reconciled at least annually prior to the start of the audit.

Item: 2018-002

Subject: Preparation of the working trial balance.

Criteria: All accounting transactions entered into during the period that meet the current financial resources measurement focus should be posted in the Town's financial records in accordance with an acceptable basis of accounting. All such transactions should be recorded in their correct account according to the Town's approved chart of accounts, the Town's budget, and generally accepted accounting principles.

Condition: During our audit we discovered that the Town did not have a complete and accurate working trial balance prior to the start of the audit. The trial balance required various accounting adjustments which were unknown by management.

Recommendation: We recommend that all material and necessary journal entries should be recorded in the trial balance prior to the start of the annual audit.

Response: Management agrees with this finding and will ensure that all material adjustments are posted to the general ledger prior to the start of the audit.