

TOWN OF THATCHER, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2019

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
Government-wide Statements	
Statement of Net Position	4
Statement of Activities.....	5
Fund Statements	
Governmental Funds	
Balance Sheet.....	6
Reconciliation of the Balance Sheet to the Statement of Net Position	7
Statement of Revenue, Expenditures, and Changes in Fund Balances.....	8
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	9
Proprietary Funds	
Statement of Net Position	10
Statement of Revenue, Expenses, and Changes in Fund Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	16
Other Required Supplementary Information	
Budgetary Comparison Schedules	55
Notes to Budgetary Comparison Schedules.....	58
Schedule of the Town's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans	59
Schedule of Changes in the Town's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans	62
Schedule of Town Pension/OPEB Contributions	64
Notes to Pension/OPEB plan schedules.....	67
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 <i>Governmental Auditing Standards</i>	69
Schedule of Findings and Responses.....	71



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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, Schedule of the Town's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans, Schedule of Changes in the Town's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans, and Schedule of Town Pension/OPEB Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2020, 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.

Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received. 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 authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of Highway User Revenue Fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, and other responsible parties within the Town and is not intended to be and should not be used by anyone other than these specified parties.



February 20, 2020

TOWN OF THATCHER, ARIZONA
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,895,230	\$ 1,983,869	\$ 9,879,099
Restricted cash	-	110,087	110,087
Investment in joint venture	-	442,000	442,000
Receivables - net	301,428	551,623	853,051
Taxes receivable	544,404	-	544,404
Due from other governments	265,212	-	265,212
Net other postemployment benefits asset	121,185	2,001	123,186
Capital assets, not being depreciated	2,707,594	248,126	2,955,720
Capital assets, being depreciated, net	<u>13,166,084</u>	<u>2,685,804</u>	<u>15,851,888</u>
Total assets	<u>25,001,137</u>	<u>6,023,510</u>	<u>31,024,647</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and other postemployment benefits	<u>1,638,205</u>	<u>175,361</u>	<u>1,813,566</u>
LIABILITIES			
Accounts payable	118,227	356,026	474,253
Accrued expenses	263,588	25,884	289,472
Refundable deposits	-	110,087	110,087
Noncurrent liabilities			
Due within 1 year	277,044	72,750	349,794
Due in more than 1 year	<u>6,055,120</u>	<u>1,120,282</u>	<u>7,175,402</u>
Total liabilities	<u>6,713,979</u>	<u>1,685,029</u>	<u>8,399,008</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and other postemployment benefits	<u>484,759</u>	<u>113,087</u>	<u>597,846</u>
NET POSITION			
Net investment in capital assets	14,753,678	2,735,307	17,488,985
Restricted for			
Highways and streets	558,635	-	558,635
Unrestricted	<u>4,128,291</u>	<u>1,665,448</u>	<u>5,793,739</u>
Total net position	<u>\$ 19,440,604</u>	<u>\$ 4,400,755</u>	<u>\$ 23,841,359</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Activities
Year Ended June 30, 2019

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		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 900,514	\$ 109,282	\$ -	\$ -	\$ (791,232)	\$ -	\$ (791,232)
Public safety	3,010,505	25,391	403,990	40,109	(2,541,015)	-	(2,541,015)
Highways and streets	1,073,136	-	-	1,196,478	123,342	-	123,342
Community development	387,544	-	-	-	(387,544)	-	(387,544)
Parks and recreation	593,672	92,121	-	-	(501,551)	-	(501,551)
Interest on long-term debt	65,582	-	-	-	(65,582)	-	(65,582)
Total governmental activities	6,030,953	226,794	403,990	1,236,587	(4,163,582)	-	(4,163,582)
Business-type activities							
Sewer	333,280	383,803	-	-	-	50,523	50,523
Electric	4,362,119	4,456,339	-	-	-	94,220	94,220
Sanitation	371,408	292,677	-	-	-	(78,731)	(78,731)
Total business-type activities	5,066,807	5,132,819	-	-	-	66,012	66,012
Total primary government	\$ 11,097,760	\$ 5,359,613	\$ 403,990	\$ 1,236,587	(4,163,582)	66,012	(4,097,570)
General revenue:							
Taxes:							
Sales tax					3,495,884	109,008	3,604,892
Franchise tax					32,861	-	32,861
State urban revenue sharing					608,042	-	608,042
Share of state sales taxes					506,033	-	506,033
Share of county auto lieu taxes					310,019	-	310,019
Investment income					183,825	31,501	215,326
Miscellaneous					108,989	-	108,989
Total general revenue					5,245,653	140,509	5,386,162
Change in net position					1,082,071	206,521	1,288,592
Net position, beginning of year					18,358,533	4,194,234	22,552,767
Net position, end of year					\$ 19,440,604	\$ 4,400,755	\$ 23,841,359

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Grants Fund	HURF Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,394,539	\$ 500,691	\$ -	\$ 7,895,230
Accounts receivable - net	301,428	-	-	301,428
Taxes receivable	544,404	-	-	544,404
Due from other funds	33,977	-	-	33,977
Due from other governments	168,578	57,944	38,690	265,212
Total assets	8,442,926	558,635	38,690	9,040,251
LIABILITIES				
Accounts payable	113,514	-	4,713	118,227
Accrued liabilities	263,588	-	-	263,588
Due to other funds	-	-	33,977	33,977
Total liabilities	377,102	-	38,690	415,792
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	272,206	-	-	272,206
FUND BALANCES				
Restricted for:				
Highways and streets	-	558,635	-	558,635
Unassigned	7,793,618	-	-	7,793,618
Total fund balances	7,793,618	558,635	-	8,352,253
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,442,926	\$ 558,635	\$ 38,690	\$ 9,040,251

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, 2019

Fund balances-total governmental funds		\$ 8,352,253
<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>		15,873,678
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		272,206
<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>		121,185
<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>	(346,305)	
<p style="padding-left: 20px;">Notes payable</p>	(1,120,000)	
<p style="padding-left: 20px;">Net pension/OPEB liability</p>	(4,865,859)	
		(6,332,164)
<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, therefore, are not reported in the funds.</p>		1,153,446
Net position of governmental activities		\$ 19,440,604

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, 2019

	General Fund	Grants Fund	HURF Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenue:				
Taxes	\$ 3,528,745	\$ -	\$ -	\$ 3,528,745
Intergovernmental	1,683,548	847,553	475,719	3,006,820
Charges for services	208,689	-	-	208,689
Interest	183,809	-	16	183,825
Other revenue	128,112	-	-	128,112
Licenses and permits	33,499	-	-	33,499
Fines and forfeitures	24,980	-	-	24,980
	<u>5,791,382</u>	<u>847,553</u>	<u>475,735</u>	<u>7,114,670</u>
Total revenue				
Expenditures:				
Current				
General government	839,931	-	-	839,931
Public safety	2,462,221	82,482	-	2,544,703
Highways and streets	657,235	-	6,983	664,218
Community development	395,218	-	-	395,218
Parks and recreation	520,310	-	-	520,310
Debt service				
Principal	641,150	-	-	641,150
Interest	65,582	-	-	65,582
Capital outlay	441,368	202,080	496,205	1,139,653
	<u>6,023,015</u>	<u>284,562</u>	<u>503,188</u>	<u>6,810,765</u>
Total expenditures				
Excess (deficiency) of revenue over (under) expenditures	<u>(231,633)</u>	<u>562,991</u>	<u>(27,453)</u>	<u>303,905</u>
Other financing sources (uses):				
Transfers	<u>(25,806)</u>	<u>(1,647)</u>	<u>27,453</u>	<u>-</u>
Net change in fund balances	<u>(257,439)</u>	<u>561,344</u>	<u>-</u>	<u>303,905</u>
Fund balances, beginning of year	<u>8,051,057</u>	<u>(2,709)</u>	<u>-</u>	<u>8,048,348</u>
Fund balances, end of year	<u>\$ 7,793,618</u>	<u>\$ 558,635</u>	<u>\$ -</u>	<u>\$ 8,352,253</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, 2019

Net change in fund balances-total governmental funds		\$ 303,905
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 expense.		
Capital outlay	1,139,653	
Depreciation expense	<u>(802,970)</u>	336,683
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable revenues		(4,356)
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 Statement of Activities.		
Town pension/OPEB contributions	558,378	
Pension/OPEB expense	<u>(727,642)</u>	(169,264)
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 Statement of Net Position.		
Debt principal repaid		641,150
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.		
Increase in compensated absences payable		<u>(26,047)</u>
Change in net position of governmental activities		<u><u>\$ 1,082,071</u></u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 1,983,869	\$ -	\$ 1,983,869
Restricted cash	-	110,087	-	110,087
Investment in joint venture	-	442,000	-	442,000
Accounts receivable, net	47,286	464,204	40,133	551,623
Total current assets	47,286	3,000,160	40,133	3,087,579
Noncurrent assets				
Due from other funds	-	2,630,464	-	2,630,464
Net other postemployment benefits asset	209	1,559	233	2,001
Capital assets, net of accumulated depreciation, where applicable:				
Land	248,126	-	-	248,126
Utilities systems, net	1,961,820	-	-	1,961,820
Automobiles and trucks, net	84,314	147,098	-	231,412
Equipment, net	45,320	51,525	395,727	492,572
Capital assets, net	2,339,580	198,623	395,727	2,933,930
Total noncurrent assets	2,339,789	2,830,646	395,960	5,566,395
Total assets	2,387,075	5,830,806	436,093	8,653,974
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions and other postemployment benefits	18,276	136,710	20,375	175,361

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Net Position - *Continued*
Proprietary Funds
June 30, 2019

	Business-type Activities--Enterprise Funds			Total
	Sewer Fund	Electric Fund	Sanitation Fund	
LIABILITIES				
Current liabilities				
Accounts payable	8,965	323,050	24,011	356,026
Accrued expenses	3,042	19,573	3,269	25,884
Refundable deposits	-	110,087	-	110,087
Compensated absences, current	2,074	59,346	11,330	72,750
Total current liabilities	<u>14,081</u>	<u>512,056</u>	<u>38,610</u>	<u>564,747</u>
Noncurrent liabilities				
Due to other funds	1,795,788	-	834,676	2,630,464
Note payable	-	280,000	-	280,000
Compensated absences	519	14,837	2,833	18,189
Net pension and other postemployment benefits liability	85,677	640,897	95,519	822,093
Total noncurrent liabilities	<u>1,881,984</u>	<u>935,734</u>	<u>933,028</u>	<u>3,750,746</u>
Total liabilities	<u>1,896,065</u>	<u>1,447,790</u>	<u>971,638</u>	<u>4,315,493</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions and other postemployment benefits	11,786	88,161	13,140	113,087
NET POSITION				
Net investment in capital assets	2,339,580	-	395,727	2,735,307
Unrestricted (deficit)	(1,842,080)	4,431,565	(924,037)	1,665,448
Total net position	<u>\$ 497,500</u>	<u>\$ 4,431,565</u>	<u>\$ (528,310)</u>	<u>\$ 4,400,755</u>

See accompanying notes to financial statements.

This page is intentionally blank

TOWN OF THATCHER, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2019

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Electric Fund	Sanitation Fund	Total
Operating revenue:				
Charges for services	\$ 383,803	\$ 4,379,123	\$ 292,677	\$ 5,055,603
Other revenue	-	77,216	-	77,216
Total operating revenue	383,803	4,456,339	292,677	5,132,819
Operating expenses:				
Cost of power	-	3,496,304	-	3,496,304
Personnel	92,211	535,194	104,042	731,447
Repairs and maintenance	24,955	158,373	36,442	219,770
Depreciation	147,775	44,287	40,996	233,058
Landfill	-	-	132,170	132,170
Materials and supplies	29,934	51,856	42,169	123,959
Insurance	20,950	24,518	13,982	59,450
Professional services	8,979	15,316	-	24,295
Other	4,931	11,100	1,607	17,638
Utilities	3,545	10,972	-	14,517
Total operating expenses	333,280	4,347,920	371,408	5,052,608
Operating income (loss)	50,523	108,419	(78,731)	80,211
Nonoperating revenue (expenses):				
Sales taxes	-	109,008	-	109,008
Investment income	-	31,501	-	31,501
Interest expense	-	(14,199)	-	(14,199)
Total nonoperating revenue (expenses)	-	126,310	-	126,310
Increase (decrease) in net position	50,523	234,729	(78,731)	206,521
Total net position, beginning of year	446,977	4,196,836	(449,579)	4,194,234
Total net position, end of year	\$ 497,500	\$ 4,431,565	\$ (528,310)	\$ 4,400,755

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Electric Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 386,683	\$ 4,510,685	\$ 292,903	\$ 5,190,271
Payments to suppliers and providers of goods and services	(111,076)	(3,755,510)	(218,926)	(4,085,512)
Payments to employees	(91,310)	(522,372)	(100,667)	(714,349)
Net cash provided (used) by operating activities	<u>184,297</u>	<u>232,803</u>	<u>(26,690)</u>	<u>390,410</u>
Cash flows from noncapital financing activities:				
Borrowings paid to other funds	(124,150)	(185,504)	-	(309,654)
Borrowings received from other funds	-	-	309,654	309,654
Sales taxes received	-	109,008	-	109,008
Net cash provided (used) by noncapital financing activities	<u>(124,150)</u>	<u>(76,496)</u>	<u>309,654</u>	<u>109,008</u>
Cash flows from capital and related financing activities:				
Principal paid on note payable	-	(25,000)	-	(25,000)
Interest paid on note payable	-	(14,199)	-	(14,199)
Purchase of capital assets	(60,147)	(76,283)	(282,964)	(419,394)
Net cash provided (used) by capital and related financing activities	<u>(60,147)</u>	<u>(115,482)</u>	<u>(282,964)</u>	<u>(458,593)</u>
Cash flows from investing activities:				
Interest received	-	31,501	-	31,501
Net increase (decrease) in cash and cash equivalents	-	72,326	-	72,326
Cash and cash equivalents, beginning of year	-	2,021,630	-	2,021,630
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 2,093,956</u>	<u>\$ -</u>	<u>\$ 2,093,956</u>
Cash and cash equivalents	\$ -	\$ 1,983,869	\$ -	\$ 1,983,869
Restricted cash	-	110,087	-	110,087
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 2,093,956</u>	<u>\$ -</u>	<u>\$ 2,093,956</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Statement of Cash Flows - Continued
Proprietary Funds
Year Ended June 30, 2019

	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)	\$ 50,523	\$ 108,419	\$ (78,731)	\$ 80,211
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	147,775	44,287	40,996	233,058
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	2,880	45,976	226	49,082
Net pension and other postemployment benefits asset	84	632	94	810
Deferred outflows of resources related to pensions and other postemployment benefits	(5,910)	(44,209)	(6,589)	(56,708)
Accounts payable	(14,664)	36,253	10,920	32,509
Accrued expenses	1,492	3,039	1,515	6,046
Refundable deposits	-	8,370	-	8,370
Compensated absences payable	(591)	9,783	1,860	11,052
Net pension and other postemployment benefits liability	(1,572)	(11,762)	(1,753)	(15,087)
Deferred inflows of resources related to pensions and other postemployment benefits	4,280	32,015	4,772	41,067
Net cash provided (used) by operating activities	<u>\$ 184,297</u>	<u>\$ 232,803</u>	<u>\$ (26,690)</u>	<u>\$ 390,410</u>

See accompanying notes to financial statements.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Thatcher, Arizona have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

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

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Town as a whole, while the fund 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, 2019

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, 2019

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, 2019

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, 2019, totaled \$12,858, \$126,229, and \$10,913, 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, 2019

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, 2019

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, 2019.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; 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, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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

Deposits—At June 30, 2019, the carrying amount of the Town’s total nonpooled cash in bank was \$1,597,505, and the bank balance was \$1,572,537. 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, 2019, 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>\$ 8,391,181</u>	<u>\$ 8,391,181</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	1,597,505
Investments	
State Treasurer's Investment Pool	<u>8,391,181</u>
Total deposits and investments	9,989,186
Cash - restricted	<u>(110,087)</u>
Total cash and cash equivalents	<u>\$ 9,879,099</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the governmental funds at June 30, 2019, included \$17,213 in state-shared revenue from sales taxes, \$11,462 in state-shared revenue from auto lieu taxes, \$58,261 from the Central Jackson Heights Fire District, \$72,960 from the City of Safford for shared court costs, \$8,682 from the Town of Pima for shared court costs, \$8,033 from the Arizona Department of Homeland Security, \$49,911 from the Governor’s Office of Highway Safety, and \$38,690 from the State of Arizona for HURF revenue.

NOTE 4 – INVESTMENT IN JOINT VENTURE

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

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

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 5 – CAPITAL ASSETS

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

	Balance <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2019</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,320,669	\$ -	\$ -	\$ 2,320,669
Construction in progress	-	386,925	-	386,925
Total capital assets not being depreciated	<u>2,320,669</u>	<u>386,925</u>	<u>-</u>	<u>2,707,594</u>
Capital assets being depreciated:				
Buildings	4,586,240	7,887	-	4,594,127
Vehicles	2,019,091	127,579	-	2,146,670
Computers and peripherals	55,284	-	-	55,284
Light equipment	882,244	-	-	882,244
Heavy equipment	1,489,509	28,178	-	1,517,687
Infrastructure	13,822,994	589,084	-	14,412,078
Total	<u>22,855,362</u>	<u>752,728</u>	<u>-</u>	<u>23,608,090</u>
Less accumulated depreciation for:				
Buildings	(1,895,087)	(131,601)	-	(2,026,688)
Vehicles	(963,550)	(198,281)	-	(1,161,831)
Computers and peripherals	(49,162)	(3,010)	-	(52,172)
Light equipment	(470,970)	(19,981)	-	(490,951)
Heavy equipment	(1,357,312)	(32,151)	-	(1,389,463)
Infrastructure	(4,902,955)	(417,946)	-	(5,320,901)
Total	<u>(9,639,036)</u>	<u>(802,970)</u>	<u>-</u>	<u>(10,442,006)</u>
Total capital assets being depreciated, net	<u>13,216,326</u>	<u>(50,242)</u>	<u>-</u>	<u>13,166,084</u>
Governmental activities capital assets, net	<u>\$ 15,536,995</u>	<u>\$ 336,683</u>	<u>\$ -</u>	<u>\$ 15,873,678</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 248,126	\$ -	\$ -	\$ 248,126
Total capital assets not being depreciated	<u>248,126</u>	<u>-</u>	<u>-</u>	<u>248,126</u>
Capital assets being depreciated:				
Utility systems	5,734,731	11,900	-	5,746,631
Automobiles and trucks	698,972	97,505	-	796,477
Equipment	820,402	309,989	-	1,130,391
Total	<u>7,254,105</u>	<u>419,394</u>	<u>-</u>	<u>7,673,499</u>
Less accumulated depreciation for:				
Utility systems	(3,659,808)	(125,003)	-	(3,784,811)
Automobiles and trucks	(516,034)	(49,031)	-	(565,065)
Equipment	(578,795)	(59,024)	-	(637,819)
Total	<u>(4,754,637)</u>	<u>(233,058)</u>	<u>-</u>	<u>(4,987,695)</u>
Total capital assets being depreciated, net	<u>2,499,468</u>	<u>186,336</u>	<u>-</u>	<u>2,685,804</u>
Business-type activities capital assets, net	<u>\$ 2,747,594</u>	<u>\$ 186,336</u>	<u>\$ -</u>	<u>\$ 2,933,930</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 129,905
Public safety	179,217
Highways and streets	416,193
Parks and recreation	<u>77,655</u>
Total governmental activities depreciation expense	<u>\$ 802,970</u>
Business-type activities:	
Sewer	\$ 147,775
Electric	44,287
Sanitation	<u>40,996</u>
Total business-type activities depreciation expense	<u>\$ 233,058</u>

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2019.

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within 1 year
Governmental activities:					
Compensated absences	\$ 320,258	\$ 26,047	\$ -	\$ 346,305	\$ 277,044
Note payable from direct borrowing and direct placement	1,761,150	-	641,150	1,120,000	-
Net pension and other postemployment benefits liability	<u>5,571,185</u>	<u>-</u>	<u>705,326</u>	<u>4,865,859</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 7,652,593</u>	<u>\$ 26,047</u>	<u>\$ 1,346,476</u>	<u>\$ 6,332,164</u>	<u>\$ 277,044</u>
Business-type activities:					
Compensated absences	\$ 79,887	\$ 11,052	\$ -	\$ 90,939	\$ 72,750
Note payable from direct borrowing and direct placement	305,000	-	25,000	280,000	-
Net pension and other postemployment benefits liability	<u>837,180</u>	<u>-</u>	<u>15,087</u>	<u>822,093</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 1,222,067</u>	<u>\$ 11,052</u>	<u>\$ 40,087</u>	<u>\$ 1,193,032</u>	<u>\$ 72,750</u>

Note payable from direct borrowing and direct placement – 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 within 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.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 6 – LONG-TERM LIABILITIES – Continued

The following details the debt service requirements to maturity for the GADA note:

Year Ending June 30,	Note payable from direct borrowing and direct placement					
	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ -	\$ 53,627	\$ -	\$ 13,407	\$ -	\$ 67,034
2021	104,000	49,257	26,000	12,314	130,000	61,571
2022	108,000	44,582	27,000	11,146	135,000	55,728
2023	112,000	39,595	28,000	9,899	140,000	49,494
2024	116,000	34,405	29,000	8,601	145,000	43,006
2025-2029	680,000	76,790	170,000	19,197	850,000	95,987
Total	<u>\$ 1,120,000</u>	<u>\$ 298,256</u>	<u>\$ 280,000</u>	<u>\$ 74,564</u>	<u>\$ 1,400,000</u>	<u>\$ 372,820</u>

NOTE 7 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables of the governmental funds consisted of \$33,977 loaned by the General Fund to the HURF Fund 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 \$1,795,788 and \$834,676, respectively.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

At June 30, 2019, 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	\$ 121,185	\$ 2,001	\$ 123,186
Net pension/OPEB liabilities	4,865,859	822,093	5,687,952
Deferred outflows of resources related to pension and OPEB	1,638,205	175,361	1,813,566
Deferred inflows of resources related to pension and OPEB	484,759	113,087	597,846
Pension and OPEB expense	727,642	47,065	774,707

The Town reported \$558,378 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, 2019

NOTE 9 – 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 service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

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

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 \$100 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, 2019

NOTE 9 – 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, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.80 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, the Town was required by statute to contribute at the actuarially determined rate of 10.53 percent (10.41 percent for retirement, 0.06 percent for health insurance premium benefit, and 0.06 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, 2019, were \$182,156, \$7,416, and \$2,588, respectively.

During fiscal year 2019, 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, 2019, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB
	(Asset) Liability
	<hr/>
Pension	\$ 2,228,648
Health insurance premium benefit	(5,445)
Long-term disability	8,339

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net asset and net liabilities were measured as of June 30, 2018. 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, 2017, to the measurement date of June 30, 2018. The total liabilities as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

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, 2018. The Town’s proportions measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

	<u>Proportion June 30, 2018</u>	<u>Increase (decrease) from June 30, 2017</u>
Pension	0.01598%	0.00139%
Health insurance premium benefit	0.01512%	0.00107%
Long-term disability	0.01596%	0.00161%

Expense – For the year ended June 30, 2019, the Town recognized the following pension and OPEB expense.

	<u>Pension/OPEB Expense</u>
Pension	\$ 119,545
Health insurance premium benefit	5,427
Long-term disability	3,097

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 61,397	\$ 12,286	\$ -	\$ 5,025
Changes of assumptions or other inputs	58,974	197,600	10,500	-
Net difference between projected and actual earnings on pension plan investments	-	53,594	-	10,876
Changes in proportion and differences between Town contributions and proportionate share of contributions	151,486	27,522	54	8
Town contributions subsequent to the measurement date	<u>182,156</u>	<u>-</u>	<u>7,416</u>	<u>-</u>
Total	<u>\$ 454,013</u>	<u>\$ 291,002</u>	<u>\$ 17,970</u>	<u>\$ 15,909</u>
	<u>Long-Term Disability</u>			
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 213	\$ -		
Changes of assumptions or other inputs	1,806	-		
Net difference between projected and actual earnings on pension plan investments	-	808		
Changes in proportion and differences between Town contributions and proportionate share of contributions	584	-		
Town contributions subsequent to the measurement date	<u>2,588</u>	<u>-</u>		
Total	<u>\$ 5,191</u>	<u>\$ 808</u>		

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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, 2020. 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>
2020	\$ 73,431	\$ (2,099)	107
2021	12,757	(2,099)	106
2022	(81,298)	(2,098)	106
2023	(24,035)	221	323
2024	-	720	362
Thereafter	-	-	791

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

ASRS

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on ASRS plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount Rate – At June 30, 2018, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the 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, 2019

NOTE 9 – 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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Town's Proportionate share of the			
Net pension liability	\$ 3,176,988	\$ 2,228,648	\$ 1,436,324
Net insurance premium benefit liability (asset)	19,291	(5,445)	(26,515)
Net long-term disability liability	9,451	8,339	7,261

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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	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 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.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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 \$100 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, 2019, statute required active EORP members to contribute 7 or 13 percent of the members’ annual covered payroll and the Town to contribute at the actuarially determined rate of 61.5 percent of all active EORP members’ annual covered payroll. Also, statute required the Town to contribute 49.86 percent to EORP of the annual covered payroll of elected officials who were ASRS members and 55.5 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 30.16 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, 2019, were \$5,672 and \$0, respectively.

During fiscal year 2019, the Town paid 100 percent of EORP pension contributions from the General Fund.

Liability – At June 30, 2019, 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	\$	393,590
State's proportionate share of the EORP net pension liability associated with the Town		67,203
Total	<u>\$</u>	<u>460,793</u>

The Town also reported an asset of \$38,306 for its proportionate share of EORP’s net OPEB asset.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net asset and net liability were measured as of June 30, 2018, 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, 2018, reflect statutory changes in benefit terms for automatic cost-of-living adjustments. The basis for cost-of-living adjustments was changed from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.

The Town’s proportion of the net pension liability was based on the Town’s required contributions to the pension plan relative to the total of all participating employers’ required contributions for the year ended June 30, 2018. 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, 2018. The Town’s proportion measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

	<u>Proportion</u> <u>June 30, 2018</u>	<u>Increase (decrease)</u> <u>from June 30, 2017</u>
Pension	0.06246%	0.02352%
Health insurance premium benefit	0.37068%	0.01432%

Expense – For the year ended June 30, 2019, the Town recognized pension and OPEB expense for EORP of \$(63,699) and \$(2,599), respectively, and revenue of \$19,174 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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred outflows/inflows of resources – At June 30, 2019, 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	\$ -	\$ 6,139	\$ 461	\$ 1,790
Changes of assumptions or other inputs	3,415	163,855	130	-
Net difference between projected and actual earnings on pension plan investments	2,452	-	-	2,073
Changes in proportion and differences between Town contributions and proportionate share of contributions	143,230	3,069	-	712
Town contributions subsequent to the measurement date	5,672	-	-	-
Total	\$ 154,769	\$ 173,063	\$ 591	\$ 4,575

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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, 2020. 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>
2020	\$ (21,987)	\$ (2,084)
2021	(585)	(1,221)
2022	(1,449)	(697)
2023	57	18

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

EORP

Actuarial valuation date	June 30, 2018
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, 2018, 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, 2019

NOTE 9 – 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%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTS	12%	3.96%
Private credit	16%	6.75%
Real estate	10%	3.75%
Private equity	12%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

Discount rates – At June 30, 2018, the discount rate used to measure the EORP total pension liability and total OPEB liability was 7.4 percent which was an increase of 3.49 for pension and no change for OPEB from the discount rates used as of June 30, 2017. 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 actuarially determined rates, and State contributions will be made as currently required by 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, 2019

NOTE 9 – 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 rate of 7.4 percent, 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 (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Rate - pension	6.4%	7.4%	8.4%
Town's proportionate share of the net pension liability	\$ 451,933	\$ 393,590	\$ 343,997
Rate - OPEB	6.4%	7.4%	8.4%
Town's proportionate share of the net OPEB (asset)	\$ (34,050)	\$ (38,306)	\$ (41,985)

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, 2019, 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, 2019, the Town recognized pension expense of \$1,215.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

C. Public Safety Personnel Retirement System

Plan Descriptions – Town police officers participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A 9-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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	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 based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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 \$100 per month to \$260 per month depending on the age of the member and dependents.

Employees Covered by Benefit Terms – At June 30, 2019, 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 – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2019, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Active Member- Pension	Town-Pension	Town-Health Insurance Premium Benefit
PSPRS Police	7.65% - 11.65%	45.63%	0.00%

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The Town’s contributions to the plans for the year ended June 30, 2019, were:

	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>
PSPRS Police	\$ 392,623	\$ -

During fiscal year 2019, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Liability – At June 30, 2019, the Town reported the following asset and liability:

	<u>Net Pension (Asset) Liability</u>	<u>Net OPEB (Asset) Liability</u>
PSPRS Police	\$ 3,057,375	\$ (79,435)

The net assets and net liabilities were measured as of June 30, 2018, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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, 2018
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
Cost-of-living adjustment	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, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS 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%
Risk parity	4%	5.00%
Fixed Income	5%	1.25%
Real assets	9%	4.52%
GTS	12%	3.96%
Private credit	16%	6.75%
Real estate	10%	3.75%
Private equity	12%	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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rates – At June 30, 2018, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was the same as the discount rate used as of June 30, 2017. 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		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2018	\$ 7,341,292	\$ 3,685,461	\$ 3,655,831
Changes for the year			
Service Cost	164,486	-	164,486
Interest on the total liability	538,835	-	538,835
Differences between expected and actual experience in the measurement of the liability	341,875	-	341,875
Contributions-employer	-	1,397,868	(1,397,868)
Contributions-employee	-	70,316	(70,316)
Net investment income	-	294,227	(294,227)
Benefit payments, including refunds of employee contributions	(283,957)	(283,957)	-
Hall/Parker Settlement	-	(113,629)	113,629
Administrative expense	-	(5,178)	5,178
Other changes	-	48	(48)
Net changes	761,239	1,359,695	(598,456)
Balances at June 30, 2019	\$ 8,102,531	\$ 5,045,156	\$ 3,057,375

TOWN OF THATCHER, ARIZONA
Notes to Financial Statements
June 30, 2019

NOTE 9 – 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, 2018	\$ 111,823	\$ 216,242	\$ (104,419)
Changes for the year			
Service Cost	2,442	-	2,442
Interest on the total liability	8,232	-	8,232
Differences between expected and actual experience in the measurement of the liability	29,108	-	29,108
Net investment income	-	15,027	(15,027)
Benefit payments, including refunds of employee contributions	(3,601)	(3,601)	-
Administrative expense	-	(229)	229
Net changes	<u>36,181</u>	<u>11,197</u>	<u>24,984</u>
Balances at June 30, 2019	<u>\$ 148,004</u>	<u>\$ 227,439</u>	<u>\$ (79,435)</u>

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:

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
PSPRS Police			
Net pension (asset) liability	\$ 4,223,457	\$ 3,057,375	\$ 2,113,215
Net OPEB (asset) liability	(60,362)	(79,435)	(95,249)

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, 2019

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Expense – For the year ended June 30, 2019, the Town recognized the following pension and OPEB expense:

	Pension Expense		OPEB Expense
PSPRS Police	\$ 695,673	\$	(1,911)

Deferred Outflows/Inflows of Resources – At June 30, 2019, 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	\$ 366,152	\$ 104,711	\$ 23,665	\$ 422
Changes of assumptions or other inputs	375,819	-	-	3,016
Net difference between projected and actual earnings on pension plan investments	22,773	-	-	4,340
Town contributions subsequent to the measurement date	392,623	-	-	-
Total	\$ 1,157,367	\$ 104,711	\$ 23,665	\$ 7,778

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

NOTE 9 – 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, 2020. 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
2020	\$ 253,290	\$ 3,046
2021	171,490	3,046
2022	106,588	3,047
2023	106,430	4,855
2024	22,235	1,893
Thereafter	-	-

REQUIRED SUPPLEMENTARY INFORMATION

This page is intentionally blank

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$ 3,050,000	\$ 3,050,000	\$ 3,528,745	\$ 478,745
Intergovernmental	1,567,042	1,567,042	1,683,548	116,506
Charges for services	175,150	175,150	208,689	33,539
Interest	85,000	85,000	183,809	98,809
Other revenue	20,200	20,200	128,112	107,912
Licenses and permits	37,050	37,050	33,499	(3,551)
Fines and forfeitures	50	50	24,980	24,930
Total revenue	<u>4,934,492</u>	<u>4,934,492</u>	<u>5,791,382</u>	<u>856,890</u>
Expenditures:				
Mayor and council	268,519	268,519	239,553	28,966
Administration	285,071	285,071	289,530	(4,459)
Magistrate	204,480	204,480	298,815	(94,335)
Parks and recreation	469,510	469,510	503,776	(34,266)
Police	2,299,054	2,299,054	2,143,901	155,153
Fire	122,825	122,825	135,153	(12,328)
Shop	297,632	297,632	294,021	3,611
Streets	626,195	626,195	975,068	(348,873)
Town Engineer	467,151	467,151	360,557	106,594
Contingency	2,662,500	2,662,500	782,641	1,879,859
Total expenditures	<u>7,702,937</u>	<u>7,702,937</u>	<u>6,023,015</u>	<u>1,679,922</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(2,768,445)</u>	<u>(2,768,445)</u>	<u>(231,633)</u>	<u>(823,032)</u>
Other financing sources (uses):				
Sale of capital assets	6,000	6,000	-	6,000
Transfers	(500,000)	(500,000)	(25,806)	(474,194)
Total other financing sources (uses)	<u>(494,000)</u>	<u>(494,000)</u>	<u>(25,806)</u>	<u>(468,194)</u>
Net change in fund balances	<u>(3,262,445)</u>	<u>(3,262,445)</u>	<u>(257,439)</u>	<u>(1,291,226)</u>
Fund balances, beginning of year	8,051,057	8,051,057	8,051,057	-
Fund balances, end of year	<u>\$ 4,788,612</u>	<u>\$ 4,788,612</u>	<u>\$ 7,793,618</u>	<u>\$ (1,291,226)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 2,578,800	\$ 2,578,800	\$ 847,553	\$ (1,731,247)
Expenditures:				
Current				
Public safety	-	-	82,482	(82,482)
Capital outlay	-	-	202,080	(202,080)
Total expenditures	-	-	284,562	(284,562)
Excess (deficiency) of revenue over (under) expenditures	2,578,800	2,578,800	562,991	(1,446,685)
Other financing sources (uses):				
Transfers	-	-	(1,647)	1,647
Net change in fund balances	2,578,800	2,578,800	561,344	(1,445,038)
Fund balances, beginning of year	(2,709)	(2,709)	(2,709)	-
Fund balances, end of year	<u>\$ 2,576,091</u>	<u>\$ 2,576,091</u>	<u>\$ 558,635</u>	<u>\$ (1,445,038)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$ 434,691	\$ 434,691	\$ 475,719	\$ 41,028
Interest	-	-	16	16
Total revenue	<u>434,691</u>	<u>434,691</u>	<u>475,735</u>	<u>41,044</u>
Expenditures:				
Current				
Highways and streets	-	-	6,983	(6,983)
Capital outlay	434,691	434,691	496,205	(61,514)
Total expenditures	<u>434,691</u>	<u>434,691</u>	<u>503,188</u>	<u>(68,497)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(27,453)</u>	<u>109,541</u>
Other financing sources (uses):				
Transfers	-	-	27,453	(27,453)
Net change in fund balances	-	-	-	82,088
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,088</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2019

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, 2019, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Administration, Magistrate, Parks/Recreation, Fire, Shop, Streets, 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, 2019

ASRS-Pension

	Reporting Fiscal Year (Measurement Date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
Town's proportion of the net pension liability	0.015980%	0.014590%	0.015040%	0.014460%	0.013757%	Information not available
Town's proportionate share of the net pension liability	\$ 2,228,648	\$ 2,272,838	\$ 2,427,607	\$ 2,252,784	\$ 2,035,552	
Town's covered payroll	\$ 1,588,670	\$ 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	140.28%	159.69%	172.38%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	64.27%	68.35%	69.49%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
Town's proportion of the net OPEB (asset)	0.015120%	0.014050%	Information not available
Town's proportionate share of the net OPEB (asset)	\$ (5,445)	\$ (7,649)	
Town's covered payroll	\$ 1,588,670	\$ 1,423,302	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.34%	-0.54%	
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	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, 2019

ASRS-Long-Term Disability

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
Town's proportion of the net OPEB (asset)	0.015960%	0.014350%	Information
Town's proportionate share of the net OPEB (asset)	\$ 8,339	\$ 5,202	not available
Town's covered payroll	\$ 1,588,670	\$ 1,423,302	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	0.52%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	77.83%	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, 2019

EORP-Pension

	Reporting Fiscal Year (Measurement Date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
Town's proportion of the net pension liability	0.062461%	0.038940%	0.043107%	0.043169%	0.054174%	Information
Town's proportionate share of the net pension liability	\$ 393,590	\$ 474,494	\$ 407,255	\$ 337,348	\$ 363,274	not available
State's proportionate share of the net pension liability associated with the Town	67,203	98,479	84,088	105,171	111,383	
Total	<u>\$ 460,793</u>	<u>\$ 572,973</u>	<u>\$ 491,343</u>	<u>\$ 442,519</u>	<u>\$ 474,657</u>	
Town's covered payroll	<u>\$ 39,000</u>	<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	1009.21%	1535.58%	1212.07%	929.33%	739.58%	
Plan fiduciary net position as a percentage of the total pension liability	30.36%	17.16%	23.42%	28.32%	31.91%	

EORP-Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
Town's proportion of the net OPEB (asset)	0.37068%	0.35636%	Information
Town's proportionate share of the net OPEB (asset)	\$ (38,306)	\$ (32,450)	not available
Town's covered payroll	\$ 39,000	\$ 30,900	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-98.22%	-105.02%	
Plan fiduciary net position as a percentage of the total OPEB liability	177.16%	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, 2019

PSPRS - Police

	Reporting Fiscal Year (Measurement Date)					2014 through 2010
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability						Information not available
Service cost	\$ 164,486	\$ 168,777	\$ 135,700	\$ 129,706	\$ 132,777	
Interest on the total pension liability	538,835	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	341,875	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	<u>(283,957)</u>	<u>(263,800)</u>	<u>(263,800)</u>	<u>(374,248)</u>	<u>(397,692)</u>	
Net change in total pension liability	761,239	774,014	453,539	374,175	746,655	
Total pension liability - beginning	<u>7,341,292</u>	<u>6,567,278</u>	<u>6,113,739</u>	<u>5,739,564</u>	<u>4,992,909</u>	
Total pension liability - ending (a)	<u>\$ 8,102,531</u>	<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	\$ 1,397,868	\$ 591,829	\$ 619,120	\$ 235,104	\$ 220,723	
Contributions - employee	70,316	83,833	88,964	84,677	74,365	
Net investment income	294,227	379,550	16,396	89,394	295,450	
Benefit payments, including refunds of employee contributions	(283,957)	(263,800)	(263,800)	(374,248)	(397,692)	
Hall/Parker Settlement	(113,629)	-	-	-	-	
Administrative expense	(5,178)	(3,758)	(2,759)	(2,553)	-	
Other changes	<u>48</u>	<u>37</u>	<u>(14,990)</u>	<u>43,248</u>	<u>(154,602)</u>	
Net change in plan fiduciary net position	1,359,695	787,691	442,931	75,622	38,244	
Plan fiduciary net position - beginning	<u>3,685,461</u>	<u>2,897,770</u>	<u>2,454,839</u>	<u>2,379,217</u>	<u>2,340,973</u>	
Plan fiduciary net position - ending (b)	<u>\$ 5,045,156</u>	<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>\$ 3,057,375</u>	<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	62.27%	50.20%	44.12%	40.15%	41.45%	
Covered payroll	\$ 842,221	\$ 760,941	\$ 720,276	\$ 766,307	\$ 722,871	
Town's net pension (asset) liability as a percentage of covered payroll	363.01%	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, 2019

PSPRS OPEB - Police

	Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 through 2010
Total OPEB liability			
Service cost	\$ 2,442	\$ 2,663	Information
Interest on the total OPEB liability	8,232	8,144	not available
Differences between expected and actual experience in the measurement of the OPEB liability	29,108	(642)	
Changes of assumptions or other inputs	-	(4,586)	
Benefit payments	(3,601)	(2,025)	
Net change in total OPEB liability	36,181	3,554	
Total OPEB liability - beginning	111,823	108,269	
Total OPEB liability - ending (a)	<u>\$ 148,004</u>	<u>\$ 111,823</u>	
Plan fiduciary net position			
Net investment income	\$ 15,027	\$ 22,926	
Benefit payments	(3,601)	(2,025)	
Administrative expense	(229)	(202)	
Net change in plan fiduciary net position	11,197	20,699	
Plan fiduciary net position - beginning	216,242	195,543	
Plan fiduciary net position - ending (b)	<u>\$ 227,439</u>	<u>\$ 216,242</u>	
Town's net OPEB (asset) liability - ending (a) - (b)	<u>\$ (79,435)</u>	<u>\$ (104,419)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	153.67%	193.38%	
Covered payroll	\$ 842,221	\$ 760,941	
Town's net OPEB (asset) liability as a percentage of covered payroll	-9.43%	-13.72%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2019

ASRS-Pension

	Reporting Fiscal Year						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 182,156	\$ 173,165	\$ 153,432	\$ 152,801	\$ 145,066	\$ 132,689	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(182,156)</u>	<u>(173,165)</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>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,630,776</u>	<u>\$ 1,588,670</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	11.17%	10.90%	10.78%	10.85%	10.89%	10.70%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year			2016 through 2010
	2019	2018	2017	
Statutorily required contribution	\$ 7,416	\$ 6,491	\$ 7,562	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(7,416)</u>	<u>(6,491)</u>	<u>(7,562)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,630,776</u>	<u>\$ 1,588,670</u>	<u>\$ 1,423,302</u>	
Town's contributions as a percentage of covered payroll	0.45%	0.41%	0.53%	

See accompanying notes to pension plan schedules.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2019

ASRS-Long-Term Disability

	Reporting Fiscal Year			
	2019	2018	2017	2016 through 2010
Statutorily required contribution	\$ 2,588	\$ 2,533	\$ 1,951	Information not available
Town's contributions in relation to the statutorily required contribution	(2,588)	(2,533)	(1,951)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 1,630,776</u>	<u>\$ 1,588,670</u>	<u>\$ 1,423,302</u>	
Town's contributions as a percentage of covered payroll	0.16%	0.16%	0.14%	

PSPRS - Police

	Reporting Fiscal Year						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 392,623	\$ 1,397,868	\$ 591,829	\$ 619,120	\$ 235,104	\$ 220,723	Information not available
Town's contributions in relation to the actuarially determined contribution	(392,623)	(1,397,868)	(591,829)	(619,120)	(235,104)	(220,723)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	<u>\$ 860,449</u>	<u>\$ 842,221</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	45.63%	165.97%	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, 2019

PSPRS OPEB - Police

	<u>Reporting Fiscal Year</u>			2016 through 2010
	2019	2018	2017	
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>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 860,449</u>	<u>\$ 842,221</u>	<u>\$ 760,941</u>	
Town's contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	

EORP-Pension

	<u>Reporting Fiscal Year</u>						2013 through 2010
	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 5,672	\$ 5,041	\$ 7,262	\$ 7,896	\$ 9,082	\$ 11,543	Information not available
Town's contributions in relation to the statutorily required contribution	(5,672)	(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>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 39,000</u>	<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	14.54%	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 2019, 2018, or 2017. Information for fiscal years 2016 through 2010 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, 2019

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2017 actuarial valuation	19 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0%
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

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.

TOWN OF THATCHER, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB plan schedules
June 30, 2019

NOTE 2 – FACTORS THAT AFFECT TRENDS - Continued

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 2019 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes 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 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 and 2019.



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**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, 2019, 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 February 20, 2020.

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 **2019-001** and **2019-002**.

Compliance and Other Matters

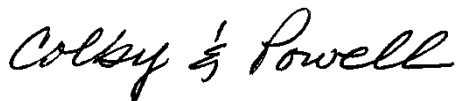
As part of obtaining reasonable assurance about whether the Town of Thatcher, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 black ink that reads "Colby J. Powell". The signature is written in a cursive style with a large initial "C" and "P".

February 20, 2020

TOWN OF THATCHER, ARIZONA
Schedule of Findings and Responses
June 30, 2019

Item: 2019-001

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: 2019-002

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.