

TOWN OF SPRINGERVILLE, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2017**

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Springerville, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Springerville, Arizona, as of and for the year ended June 30, 2017, 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, each major fund, and the aggregate remaining fund information of the Town of Springerville, Arizona, as of June 30, 2017, 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 Springerville, Arizona has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 48 through 52, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 53, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 54, Schedule of Town Pension Contributions on page 55, and Schedule of Agent OPEB Plans' Funding Progress on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017, on our consideration of the Town of Springerville, 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 solely 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 the effectiveness of the Town of Springerville, Arizona's 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 Springerville, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

Colby J. Powell

December 18, 2017



FINANCIAL SECTION

TOWN OF SPRINGVILLE, ARIZONA
Statement of Net Position
June 30, 2017

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,881,914 | \$ 904,994 | \$ 3,786,908 |
| Cash and cash equivalents-restricted | - | 132,097 | 132,097 |
| Accounts receivable - net | - | 97,997 | 97,997 |
| Due from other governments | 452,790 | - | 452,790 |
| Other receivables | 48,682 | - | 48,682 |
| Inventory | 29,748 | - | 29,748 |
| Capital assets, not being depreciated | 3,418,036 | 103,563 | 3,521,599 |
| Capital assets, being depreciated, net | 12,110,356 | 3,839,018 | 15,949,374 |
| Total assets | 18,941,526 | 5,077,669 | 24,019,196 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 650,543 | 73,004 | 723,547 |
| LIABILITIES | | | |
| Accounts payable | 27,185 | 11,198 | 38,383 |
| Accrued expenses | 17,380 | 2,177 | 19,557 |
| Deferred revenue | 16,400 | 1,142 | 17,542 |
| Refundable deposits | 250 | 47,931 | 48,181 |
| PSPRS Parker liability | 43,242 | - | 43,242 |
| Compensated absences | 142,057 | 19,494 | 161,551 |
| Noncurrent liabilities | | | |
| Due within one year | 6,464 | 64,139 | 70,603 |
| Due in more than one year | 2,469,882 | 1,356,351 | 3,826,233 |
| Total liabilities | 2,722,860 | 1,502,432 | 4,225,293 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 170,035 | 45,075 | 215,110 |
| NET POSITION | | | |
| Net investment in capital assets | 15,521,929 | 2,876,811 | 18,398,740 |
| Restricted for: | | | |
| Debt service | - | 84,167 | |
| Public works and streets | 558,265 | - | 558,265 |
| Senior welfare | 311,159 | - | 311,159 |
| Tourism promotion | 29,342 | - | 29,342 |
| Unrestricted (deficit) | 278,479 | 642,188 | 1,004,834 |
| Total net position | \$ 16,699,174 | \$ 3,603,166 | \$ 20,302,340 |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Activities
Year Ended June 30, 2017

| Functions / Programs | Expenses | Program Revenue | | | Net (Expenses) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------------|--|--|--|-----------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 662,853 | \$ 16,148 | \$ 10,490 | \$ - | \$ (636,215) | \$ - | \$ (636,215) |
| Public safety | 1,366,567 | 109,044 | 19,851 | 334,769 | (902,903) | - | (902,903) |
| Public works and streets | 1,325,917 | 221,480 | 415,611 | 181,402 | (507,424) | - | (507,424) |
| Culture and recreation | 165,547 | 17,766 | 7,446 | 52,536 | (87,799) | - | (87,799) |
| Community and economic development | 114,901 | - | - | - | (114,901) | - | (114,901) |
| Health and welfare | 216,044 | - | 222,033 | - | 5,989 | - | 5,989 |
| Interest | 1,029 | - | - | - | (1,029) | - | (1,029) |
| Total governmental activities | 3,852,858 | 364,438 | 675,431 | 568,707 | (2,244,282) | - | (2,244,282) |
| Business-type activities | | | | | | | |
| Water | 452,872 | 399,269 | - | 1,067 | - | (52,536) | (52,536) |
| Sewer | 344,250 | 408,347 | - | - | - | 64,097 | 64,097 |
| Total business-type activities | 797,122 | 807,616 | - | 1,067 | - | 11,561 | 11,561 |
| Total primary government | \$ 4,649,980 | \$ 1,172,054 | \$ 675,431 | \$ 569,774 | (2,244,282) | 11,561 | (2,232,721) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Local sales taxes | | | | | 1,494,481 | - | 1,494,481 |
| Share of state sales taxes | | | | | 179,171 | - | 179,171 |
| Share of state auto lieu taxes | | | | | 120,787 | - | 120,787 |
| State urban revenue sharing | | | | | 239,058 | - | 239,058 |
| Unrestricted investment earnings | | | | | 10,477 | - | 10,477 |
| Miscellaneous | | | | | 19,417 | - | 19,417 |
| Special item: | | | | | | | |
| Litigation settlement proceeds | | | | | 1,250,000 | - | 1,250,000 |
| Total general revenues & special items | | | | | 3,313,391 | - | 3,313,391 |
| Change in net position | | | | | 1,069,109 | 11,561 | 1,080,670 |
| Net position, beginning of year | | | | | 15,630,065 | 3,591,605 | 19,221,670 |
| Net position, end of year | | | | | \$ 16,699,174 | \$ 3,603,166 | \$ 20,302,340 |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

| | General Fund | HURF Fund | Grants Fund | Airport Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|-------------------|-------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 1,583,782 | \$ 477,526 | \$ - | \$ 490,224 | \$ 330,382 | \$ 2,881,914 |
| Due from other governments | 109,735 | 83,963 | 175,037 | 72,918 | 11,137 | 452,790 |
| Other receivables | 42,501 | - | - | 6,181 | - | 48,682 |
| Inventory | - | - | - | 29,748 | - | 29,748 |
| Due from other funds | 159,521 | - | - | - | - | 159,521 |
| Total assets | 1,895,539 | 561,489 | 175,037 | 599,071 | 341,519 | 3,572,655 |
| LIABILITIES | | | | | | |
| Accounts payable | 9,384 | 3,224 | 12,486 | 1,073 | 1,018 | 27,185 |
| Accrued expenses | 17,380 | - | - | - | - | 17,380 |
| Unearned revenue | - | - | 16,400 | - | - | 16,400 |
| Deposits held for others | 250 | - | - | - | - | 250 |
| Due to other funds | - | - | 159,521 | - | - | 159,521 |
| Total liabilities | 27,014 | 3,224 | 188,407 | 1,073 | 1,018 | 220,736 |
| FUND BALANCES | | | | | | |
| Nonspendable | 159,521 | - | - | - | - | 159,521 |
| Restricted for: | | | | | | |
| Public works and streets | - | 558,265 | - | - | - | 558,265 |
| Tourism promotion | - | - | - | - | 29,342 | 29,342 |
| Senior welfare | - | - | - | - | 311,159 | 311,159 |
| Unassigned | 1,709,004 | - | (13,370) | 597,998 | - | 2,293,632 |
| Total fund balances | 1,868,525 | 558,265 | (13,370) | 597,998 | 340,501 | 3,351,919 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 1,895,539 | \$ 561,489 | \$ 175,037 | \$ 599,071 | \$ 341,519 | \$ 3,572,655 |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

| | | |
|---|---------------------|------------------------------------|
| Fund balances-total governmental funds | | \$ 3,351,919 |
| <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> | | |
| Capital assets | 27,088,870 | |
| Less: accumulated depreciation: | <u>(11,560,478)</u> | 15,528,392 |
| <p>Long-term liabilities, such as net pension liabilities compensated absences, and bonds payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.</p> | | |
| PSPRS Parker liability | (43,242) | |
| Compensated absences | (142,057) | |
| Capital leases payable | (6,464) | |
| Net pension liability | <u>(2,469,882)</u> | (2,661,645) |
| <p>Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.</p> | | |
| Deferred outflows relating to pensions | 650,543 | |
| Deferred inflows relating to pensions | <u>(170,035)</u> | <u>480,508</u> |
| Net position of governmental activities | | <u><u>\$ 16,699,174</u></u> |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

| | General Fund | HURF Fund | Grants Fund | Airport Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|--------------------|-------------------|--------------------------------|--------------------------------|
| Revenue | | | | | | |
| Intergovernmental | \$ 544,016 | \$ 454,921 | \$ 392,389 | \$ 136,192 | \$ 146,414 | \$ 1,673,932 |
| Taxes | 1,479,639 | - | - | - | 14,843 | 1,494,482 |
| Charges for services | 66,505 | - | - | 210,137 | - | 276,642 |
| Other revenue | 33,999 | 2,902 | - | 7,500 | 75,618 | 120,019 |
| Fines and forfeitures | 65,949 | - | - | - | - | 65,949 |
| Licenses and permits | 16,148 | - | - | - | - | 16,148 |
| Investment income | 10,477 | - | - | - | - | 10,477 |
| Total revenue | 2,216,733 | 457,823 | 392,389 | 353,829 | 236,875 | 3,657,649 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 621,087 | - | - | - | - | 621,087 |
| Public safety | 1,061,697 | - | 34,794 | - | - | 1,096,491 |
| Public works and streets | 69,344 | 359,968 | - | 318,886 | - | 748,198 |
| Culture and recreation | 135,878 | - | 23,246 | - | - | 159,124 |
| Community and economic development | 96,572 | - | 14,771 | - | 5,175 | 116,518 |
| Health and welfare | - | - | - | - | 208,618 | 208,618 |
| Debt service | | | | | | |
| Principal | 12,383 | 9,428 | - | - | - | 21,811 |
| Interest | 827 | 202 | - | - | - | 1,029 |
| Capital outlay | 26,794 | 124,904 | 342,867 | 150,065 | - | 644,630 |
| Total expenditures | 2,024,582 | 494,502 | 415,678 | 468,951 | 213,793 | 3,617,506 |
| Excess (deficiency) of revenue over (under) expenditures | 192,151 | (36,679) | (23,289) | (115,122) | 23,082 | 40,143 |
| Other financing sources (uses) | | | | | | |
| Transfers | (45,871) | - | 8,732 | - | 37,139 | - |
| Special item(s) | | | | | | |
| Litigation settlement proceeds | 490,177 | - | - | 759,823 | - | 1,250,000 |
| Net change in fund balances | 636,457 | (36,679) | (14,557) | 644,701 | 60,221 | 1,290,143 |
| Fund balances, beginning of year | 1,232,068 | 594,944 | 1,187 | (46,703) | 280,280 | 2,061,776 |
| Fund balances, end of year | \$ 1,868,525 | \$ 558,265 | \$ (13,370) | \$ 597,998 | \$ 340,501 | \$ 3,351,919 |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2017

Net change in fund balances-total governmental funds \$ 1,290,143

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.

| | | |
|-----------------------------------|------------------|----------|
| Current year capital acquisitions | 644,630 | |
| Current year depreciation expense | <u>(708,882)</u> | (64,252) |

The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements. 14,318

In the statement of activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differ from the change in fund balance by the book value of the capital assets sold. (9,200)

Town pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pension, is reported in the statement of activities.

| | | |
|----------------------------|------------------|-----------|
| Town pension contributions | 164,396 | |
| Pension expense | <u>(292,744)</u> | (128,348) |

Repayment of debt principal is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 21,811

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

| | | |
|--|-----------------|-----------------|
| PSPRS-Parker lawsuit liability | (43,242) | |
| Increase in compensated absences payable | <u>(12,121)</u> | <u>(55,363)</u> |

Change in net position of governmental activities \$ 1,069,109

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2017

| | Business-type Activities--Enterprise Funds | | |
|--|--|---------------------|---------------------|
| | Water | Sewer | Total |
| | Fund | Fund | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 904,994 | \$ - | \$ 904,994 |
| Accounts receivable - net | 51,767 | 46,230 | 97,997 |
| Due from other funds | 412,669 | - | 412,669 |
| Total current assets | 1,369,430 | 46,230 | 1,415,660 |
| Noncurrent assets | | | |
| Cash and cash equivalents, restricted | 89,032 | 43,065 | 132,097 |
| Capital assets, net of accumulated depreciation, where applicable: | | | |
| Land | 43,563 | - | 43,563 |
| Water rights | 60,000 | - | 60,000 |
| Buildings and improvements, net | 9,719 | 712,623 | 722,342 |
| Vehicles and equipment, net | 226,522 | 265,508 | 492,030 |
| Infrastructure, net | 1,630,373 | 994,273 | 2,624,646 |
| Total noncurrent assets | 2,059,209 | 2,015,469 | 4,074,678 |
| Total assets | 3,428,639 | 2,061,699 | 5,490,338 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 42,698 | 30,306 | 73,004 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 4,693 | 6,505 | 11,198 |
| Accrued expenses | 2,177 | - | 2,177 |
| Deferred revenue | 1,087 | 55 | 1,142 |
| Due to other funds | - | 412,669 | 412,669 |
| Refundable deposits | 30,148 | 17,783 | 47,931 |
| Compensated absences | 10,696 | 8,798 | 19,494 |
| Lease payable, current portion | 9,480 | - | 9,480 |
| Notes payable, current portion | 37,905 | 16,754 | 54,659 |
| Total current liabilities | 96,186 | 462,564 | 558,750 |
| Noncurrent liabilities | | | |
| Lease payable, net of current portion | 15,068 | - | 15,068 |
| Notes payable, net of current portion | 681,333 | 305,230 | 986,563 |
| Net pension liability | 207,468 | 147,252 | 354,720 |
| Total noncurrent liabilities | 903,869 | 452,482 | 1,356,351 |
| Total liabilities | 1,000,055 | 915,046 | 1,915,101 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 26,363 | 18,712 | 45,075 |
| NET POSITION | | | |
| Net investment in capital assets | 1,226,391 | 1,650,420 | 2,876,811 |
| Restricted for: | | | |
| Debt service | 58,885 | 25,282 | 84,167 |
| Unrestricted (deficit) | 1,159,643 | (517,455) | 642,188 |
| Total net position | \$ 2,444,919 | \$ 1,158,247 | \$ 3,603,166 |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2017

| | Business-type Activities--Enterprise Funds | | |
|--|--|---------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Operating revenue | | | |
| Charges for services | | | |
| Water | \$ 398,641 | \$ - | \$ 398,641 |
| Sewer | - | 408,347 | 408,347 |
| Other revenues | 628 | - | 628 |
| Total operating revenue | <u>399,269</u> | <u>408,347</u> | <u>807,616</u> |
| Operating expenses | | | |
| Salaries and wages | 121,782 | 94,883 | 216,665 |
| Employee benefits | 58,224 | 46,010 | 104,234 |
| Service supplies, and other | 129,529 | 88,267 | 217,796 |
| Depreciation | 129,138 | 111,651 | 240,789 |
| Total operating expenses | <u>438,673</u> | <u>340,811</u> | <u>779,484</u> |
| Operating income (loss) | <u>(39,404)</u> | <u>67,536</u> | <u>28,132</u> |
| Nonoperating revenue (expenses) | | | |
| Connection fees | 1,067 | - | 1,067 |
| Interest expense | (14,199) | (3,439) | (17,638) |
| Total nonoperating revenue (expenses) | <u>(13,132)</u> | <u>(3,439)</u> | <u>(16,571)</u> |
| Increase (decrease) in net position | <u>(52,536)</u> | <u>64,097</u> | <u>11,561</u> |
| Total net position, beginning of year | <u>2,497,455</u> | <u>1,094,150</u> | <u>3,591,605</u> |
| Total net position, end of year | <u>\$ 2,444,919</u> | <u>\$ 1,158,247</u> | <u>\$ 3,603,166</u> |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

| | Business-type Activities--Enterprise Funds | | |
|---|--|------------------|---------------------|
| | Water | Sewer | Total |
| | Fund | Fund | |
| Cash flows from operating activities | | | |
| Receipts from customers | \$ 397,224 | \$ 407,727 | \$ 804,951 |
| Payments to suppliers and providers of goods and services | (189,296) | (132,798) | (322,094) |
| Payments to employees | (119,937) | (93,173) | (213,110) |
| Net cash provided (used) by operating activities | <u>87,991</u> | <u>181,756</u> | <u>269,747</u> |
| Cash flows from noncapital financing activities | | | |
| Interfund loans | 120,686 | (120,686) | - |
| Cash flows from capital and related financing activities | | | |
| Proceeds from notes payable | 70,616 | 150,113 | 220,729 |
| Interest received | 1,067 | - | 1,067 |
| Interest paid | (14,199) | - | (14,199) |
| Principal paid on long-term debt | (41,853) | (16,353) | (58,206) |
| Purchases of capital assets | (162,126) | (175,334) | (337,460) |
| Net cash provided (used) by capital and related financing activities | <u>(146,495)</u> | <u>(41,574)</u> | <u>(188,069)</u> |
| Cash flows from investing activities | | | |
| Interest received on investments | - | (3,439) | (3,439) |
| Net increase (decrease) in cash | 62,182 | 16,057 | 78,239 |
| Cash and cash equivalents, beginning of year | 931,844 | 27,008 | 958,852 |
| Cash and cash equivalents, end of year | <u>\$ 994,026</u> | <u>\$ 43,065</u> | <u>\$ 1,037,091</u> |
| Cash and cash equivalents | \$ 904,994 | \$ - | \$ 904,994 |
| Cash and cash equivalents, restricted | 89,032 | 43,065 | 132,097 |
| Cash and cash equivalents, end of year | <u>\$ 994,026</u> | <u>\$ 43,065</u> | <u>\$ 1,037,091</u> |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

| | Business-type Activities--Enterprise Funds | | |
|--|--|-------------------|-------------------|
| | Water | Sewer | Total |
| | Fund | Fund | |
| Reconciliation of operating income (loss) | | | |
| to net cash provided (used) by | | | |
| operating activities | | | |
| Operating income (loss) | \$ (39,404) | \$ 67,536 | \$ 28,132 |
| Adjustments to reconcile operating income | | | |
| (loss) to net cash provided (used) by | | | |
| operating activities: | | | |
| Depreciation | 129,138 | 111,651 | 240,789 |
| Pension expense | 6,893 | 4,892 | 11,785 |
| Employer pension contributions | (10,485) | (7,441) | (17,926) |
| (Increase) decrease in: | | | |
| Accounts receivable | 309 | (1,563) | (1,254) |
| Increase (decrease) in: | | | |
| Accounts payable | 2,247 | 4,027 | 6,274 |
| Accrued expenses | (199) | - | (199) |
| Deferred revenue | (3,147) | 55 | (3,092) |
| Refundable deposits | 793 | 888 | 1,681 |
| Compensated absences payable | 1,845 | 1,711 | 3,556 |
| | <u>\$ 87,990</u> | <u>\$ 181,756</u> | <u>\$ 269,746</u> |
| Net cash provided (used) by | | | |
| operating activities | <u>\$ 87,990</u> | <u>\$ 181,756</u> | <u>\$ 269,746</u> |
| | | | |
| Noncash Investing, Capital, and Financing Activities: | | | |
| Capital assets acquired through capital lease | <u>\$ 29,466</u> | <u>-</u> | <u>\$ 29,466</u> |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

| | Volunteer Firefighters' Relief and Pension |
|---|---|
| ASSETS | |
| Cash and cash equivalents | \$ 7,277 |
| Investments | 45,839 |
| Total assets | <u>53,116</u> |
| NET POSITION | |
| Held in trust for investment trust participants | <u><u>\$ 53,116</u></u> |

The accompanying notes are integral to these financial statements.

TOWN OF SPRINGVILLE, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2017

| | <u>Volunteer Firefighters' Relief and Pension</u> |
|---------------------------------|---|
| Additions | |
| Contributions from participants | \$ 3,714 |
| Investment income | <u>7,941</u> |
| Total additions | 11,655 |
| Deductions | |
| Other expenses | 620 |
| Distributions to participants | <u>2,478</u> |
| Total deductions | <u>3,098</u> |
| Change in net position | 8,557 |
| Net position, beginning of year | <u>44,559</u> |
| Net position, end of year | <u>\$ 53,116</u> |

The accompanying notes are integral to these financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Springerville, 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.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The financial statements include all funds and account groups that account for activities over which the Town's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component unit included in defining the Town's reporting entity. There are no discretely presented component units and one blended component unit.

Blended Component Unit included within the reporting entity:

The Town of Springerville Municipal Property Corporation (SMPC) is an Arizona nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the Town in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all residents. The SMPC has a June 30 year end.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund 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 usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the Town. Governmental

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

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 statements—provide information about the Town's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund 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. Fiduciary funds are aggregated and reported by fund type.

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

The Town reports the following major governmental funds:

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

The ***HURF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund that is legally restricted to expenditures for specified street purposes.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The ***Grants Fund*** accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor.

The ***Airport Fund*** accounts for operations of the municipal airport.

The Town reports the following major enterprise funds:

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

The Town reports the following fund types:

The ***Volunteer Firefighters' Relief and Pension*** accounts for assets held and invested by the Town Treasurer on behalf of qualified public safety employees for pension benefits.

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,

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2017 in the Water and Sewer Funds, respectively, were \$6,000 and \$4,000.

F. Capital Assets

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

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

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|----------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land | \$ 5,000 | N/A | N/A |
| Water rights | 5,000 | N/A | N/A |
| Artwork | 5,000 | N/A | N/A |
| Construction in progress | 5,000 | N/A | N/A |
| Buildings and improvements | 5,000 | Straight-line | 10 - 40 |
| Vehicles and equipment | 5,000 | Straight-line | 3 - 10 |
| Infrastructure | 5,000 | Straight-line | 20 - 40 |

G. Investment Income

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Inventories

Inventories are recorded as assets when purchased and expensed when consumed. These inventories are state at cost using the first-in, first-out method.

I. Compensated Absences

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

Employees may accumulate up to 320 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. However, employees may request in writing to the Town Manager to have excess hours carried forward. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate 480 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued 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.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. 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.

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.

M. Impact of Recently Issued Accounting Principles

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The Town implemented this standard during this fiscal period.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 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 OF SPRINGVILLE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS - Continued

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.

Restricted cash—Restricted cash in the Water and Sewer Fund consists of cash restricted for refundable deposits.

Deposits – At June 30, 2017, the carrying amount of the Town’s total nonpooled cash in bank was \$2,005,819, and the bank balance was \$2,057,899. Of the bank balance, \$266,737 was covered by federal depository insurance. The remainder was covered by collateral held by the pledging financial institution in the Town’s name.

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

NOTE 2 – DEPOSITS AND INVESTMENTS - Continued

Restricted cash – Restricted cash in the Water and Sewer Funds consists of monies restricted for refundable customer deposits in the amount of \$30,147 and \$17,783 and debt service reserve amounts of \$58,885 and \$7,500, respectively.

Custodial credit risk – is the risk that in the event of a bank failure, the government’s deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk.

Investments – The Town reported investments in the State Treasurer’s Investment Pool 5 with a reported amount of \$1,890,356. The Standard and Poor’s credit quality rating of the pool is AAA. The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2017 consisted of the following:

| | General Fund | HURF Fund | Grants Fund | Non-Major Governmental Funds | Airport Fund |
|-----------------------------------|-------------------|------------------|-------------------|------------------------------------|------------------|
| U.S. Department of Justice | \$ - | \$ - | \$ 7,500 | \$ - | \$ - |
| U.S. Department of Transportation | - | - | - | - | 72,918 |
| U.S. Department of Agriculture | - | 45,210 | 8,190 | - | - |
| State of Arizona | | | | | |
| Highway user revenues | - | 38,753 | - | - | - |
| State and city sales tax revenues | 104,059 | - | - | - | - |
| Auto lieu tax revenues | 5,676 | - | - | - | - |
| GOHS grant revenues | - | - | 4,653 | - | - |
| CDBG grant revenues | - | - | 154,694 | - | - |
| NACOG revenues | - | - | - | 11,137 | - |
| | <u>\$ 109,735</u> | <u>\$ 83,963</u> | <u>\$ 175,037</u> | <u>\$ 11,137</u> | <u>\$ 72,918</u> |

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
|--|-------------------------|-------------------|-------------------|--------------------------|
| <u>Governmental activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,796,848 | \$ - | \$ - | \$ 1,796,848 |
| Artwork | 1,500,000 | - | - | 1,500,000 |
| Construction in progress | 689,656 | 59,376 | 627,844 | 121,188 |
| Total capital assets not being depreciated | 3,986,504 | 59,376 | 627,844 | 3,418,036 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 4,515,927 | 95,290 | - | 4,611,217 |
| Vehicles and equipment | 3,652,599 | 1,132,125 | 29,818 | 4,754,907 |
| Infrastructure | 14,304,711 | - | - | 14,304,711 |
| Total | 22,473,237 | 1,227,415 | 29,818 | 23,670,834 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,764,706 | 145,837 | - | 1,910,542 |
| Vehicles and equipment | 3,259,927 | 142,106 | 20,618 | 3,381,415 |
| Infrastructure | 5,847,582 | 420,939 | - | 6,268,521 |
| Total | 10,872,214 | 708,882 | 20,618 | 11,560,478 |
| Total capital assets being depreciated, net | 11,601,023 | 518,533 | 9,200 | 12,110,356 |
| Governmental activities capital assets, net | \$ 15,587,527 | \$ 577,910 | \$ 637,044 | \$ 15,528,392 |
| <u>Business-type activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 43,563 | \$ - | \$ - | \$ 43,563 |
| Construction in progress | 160,732 | - | 160,732 | - |
| Water rights | 60,000 | - | - | 60,000 |
| Total capital assets not being depreciated | 264,295 | - | 160,732 | 103,563 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,116,388 | - | - | 2,116,388 |
| Vehicles and equipment | 458,484 | 327,164 | - | 785,648 |
| Infrastructure | 5,904,767 | 200,492 | - | 6,105,259 |
| Total | 8,479,639 | 527,656 | - | 9,007,295 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,351,688 | 42,358 | - | 1,394,046 |
| Vehicles and equipment | 256,113 | 37,504 | - | 293,617 |
| Infrastructure | 3,319,688 | 160,927 | - | 3,480,615 |
| Total | 4,927,489 | 240,789 | - | 5,168,278 |
| Total capital assets being depreciated, net | 3,552,151 | 286,867 | - | 3,839,017 |
| Business-type activities capital assets, net | \$ 3,816,446 | \$ 286,867 | \$ 160,732 | \$ 3,942,580 |

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

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 47,901 |
| Public safety | 63,374 |
| Public works and streets | 580,858 |
| Culture and recreation | 7,352 |
| Health and welfare | 9,397 |
| | <u>9,397</u> |
| Total governmental activities depreciation expense | <u>\$ 708,882</u> |
| Business-type activities: | |
| Water | \$ 129,138 |
| Sewer | 111,651 |
| | <u>111,651</u> |
| Total business-type activities depreciation expense | <u>\$ 240,789</u> |

NOTE 5 – LONG -TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2017.

| | Balance July 1, 2016 | Additions | Reductions | Balance June 30, 2017 | Due within one year |
|---------------------------|-------------------------|-------------------|------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| Capital leases payable | \$ 28,274 | \$ - | \$ 21,811 | \$ 6,464 | \$ 6,464 |
| Net pension liability | 2,112,865 | 357,017 | - | 2,469,882 | - |
| Compensated absences | 129,936 | 12,121 | - | 142,057 | 142,057 |
| | <u>\$ 2,271,075</u> | <u>\$ 369,138</u> | <u>\$ 21,811</u> | <u>\$ 2,618,403</u> | <u>\$ 148,521</u> |
| Business-type activities: | | | | | |
| Notes payable | \$ 873,782 | \$ 220,729 | \$ 53,289 | \$ 1,041,222 | \$ 54,659 |
| Capital leases payable | - | 29,466 | 4,917 | \$ 24,549 | 9,480 |
| Net pension liability | 330,979 | 23,741 | - | 354,720 | - |
| Compensated absences | 15,939 | 3,555 | - | 19,494 | 19,494 |
| | <u>\$ 1,220,700</u> | <u>\$ 277,491</u> | <u>\$ 58,206</u> | <u>\$ 1,439,985</u> | <u>\$ 83,633</u> |

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

NOTE 5 – LONG-TERM LIABILITIES – Continued

Notes Payable – The Town’s notes payable consisted of the following:

| <u>Description</u> | <u>Original Amount</u> | <u>Maturity Ranges</u> | <u>Interest Rates</u> | <u>Outstanding Principal</u> |
|---------------------|----------------------------|----------------------------|---------------------------|----------------------------------|
| Note payable - WIFA | \$ 907,218 | 2034 | 2.625% | \$ 719,238 |
| Note payable - WIFA | <u>396,000</u> | 2034 | 2.450% | <u>321,984</u> |
| Total notes payable | <u>\$ 1,303,218</u> | | | <u>\$ 1,041,222</u> |

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2017.

| <u>Year Ending June 30</u> | <u>Business-type Activities</u> | | | | | |
|------------------------------------|---------------------------------|-------------------|---------------------|------------------|---------------------|-------------------|
| | <u>Note Payable</u> | | <u>Note Payable</u> | | <u>Total</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2018 | 37,905 | 19,985 | 16,754 | 8,118 | 54,659 | 28,103 |
| 2019 | 38,900 | 18,963 | 17,164 | 7,698 | 56,064 | 26,661 |
| 2020 | 39,921 | 17,915 | 17,585 | 7,267 | 57,506 | 25,182 |
| 2021 | 40,969 | 10,840 | 18,016 | 6,825 | 58,985 | 17,665 |
| 2022 | 42,045 | 15,736 | 18,457 | 6,373 | 60,502 | 22,109 |
| 2023-27 | 227,370 | 61,086 | 99,294 | 24,685 | 326,664 | 85,771 |
| 2028-32 | 258,821 | 28,809 | 112,068 | 11,598 | 370,889 | 40,407 |
| 2033-37 | <u>33,307</u> | <u>874</u> | <u>22,646</u> | <u>555</u> | <u>55,953</u> | <u>1,429</u> |
| Total | <u>\$ 719,238</u> | <u>\$ 174,208</u> | <u>\$ 321,984</u> | <u>\$ 73,119</u> | <u>\$ 1,041,222</u> | <u>\$ 247,327</u> |

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

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--------------------------------|------------------------------------|-------------------------------------|
| Vehicles and equipment | \$ 90,174 | \$ 29,466 |
| Less: accumulated depreciation | <u>(39,213)</u> | <u>(1,473)</u> |
| Carrying value | <u>\$ 50,961</u> | <u>\$ 27,992</u> |

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

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2017:

| Year Ending June 30 | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| 2018 | \$ 6,605 | \$ 10,458 |
| 2019 | - | 10,458 |
| 2020 | - | 5,229 |
| Total minimum lease payments | 6,605 | 26,145 |
| Less amount representing interest | (141) | (1,597) |
| Present value of net minimum lease payments | <u>\$ 6,464</u> | <u>\$ 24,549</u> |

NOTE 6 – 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’s insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. The Town is insured by Municipal Workers compensation for potential work related accidents.

NOTE 7 – CONTINGENCIES

The Town’s groundwater rights have been subject to pending litigation for many years. It is virtually impossible at this time to make an evaluation as to the likelihood of an unfavorable outcome or what the potential loss of such an unfavorable outcome would be. No monetary damages are being claimed by any party at this time.

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

NOTE 8 – 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, 2017, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

| Statement of Net Position and Statement of Activities | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|--|--------------------------------|---------------------------------|--------------|
| Net pension liabilities | \$ 2,469,882 | \$ 354,720 | \$ 2,824,602 |
| Deferred outflows of resources | 677,728 | 71,794 | 749,522 |
| Deferred inflows of resources | 201,762 | 45,075 | 246,837 |
| Pension expense | 292,744 | 17,926 | 310,670 |

The Town reported \$164,396 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-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 SPRINGVILLE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 8 – 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:

| ASRS | Retirement | |
|--|--|--|
| | 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.

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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2017,

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$109,184. The Town’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

| ASRS | Health Benefit Supplement Fund | Long-term Disability Fund |
|---------------------|-----------------------------------|------------------------------|
| Year ended June 30, | | |
| 2017 | \$ 5,752 | \$ 1,438 |
| 2016 | 5,920 | 1,184 |
| 2015 | 5,490 | 1,098 |

During fiscal year 2017, the Town paid for ASRS pension and OPEB contributions as follows: 47.37 percent from the General Fund, 14.48 percent from the HURF Fund, 6.06 percent from the Airport Fund, 1.22 percent from the Grants Fund, 9.65 percent from the Senior Center Fund (nonmajor), 11.92 percent from the Water Fund, and 9.30 percent from the Sanitation Fund.

Pension Liability – At June 30, 2017, the Town reported a liability of \$1,686,735 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The Town’s proportion of the net pension liability was based on the Town’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2016. The Town’s proportion measured as of June 30, 2016, was .01045 percent, which was an increase of .00035 percent from its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$85,240. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| ASRS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 10,250 | \$ 116,035 |
| Changes of assumptions or other inputs | - | 89,242 |
| Net difference between projected and actual earnings on pension plan investments | 182,786 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 39,169 | 9,061 |
| Town contributions subsequent to the measurement date | 109,184 | - |
| Total | <u>\$ 341,389</u> | <u>\$ 214,338</u> |

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The \$109,184 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

| Year ended June 30, | | \$ | |
|---------------------|--|----|----------|
| 2018 | | | (69,740) |
| 2019 | | | (41,682) |
| 2020 | | | 78,036 |
| 2021 | | | 51,253 |

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

ASRS

| | |
|-----------------------------|-------------------|
| Actuarial valuation date | June 30, 2015 |
| Actuarial roll forward date | June 30, 2016 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8% |
| Projected salary increases | 3 - 6.75% |
| Inflation | 3% |
| Permanent benefit increase | Included |
| Mortality rates | 1994 GAM Scale BB |

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

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| ASRS | 1% Decrease (7%) | Current Discount Rate (8%) | 1% Increase (9%) |
|---|---------------------|-------------------------------|---------------------|
| Town's proportionate share of the net pension liability | \$ 2,150,715 | \$ 1,686,735 | \$ 1,314,724 |

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

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

B. Public Safety Personnel Retirement System

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

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

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

| PSPRS | Initial membership date: | |
|--|---|--|
| | Before January 1, 2012 | On or after January 1, 2012 |
| Retirement and Disability | | |
| Years of service and age required to receive benefit | 20 years, any age 15 years, age 62 | 25 years, age 52.5 |
| Final average salary is based on | Highest 36 months of last 20 years | Highest 60 months of last 20 years |
| Benefit percent | | |
| Normal Retirement | 50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80% | 2.5% per year of credited service, not to exceed 80% |
| Accidental Disability Retirement | 50% or normal retirement, whichever is greater | |
| Catastrophic Disability Retirement | 90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater | |
| Ordinary Disability Retirement | Normal retirement calculated with actual years of credited service or 20 years of credited service, | |
| Survivor Benefit | | |
| Retired Members | 80% of retired member's pension benefit | |
| Active Members | 80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job | |

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Employees Covered by Benefit Terms – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

| PSPRS | <u>PSPRS Police</u> |
|--|----------------------------|
| Inactive employees or beneficiaries currently receiving benefits | 3 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | 5 |
| Total | <u><u>10</u></u> |

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

| PSPRS | <u>PSPRS Police</u> |
|----------------------------------|----------------------------|
| Active Members - Pension | 11.65% |
| Town Pension | 28.52% |
| Health insurance premium benefit | 0.00% |

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

| PSPRS | <u>PSPRS Police</u> |
|--------------------|----------------------------|
| Pension | |
| Contributions Made | \$ 74,882 |

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Net Pension Liability (Asset) – At June 30, 2017, the Town reported the following net pension liability:

| PSPRS | <u>Net Pension Liability (Asset)</u> |
|--------------|--|
| PSPRS Police | <u>\$ 1,137,867</u> |

The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments changed the basis for cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

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

| PSPRS | June 30, 2016 |
|----------------------------|---|
| Actuarial valuation date | Entry age normal |
| Actuarial cost method | 7.50% |
| Discount rate | 4.0%-8.0% |
| Projected salary increases | 4.0% |
| Inflation | Included |
| Permanent benefit increase | RP-2000 mortality table (adjusted by 105% for both males and females) |
| Mortality rates | |

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on PSPRS pension 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 pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Pension Discount Rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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 pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

| PSPRS | Increase (Decrease) | | |
|--|--|------------------------------------|--|
| | Total Pension Liability (Asset) (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2016 | \$ 2,532,312 | \$ 1,662,308 | \$ 870,004 |
| Changes for the year | | | |
| Service Cost | 51,746 | - | 51,746 |
| Interest on the total pension liability | 197,119 | - | 197,119 |
| Changes of benefit terms | 68,337 | - | 68,337 |
| Differences between expected and actual experience in the measurement of the pension liability | (847) | - | (847) |
| Changes of assumptions or other inputs | 99,265 | - | 99,265 |
| Contributions-employer | - | 93,363 | (93,363) |
| Contributions-employee | - | 46,406 | (46,406) |
| Net investment income | - | 9,786 | (9,786) |
| Benefit payments, including refunds of employee contributions | (94,232) | (94,232) | - |
| Administrative expense | - | (1,808) | 1,808 |
| Other changes | - | 10 | (10) |
| Net changes | 321,388 | 53,525 | 267,863 |
| Balances at June 30, 2017 | \$ 2,853,700 | \$ 1,715,833 | \$ 1,137,867 |

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.50 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

| PSPRS | Current Discount Rate | | |
|-----------------------|-----------------------|--------------|---------------------|
| | 1% Decrease (6.50%) | (7.50%) | 1% Increase (8.50%) |
| Net pension liability | \$ 1,482,489 | \$ 1,137,867 | \$ 850,879 |

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

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

PSPRS - OPEB Contribution Requirements

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 21 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value; 80%/120% market corridor |
| Actuarial assumptions: | |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.0%-8.0% |
| Wage growth | 4.0% |

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

PSPRS

| Year ended June 30, | Annual OPEB Cost | Percentage of Annual Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|---------------------------------------|---------------------|
| PSPRS Police | | | |
| 2017 | \$ - | 100% | Not available |
| 2016 | - | 100% | (50,436) |
| 2015 | 4,598 | 100% | (46,836) |

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

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

| PSPRS | PSPRS Police |
|--|---------------------|
| Actuarial value of assets (a) | \$ 108,977 |
| Actuarial accrued liability (b) | \$ 58,541 |
| Unfunded actuarial accrued liability (funding excess)(b)-(a) | \$ (50,436) |
| Funded ratio (a)/(b) | 186.16% |
| Annual covered payroll (c) | \$ 269,513 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c) | 0.00% |

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

| PSPRS - OPEB Funded Status | |
|-----------------------------------|--|
| Actuarial valuation date | June 30, 2016 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 20 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value; 80%/120% market corridor |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Projected salary increases | 4%-8% |
| Wage growth | 4% |

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

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2017, consisted of \$159,521 owed by the Grants Fund to the General Fund and \$412,669 owed by the Sewer Fund to the Water Fund. The interfund receivables and payables above were necessary in order to fund the ongoing activities of the funds in current and prior periods.

Interfund transfers—Interfund transfers for the year ended June 30, 2017, consisted of \$45,871 transferred from the General Fund to the Senior Center Fund and the Grants Fund.

NOTE 10 – PSPRS PARKER LIABILITY

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed (put on hold) pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

PSPRS members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of affected members for each employer, along with the amount of excess contributions that must be returned to them. The Town has estimated that the total amount of refunds due to employees (including applicable interest) will be \$43,242.



REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------|-------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Intergovernmental | \$ 548,230 | \$ 548,230 | \$ 544,016 | \$ (4,214) |
| Taxes | 1,520,000 | 1,520,000 | 1,479,639 | (40,361) |
| Charges for services | 54,510 | 54,510 | 66,505 | 11,995 |
| Other revenue | 70,300 | 70,300 | 33,999 | (36,301) |
| Fines and forfeitures | 48,550 | 48,550 | 65,949 | 17,399 |
| Licenses and permits | 8,300 | 8,300 | 16,148 | 7,848 |
| Investment income | 2,900 | 2,900 | 10,477 | 7,577 |
| Total revenue | <u>2,252,790</u> | <u>2,252,790</u> | <u>2,216,733</u> | <u>(36,057)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 835,948 | 835,948 | 621,087 | 214,861 |
| Public safety | 1,155,872 | 1,155,872 | 1,061,697 | 94,175 |
| Public works and streets | 150,238 | 150,238 | 69,344 | 80,894 |
| Culture and recreation | 129,469 | 129,469 | 135,878 | (6,409) |
| Community and economic dev | 149,874 | 149,874 | 96,572 | 53,302 |
| Debt service | | | | |
| Principal | 12,383 | 12,383 | 12,383 | - |
| Interest | 827 | 827 | 827 | - |
| Capital outlay | 26,794 | 26,794 | 26,794 | - |
| Total expenditures | <u>2,461,405</u> | <u>2,461,405</u> | <u>2,024,582</u> | <u>436,823</u> |
| Excess (deficiency) of revenue over (under) expenditures | (208,615) | (208,615) | 192,151 | 400,766 |
| Other financing sources (uses) | | | | |
| Transfers | (180,228) | (180,228) | (45,871) | 134,357 |
| Special item(s) | | | | |
| Litigation settlement proceeds | - | - | 490,177 | 490,177 |
| Net change in fund balance | (388,843) | (388,843) | 636,457 | 1,025,300 |
| Fund balances, beginning of year | <u>1,232,068</u> | <u>1,232,068</u> | <u>1,232,068</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 843,225</u> | <u>\$ 843,225</u> | <u>\$ 1,868,525</u> | <u>\$ 1,025,300</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Intergovernmental | \$ 406,400 | \$ 406,400 | \$ 454,921 | \$ 48,521 |
| Other revenue | - | - | 2,902 | 2,902 |
| Total revenue | <u>406,400</u> | <u>406,400</u> | <u>457,823</u> | <u>51,423</u> |
| Expenditures | | | | |
| Current | | | | |
| Public works and streets | 457,222 | 457,222 | 359,968 | 97,254 |
| Debt service | | | | |
| Principal | 9,428 | 9,428 | 9,428 | - |
| Interest | 202 | 202 | 202 | - |
| Capital outlay | 124,904 | 124,904 | 124,904 | - |
| Total expenditures | <u>591,756</u> | <u>591,756</u> | <u>494,502</u> | <u>97,254</u> |
| Net change in fund balance | (185,356) | (185,356) | (36,679) | 148,677 |
| Fund balances, beginning of year | 594,944 | 594,944 | 594,944 | - |
| Fund balances, end of year | <u>\$ 409,588</u> | <u>\$ 409,588</u> | <u>\$ 558,265</u> | <u>\$ 148,677</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|------------------|------------------|--------------------|-------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Intergovernmental | \$ 1,931,956 | \$ 1,931,956 | \$ 392,389 | \$ (1,539,567) |
| Expenditures | | | | |
| Current | | | | |
| General government | 772,956 | 772,956 | - | 772,956 |
| Public safety | 174,526 | 174,526 | 34,794 | 139,732 |
| Public works and streets | 596,607 | 596,607 | - | 596,607 |
| Culture and recreation | 35,000 | 35,000 | 23,246 | 11,754 |
| Community and economic dev | 10,000 | 10,000 | 14,771 | (4,771) |
| Capital outlay | 342,867 | 342,867 | 342,867 | - |
| Total expenditures | <u>1,931,956</u> | <u>1,931,956</u> | <u>415,678</u> | <u>1,516,278</u> |
| Excess (deficiency) of revenue over (under) expenditures | - | - | (23,289) | (23,289) |
| Other financing sources (uses) | | | | |
| Transfers | - | - | 8,732 | 8,732 |
| Net change in fund balance | - | - | (14,557) | (14,557) |
| Fund balances, beginning of year | 1,187 | 1,187 | 1,187 | - |
| Fund balances, end of year | <u>\$ 1,187</u> | <u>\$ 1,187</u> | <u>\$ (13,370)</u> | <u>\$ (14,557)</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Airport Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|--------------------|--------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Intergovernmental | \$ - | \$ - | \$ 136,192 | \$ 136,192 |
| Charges for services | 227,000 | 227,000 | 210,137 | (16,863) |
| Other revenue | - | - | 7,500 | 7,500 |
| Total revenue | <u>227,000</u> | <u>227,000</u> | <u>353,829</u> | <u>126,829</u> |
| Expenditures | | | | |
| Current | | | | |
| Public works and streets | 218,463 | 218,463 | 318,886 | (100,423) |
| Capital outlay | 150,065 | 150,065 | 150,065 | - |
| Total expenditures | <u>368,528</u> | <u>368,528</u> | <u>468,951</u> | <u>(100,423)</u> |
| Excess (deficiency) of revenue over (under) expenditures | (141,528) | (141,528) | (115,122) | 26,406 |
| Other financing sources (uses) | | | | |
| Transfers | 141,528 | 141,528 | - | (141,528) |
| Special item(s) | | | | |
| Litigation settlement proceeds | - | - | 759,823 | 759,823 |
| Net change in fund balance | - | - | 644,701 | 644,701 |
| Fund balances, beginning of year | (46,703) | (46,703) | (46,703) | - |
| Fund balances, end of year | <u>\$ (46,703)</u> | <u>\$ (46,703)</u> | <u>\$ 597,998</u> | <u>\$ 644,701</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2017

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

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. prohibits 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 APPORPRIATIONS

For the year ended June 30, 2017, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Culture and Recreation and Airport department.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2017

Arizona State Retirement System

| | Reporting Fiscal Year (Measurement Date) | | | |
|---|---|----------------|----------------|------------------------------|
| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2008 |
| Town's proportion of the net pension liability | 0.010450% | 0.010100% | 0.010188% | Information not available |
| Town's proportionate share of the net pension liability | \$ 1,686,735 | \$ 1,573,840 | \$ 1,507,493 | |
| Town's covered-employee payroll | \$ 1,012,839 | \$ 978,479 | \$ 930,634 | |
| Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 166.54% | 160.85% | 161.99% | |
| Plan fiduciary net position as a percentage of the total pension liability | 67.06% | 68.35% | 69.49% | |

See accompanying notes to pension plan schedules.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2017

PSPRS

| | Reporting Fiscal Year (Measurement Date) | | | |
|--|---|---------------------|---------------------|------------------------------|
| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2008 |
| Total pension liability | | | | Information not available |
| Service cost | \$ 51,746 | \$ 57,729 | \$ 51,036 | |
| Interest on the total pension liability | 197,119 | 185,622 | 153,315 | |
| Changes of benefit terms | 68,337 | - | 48,631 | |
| Differences between expected and actual experience in the measurement of the pension liability | (847) | 331 | (172) | |
| Changes of assumptions or other inputs | 99,265 | - | 248,915 | |
| Benefit payments, including refunds of employee contributions | (94,232) | (94,232) | (92,813) | |
| Net change in total pension liability | 321,388 | 149,450 | 408,912 | |
| Total pension liability - beginning | 2,532,312 | 2,382,862 | 1,973,950 | |
| Total pension liability - ending (a) | <u>\$ 2,853,700</u> | <u>\$ 2,532,312</u> | <u>\$ 2,382,862</u> | |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 93,363 | \$ 59,564 | \$ 64,094 | |
| Contributions - employee | 46,406 | 42,555 | 35,700 | |
| Net investment income | 9,786 | 58,728 | 192,437 | |
| Benefit payments, including refunds of employee contributions | (94,232) | (94,232) | (92,813) | |
| Administrative expense | (1,808) | (1,811) | - | |
| Other changes | 10 | (1,382) | (76,069) | |
| Net change in plan fiduciary net position | 53,525 | 63,422 | 123,349 | |
| Plan fiduciary net position - beginning | 1,662,308 | 1,598,886 | 1,475,537 | |
| Plan fiduciary net position - ending (b) | <u>\$ 1,715,833</u> | <u>\$ 1,662,308</u> | <u>\$ 1,598,886</u> | |
| Town's net pension liability (asset) - ending (a) - (b) | <u>\$ 1,137,867</u> | <u>\$ 870,004</u> | <u>\$ 783,976</u> | |
| Plan fiduciary net position as a percentage of the total pension liability | 60.13% | 65.64% | 67.10% | |
| Covered-employee payroll | \$ 269,513 | \$ 325,488 | \$ 309,043 | |
| Town's net pension liability (asset) as a percentage of covered-employee payroll | 422.19% | 267.29% | 253.68% | |

See accompanying notes to pension plan schedules.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2017

Arizona State Retirement System

| | Reporting Fiscal Year | | | | 2013 through 2008 |
|---|------------------------------|-------------------|-------------------|-------------------|------------------------------|
| | 2017 | 2016 | 2015 | 2014 | |
| Statutorily required contribution | \$ 109,184 | \$ 106,165 | \$ 101,346 | \$ 98,267 | Information not available |
| Town's contributions in relation to the statutorily required contribution | <u>(109,184)</u> | <u>(106,165)</u> | <u>(101,346)</u> | <u>(98,267)</u> | |
| Town's contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Town's covered-employee payroll | <u>\$ 1,012,839</u> | <u>\$ 978,479</u> | <u>\$ 930,634</u> | <u>\$ 918,383</u> | |
| Town's contributions as a percentage of covered-employee payroll | 10.78% | 10.85% | 10.89% | 10.70% | |

PSPRS

| | Reporting Fiscal Year | | | | 2013 through 2008 |
|---|------------------------------|-------------------|-------------------|-------------------|------------------------------|
| | 2017 | 2016 | 2015 | 2014 | |
| Actuarially determined contribution | \$ 74,882 | \$ 93,363 | \$ 59,564 | \$ 64,094 | Information not available |
| Town's contributions in relation to the actuarially determined contribution | <u>(74,882)</u> | <u>(93,363)</u> | <u>(59,564)</u> | <u>(64,094)</u> | |
| Town's contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Town's covered-employee payroll | <u>\$ 262,560</u> | <u>\$ 269,513</u> | <u>\$ 325,488</u> | <u>\$ 309,043</u> | |
| Town's contributions as a percentage of covered-employee payroll | 28.52% | 34.64% | 18.30% | 20.74% | |

See accompanying notes to pension plan schedules.

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2017

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

| | |
|--|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period as of the 2015 actuarial valuation | 21 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value; 80%/120% market corridor |
| Actuarial assumptions: | |
| Investment rate of return | In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85% |
| Projected salary increases | In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%. |
| Wage growth | In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% |
| Retirement age | Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011. |
| Mortality | RP-2000 mortality table (adjusted by 105% for both males and females) |

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

Health Insurance Premium Benefit - PSPRS

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 06/30/16 | \$ 108,977 | \$ 58,541 | \$ (50,436) | 186.2 % | \$ 269,513 | 0.00 % |
| 06/30/15 | 102,156 | 55,320 | (46,836) | 184.7 | 325,488 | 0.00 |
| 06/30/14 | 92,951 | 50,752 | (42,199) | 183.1 | 309,043 | 0.00 |

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

TOWN OF SPRINGVILLE, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

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

REPORTS REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS

**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 Springerville, 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 Springerville, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Springerville, Arizona's, basic financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Springerville, 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 Springerville, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Springerville, 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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

December 18, 2017