

Town of Hayden, Arizona

**Basic Financial Statements and
Independent Auditor's Report**

For the Year Ended June 30, 2017

Town of Hayden, Arizona
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Town of Hayden, Arizona

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Independent Auditor's Report

To the Town Council
Town of Hayden, Arizona

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 Hayden, 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 Hayden, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, 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's pension contributions on page 55, and the 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.

Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies the Town received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the Town received 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.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, (the Auditor General of the State of Arizona,) the Town Council, management, and other responsible parties within the Town and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2018, on our consideration of the Town of Hayden, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hayden, Arizona's internal control over financial reporting and compliance.

Insola + Butler, CPAs, PLLC

Tempe, Arizona
February 13, 2018

Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017

Within this section of the Town of Hayden, Arizona (Town) annual financial report, the Town's management provides narrative discussion and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The Town's assets exceeded its liabilities by \$10,917,900 (net position) for the fiscal year reported.
- Total net position is comprised of the following:
 - (1) Capital assets of \$8,975,448 include property and equipment, net of accumulated depreciation and related debt.
 - (2) Restricted net position for street improvement purposes \$58,617.
 - (3) Restricted net position for loan reserve requirements \$5,800.
 - (4) Unrestricted net position of \$1,878,035 represents the portion available to maintain the Town's continuing obligations to citizens and creditors.
- The Town's governmental funds reported a total ending fund balance of \$1,982,202 this year. This compares to the prior year total ending fund balance of \$1,423,443 showing an increase of \$558,759 during the current year.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these government-wide statements is the Statement of Net Position. This is the Town-wide statement of financial position presenting information that includes all of the Town's assets and liabilities, with the difference reported as net position. Over time, increases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating.

Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017

The second government-wide statement is the Statement of Activities, which reports how the Town's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

Both government-wide financial statements distinguish governmental activities of the Town that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and recreation. The business-type activities are the water and sewer utilities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Town has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives. Budgetary comparison schedules can be found in a later section of this report.

Proprietary funds are reported in the fund financial statements and generally report services for which the Town charges customers a fee. The Water and Sewer Utility funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Town organization for water and sewer services.

Fiduciary funds such as the Volunteer Firemen's Relief and Pension Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Town programs and are reported similarly to proprietary funds.

**Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017**

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budgetary comparison schedules. These schedules demonstrate compliance with the Town's adopted and final revised budget. Supplementary information follows the notes to the financial statements. Combining financial statements are provided for nonmajor governmental funds totaled in one column on the fund financial statements.

Financial Analysis of the Town as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The following table provides a summary of the Town's net position at June 30, 2017:

SUMMARY OF NET POSITION

| | Governmental Activities | Business- type Activities | Totals | Totals | Amount Change |
|---------------------------------|------------------------------------|--------------------------------------|----------------------|----------------------|--------------------------|
| | 2017 | 2017 | 2017 | 2016 | |
| Current and other assets | \$ 3,435,673 | \$ 27,129 | \$ 3,462,802 | \$ 2,833,288 | \$ 629,514 |
| Non-current assets | | | | | |
| Capital assets | 1,885,297 | 7,523,408 | 9,408,705 | 9,728,453 | (319,748) |
| Total Assets | <u>5,320,970</u> | <u>7,550,537</u> | <u>12,871,507</u> | <u>12,561,741</u> | <u>309,766</u> |
| Deferred Outflow s of Resources | 309,934 | 39,074 | 349,008 | 189,370 | 159,638 |
| Current liabilities | 124,535 | 14,707 | 139,242 | 97,284 | 41,958 |
| Non-current liabilities | 946,550 | 661,587 | 1,608,137 | 1,830,476 | (222,339) |
| Total Liabilities | <u>1,071,085</u> | <u>676,294</u> | <u>1,747,379</u> | <u>1,927,760</u> | <u>(180,381)</u> |
| Deferred Inflow s of Resources | 467,689 | 87,547 | 555,236 | 478,947 | 76,289 |
| Invested in capital assets | 1,885,297 | 7,090,151 | 8,975,448 | 9,288,006 | (312,558) |
| Restricted | 58,617 | 5,800 | 64,417 | 121,654 | (57,237) |
| Unrestricted | <u>2,148,216</u> | <u>(270,181)</u> | <u>1,878,035</u> | <u>934,744</u> | <u>943,291</u> |
| Total Net Position | <u>\$ 4,092,130</u> | <u>\$ 6,825,770</u> | <u>\$ 10,917,900</u> | <u>\$ 10,344,404</u> | <u>\$ 573,496</u> |

The Town reported net position for governmental activities of \$4,092,130 and a net position for business-type activities of \$6,825,770. Net position increased \$843,060 for governmental activities and decreased \$269,564 for business-type activities.

Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017

The following table provides a summary of the Town's changes in net position for the year ended June 30, 2017.

SUMMARY OF CHANGES IN NET POSITION

| | Governmental Activities 2017 | Business- type Activities 2017 | Totals 2017 | Totals 2016 | Amount Change |
|---------------------------------------|---|---|------------------------|------------------------|--------------------------|
| Revenues: | | | | | |
| Program revenues: | | | | | |
| Charges for services | \$ 261,595 | \$ 158,059 | \$ 419,654 | \$ 391,658 | \$ 27,996 |
| Operating grants and contributions | 308,141 | - | 308,141 | 317,848 | (9,707) |
| Capital grants and contributions | - | - | - | 6,394 | (6,394) |
| General revenues: | | | | | |
| City sales tax | 1,216,707 | - | 1,216,707 | 1,134,688 | 82,019 |
| State taxes and shared revenues | 345,652 | - | 345,652 | 331,091 | 14,561 |
| Property tax | 756,258 | - | 756,258 | 280,794 | 475,464 |
| Other | 19,182 | - | 19,182 | 15,942 | 3,240 |
| Total Revenues | <u>2,907,535</u> | <u>158,059</u> | <u>3,065,594</u> | <u>2,478,415</u> | <u>587,179</u> |
| Expenses: | | | | | |
| General government | 402,031 | - | 402,031 | 434,504 | (32,473) |
| Police | 561,752 | - | 561,752 | 654,194 | (92,442) |
| Fire | 85,341 | - | 85,341 | 104,335 | (18,994) |
| Sanitation | 118,906 | - | 118,906 | 134,180 | (15,274) |
| Parks and Recreation/Golf Course/Pool | 252,017 | - | 252,017 | 286,336 | (34,319) |
| Streets | 129,919 | - | 129,919 | 121,331 | 8,588 |
| Library | 74,995 | - | 74,995 | 91,554 | (16,559) |
| Cemetery | 2,734 | - | 2,734 | 2,591 | 143 |
| Senior Center | 231,849 | - | 231,849 | 268,292 | (36,443) |
| Community development | - | - | - | 111,848 | (111,848) |
| Animal Control | 6,943 | - | 6,943 | 8,371 | (1,428) |
| Water Utility | - | 141,976 | 141,976 | 144,320 | (2,344) |
| Sewer Utility | - | 483,635 | 483,635 | 458,766 | 24,869 |
| Total Expenses | <u>1,866,487</u> | <u>625,611</u> | <u>2,492,098</u> | <u>2,820,622</u> | <u>(328,524)</u> |
| Transfers | (197,988) | 197,988 | - | - | - |
| Change in net position | 843,060 | (269,564) | 573,496 | (342,207) | 915,703 |
| Beginning net position | 3,249,070 | 7,095,334 | 10,344,404 | 10,686,611 | (342,207) |
| Ending net position | <u>\$ 4,092,130</u> | <u>\$ 6,825,770</u> | <u>\$ 10,917,900</u> | <u>\$ 10,344,404</u> | <u>\$ 573,496</u> |

**Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017**

Financial Analysis of the Town's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements.

Operating revenues totaled \$2,821,510 in 2016-2017, an increase of 21.8% from 2015-2016.

A comparative summary of principal revenues is as follows:

| | 2016-2017 Amount | Increase (Decrease) from 2015-2016 | | 2015-2016 Amount |
|--------------------------------------|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| State Sales Tax | \$ 54,243 | \$ (8,584) | | \$ 62,827 |
| State Revenue Sharing | 188,647 | 8,047 | | 180,600 |
| Highway Users Tax | 69,250 | 6,640 | | 62,610 |
| Transportation Excise Tax | 61,850 | 3,152 | | 58,698 |
| Property Tax | 616,547 | 402,410 | | 214,137 |
| Vehicle Lieu Tax | 40,912 | 11,946 | | 28,966 |
| Grant Revenue | 238,891 | (22,741) | | 261,632 |
| Town Sales Tax | 1,216,707 | 82,019 | | 1,134,688 |
| Winkelman Intergovernmental Contract | 76,854 | 11,854 | | 65,000 |
| Utility Franchise | 10,894 | (950) | | 11,844 |
| Licenses, Permits and Other | 118,278 | (12,425) | | 130,703 |
| County Library Property Tax | 49,600 | 2,700 | | 46,900 |
| Fines and Forfeitures | 4,205 | 1,013 | | 3,192 |
| Sanitation Fees | 33,811 | 15,804 | | 18,007 |
| Golf Course Fees | 32,533 | (673) | | 33,206 |
| Interest Income | 8,288 | 4,775 | | 3,513 |
| | <u>\$ 2,821,510</u> | <u>\$ 504,987</u> | <u>21.8%</u> | <u>\$ 2,316,523</u> |

Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017

Operating expenditures totaled \$2,064,763 in 2016-2017. This represents a decrease of 5.0% from the prior year. The schedule that follows summarizes the expenditures.

| | 2016-2017 Amount | Increase (Decrease) from 2015-2016 | | 2015-2016 Amount |
|----------------------------------|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| General Government | \$ 437,069 | \$ 4,821 | | \$ 432,248 |
| Police | 541,995 | (58,204) | | 600,199 |
| Fire | 45,604 | (19,441) | | 65,045 |
| Streets | 162,737 | 33,341 | | 129,396 |
| Sanitation | 133,477 | (8,922) | | 142,399 |
| Parks and Recreation/Golf Course | 247,188 | (50) | | 247,238 |
| Cemetery | 2,539 | 143 | | 2,396 |
| Pool | 33,522 | (658) | | 34,180 |
| Library | 97,015 | (3,088) | | 100,103 |
| Senior Center | 240,445 | (30,528) | | 270,973 |
| Community Development | - | (111,848) | | 111,848 |
| Animal Control | 10,117 | 505 | | 9,612 |
| Capital Outlay | 113,055 | 86,175 | | 26,880 |
| | <u>\$ 2,064,763</u> | <u>\$ (107,754)</u> | <u>-5.0%</u> | <u>\$ 2,172,517</u> |

Operating Revenues (\$2,821,510) exceeded operating expenditures (\$2,064,763) by \$756,747 and transfers to other funds of \$197,988 decreased the Town's overall governmental fund balance carryover. Carryover fund balance increased from \$1,423,443 at June 30, 2016 to \$1,982,202 at June 30, 2017. The increase was primarily due to increases in property tax and sales tax revenues and a reduction in expenditures.

Proprietary funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The change in net position for these funds decreased \$269,564 for the year ended June 30, 2017 compared to a decrease of \$273,109 for 2015-2016.

Town Payroll and Fringe Benefits

The Town's gross payroll for 2016-2017 was \$986,119 a decrease of \$3,953, or .4% from 2015-2016. A summary by department follows:

Payroll

| | 2016-2017 Amount | Increase (Decrease) from 2015-2016 | | 2015-2016 Amount |
|----------------|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| Administration | 109,097 | (2,031) | | 111,128 |
| Police | 336,017 | (22,469) | | 358,486 |
| Fire | 22,117 | (5,913) | | 28,030 |
| Public works | 379,245 | 31,427 | | 347,818 |
| Library | 52,411 | 863 | | 51,548 |
| Senior Center | 87,232 | (5,830) | | 93,062 |
| | <u>\$ 986,119</u> | <u>\$ (3,953)</u> | <u>-0.4%</u> | <u>\$ 990,072</u> |

Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017

The following payroll fringe benefits amounted to \$504,973, a decrease of \$23,611, or 4.5%. The decrease was due to decreases in the health insurance premium and industrial insurance premiums as follows:

| | 2016-2017 Amount | Increase (Decrease) from 2015-2016 | | 2015-2016 Amount |
|---|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| Social security and Medicare taxes | \$ 69,689 | \$ 7,968 | | \$ 61,721 |
| State retirement contributions | 67,910 | (1,415) | | 69,325 |
| Policemen's pension contributions | 37,751 | (1,283) | | 39,034 |
| Volunteer firemen's pension contributions | 580 | (240) | | 820 |
| Unemployment Taxes | 1,071 | 1,071 | | - |
| Industrial Insurance | 60,379 | (21,980) | | 82,359 |
| Health and life insurance | 267,593 | (7,732) | | 275,325 |
| | <u>\$ 504,973</u> | <u>\$ (23,611)</u> | <u>-4.5%</u> | <u>\$ 528,584</u> |

Analysis of Balances of Town's Individual Funds

As of the end of the current fiscal year, the Town's individual governmental funds reported a combined fund balance of \$1,982,202, an increase of \$558,759 in comparison with the prior year. Approximately 97% of this total amount constitutes the General Fund Balance, which is available for its ongoing obligations. At June 30, 2017 fund balances were as follows:

| | 2016-2017 Amount | Increase (Decrease) from 2015-2016 | | 2015-2016 Amount |
|----------------------------|---------------------|---------------------------------------|-------------|---------------------|
| | | Amount | % | |
| Governmental Funds: | | | | |
| General Fund | \$ 1,922,108 | \$ 590,396 | | \$ 1,331,712 |
| Highway Users Fund | 60,094 | (31,637) | | 91,731 |
| Grants Fund | - | - | | - |
| Senior Center Fund | - | - | | - |
| Library fund | - | - | | - |
| Total | \$ 1,982,202 | \$ 558,759 | 39.3% | \$ 1,423,443 |
| Proprietary Funds | | | | |
| Water utility fund | \$ 102,078 | \$ (10,279) | | \$ 112,357 |
| Sewer utility fund | 6,723,692 | (259,285) | | 6,982,977 |
| Total | <u>\$ 8,807,972</u> | <u>\$ 289,195</u> | <u>3.4%</u> | <u>\$ 8,518,777</u> |

Budgetary Highlights

The Town's budget for fiscal year 2017 was \$8,600,000. The amount represents an increase of \$100,000 from the previous year's budget.

The Town Council is authorized to allocate its contingency budget to increase departmental budgets within any fund, as long as total budgeted expenditures as originally adopted are not exceeded. For the year ended June 30, 2017, there were no departments that exceeded the budgeted amounts.

**Town of Hayden, Arizona
Management Discussion and Analysis
June 30, 2017**

The expenditure limit adopted by the Town Council under its voter approved home-rule expenditure limitation option was \$8,600,000 for the year ended June 30, 2017. The Town's expenditures complied with this expenditure limitation.

Capital Asset and Debt Administration

Capital Assets

The following is a comparison of capital assets net of depreciation for 2017 and 2016.

| | Governmental Activities | | Business-Type Activities | |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 90,570 | \$ 90,570 | \$ 10,718 | \$ 10,718 |
| Buildings | 800,511 | 734,110 | - | - |
| Street infrastructure and other improvements | 412,545 | 443,415 | 7,511,209 | 7,745,618 |
| Furniture, Machinery and Equipment | 581,671 | 700,872 | 1,481 | 3,150 |
| | <u>\$ 1,885,297</u> | <u>\$ 1,968,967</u> | <u>\$ 7,523,408</u> | <u>\$ 7,759,486</u> |

Long-Term Obligations

In December 2014, the Town of Hayden Municipal Property Corporation received a loan of \$452,000 from the Rural Utilities Service (RUS) within the Rural Development Mission Area of the United States Department of Agriculture (USDA). The loan was used to pay costs of construction for a new wastewater collection system and a new wastewater treatment plant. The Town of Hayden Municipal Property Corporation is a "blended" component unit, and its activity is recorded in the Sewer Utility Fund where sewer fees collected will provide debt service for the loan. The loan bears interest at 2.75%. Interest expense for the year ended June 30, 2017 was \$12,022.

FISCAL YEAR 2016-2017 ACCOMPLISHMENTS

The Town received Community Development Block Grant #102-16 in the amount of \$113,139. These funds were used to install a walk-in freezer for the Town's Senior Center.

The Town's local sales tax revenue increased \$82,019 from \$1,134,688 to \$1,216,707. Property tax collections also increased \$402,410 from \$214,137 to \$616,547. The Town also continued to decrease overall expenditures where possible, which has improved the net position of the Town.

Town of Hayden, Arizona
Statement of Net Position
June 30, 2017

| | PRIMARY GOVERNMENT | | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | |
| Assets | | | |
| Cash and investments | \$ 1,884,765 | \$ - | \$ 1,884,765 |
| Property Taxes Receivable | 204,933 | - | 204,933 |
| Accounts Receivable | 10,580 | 23,305 | 33,885 |
| Other Receivables | 157,654 | - | 157,654 |
| Due to Other Governments | 143,906 | - | 143,906 |
| Due from fiduciary fund | 31,484 | - | 31,484 |
| Prepaid Expenses | 28,687 | 3,824 | 32,511 |
| Net pension asset | 973,664 | - | 973,664 |
| Capital assets, non-depreciable | 90,570 | 10,718 | 101,288 |
| Capital assets, depreciable, net | 1,794,727 | 7,512,690 | 9,307,417 |
| Total Assets | <u>5,320,970</u> | <u>7,550,537</u> | <u>12,871,507</u> |
| Deferred Outflows of Resources - Pensions | <u>309,934</u> | <u>39,074</u> | <u>349,008</u> |
| Liabilities | | | |
| Accounts payable | 85,961 | 12,042 | 98,003 |
| Accrued Expenses and Other Liabilities | 38,574 | 2,665 | 41,239 |
| Non-Current Liabilities: | | | |
| Due within one year: | | | |
| Municipal Property Corporation Loan Payable | - | 7,390 | 7,390 |
| Compensated Absences | 11,113 | 520 | 11,633 |
| Due in more than one year: | | | |
| Municipal Property Corporation Loan Payable | - | 425,867 | 425,867 |
| Compensated Absences | 44,454 | 5,064 | 49,518 |
| Net Pension Liabilities | 890,983 | 222,746 | 1,113,729 |
| Total liabilities | <u>1,071,085</u> | <u>676,294</u> | <u>1,747,379</u> |
| Deferred Inflows of Resources - Pensions | <u>467,689</u> | <u>87,547</u> | <u>555,236</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 1,885,297 | 7,090,151 | 8,975,448 |
| Restricted | 58,617 | 5,800 | 64,417 |
| Unrestricted | 2,148,216 | (270,181) | 1,878,035 |
| Total Net Position | <u>\$ 4,092,130</u> | <u>\$ 6,825,770</u> | <u>\$ 10,917,900</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Statement of Activities
Years Ended June 30, 2017

| Functions/Programs | Program Revenues | | | | Net (Expenses) Revenues and Changes in Net Position | | |
|--------------------------------------|---------------------|----------------------|-----------------------------------|----------------------------------|---|---------------------|----------------------|
| | Expenses | Charges for Services | Operating grant and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type | Total |
| | | | | | | Activities | |
| Governmental Activities: | | | | | | | |
| General Government | \$ 402,031 | \$ 17,133 | \$ 750 | \$ - | \$ (384,148) | \$ - | \$ (384,148) |
| Police | 561,752 | 76,854 | - | - | (484,898) | - | (484,898) |
| Fire | 85,341 | - | - | - | (85,341) | - | (85,341) |
| Streets | 129,919 | - | 69,250 | - | (60,669) | - | (60,669) |
| Sanitation | 118,906 | 33,811 | - | - | (85,095) | - | (85,095) |
| Parks and Recreation/Golf Course | 199,678 | 32,533 | - | - | (167,145) | - | (167,145) |
| Cemetery | 2,734 | 3,950 | - | - | 1,216 | - | 1,216 |
| Pool | 52,339 | 2,109 | - | - | (50,230) | - | (50,230) |
| Library | 74,995 | 804 | 2,000 | - | (72,191) | - | (72,191) |
| Senior Center | 231,849 | 93,943 | 236,141 | - | 98,235 | - | 98,235 |
| Animal Control | 6,943 | 458 | - | - | (6,485) | - | (6,485) |
| Total Governmental Activities | <u>1,866,487</u> | <u>261,595</u> | <u>308,141</u> | <u>-</u> | <u>(1,296,751)</u> | <u>-</u> | <u>(1,296,751)</u> |
| Business-type Activities: | | | | | | | |
| Water | 141,976 | 44,234 | - | - | - | (97,742) | (97,742) |
| Sewer | 483,635 | 113,825 | - | - | - | (369,810) | (369,810) |
| Total Business-type Activities | <u>625,611</u> | <u>158,059</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(467,552)</u> | <u>(467,552)</u> |
| Total | <u>\$ 2,492,098</u> | <u>\$ 419,654</u> | <u>\$ 308,141</u> | <u>\$ -</u> | <u>(1,296,751)</u> | <u>(467,552)</u> | <u>(1,764,303)</u> |
| General Revenues: | | | | | | | |
| State Sales Tax | | | | | 54,243 | - | 54,243 |
| State Revenue Sharing | | | | | 188,647 | - | 188,647 |
| Property Tax | | | | | 756,258 | - | 756,258 |
| Vehicle Lieu Tax | | | | | 102,762 | - | 102,762 |
| City Sales Tax | | | | | 1,216,707 | - | 1,216,707 |
| Utility Franchise Fees | | | | | 10,894 | - | 10,894 |
| Interest | | | | | 8,288 | - | 8,288 |
| Transfers | | | | | (197,988) | 197,988 | - |
| Total General Revenues and Transfers | | | | | <u>2,139,811</u> | <u>197,988</u> | <u>2,337,799</u> |
| Change in Net Position | | | | | 843,060 | (269,564) | 573,496 |
| Net Position - Beginning | | | | | 3,249,070 | 7,095,334 | 10,344,404 |
| Net Position - Ending | | | | | <u>\$ 4,092,130</u> | <u>\$ 6,825,770</u> | <u>\$ 10,917,900</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Balance Sheet – Governmental Funds
June 30, 2017

| | General Fund | Highway Users Fund | Grants Fund | Senior Center Fund | Library Fund | Total Governmental Funds |
|---|---------------------|-----------------------|------------------|--------------------------|-----------------|--------------------------------|
| Assets | | | | | | |
| Cash and investments | \$ 1,826,497 | \$ 58,268 | \$ - | \$ - | \$ - | \$ 1,884,765 |
| Property Taxes Receivable | 204,933 | - | - | - | - | 204,933 |
| Accounts Receivable | 10,580 | - | - | - | - | 10,580 |
| Other Receivables | 157,654 | - | - | - | - | 157,654 |
| Due from Other Governments | 37,000 | 6,242 | 2,012 | 98,652 | - | 143,906 |
| Due from Other Funds | 127,839 | - | 22,968 | - | - | 150,807 |
| Prepaid Expenses | 21,593 | 1,477 | - | 3,247 | 2,370 | 28,687 |
| Total Assets | <u>\$ 2,386,096</u> | <u>\$ 65,987</u> | <u>\$ 24,980</u> | <u>\$ 101,899</u> | <u>\$ 2,370</u> | <u>\$ 2,581,332</u> |
| Liabilities and Deferred Inflows | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 50,904 | \$ 4,869 | \$ 24,980 | \$ 4,253 | \$ 955 | \$ 85,961 |
| Accrued Expenses and Other Liabilities | 34,844 | 1,024 | - | 1,673 | 1,033 | 38,574 |
| Due to Other Funds | 22,968 | - | - | 95,973 | 382 | 119,323 |
| Total Liabilities | <u>108,716</u> | <u>5,893</u> | <u>24,980</u> | <u>101,899</u> | <u>2,370</u> | <u>243,858</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenue-property taxes | 204,134 | - | - | - | - | 204,134 |
| Unavailable revenue-court fines | 106,538 | - | - | - | - | 106,538 |
| Unavailable revenue-loans | 44,600 | - | - | - | - | 44,600 |
| Total deferred inflows of resources | <u>355,272</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>355,272</u> |
| Fund Balances: | | | | | | |
| Nonspendable | 21,593 | 1,477 | - | 3,247 | 2,370 | 28,687 |
| Restricted: | | | | | | |
| Street Improvements | - | 58,617 | - | - | - | 58,617 |
| Unassigned | 1,900,515 | - | - | (3,247) | (2,370) | 1,894,898 |
| Total Fund Balances | <u>1,922,108</u> | <u>60,094</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,982,202</u> |
| Total Liabilities, deferred inflows, and Fund Balances | <u>\$ 2,386,096</u> | <u>\$ 65,987</u> | <u>\$ 24,980</u> | <u>\$ 101,899</u> | <u>\$ 2,370</u> | <u>\$ 2,581,332</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2017

| | | |
|---|-----------|------------------|
| Fund balances-total governmental funds | \$ | 1,982,202 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets of \$5,446,525, net of accumulated depreciation of (\$3,668,630), are not financial resources and therefore, are not reported in the funds | | 1,885,297 |
| Other long-term assets (receivables) are not available to pay for current period expenditures and therefore, are deferred inflows of resources in the funds. These include property taxes of \$204,134, magistrate fines of \$106,538 and small business loans of \$44,600. | | 355,272 |
| Compensated Absences are payable only upon employee retirement and therefore are not payable from current resources | | (55,567) |
| Net pension assets held in trust for future benefits are not available for current operations and, therefore, are not reported in the funds. | | 973,664 |
| Pension liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds. | | (890,983) |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | (157,755) |
| Net position of governmental activities | <u>\$</u> | <u>4,092,130</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the Year Ended June 30, 2017

| | General Fund | Highway Users Fund | Grants Fund | Senior Center Fund | Library Fund | Total Governmental Funds |
|---|---------------------|-----------------------|----------------|--------------------------|-----------------|--------------------------------|
| Revenues: | | | | | | |
| State Sales Tax | \$ 54,243 | \$ - | \$ - | \$ - | \$ - | \$ 54,243 |
| State Revenue Sharing | 188,647 | - | - | - | - | 188,647 |
| Highway Users Tax | - | 69,250 | - | - | - | 69,250 |
| Transportation Excise Tax | - | 61,850 | - | - | - | 61,850 |
| Property Tax | 616,547 | - | - | - | - | 616,547 |
| Vehicle Lieu Tax | 40,912 | - | - | - | - | 40,912 |
| Grant Revenue | - | - | 115,805 | 123,086 | - | 238,891 |
| Town Sales Tax | 1,216,707 | - | - | - | - | 1,216,707 |
| Winkelman Intergovernmental Contract | 76,854 | - | - | - | - | 76,854 |
| Utility Franchise | 10,894 | - | - | - | - | 10,894 |
| Licenses, Permits and Other | 23,513 | - | - | 93,943 | 822 | 118,278 |
| County Library Property Tax | - | - | - | - | 49,600 | 49,600 |
| Fines and Forfeitures | 4,205 | - | - | - | - | 4,205 |
| Sanitation Fees | 33,811 | - | - | - | - | 33,811 |
| Golf Course Fees | 32,533 | - | - | - | - | 32,533 |
| Interest Income | 8,288 | - | - | - | - | 8,288 |
| Total Revenues | <u>2,307,154</u> | <u>131,100</u> | <u>115,805</u> | <u>217,029</u> | <u>50,422</u> | <u>2,821,510</u> |
| Expenditures: | | | | | | |
| General Government | 436,319 | - | 750 | - | - | 437,069 |
| Police | 541,995 | - | - | - | - | 541,995 |
| Fire | 45,604 | - | - | - | - | 45,604 |
| Streets | - | 162,737 | - | - | - | 162,737 |
| Sanitation | 133,477 | - | - | - | - | 133,477 |
| Parks and Recreation/Golf Course | 247,188 | - | - | - | - | 247,188 |
| Cemetery | 2,539 | - | - | - | - | 2,539 |
| Pool | 33,522 | - | - | - | - | 33,522 |
| Library | - | - | 2,000 | - | 95,015 | 97,015 |
| Senior Center | - | - | - | 240,445 | - | 240,445 |
| Animal Control | 10,117 | - | - | - | - | 10,117 |
| Capital Outlay | - | - | 113,055 | - | - | 113,055 |
| Total Expenditures | <u>1,450,761</u> | <u>162,737</u> | <u>115,805</u> | <u>240,445</u> | <u>95,015</u> | <u>2,064,763</u> |
| Excess of revenues over (Under) Expenditures | 856,393 | (31,637) | - | (23,416) | (44,593) | 756,747 |
| Other Financing Sources (uses): | | | | | | |
| Transfers to other funds | (265,997) | - | - | - | - | (265,997) |
| Transfers from the general fund | - | - | - | 23,416 | 44,593 | 68,009 |
| Net Other Financing Sources (Uses) | <u>(265,997)</u> | <u>-</u> | <u>-</u> | <u>23,416</u> | <u>44,593</u> | <u>(197,988)</u> |
| Net change in fund balances | 590,396 | (31,637) | - | - | - | 558,759 |
| Fund Balances, Beginning | 1,331,712 | 91,731 | - | - | - | 1,423,443 |
| Fund Balances, Ending | <u>\$ 1,922,108</u> | <u>\$ 60,094</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,982,202</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances-total governmental funds \$ 558,759

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|----------------------|-----------|
| Capital outlay | 113,055 |
| Depreciation expense | (196,725) |

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.

| | |
|----------------------------------|-------|
| Increase in compensated absences | 5,351 |
|----------------------------------|-------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include an increase of \$90,111 in the City's property taxes and an decrease of (\$1,091) in court fines. 89,020

Payment of principal amounts received on small business loans receivable is a financing resource in the governmental funds but the payment reduced small business loans receivable in the statement of net assets. (2,994)

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

| | |
|-----------------------|---------|
| Pension contributions | 91,679 |
| Pension revenue | 184,915 |

| | |
|---|------------|
| Change in net position of governmental activities | \$ 843,060 |
|---|------------|

Town of Hayden, Arizona
Statement of Fund Net Position – Proprietary Funds
For the Year Ended June 30, 2017

| | <u>Water Utility</u> | <u>Sewer Utility</u> | <u>Proprietary Funds</u> |
|--|--------------------------|--------------------------|------------------------------|
| Assets | | | |
| Current Assets: | | | |
| Accounts Receivable | \$ 7,895 | \$ 15,410 | \$ 23,305 |
| Prepaid expense | 2,308 | 1,516 | 3,824 |
| Total Current Assets | <u>10,203</u> | <u>16,926</u> | <u>27,129</u> |
| Capital Assets: | | | |
| Land and Construction in Progress | - | 10,718 | 10,718 |
| Depreciable Capital Assets, Net | <u>222,917</u> | <u>7,289,773</u> | <u>7,512,690</u> |
| Total Assets | <u>233,120</u> | <u>7,317,417</u> | <u>7,550,537</u> |
| Deferred Outflows of Resources - Pensions | <u>17,583</u> | <u>21,491</u> | <u>39,074</u> |
| Liabilities | | | |
| Current Liabilities: | | | |
| Accounts payable | 5,430 | 6,612 | 12,042 |
| Accrued liabilities | 1,226 | 1,439 | 2,665 |
| Current portion of loan payable | - | 7,390 | 7,390 |
| Current portion of compensated absences | 234 | 286 | 520 |
| Total Current Liabilities | <u>6,890</u> | <u>15,727</u> | <u>22,617</u> |
| Non-Current Liabilities: | | | |
| Compensated Absences | 2,103 | 2,961 | 5,064 |
| Municipal property corporation loan payable | - | 425,867 | 425,867 |
| Net Pension Liabilities | <u>100,236</u> | <u>122,510</u> | <u>222,746</u> |
| Total Non-Current Liabilities | <u>102,339</u> | <u>551,338</u> | <u>653,677</u> |
| Total Liabilities | <u>109,229</u> | <u>567,065</u> | <u>676,294</u> |
| Deferred Inflows of Resources - Pensions | <u>39,396</u> | <u>48,151</u> | <u>87,547</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 222,917 | 6,867,234 | 7,090,151 |
| Reserve for Debt Retirement | - | 5,800 | 5,800 |
| Unrestricted | <u>(120,839)</u> | <u>(149,342)</u> | <u>(270,181)</u> |
| Total Net Position | <u>\$ 102,078</u> | <u>\$ 6,723,692</u> | <u>\$ 6,825,770</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Statement of Revenues, Expenses and Changes in Fund Net Position –
Proprietary Funds
For the Year Ended June 30, 2017

| | Business-type Activities-Enterprise Funds | | |
|---|--|--------------------------|---------------------|
| | Water Utility | Sewer Utility | Total |
| Operating Revenues: | | | |
| Charges for Services | \$ 44,179 | \$ 113,825 | \$ 158,004 |
| Taps, Extensions and Permits | 55 | - | 55 |
| Total Operating Revenues | <u>44,234</u> | <u>113,825</u> | <u>158,059</u> |
| Operating Expenses: | | | |
| Personal Services | 84,339 | 143,970 | 228,309 |
| Telephone and Utilities | 15,760 | 31,419 | 47,179 |
| Repairs and Maintenance | 11,433 | 36,392 | 47,825 |
| Supplies | 7,281 | 2,891 | 10,172 |
| Miscellaneous | 1,538 | 1,388 | 2,926 |
| Consultants | 9,742 | 31,358 | 41,100 |
| Depreciation | 11,883 | 224,195 | 236,078 |
| Total Operating Expenses | <u>141,976</u> | <u>471,613</u> | <u>613,589</u> |
| Operating Income (Loss) | <u>(97,742)</u> | <u>(357,788)</u> | <u>(455,530)</u> |
| Non-Operating Revenues (Expenses): | | | |
| Transfer from General Fund | 87,463 | 110,525 | 197,988 |
| Interest Expense | - | (12,022) | (12,022) |
| Total Non-Operating Revenues (Expenses) | <u>87,463</u> | <u>98,503</u> | <u>185,966</u> |
| Changes in Net Position | (10,279) | (259,285) | (269,564) |
| Total Net Position - Beginning | 112,357 | 6,982,977 | 7,095,334 |
| Total Net Position - Ending | <u>\$ 102,078</u> | <u>\$ 6,723,692</u> | <u>\$ 6,825,770</u> |

See Accompanying Notes to Financial Statements.

**Town of Hayden, Arizona
Statements of Cash Flows
Proprietary Funds
Years Ended June 30, 2017**

| | <u>Water Utility</u> | <u>Sewer Utility</u> | <u>Total Proprietary Funds</u> |
|---|--------------------------|--------------------------|--|
| Cash Flows from Operating Activities: | | | |
| Cash Received from Customers | \$ 40,525 | \$ 111,984 | \$ 152,509 |
| Cash Payments to Suppliers for Goods and Services | (83,060) | (141,562) | (224,622) |
| Cash Payments for Employees, Payroll Taxes and Fringe Benefits | (44,928) | (61,735) | (106,663) |
| Net Cash Provided(used) by Operating Activities | <u>(87,463)</u> | <u>(91,313)</u> | <u>(178,776)</u> |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Transfers from the General Fund | 87,463 | 110,525 | 197,988 |
| Net Cash used by Non-Capital Financing Activities | <u>87,463</u> | <u>110,525</u> | <u>197,988</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Interest Expense Payments | - | (12,022) | (12,022) |
| Principal Payments on Debt | - | (7,190) | (7,190) |
| Net Cash Provided Used for Capital and Related Financing Activities | <u>-</u> | <u>(19,212)</u> | <u>(19,212)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | - | - | - |
| Cash and Cash Equivalents - Beginning of Year | <u>-</u> | <u>-</u> | <u>-</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ (97,742) | \$ (357,788) | \$ (455,530) |
| Adjustments to reconcile operating Income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 11,883 | 224,195 | 236,078 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | | | |
| Increase (Decrease) in Net Pension Liability | (5,772) | 29,753 | 23,981 |
| (Increase) Decrease in Deferred Outflows Relating to Pensions | (9,174) | (14,133) | (23,307) |
| Increase (Decrease) in Deferred Inflows Relating to Pensions | 11,371 | 23,629 | 35,000 |
| (Increase) Decrease in Accounts Receivable | (3,709) | (1,841) | (5,550) |
| (Increase) Decrease in Prepaid Expenses | 1,012 | 845 | 1,857 |
| Increase (Decrease) in Accounts Payable | 3,389 | 1,619 | 5,008 |
| Increase (Decrease) in Accrued Payroll | 1,031 | 1,076 | 2,107 |
| Increase (Decrease) in Compensated Absences | 248 | 1,332 | 1,580 |
| Total Adjustments | <u>10,279</u> | <u>266,475</u> | <u>276,754</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (87,463)</u> | <u>\$ (91,313)</u> | <u>\$ (178,776)</u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Statement of Fiduciary Net Position
Fiduciary Funds
Years Ended June 30, 2017

| | Volunteer Firemen's Relief and Pension Fund |
|--|--|
| <hr/> | |
| Assets | |
| Cash and investments | \$ 73,763 |
| Total Assets | <u>73,763</u> |
| | |
| Liabilities | |
| Due to other Funds | <u>31,484</u> |
| Total Liabilities | <u>31,484</u> |
| | |
| Net Position Held in Trust for Pension Benefits | <u><u>\$ 42,279</u></u> |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For The Year Ended June 30, 2017

| | Volunteer Firemen's Relief and Pension Fund |
|--|--|
| <hr/> | |
| Additions | |
| Contributions: | |
| Employer | \$ 580 |
| Plan Members | 580 |
| Total Contributions | 1,160 |
| Investment Income: | |
| Gain (Loss) on investments | - |
| Interest | 484 |
| Total Investment Income | 484 |
| Total Additions | 1,644 |
| Deductions | |
| Benefits | 5,519 |
| Total Deductions | 5,519 |
| Change in Net Assets | (3,875) |
| Net Position Held in Trust for Pension Benefits - Beginning of Year | 46,154 |
| Net Position Held in Trust for Pension Benefits - End of Year | \$ 42,279 |

See Accompanying Notes to Financial Statements.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

I. PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

The Town of Hayden, Arizona operates under a council-clerk form of government and provides the following services: police and fire protection, highways and streets maintenance, sanitation, water, sewer, parks and recreation, public improvements and general administrative services.

The accounting and reporting framework and the more significant accounting principles and practices of the Town of Hayden (Town) are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanation, including required disclosures, of the Town's financial activities for the fiscal year ended June 30, 2017.

A. Reporting Entity

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. Data from these units are combined with data of the primary government.

Blended Component Unit

Town of Hayden Municipal Property Corporation

In December 2014, the Town of Hayden Municipal Property Corporation received a loan of \$452,000 from the Rural Utilities Service (RUS) within the Rural Development Mission Area of the United States Department of Agriculture (USDA). This loan provided funds for the Town to pay costs of construction for a new wastewater collection system and a new wastewater treatment plant. The Town of Hayden Municipal Property Corporation is a "blended" component unit, and its activity is recorded in the Sewer Utility Fund where sewer fees collected will provide debt service for the loan.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole, excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services, (2) operating grants and contributions which finance operating activities including the Highway Users tax, Transportation Excise Tax and the County Library Property tax; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements - Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and utility funds are reported in separate columns with a composite column for non-major governmental funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grant revenues are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the Town has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred as under accrual accounting.

Major revenue sources susceptible to accrual include: sales and use taxes, charges to customers for services, property taxes, franchise fees, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, for governmental activities it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

D. Fund Types and Major Funds

Governmental Funds

The Town reports the following major governmental funds.

General Fund - reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Highway Users Fund - the Town receives a share of the State's gas tax, which is to be used solely for street and highway expenditures.

Grants Fund - established to account for the Town's grant programs not reported in proprietary funds or other funds.

The Town also has the Senior Center Fund and Library Fund which account for those operations.

Proprietary Funds

The Town has only two enterprise funds and reports them both as major funds.

Water Utility Fund - accounts for the operating activities of the Town's water utility services.

Sewer Utility Fund - accounts for the operating activities of the Town's sewer utility services.

Fiduciary Fund

Volunteer Firemen's Relief and Pension Fund - reports fiduciary resources held in trust and the receipt, investment, and distribution of retirement contributions.

E. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, restricted and unrestricted cash in bank and investments.

Arizona statutes authorize the Town to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. By identification of permitted investments, all other investments are prohibited by the same statutes. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town's investments.

Town of Hayden, Arizona
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Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

All investments are stated at fair value.

2. Inventories and Prepaid Expenses

Inventories consist primarily of supplies, which are immaterial at June 30, 2017, and therefore, not recorded on the Statement of Net Assets.

Prepaid expenses record payments to vendors that benefit future reporting periods. Prepaids are similarly reported in government-wide and fund financial statements.

3. Capital Assets and Depreciation

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure asset records consistent with all other capital assets beginning July 1, 2003. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The Town capitalizes assets with cost of \$500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The Town has elected not to report general infrastructure assets retroactively.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|-------------------------------------|--------|
| Buildings | 40 |
| Improvements, other than buildings | 7 - 20 |
| Furniture, machinery, and equipment | 7 - 20 |
| Street and Highway Infrastructure | 10 |

4. Capitalized Interest

The Town capitalizes net interest costs as part of the cost of constructing various water and sewer projects when material.

Town of Hayden, Arizona
Notes to Financial Statements
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5. Compensated Absences

Town employees are allowed to accrue twelve days sick leave each year, up to a maximum of thirty days. Sick days do not vest under the Town's policy, and accordingly, employees can be paid sick leave only when sick. Since accumulated sick leave is not paid on separation, a liability for unused sick leave is not recorded in the financial statements.

Town employees are granted vacation leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for any unused accumulated vacation leave. Unlike sick leave, it and related payroll taxes and other salary-related payments are accrued as a current liability on the assumption that employees may terminate their employment at any time and the Town would use current resources to pay the accumulated leave amounts. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee retirement by fiscal year-end.

6. Net Position and Fund Balance

Government-wide Statements

Net position is displayed in five components:

- a. Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net amounts consist of net amounts with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net amounts - All other net amounts that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

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 prepaid expenses, 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 Town's restricted fund balance consists of Highway Users Tax and Gila County Transportation Excise Tax amounts collected by Arizona specifically for street operations and maintenance.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council approved, which is the highest level of decision-making authority within the Town. Only the 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 has no committed or assigned fund balances at June 30, 2017.

The unassigned fund balance is the residual classification and includes all spendable amounts not reported in the other classifications.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use restricted fund balance first.

7. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources relative to pensions, and pension expense, information about the pension plans fiduciary net position and additions/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 refund of employee contribution are recognized when due and payable in acceptance of the benefit terms. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgeting

The Town Clerk submits an annual budget to the Town Council in accordance with Arizona State Statutes. The budget is presented to the Town Council for review, and public hearings are held to address priorities and the allocation of resources. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department. The legal level of control is by department within a fund. It is the Town's policy to use budgeted contingency funds when departments incur excess over the budgeted amounts due to unexpected expenditures. For the year ended June 30, 2017, there were no departments that exceeded the budget.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES

A. Assets

1. Deposits and Investments

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town’s deposits may not be returned to the Town. The Town does not have a formal deposit policy for custodial credit risk. At year end, the carrying amount of the Town’s deposits was \$590,389 and the bank balance was \$643,783. \$345,960 of the bank balance was covered by FDIC coverage and the remaining \$297,823 was uninsured and uncollateralized. The Town also had cash on hand of \$225.

Investments

The Town’s investments of \$1,367,914 consist of investments in the State Treasurer external investment pool 5. Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools. The State Treasurer’s investment pools represent external investment pools, which are not subject to the fair value hierarchy.

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Investments. The Town’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the Town’s portion is not identified with specific investments and is not subject to custodial credit risk.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

2. Receivables, Prepaid Expenses and Deferred Revenues

The following is a description of significant receivables as of June 30, 2017:

| | | |
|---|--------------|------------------------------|
| PROPERTY TAXES RECEIVABLE - Property taxes due from County; revenue deferred for amounts assessed by County but uncollected (\$114,023) for governmental fund financial statements | | \$ 204,933 |
| ACCOUNTS RECEIVABLE: | | |
| Sanitation (\$5,799), Cemetery Services (\$4,781) | | |
| Water (\$7,895), Sewer (\$15,410) | | 33,885 |
| OTHER RECEIVABLES: | | |
| Franchise Fees Receivable | \$ 2,341 | |
| Magistrate Fines Receivable (Deferred for Uncollected Amounts) | 106,538 | |
| Small Business Loan Receivables | 44,600 | |
| Miscellaneous Receivables | <u>4,175</u> | 157,654 |
| DUE FROM OTHER GOVERNMENTS: | | |
| State Sales Tax | 4,989 | |
| Town Sales Tax | 24,854 | |
| Vehicle Lieu Tax | 5,555 | |
| Gila County Transportation Excise Tax | 1,602 | |
| Highway Users Tax | 6,242 | |
| Senior Center Grants | 98,652 | |
| Other Grants | <u>2,012</u> | <u>143,906</u> |
| Total | | <u><u>\$ 540,378</u></u> |

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on May 1 and payable in two installments on October 1 and April 1 of the subsequent year. The County bills and collects property taxes on behalf of the Town. In the governmental fund financial statements, Town property tax revenues are recognized when levied to the extent that they have been collected by the Town within sixty days of year end. Assessed amounts that are uncollected are recorded as a receivable and deferred inflows. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due to the Town regardless of when cash is received. Over time, substantially all property taxes are collected.

The Town is subject to a maximum primary property tax levy by Arizona State Statutes. For 2016-2017 this levy limit was \$3,425,209, and the Town levied \$683,875 in primary taxes, a difference of \$2,741,334. The Town has no secondary property tax levy for general obligation bonded debt.

Revenue is recorded as earned when eligibility requirements are met. Other revenue was received more than 60 days following year-end (unavailable to pay liabilities of the current period). These amounts are property taxes (\$204,134), magistrate finds (\$106,538) and small business loans receivable (\$44,600). These total \$355,272 and are recorded as Deferred Inflows of Resources in the governmental fund financial statements.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

3. Capital Assets

Changes in Capital Assets

The following table provides a summary of changes in capital assets for governmental activities:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------------|------------------|------------------|---------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 90,570 | \$ - | \$ - | \$ 90,570 |
| Total capital assets not being depreciated | 90,570 | - | - | 90,570 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings and improvements | 1,790,939 | 113,055 | - | 1,903,994 |
| Street Infrastructure and Improvements | 1,072,834 | - | - | 1,072,834 |
| Furniture and equipment | 2,492,182 | - | - | 2,492,182 |
| Total capital assets being depreciated | 5,355,955 | 113,055 | - | 5,469,010 |
| <i>Less accumulated depreciation</i> | | | | |
| Buildings and improvements | (1,056,829) | (46,654) | - | (1,103,483) |
| Street Infrastructure and Improvements | (629,419) | (30,870) | - | (660,289) |
| Furniture and equipment | (1,791,310) | (119,201) | - | (1,910,511) |
| Total accumulated depreciation | (3,477,558) | (196,725) | - | (3,674,283) |
| Total capital assets being depreciated, net | 1,878,397 | (83,670) | - | 1,794,727 |
| Governmental activities capital assets, net | \$ 1,968,967 | \$ (83,670) | \$ - | \$ 1,885,297 |

The following table provides a summary of changes in capital assets for business-type activities:

| Business-type Activities | Beginning Balance | Increases | Reclassification | Ending Balance |
|---|------------------------------|------------------|-------------------------|---------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 10,718 | \$ - | \$ - | \$ 10,718 |
| Total capital assets not being depreciated | 10,718 | - | - | 10,718 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings and improvements | - | - | - | - |
| Street Infrastructure and Improvements | 9,432,961 | - | - | 9,432,961 |
| Furniture and equipment | 61,018 | - | - | 61,018 |
| Total capital assets being depreciated | 9,493,979 | - | - | 9,493,979 |
| <i>Less accumulated depreciation</i> | | | | |
| Buildings and improvements | - | - | - | - |
| Street Infrastructure and Improvements | (1,687,343) | (234,409) | - | (1,921,752) |
| Furniture and equipment | (57,868) | (1,669) | - | (59,537) |
| Total accumulated depreciation | (1,745,211) | (236,078) | - | (1,981,289) |
| Total capital assets being depreciated, net | 7,748,768 | (236,078) | - | 7,512,690 |
| Governmental activities capital assets, net | \$ 7,759,486 | \$ (236,078) | \$ - | \$ 7,523,408 |

None of the above equipment amounts are being acquired under capital leases or contracts as of June 30, 2017.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Depreciation Expense

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

| Governmental Activities | | Business-type Activities | |
|--------------------------------|-------------------|---------------------------------|-------------------|
| Administration | \$ 31,209 | Water Utility | \$ 11,883 |
| Police | 50,386 | Sewer Utility | 224,195 |
| Fire | 39,737 | Total | <u>\$ 236,078</u> |
| Streets | 5,309 | | |
| Sanitation | 11,508 | | |
| Parks and Recreation | 12,924 | | |
| Cemetery | 195 | | |
| Pool | 18,817 | | |
| Library | 5,756 | | |
| Senior Center | 20,884 | | |
| Total | <u>\$ 196,725</u> | | |

B. Liabilities

1. Long-Term Liabilities

The Town had no special assessment debt at June 30, 2017.

The following is a summary of changes in compensated absences debt for the year ended June 30, 2017:

| | <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> | <u>Due</u> |
|-------------------------------------|----------------------|------------------|---------------------|----------------------|------------------|
| | <u>July 01, 2016</u> | | | <u>June 30, 2017</u> | <u>Within</u> |
| | | | | | <u>One Year</u> |
| Governmental Activities | | | | | |
| Compensated Absences: | \$ 60,918 | \$ - | \$ (5,351) | \$ 55,567 | \$ 11,113 |
| Net pension liabilities | 1,126,342 | - | (235,359) | 890,983 | - |
| Total | <u>\$ 1,187,260</u> | <u>\$ -</u> | <u>\$ (240,710)</u> | <u>\$ 946,550</u> | <u>\$ 11,113</u> |
| Business-type Activities | | | | | |
| Municipal Property Corporation Debt | \$ 440,447 | \$ - | \$ (7,190) | \$ 433,257 | \$ 7,390 |
| Compensated Absences: | 4,004 | 1,580 | - | 5,584 | 520 |
| Net pension liabilities | 198,765 | 23,981 | - | 222,746 | - |
| Total | <u>\$ 643,216</u> | <u>\$ 25,561</u> | <u>\$ (7,190)</u> | <u>\$ 661,587</u> | <u>\$ 7,910</u> |

Town of Hayden, Arizona
Notes to Financial Statements
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Note Payable

In December 2014, the Town of Hayden Municipal Property Corporation received a loan of \$452,000 from the Rural Utilities Service (RUS) within the Rural Development Mission Area of the United States Department of Agriculture (USDA). This loan provided funds to the Town to pay costs of construction for a new wastewater collection system and a new wastewater treatment plant. The Town of Hayden Municipal Property Corporation is a "blended" component unit, and its activity is recorded in the Sewer Utility Fund where sewer fees collected will provide debt service for the loan. The loan bears interest at 2.75% and interest expense for the year ended June 30, 2017 was \$12,022. Beginning October 2014, \$215 per month will be designated as the Reserve Account until the sum of \$5,800 is reached. At June 30, 2017 \$5,800 has been accumulated in a required restricted reserve account. Future payments due on the loan are as follows:

| | Total | Interest | Principal |
|-----------|--------------|-----------------|------------------|
| 2018 | \$ 19,212 | \$ 11,822 | \$ 7,390 |
| 2019 | 19,212 | 11,616 | 7,596 |
| 2020 | 19,212 | 11,405 | 7,807 |
| 2021 | 19,212 | 11,187 | 8,025 |
| 2022 | 19,212 | 10,964 | 8,248 |
| 2023-2027 | 96,060 | 51,242 | 44,818 |
| 2028-2032 | 96,060 | 44,644 | 51,416 |
| 2033-2037 | 96,060 | 37,074 | 58,986 |
| 2038-2042 | 96,060 | 28,390 | 67,670 |
| 2043-2047 | 96,060 | 18,428 | 77,632 |
| 2048-2052 | 96,060 | 6,998 | 89,062 |
| 2053 | 4,627 | 21 | 4,607 |
| | \$ 677,047 | \$ 243,791 | \$ 433,257 |

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (current interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The following is a reconciliation of the interfund receivables and payables at June 30, 2017:

| | Governmental Activities | | Fiduciary |
|--|--------------------------------|------------------|------------------|
| | Interfund | Interfund | Interfund |
| | Receivables | Payables | Payables |
| General Fund | \$ 127,839 | \$ (22,968) | \$ - |
| Highway Users Fund | - | - | - |
| Grant Fund | 22,968 | - | - |
| Volunteer Firemen's Relief and Pension Fund | - | - | (31,484) |
| Senior Center Fund | - | (95,973) | - |
| Library Fund | - | (382) | - |
| | \$ 150,807 | \$ (119,323) | \$ (31,484) |

**Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017**

3. Interfund Transfers

Transfers within the reporting entity are for the purposes of subsidizing operating functions. The General Fund transferred \$23,416 to the Senior Center Fund, \$197,988 to the Utility Funds, and \$44,593 to the Library Fund for the year ended June 30, 2017.

4. Pensions

The Town contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) – Police. 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 | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|--------------|
| Net pension asset | \$ 973,664 | \$ - | \$ 973,664 |
| Net pension liabilities | 890,983 | 222,746 | 1,113,729 |
| Deferred outflow s of resources | 309,934 | 39,074 | 349,008 |
| Deferred inflow s of resources | 467,689 | 87,547 | 555,236 |
| Pension revenue | 184,915 | 0 | 184,915 |
| Pension expense | 0 | 49,656 | 49,656 |

The Town reported \$91,679 of pension contributions as 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 Hayden, Arizona
Notes to Financial Statements
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Benefits provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

| ASRS | Initial membership date: | |
|--|--|---|
| | Before January 1, 2011 | On or after January 1, 2011 |
| Retirement and disability | | |
| Years of service and age required to receive benefit | 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 based on | Highest 36 consecutive months of last 120 months | Highest 60 consecutive months of last 120 months |
| Benefit percent per year of service | 2.1% to 2.3% | 2.1% to 2.3% |

*With actuarially reduced benefits.

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

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. In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the ASRS. The Town's contributions to the pension plan for the year ended June 30, 2016, were \$67,910. The Town's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

| ASRS | Health benefit | Long-term disability |
|--------------------|-----------------|----------------------|
| Year ended June 30 | supplement fund | fund |
| 2017 | \$ 3,313 | \$ 828 |
| 2016 | 3,231 | 775 |
| 2015 | 4,623 | 940 |

Town of Hayden, Arizona
Notes to Financial Statements
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During fiscal year 2017, the Town paid for ASRS pension and OPEB contributions as follows: 49 percent from the general fund, 30 percent from major funds, and 20 percent from enterprise funds.

Pension liability - At June 30, 2017, the Town reported a liability of \$1,113,729 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 .0069 percent, which was a decrease of .00110 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 revenue for ASRS of \$146,311. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| ASRS | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 6,768 | \$ 76,616 |
| Changes of assumptions or other inputs | - | 58,925 |
| Net Difference between projected and actual earnings on pension plan investments | 120,691 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | 302,192 |
| City contributions subsequent to the measurement date | 67,910 | - |
| | <u>\$ 195,369</u> | <u>\$ 437,733</u> |

Town of Hayden, Arizona
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The \$67,910 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 ending 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:

Schedule of Net Deferred Outflows and Inflows

Year ending June 30

| | | |
|------|-----------|------------------|
| 2018 | \$ | (236,515) |
| 2019 | | (140,240) |
| 2020 | | 32,640 |
| 2021 | | 33,841 |
| | <u>\$</u> | <u>(310,274)</u> |

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 rate | 1994 GAM Scale BB |

Actuarial assumptions used in the June 30, 2015, valuation was 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 Hayden, Arizona
Notes to Financial Statements
June 30, 2017

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

| ASRS Asset class | Target allocation | Long-term expected arithmetic real rate of return |
|---------------------|----------------------|--|
| Equity | 58% | 6.73% |
| Fixed income | 25% | 3.70% |
| Real estate | 10% | 4.25% |
| Multi-asset | 5% | 3.41% |
| Commodities | 2% | 3.84% |
| Total | <u>100%</u> | |

Discount rate - The discount rate used to measure the ASRS total pension 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% |
|---|---------------------|--------------------------------|-------------------|
| City's proportionate share of the net pension liability | <u>\$ 1,420,089</u> | <u>\$ 1,113,729</u> | <u>\$ 868,095</u> |

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

B. Public Safety Personnel Retirement System

Plan descriptions - Town Police who are regularly assigned hazardous duty 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 nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

**Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017**

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

Benefits provided—The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average 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 based on | Highest 36 consecutive months of last 20 years | Highest 60 consecutive months of last 20 years |
| Benefit percent | | |
| Normal retirement | 50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80% | 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 thereafter reduced to either 62.5% or normal retirement, whichever is greater | |
| Ordinary disability retirement | Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20 | |
| Survivor benefit | | |
| Retired members | 80% to 100% of retired member's pension benefit | |
| Active members | 80% to 100% of accidental disability retirement benefit of 100% of average monthly compensation if death was the result of injuries received on the job | |

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

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Employees covered by benefit terms - At June 30, 2017, the following employees were covered by the agent pension plans' benefit terms:

| | PSPRS Police |
|--|-----------------|
| Inactive employees or beneficiaries currently receiving benefits | 0 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | 6 |
| Total | 8 |

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. 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. Contribution rates for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

| | PSPRS Police |
|--|-----------------|
| Active members -Pension | |
| PSPRS members with an initial membership date on or before July 19, 2011 | 7.65% |
| PSPRS members with an initial membership date after July 19, 2011 | 11.65% |
| Town Contributions | |
| Pension | 16.40% |
| Health Insurance Premium Benefit | 0.65% |

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 Police |
|----------------------------------|-----------------|
| Pension contributions made | \$ 37,751 |
| Health Insurance Premium Benefit | |
| Annual OPEB cost | |
| Contributions made | - |

**Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017**

Pension liability (asset)—At June 30, 2017, the Town reported the following net pension asset:

| | |
|--------------|---|
| | Net pension liability (asset) <hr style="width: 100%;"/> |
| PSPRS Police | \$ (973,664) |

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

The total pension liabilities as of June 30, 2017, 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 change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- 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 the PSPRS plan.

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the County's net pension liabilities as a result of these changes is not known.

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

| | |
|----------------------------|---|
| PSPRS | |
| Actuarial valuation date | June 30, 2016 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.0%-8.0% |
| Inflation | 4.0% |
| Permanent benefit increase | Included |
| Mortality rate | RP-2000 mortality table (adjusted by 105% for both males and females) |

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

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

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 <u>Asset class</u> | Target <u>allocation</u> | Long-term expected <u>arithmetic real rate of return</u> |
|-----------------------------|-----------------------------|---|
| Short term investments | 2% | 0.75% |
| Absolute return | 5% | 4.11% |
| Risk parity | 4% | 5.13% |
| Fixed income | 7% | 2.92% |
| Real assets | 8% | 4.77% |
| GTAA | 10% | 4.38% |
| Private equity | 11% | 9.50% |
| Real estate | 10% | 4.48% |
| Credit opportunities | 13% | 7.08% |
| Non-U.S. equity | 14% | 8.25% |
| U.S. equity | 16% | 6.23% |
| Total | <u>100%</u> | |

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 .35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Changes in the net pension liability (asset):

| | Total pension liability (a) | Plan fiduciary net position (b) | Net pension liability (asset) (a) - (b) |
|--|--------------------------------------|--|--|
| PSPRS - Police | | | |
| Balances at June 30, 2016 | \$ 395,611 | \$ 1,423,082 | \$ (1,027,471) |
| Changes for the year: | | | |
| Service cost | 65,750 | - | 65,750 |
| Interest on the total pension liability | 33,510 | - | 33,510 |
| Changes of benefit terms | 52,559 | - | 52,559 |
| Differences between expected and actual experience in the measurement of the pension liability | (50,568) | - | (50,568) |
| Changes of assumptions or other inputs | 25,263 | - | 25,263 |
| Contributions - employer | - | 39,277 | (39,277) |
| Contributions - employee | - | 36,703 | (36,703) |
| Net investment income | - | 8,413 | (8,413) |
| Benefit payments, including refunds of employee contributions | (3,214) | (3,214) | - |
| Administrative expense | - | (1,612) | 1,612 |
| Other changes | - | (10,074) | 10,074 |
| Net changes | 123,300 | 69,493 | 53,807 |
| Balances at June 30, 2017 | \$ 518,911 | \$ 1,492,575 | \$ (973,664) |

Sensitivity of the Town's net pension liability (asset) 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:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|-------------------------|--------------------------------------|----------------------|
| The City's proportionate share of net pension liability (asset) | | | |
| PSPRS - Police | \$ (876,601) | \$ (973,664) | \$ (1,052,271) |

Pension plan fiduciary net position—Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension expense - For the year ended June 30, 2017, the Town recognized pension expense of \$11,052 relating to PSPRS.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Pension deferred outflows/inflows of resources - At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| PSPRS - Police | | |
| Differences between expected and actual experience | \$ - | \$ 117,503 |
| Changes of assumptions or other inputs | 22,572 | - |
| Net Difference between projected and actual earnings on pension plan investments | 93,316 | - |
| City contributions subsequent to the measurement date | 37,751 | - |
| | \$ 153,639 | \$ 117,503 |

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | Police |
|---------------------|------------|
| Year ending June 30 | |
| 2018 | \$ (1,399) |
| 2019 | (1,401) |
| 2020 | 10,572 |
| 2021 | 931 |
| 2022 | (8,923) |
| Thereafter | (1,395) |
| | \$ (1,615) |

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Projections of benefits are based on (1) the plans as the Town and plans' members understand them 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 designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

| | |
|---|--|
| 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%–8% for PSPRS |
| Wage growth | 4% for PSPRS |

Agent plan OPEB trend information—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

| Year ended June 30 | Annual OPEB cost | Percentage of annual cost contributed | Net OPEB obligation |
|--------------------------|------------------------|--|---------------------------|
| PSPRS Police | | | |
| 2017 | \$ - | 100% | \$ - |
| 2016 | 254 | 100% | - |
| 2015 | 188 | 100% | - |

**Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017**

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 |
|--|----------|
| Actuarial value of assets (a) | 51,093 |
| Actuarial accrued liability (b) | 20,746 |
| Unfunded actuarial accrued liability (funding excess) (b) – (a) | (30,347) |
| Funded ratio (a)/(b) | 246.28% |
| Annual covered payroll (c) | 296,319 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c) | -10.24% |

The actuarial methods and assumptions used are the same for all the PSPRS health insurance premium benefit plans (unless noted), and 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% for PSPRS |

IV. CONTINGENCIES AND COMMITMENTS

Litigation

There were claims or lawsuits pending against the Town as of June 30, 2017, but none that were not covered by the Town's liability insurance

Federal and State Grants

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for a reimbursement which may arise as the result of these audits, is not believed to be material.

Town of Hayden, Arizona
Notes to Financial Statements
June 30, 2017

Participation in Public Entity Risk Pool

The Town is a member of the Arizona Municipal Risk Retention Pool (Pool). The Pool was created to formulate, develop and administer a program of self-funding for the Pool's membership, obtain lower costs for property and liability insurance coverage and develop a comprehensive loss control program. The Town pays an annual premium to the Pool for its coverage. The Town's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide, through commercial companies reinsurance contracts, individual stop loss coverage for member local governments. Insurance settlements for the Town did not exceed insurance coverage for each of the past three years.

The Pool is financially solvent as of June 30, 2017. However, if the Pool should become insolvent, the Town may be assessed an "additional premium" not to exceed the Town's annual premium for the year i.e. \$88,744. As long as the Town maintains its insurance coverage through the Pool it will have this contingent liability.

Required Supplementary Information

Town of Hayden, Arizona
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---------------------------------------|---------------------|---------------------|---|--|
| | Original | Final | | |
| Revenues: | | | | |
| State Sales Tax | \$ 61,212 | \$ 61,212 | \$ 54,243 | \$ (6,969) |
| State Revenue Sharing | 183,606 | 183,606 | 188,647 | 5,041 |
| Property Tax | 12,550 | 12,550 | 616,547 | 603,997 |
| Vehicle Lieu Tax | 40,667 | 40,667 | 40,912 | 245 |
| City Sales Tax | 1,400,000 | 1,400,000 | 1,216,707 | (183,293) |
| Winkelman Intergovernmental Contract | 100,000 | 100,000 | 76,854 | (23,146) |
| Utility Franchise | 14,000 | 14,000 | 10,894 | (3,106) |
| Licenses, Permits and Other | 20,850 | 20,850 | 23,513 | 2,663 |
| Fines and Forfeitures | 2,500 | 2,500 | 4,205 | 1,705 |
| Sanitation Fees | 35,000 | 35,000 | 33,811 | (1,189) |
| Golf Course Fees | 30,000 | 30,000 | 32,533 | 2,533 |
| Interest Income | 1,800 | 1,800 | 8,288 | 6,488 |
| Gain on Investments | - | - | - | - |
| Other | 44,950 | 44,950 | - | (44,950) |
| Total Revenues | <u>1,947,135</u> | <u>1,947,135</u> | <u>2,307,154</u> | <u>360,019</u> |
| | | | | |
| General Government | 581,615 | 581,615 | 436,319 | 145,296 |
| Contingency | 1,277,300 | 1,277,300 | - | 1,277,300 |
| Police | 861,340 | 861,340 | 541,995 | 319,345 |
| Fire | 90,050 | 90,050 | 45,604 | 44,446 |
| Sanitation | 259,175 | 259,175 | 133,477 | 125,698 |
| Parks and Recreation/Golf Course | 287,655 | 287,655 | 247,188 | 40,467 |
| Cemetery | 9,000 | 9,000 | 2,539 | 6,461 |
| Pool | 49,775 | 49,775 | 33,522 | 16,253 |
| Animal Control | 13,050 | 13,050 | 10,117 | 2,933 |
| Capital Outlay | 87,000 | 87,000 | - | 87,000 |
| Total Expenditures | <u>3,515,960</u> | <u>3,515,960</u> | <u>1,450,761</u> | <u>2,065,199</u> |
| Excess of Revenues | | | | |
| (Under) Expenditures | (1,568,825) | (1,568,825) | 856,393 | 2,425,218 |
| | | | | |
| Other Financing Sources (Uses) | | | | |
| Transfer to other Funds | (419,845) | (419,845) | (265,997) | 153,848 |
| Net Other Financing Sources (Uses) | <u>(419,845)</u> | <u>(419,845)</u> | <u>(265,997)</u> | <u>153,848</u> |
| | | | | |
| Net change in fund balances | (1,988,670) | (1,988,670) | 590,396 | 2,579,066 |
| Fund Balance, Beginning | 1,331,712 | 1,331,712 | 1,331,712 | - |
| Fund Balance, Ending | <u>\$ (656,958)</u> | <u>\$ (656,958)</u> | <u>\$ 1,922,108</u> | <u>\$ 2,579,066</u> |

Town of Hayden, Arizona
Budgetary Comparison Schedule
HURF Fund
For the Year Ended June 30, 2017

| | <u>Budget Amounts</u> | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Positive (Negative) |
|---------------------------|-----------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Highway Users Tax | \$ 64,915 | \$ 64,915 | \$ 69,250 | \$ 4,335 |
| Transportation Excise Tax | 60,000 | 60,000 | 61,850 | 1,850 |
| Total Revenues | <u>124,915</u> | <u>124,915</u> | <u>131,100</u> | <u>6,185</u> |
| Expenditures: | | | | |
| Streets | 190,915 | 190,915 | 162,737 | 28,178 |
| Total Expenditures | <u>190,915</u> | <u>190,915</u> | <u>162,737</u> | <u>28,178</u> |
| Excess of Revenues | | | | |
| (Under) Expenditures | <u>(66,000)</u> | <u>(66,000)</u> | <u>(31,637)</u> | <u>34,363</u> |
| Fund Balance, Beginning | <u>91,731</u> | <u>91,731</u> | <u>91,731</u> | <u>-</u> |
| Fund Balance, Ending | <u>\$ 25,731</u> | <u>\$ 25,731</u> | <u>\$ 60,094</u> | <u>\$ 34,363</u> |

Town of Hayden, Arizona
Budgetary Comparison Schedule
Grant Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|---|--|
| | Original | Final | | |
| Revenues: | | | | |
| Grant Revenue | \$ 4,000,000 | \$ 4,000,000 | \$ 115,805 | \$ (3,884,195) |
| Total Revenues | <u>4,000,000</u> | <u>4,000,000</u> | <u>115,805</u> | <u>(3,884,195)</u> |
| Expenditures: | | | | |
| General Government | - | - | 750 | (750) |
| Fire | - | - | - | - |
| Library | - | - | 2,000 | (2,000) |
| Capital Outlay-Senior Center | - | - | 113,055 | (113,055) |
| Grant Expenditures | 4,000,000 | 4,000,000 | - | 4,000,000 |
| Total Expenditures | <u>4,000,000</u> | <u>4,000,000</u> | <u>115,805</u> | <u>3,884,195</u> |
| Excess of Revenues Over (Under) Expenditures | - | - | - | - |
| Fund Balance, Beginning | - | - | - | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**Town of Hayden, Arizona
 Budgetary Comparison Schedule
 Senior Center Fund
 For the Year Ended June 30, 2017**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|----------------|---|--|
| | Original | Final | | |
| Revenues: | | | | |
| Grant Revenue | \$ 178,140 | \$ 178,140 | \$ 123,086 | \$ (55,054) |
| Licenses, Permits and Other | - | - | 93,943 | 93,943 |
| Total Revenues | <u>178,140</u> | <u>178,140</u> | <u>217,029</u> | <u>38,889</u> |
| Expenditures: | | | | |
| Senior Center | 265,730 | 265,730 | 240,445 | 25,285 |
| Total Expenditures | <u>265,730</u> | <u>265,730</u> | <u>240,445</u> | <u>25,285</u> |
| Excess of Revenues Over (Under) Expenditures | (87,590) | (87,590) | (23,416) | 64,174 |
| Other Financing Sources (Uses) | | | | |
| Transfer from general fund | 87,590 | 87,590 | 23,416 | (64,174) |
| Net Other Financing Sources (Uses) | <u>87,590</u> | <u>87,590</u> | <u>23,416</u> | <u>(64,174)</u> |
| Net Change in Fund Balance | - | - | - | - |
| Fund Balance, Beginning | - | - | - | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Town of Hayden, Arizona
Budgetary Comparison Schedule
Library Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Positive (Negative) |
|---|-------------------------|----------------|---|---|
| | Original | Final | | |
| Revenues: | | | | |
| Licenses, Permits and Other | \$ 2,750 | \$ 2,750 | \$ 822 | \$ (1,928) |
| County Library Property Tax | 47,120 | 47,120 | 49,600 | 2,480 |
| Total Revenue | <u>49,870</u> | <u>49,870</u> | <u>50,422</u> | <u>552</u> |
| Expenditures: | | | | |
| Library | 143,120 | 143,120 | 95,015 | 48,105 |
| Total Expenditures | <u>143,120</u> | <u>143,120</u> | <u>95,015</u> | <u>48,105</u> |
| Excess of Revenues Over (Under) Expenditures | (93,250) | (93,250) | (44,593) | 48,657 |
| Other Financing Sources (Uses) | | | | |
| Transfer from general fund | 93,250 | 93,250 | 44,593 | (48,657) |
| Net Other Financing Sources (Uses) | <u>93,250</u> | <u>93,250</u> | <u>44,593</u> | <u>(48,657)</u> |
| Net change in fund balance | - | - | - | - |
| Fund Balance, Beginning | - | - | - | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Town of Hayden, Arizona
Required supplementary information
Schedule of the Town's Proportionate Share of Net Position Liability
Cost-Sharing Plans
For the Year Ended June 30, 2017

Arizona State Retirement System

| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2013 through 2007 |
|---|------------------------|------------------------|------------------------|----------------------------------|
| Town's proportion of net pension liability | 0.00690% | 0.00851% | 0.01032% | Information not available |
| Town's proportion share of net pension liability | \$ 1,113,729 | \$ 1,325,106 | \$ 1,526,891 | |
| Town's covered-employee payroll | \$ 646,147 | \$ 783,554 | \$ 930,206 | |
| Town's proportionate share of the net pension liability as a percentage of its covered payroll | 172.36% | 169.11% | 164.15% | |
| Plan fiduciary net position as a percentage of the total pension liability | 67.06% | 68.35% | 69.49% | |

Town of Hayden, Arizona
Required supplementary information
Schedule of Changes in the Town's Net Pension Liability (Asset) and
Related Ratios – Agent Pension Plans
June 30, 2017

Public Safety Personnel Retirement System - Police

| | 2017 | 2016 | 2015 |
|--|---------------------|-----------------------|---------------------|
| | (2016) | (2015) | (2014) |
| Total pension liability | | | |
| Service cost | \$ 65,750 | \$ 95,972 | \$ 98,039 |
| Interest on total pension liability | 33,510 | 29,545 | 26,222 |
| Changes in benefit terms | 52,559 | - | (1,984) |
| Difference between expected and actual experience in the measurement of the pension liability | (50,568) | (50,880) | (69,806) |
| Changes in assumptions or other inputs | 25,263 | - | 2,283 |
| Benefit payments, including refunds of employee contributions | (3,214) | (14,830) | (7,935) |
| Net change in pension liability | 123,300 | 59,807 | 46,819 |
| Total pension liability - beginning | 395,611 | 335,804 | 288,985 |
| Total pension liability - ending (a) | <u>\$ 518,911</u> | <u>\$ 395,611</u> | <u>\$ 335,804</u> |
| Plan fiduciary net position | | | |
| Contributions - employer | 39,277 | 95,963 | 49,263 |
| Contributions - employee | 36,703 | 42,001 | 40,346 |
| Net investment income | 8,413 | 48,444 | 145,233 |
| Benefit payments, including refunds of employee contributions | (3,214) | (14,830) | (7,935) |
| Pension plan administrative expense | (1,612) | (1,569) | - |
| Other changes | (10,074) | 4,693 | (50,425) |
| Net change in plan fiduciary net position | 69,493 | 174,702 | 176,482 |
| Total pension liability - beginning | 1,423,082 | 1,248,380 | 1,071,898 |
| Total pension liability - ending (b) | <u>1,492,575</u> | <u>1,423,082</u> | <u>1,248,380</u> |
| Town's net pension liability - ending (a) - (b) | <u>\$ (973,664)</u> | <u>\$ (1,027,471)</u> | <u>\$ (912,576)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 287.64% | 359.72% | 371.76% |
| Covered payroll | 296,319 | 318,988 | 490,868 |
| County's net pension liability as a percentage of covered payroll | -328.59% | -322.10% | -185.91% |

Town of Hayden, Arizona
Required supplementary information
Schedule of Town Pension Contributions
June 30, 2017

Arizona State Retirement System

| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 (2013) |
|---|------------------------|------------------------|------------------------|------------------------|
| Statutorily determined contribution | \$ 67,910 | \$ 69,325 | \$ 85,329 | \$ 99,532 |
| Town's contributions in relation to the statutorily determined contributions | 67,910 | 69,325 | 85,329 | 99,532 |
| Town's contribution (deficiency) excess | - | - | - | - |
| Town's covered-employee payroll | <u>\$ 591,551</u> | <u>\$ 646,147</u> | <u>\$ 783,554</u> | <u>\$ 930,206</u> |
| Town's contributions as a percentage of covered payroll | 11.48% | 10.85% | 10.89% | 11.30% |

Public Safety Personnel Retirement System - Police

| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 (2013) |
|---|------------------------|------------------------|------------------------|------------------------|
| Statutorily determined contribution | \$ 37,751 | \$ 38,748 | \$ 39,362 | \$ 46,484 |
| Town's contributions in relation to the statutorily determined contributions | 37,751 | 38,748 | 39,362 | 46,484 |
| Town's contribution (deficiency) excess | - | - | - | - |
| Town's covered-employee payroll | <u>\$ 296,319</u> | <u>\$ 315,044</u> | <u>\$ 290,924</u> | <u>\$ 354,302</u> |
| Town's contributions as a percentage of covered payroll | 12.74% | 12.30% | 13.53% | 13.12% |

Town of Hayden, 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 the actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85% |
| Projected salary increases | In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS |
| Wage growth | In 2014 the 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 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 Hayden, Arizona
Required supplementary information
Schedule of Agent OPEB Plan's Funding Progress and Related Notes
Year Ended June 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL (Funding Excess) as Percentage of Covered Payroll ([(b-a)/c]) |
|--------------------------------|--|--|--|--------------------------|-------------------------------------|--|
| PSPRS - Police | | | | | | |
| 6/30/2017 | \$ 54,524 | \$ 23,668 | \$ (30,856) | 230.4% | \$ 314,189 | 0.0% |
| 6/30/2016 | 51,093 | 20,746 | (30,347) | 246.3% | 315,044 | 0.0% |
| 6/30/2015 | 47,602 | 16,290 | (31,312) | 292.2% | 290,924 | 0.0% |

Note 2 – 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 plans recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.