

TOWN OF GUADALUPE, ARIZONA

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

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Guadalupe, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Guadalupe, 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 Guadalupe, Arizona, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Town of Guadalupe, Arizona has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 48 through 51, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 52, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 53, Schedule of Town Pension Contributions on page 54, and Schedule of Agent OPEB Plans' Funding Progress on page 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018, on our consideration of the Town of Guadalupe, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Guadalupe, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

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

Lobby & Powell, PLLC

February 6, 2018

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

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,373,462	\$ 1,272,420	\$ 2,645,882
Accounts receivable - net	-	11,132	11,132
Taxes receivable - net	118,118	-	118,118
Miscellaneous receivables	2,450	-	2,450
Due from other governments	165,988	33,659	199,647
Prepaid expenses	20,171	1,675	21,846
Notes receivable - net	737,522	-	737,522
Capital assets, not being depreciated	7,039,174	84,703	7,123,877
Capital assets, being depreciated, net	11,231,476	295,808	11,527,284
Total assets	20,688,361	1,699,397	22,387,758
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	698,852	26,811	725,663
LIABILITIES			
Accounts payable	107,314	25,202	132,516
Accrued expenses	84,450	2,418	86,868
PSPRS Parker liability	53,246	-	53,246
Court bonds payable	105,958	-	105,958
Unearned revenue	357,772	-	357,772
Refundable deposits	-	13,913	13,913
Noncurrent liabilities			
Due within 1 year	61,829	1,016	62,845
Due in more than 1 year	3,588,953	95,568	3,684,521
Total liabilities	4,359,522	138,117	4,497,639
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	197,208	13,554	210,762
NET POSITION			
Net investment in capital assets	16,829,862	380,511	17,210,373
Restricted for:			
Community development	859,607	-	859,607
Unrestricted (deficit)	(858,986)	1,194,026	335,040
Total net position	\$ 16,830,483	\$ 1,574,537	\$ 18,405,020

The accompanying notes are an integral part of these financial statements.

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

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
Public safety	\$ 3,278,084	\$ 171,060	\$ 33,571	\$ -	\$ (3,073,453)	\$ -	\$ (3,073,453)
General government	975,197	184,318	100,892	-	(689,987)	-	(689,987)
Public works and streets	876,656	-	414,255	-	(462,401)	-	(462,401)
Health and welfare	317,125	-	182,982	52,346	(81,797)	-	(81,797)
Culture and recreation	146,039	18,950	-	-	(127,089)	-	(127,089)
Community development	132,439	-	4,638	1,245,367	1,117,566	-	1,117,566
Interest on general long-term debt	31,816	-	-	-	(31,816)	-	(31,816)
Total governmental activities	5,757,356	374,328	736,338	1,297,713	(3,348,977)	-	(3,348,977)
Business-type activities							
Sewer	150,134	79,738	-	-	-	(70,396)	(70,396)
Tianguis	162,879	124,299	-	-	-	(38,580)	(38,580)
Refuse	316,493	324,625	-	-	-	8,132	8,132
Total business-type activities	629,506	528,662	-	-	-	(100,844)	(100,844)
Total primary government	\$ 6,386,862	\$ 902,990	\$ 736,338	\$ 1,297,713	(3,348,977)	(100,844)	(3,449,821)
General revenue:							
Taxes:							
Sales taxes					1,991,507	-	1,991,507
Bed taxes					400,511	-	400,511
Franchise taxes					23,948	-	23,948
State revenue sharing					755,711	-	755,711
State sales tax revenue sharing					566,627	-	566,627
Auto lieu tax revenue sharing					243,717	-	243,717
Interest income					7,318	6,753	14,071
Miscellaneous					18,860	-	18,860
Transfers					137,728	(137,728)	-
Total general revenue and transfers					4,145,927	(130,975)	4,014,952
Change in net position					796,950	(231,819)	565,131
Net position, beginning of year					16,033,533	1,806,356	17,839,889
Net position, end of year					\$ 16,830,483	\$ 1,574,537	\$ 18,405,020

The accompanying notes are an integral part of these financial statements.

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

	General Fund	Community Development Grants Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,274,986	\$ 94,716	\$ 793	\$ 2,967	\$ 1,373,462
Taxes receivable - net	118,118	-	-	-	118,118
Miscellaneous receivables	2,026	737,946	-	-	739,972
Due from other governments	59,151	49,562	36,378	20,897	165,988
Prepaid expenses	19,948	223	-	-	20,171
Total assets	<u>1,474,229</u>	<u>882,447</u>	<u>37,171</u>	<u>23,864</u>	<u>2,417,711</u>
Liabilities					
Accounts payable	75,499	60	19,128	12,627	107,314
Accrued expenses	70,142	-	6,467	7,841	84,450
Court bonds payable	105,958	-	-	-	105,958
Unearned revenue	331,596	22,780	-	3,396	357,772
Total liabilities	<u>583,195</u>	<u>22,840</u>	<u>25,595</u>	<u>23,864</u>	<u>655,494</u>
Deferred inflows of resources					
Unavailable revenue	<u>-</u>	<u>737,522</u>	<u>-</u>	<u>-</u>	<u>737,522</u>
Fund balances					
Nonspendable	19,948	223	-	-	20,171
Restricted for:					
Community development	-	121,862	-	-	121,862
Assigned for highways and streets	-	-	11,576	-	11,576
Unassigned	871,086	-	-	-	871,086
Total fund balances	<u>891,034</u>	<u>122,085</u>	<u>11,576</u>	<u>-</u>	<u>1,024,695</u>
Total liabilities, deferred revenue, and fund balances	<u>\$ 1,474,229</u>	<u>\$ 882,447</u>	<u>\$ 37,171</u>	<u>\$ 23,864</u>	<u>\$ 2,417,711</u>

The accompanying notes are an integral part of these financial statements.

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

Fund balances--total governmental funds	\$ 1,024,695
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	18,270,650
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Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. Notes receivable - net	737,522
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Long-term liabilities, such as net pension liabilities and loans payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	
Capital lease payable	(3,998)
Compensated absences	(49,352)
PSPRS Parker liability	(53,246)
Unamortized loan premium	(104,444)
Loan payable	(1,280,000)
Net pension liability	(2,212,988)
	(3,704,028)

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	501,644
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Net position of governmental activities	\$ 16,830,483
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The accompanying notes are an integral part of these financial statements.

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

	General Fund	Community Development Grants Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Intergovernmental	\$ 2,986,229	\$ 90,155	\$ 414,255	\$ 176,662	\$ 3,667,301
Taxes	2,415,967	-	-	-	2,415,967
Charges for services	149,280	-	-	-	149,280
Other revenue	21,660	41,243	-	6,320	69,223
Licenses and permits	50,633	-	-	-	50,633
Fines and forfeitures	41,116	-	-	-	41,116
Interest	5,201	-	2,117	-	7,318
Total revenue	<u>5,670,086</u>	<u>131,398</u>	<u>416,372</u>	<u>182,982</u>	<u>6,400,838</u>
Expenditures					
Current					
Public safety	3,029,109	-	-	-	3,029,109
General government	901,206	-	-	450	901,656
Public works and streets	13,974	-	536,189	-	550,163
Health and welfare	-	-	-	299,732	299,732
Culture and recreation	143,068	-	-	-	143,068
Community development	38,650	45,190	-	-	83,840
Debt Service					
Principal	1,164	-	-	220,000	221,164
Interest	356	-	-	70,000	70,356
Capital outlay	1,156,127	48,100	123,623	-	1,327,850
Total expenditures	<u>5,283,654</u>	<u>93,290</u>	<u>659,812</u>	<u>590,182</u>	<u>6,626,938</u>
Excess (deficiency) of revenue over (under) expenditures	386,432	38,108	(243,440)	(407,200)	(226,100)
Other financing sources (uses)					
Transfers	(407,192)	-	137,728	407,192	137,728
Net change in fund balances	(20,760)	38,108	(105,712)	(8)	(88,372)
Fund balances, beginning of year	911,794	83,977	117,288	8	1,113,067
Fund balances, end of year	<u>\$ 891,034</u>	<u>\$ 122,085</u>	<u>\$ 11,576</u>	<u>\$ -</u>	<u>\$ 1,024,695</u>

The accompanying notes are an integral part of these financial statements.

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

Net change in fund balances--total governmental funds \$ (88,372)

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

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of
those assets is allocated over their estimated useful
lives and reported as depreciation expense.

Capital outlay	\$ 1,327,850	
Depreciation expense	(537,938)	
	789,912	

Revenues in the Statement of Activities that do not provide
current financial resources are not reported as revenues
in the funds.

Change in HOME note receivables	(36,606)	
ADOT van grant	52,346	
	15,740	

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

Town pension contributions	163,168	
Pension expense	(293,689)	
	(130,521)	

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces
long-term liabilities in the Statement of Net Position.

Debt principal repayments	221,164	
Amortization of loan premium	38,540	
Net change in compensated absences	3,733	
PSPRS Parker liability	(53,246)	
	210,191	

Change in net position of governmental activities	\$ 796,950
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The accompanying notes are an integral part of these financial statements.

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

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Tianguis Econ. Dev. Fund	Refuse Fund	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,018,524	\$ -	\$ 253,896	\$ 1,272,420
Accounts receivable - net	-	11,132	-	11,132
Due from other governments	6,698	-	26,961	33,659
Prepaid expenses	178	1,497	-	1,675
Due from other funds	57,362	-	-	57,362
Total current assets	1,082,762	12,629	280,857	1,376,248
Noncurrent assets				
Capital assets, net of accumulated depreciation, where applicable:				
Land	-	84,703	-	84,703
Utilities systems, net	239,355	-	-	239,355
Buildings, net	-	56,453	-	56,453
Total noncurrent assets	239,355	141,156	-	380,511
Total assets	1,322,117	153,785	280,857	1,756,759
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	15,284	11,527	-	26,811
LIABILITIES				
Current liabilities				
Accounts payable	9	19,700	5,493	25,202
Accrued expenses	1,135	1,283	-	2,418
Refundable deposits	-	13,913	-	13,913
Compensated absences - current portion	863	153	-	1,016
Due to other funds	-	57,362	-	57,362
Total current liabilities	2,007	92,411	5,493	99,911
Noncurrent liabilities				
Compensated absences	96	17	-	113
Net pension liability	54,417	41,038	-	95,455
Total noncurrent liabilities	54,513	41,055	-	95,568
Total liabilities	56,520	133,466	5,493	195,479
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	7,727	5,827	-	13,554
NET POSITION				
Net investment in capital assets	239,355	141,156	-	380,511
Unrestricted (deficit)	1,033,799	(115,137)	275,364	1,194,026
Total net position	\$ 1,273,154	\$ 26,019	\$ 275,364	\$ 1,574,537

The accompanying notes are an integral part of these financial statements.

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

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Tianguis Econ. Dev. Fund	Refuse Fund	Total
Operating revenues				
Charges for services	\$ 79,738	\$ -	\$ 324,625	\$ 404,363
Rents	-	124,299	-	124,299
Total operating revenues	<u>79,738</u>	<u>124,299</u>	<u>324,625</u>	<u>528,662</u>
Operating expenses				
Professional services	56,201	5,963	314,130	376,294
Depreciation	50,422	28,515	-	78,937
Utilities	390	55,996	-	56,386
Personnel	33,630	25,736	-	59,366
Repairs and maintenance	8,829	19,034	-	27,863
Materials and supplies	5	20,567	-	20,572
Insurance	632	3,699	2,363	6,694
Miscellaneous	25	3,369	-	3,394
Total operating expenses	<u>150,134</u>	<u>162,879</u>	<u>316,493</u>	<u>629,506</u>
Operating income (loss)	<u>(70,396)</u>	<u>(38,580)</u>	<u>8,132</u>	<u>(100,844)</u>
Nonoperating revenue				
Investment income	6,753	-	-	6,753
Income (loss) before transfers	<u>(63,643)</u>	<u>(38,580)</u>	<u>8,132</u>	<u>(94,091)</u>
Transfers	<u>(137,728)</u>	<u>-</u>	<u>-</u>	<u>(137,728)</u>
Increase (decrease) in net position	<u>(201,371)</u>	<u>(38,580)</u>	<u>8,132</u>	<u>(231,819)</u>
Total net position, beginning of year	<u>1,474,525</u>	<u>64,599</u>	<u>267,232</u>	<u>1,806,356</u>
Total net position, end of year	<u><u>\$ 1,273,154</u></u>	<u><u>\$ 26,019</u></u>	<u><u>\$ 275,364</u></u>	<u><u>\$ 1,574,537</u></u>

The accompanying notes are an integral part of these financial statements.

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

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Tianguis Econ. Dev. Fund	Refuse Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 86,629	\$ 125,276	\$ 351,764	\$ 563,669
Payments to suppliers and providers of goods and services	(71,476)	(111,100)	(318,205)	(500,781)
Payments to employees	(34,336)	(25,392)	-	(59,728)
Net cash provided (used) by operating activities	<u>(19,183)</u>	<u>(11,216)</u>	<u>33,559</u>	<u>3,160</u>
Cash flows from noncapital financing activities:				
Interfund transfer	(137,728)		-	(137,728)
Interfund loans	(17,689)	17,689	-	-
Net cash provided by (used by) noncapital financing activities	<u>(155,417)</u>	<u>17,689</u>	<u>-</u>	<u>(137,728)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(64,020)	(6,473)	-	(70,493)
Cash flows from investing activities:				
Interest received on investments	6,753	-	-	6,753
Net increase (decrease) in cash and cash equivalents	(231,867)	-	33,559	(198,308)
Cash and cash equivalents, beginning of year	1,250,391	-	220,337	1,470,728
Cash and cash equivalents, end of year	<u>\$ 1,018,524</u>	<u>\$ -</u>	<u>\$ 253,896</u>	<u>\$ 1,272,420</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GUADALUPE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017
(Continued)

	Business-type Activities--Enterprise Funds			
	Sewer Fund	Tianguis Econ. Dev. Fund	Refuse Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (70,396)	\$ (38,580)	\$ 8,132	\$ (100,844)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation	50,422	28,515	-	78,937
Pension expense	2,017	1,521	-	3,538
Employer pension contributions	(3,227)	(2,434)	-	(5,661)
(Increase) decrease in:				
Accounts receivable	-	(1,700)	-	(1,700)
Due from other governments	6,891	-	27,139	34,030
Prepaid expenses	(68)	(665)	175	(558)
Increase (decrease) in:				
Accounts payable	(4,116)	(896)	(1,887)	(6,899)
Accrued expenses	(142)	174	-	32
Refundable deposits	-	2,679	-	2,679
Compensated absences payable	(564)	170	-	(394)
Net cash provided (used) by operating activities	<u>\$ (19,183)</u>	<u>\$ (11,216)</u>	<u>\$ 33,559</u>	<u>\$ 3,160</u>

The accompanying notes are an integral part of these financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Guadalupe, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's significant accounting policies are as follows:

A. Reporting Entity

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government) and its component units.

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Therefore, data from these units is combined with data of the primary government. The component unit discussed below has a June 30 year-end.

The Town of Guadalupe Municipal Property Corporation is an Arizona nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the Town of Guadalupe, Arizona, in acquiring, constructing, operating, improving or modifying public facilities for the benefit of all the Town of Guadalupe, Arizona residents. The Town of Guadalupe Municipal Property Corporation is a blended component unit.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Town as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements – provide information about the Town's funds, including blended component units. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town reports the following major governmental funds:

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

The ***Community Development Grants Fund*** accounts for specific grant revenue sources that are legally restricted to expenditures for community development.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and Local Transportation Assistance Fund that is legally restricted to expenditures for specified purposes.

The Town reports the following major enterprise funds:

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

C. Basis of Accounting

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Cash and Investments

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

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable are estimated by the Town. The amount recorded as uncollectible at June 30, 2017 for the Tianguis Economic Development Fund was \$66,722. The amount recorded as uncollectible at June 30, 2017 for notes receivable in the Governmental Activities was \$877,085 (see Note 4).

F. Capital Assets

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	n/a	n/a
Construction in progress	5,000	n/a	n/a
Buildings and building improvements	5,000	Straight-line	50
Land improvements	5,000	Straight-line	10
Equipment	5,000	Straight-line	5
Streets	5,000	Straight-line	40
Curbs and gutters	5,000	Straight-line	40
Street lights	5,000	Straight-line	40

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

G. Investment Income

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

H. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 480 hours of sick leave hours but any sick hours in excess of the maximum amount that are unused at year-end are forfeited. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

I. Deferred Outflows/Inflows of Resources

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

J. Pensions

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Impact of Recently Issued Accounting Principles

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Town implemented this standard during this fiscal period.

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

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

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

M. Budgets

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Expenditures may not legally exceed budgeted appropriations at the department level. The individual budgetary comparison schedules as listed in the table of contents present all major governmental funds which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2017, if any.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

Credit Risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk

Interest rate risk

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Foreign currency risk

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

The Town does not have a formal investment policy with respect to custodial risk, concentration of credit risk, or foreign currency risk.

Deposits – At June 30, 2017, the carrying amount of the Town’s total nonpooled cash in bank was \$254,565, and the bank balance was \$293,305. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held by the Town or its agent in the Town’s name.

Investments—At June 30, 2017, the investments consisted of the following.

<u>Investment</u>	<u>Rating Organization</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 5	S&P	AAA	<u>\$2,381,631</u>	<u>\$2,381,631</u>

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

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Due from other governments for each governmental fund consisted of the following:

	<u>General Fund</u>	<u>Community Development Grants Fund</u>	<u>HURF/LTAF Fund</u>	<u>Community Service Grants Fund (non-major)</u>
State of Arizona	\$ 59,151	\$ -	\$ 36,378	\$ -
Maricopa County	-	49,562	-	-
Other governments	-	-	-	20,897
	<u>\$ 59,151</u>	<u>\$ 49,562</u>	<u>\$ 36,378</u>	<u>\$ 20,897</u>

Due from other governments for the Sewer and Refuse Funds consisted of amounts due from the City of Tempe totaling \$6,698 and \$26,961, respectively.

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

NOTE 4 – NOTES RECEIVABLE

On the government-wide statement of net position, the Town recognizes notes receivable from individuals who are part of the Home Investment Partnership Program (HOME). Through the HOME program, qualifying families receive grant funding towards buying a home and in return sign a note agreement payable to the Town. The Town places a lien on the property for the amount of the HOME funds the family receives. Note maturities vary from 10 to 30 years with interest rates that are below market. Proceeds from principal and interest payments are applied to other HOME program expenses. Some of the loans stipulate that the loan amount is forgiven over the life of the loan on a straight-line basis. The Town has recorded the loan balance net of amounts expected to be forgiven.

Notes receivables at June 30, 2017 consisted of \$1,614,607 of which \$877,085 are expected to be forgiven. The notes receivable balance – net totaled \$737,522.

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,039,174	\$ -	\$ -	\$ 7,039,174
Capital assets being depreciated:				
Building and building improvements	4,072,610	-	-	4,072,610
Land improvements	1,482,251	1,133,044	-	2,615,295
Equipment	2,319,846	75,429	-	2,395,275
Street lights	472,427	-	-	472,427
Streets	5,017,683	171,723	-	5,189,406
Curbs and gutters	4,594,274	-	-	4,594,274
Total	<u>17,959,091</u>	<u>1,380,196</u>	<u>-</u>	<u>19,339,287</u>
Less accumulated depreciation for:				
Building and building improvements	(2,365,448)	(71,388)	-	(2,436,836)
Land improvements	(529,634)	(70,943)	-	(600,577)
Equipment	(1,903,771)	(104,547)	-	(2,008,318)
Street lights	(144,206)	(24,910)	-	(169,116)
Streets	(1,563,902)	(135,788)	-	(1,699,690)
Curbs and gutters	(1,062,912)	(130,362)	-	(1,193,274)
Total	<u>(7,569,873)</u>	<u>(537,938)</u>	<u>-</u>	<u>(8,107,811)</u>
Total capital assets being depreciated, net	<u>10,389,218</u>	<u>842,258</u>	<u>-</u>	<u>11,231,476</u>
Governmental activities capital assets, net	<u>\$ 17,428,392</u>	<u>\$ 842,258</u>	<u>\$ -</u>	<u>\$ 18,270,650</u>

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

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 84,703	\$ -	\$ -	\$ 84,703
Capital assets being depreciated:				
Utility systems	1,819,472	-	-	1,819,472
Equipment	27,401	64,020	-	91,421
Buildings	25,000	-	-	25,000
Building improvements	581,194	6,473	-	587,667
Total	<u>2,453,067</u>	<u>70,493</u>	<u>-</u>	<u>2,523,560</u>
Less accumulated depreciation for:				
Utility systems	(1,593,715)	(47,221)	-	(1,640,936)
Equipment	(27,401)	(3,201)	-	(30,602)
Buildings	(25,000)	-	-	(25,000)
Building improvements	(502,699)	(28,515)	-	(531,214)
Total	<u>(2,148,815)</u>	<u>(78,937)</u>	<u>-</u>	<u>(2,227,752)</u>
Total capital assets being depreciated, net	<u>304,252</u>	<u>(8,444)</u>	<u>-</u>	<u>295,808</u>
Business-type activities capital assets, net	<u>\$ 388,955</u>	<u>\$ (8,444)</u>	<u>\$ -</u>	<u>\$ 380,511</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Highways and streets	\$ 332,173
Public safety	50,083
General government	79,859
Community development	49,497
Health and welfare	22,688
Culture and recreation	<u>3,638</u>
Total governmental activities depreciation expense	<u>\$ 537,938</u>
Business-type activities:	
Tianguis center	\$ 28,515
Sewer	<u>50,422</u>
Total business-type activities depreciation expense	<u>\$ 78,937</u>

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

NOTE 6 – UNEARNED REVENUE

The Town has received advanced contract payments for the lease of billboard space with a term of 20-years. The Town recognizes revenue annually at 1/20th of the contract price. The remaining amount is recorded as unearned revenue that will be recognized as revenue over the life of the contract. The amount deferred for the billboard contract at June 30, 2017 is \$302,500. The remaining balance of unearned revenue in the governmental funds consists of grant advances in which the Town had not yet fulfilled contract requirements to recognize revenue.

NOTE 7 – LONG-TERM LIABILITIES

Loans – The Town's loans payable consist of a loan of \$2,145,000 received through the Greater Arizona Development Authority (GADA). The loan requires principal payments annually beginning July 1, 2014 with interest payments of 2.00 percent paid semiannually on July 1 and January 1 with the first interest payment due July 1, 2014. Total loan net proceeds of \$2,389,785 were used to refinance a prior loan through GADA. State-shared General Fund revenues are used as security for the loan payable.

Loans payable at June 30, 2017, were as follows:

Description	Face Value	Maturity Ranges	Interest Rate	Outstanding June 30, 2017
Loan payable	\$ 2,145,000	2014-2023	2.00%	<u>\$ 1,280,000</u>

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

NOTE 7 – LONG-TERM LIABILITIES – Continued

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within 1 year
Governmental activities:					
Compensated absences	\$ 53,085	\$ -	\$ 3,733	\$ 49,352	\$ 44,417
Net pension liability	1,655,714	557,274	-	2,212,988	-
Capital lease payable	5,162	-	1,164	3,998	1,245
Loans payable	1,500,000	-	220,000	1,280,000	-
Loan premium	142,984	-	38,540	104,444	16,167
Governmental activities long-term liabilities	<u>\$ 3,356,945</u>	<u>\$ 557,274</u>	<u>\$ 263,437</u>	<u>\$ 3,650,782</u>	<u>\$ 61,829</u>
Business-type activities:					
Compensated absences	\$ 1,523	\$ -	\$ 394	\$ 1,129	\$ 1,016
Net pension liability	79,829	15,626	-	95,455	-
Business-type activities long-term liabilities	<u>\$ 81,352</u>	<u>\$ 15,626</u>	<u>\$ 394</u>	<u>\$ 96,584</u>	<u>\$ 1,016</u>

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

Year Ending June 30	Governmental Activities		
	Loan Payable		
	Premium		
	Principal	Amortization	Interest
2018	\$ -	\$ 16,167	\$ 42,833
2019	235,000	29,192	18,058
2020	245,000	23,569	13,881
2021	255,000	18,816	8,434
2022	265,000	12,438	1,562
2022-23	280,000	4,262	-
Total	<u>\$ 1,280,000</u>	<u>\$ 104,444</u>	<u>\$ 84,768</u>

In prior years, the Town defeased a revenue bond by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the Town’s financial statements. At June 30, 2017, outstanding defeased revenue bonds totaled \$170,000.

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

NOTE 7 – LONG-TERM LIABILITIES – Continued

Capital leases—The Town has acquired equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Copier	\$ 9,702
Less: accumulated depreciation	<u>(2,587)</u>
Carrying value	<u><u>\$ 7,115</u></u>

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

Year Ending June 30	Governmental Activities
2018	\$ 1,520
2019	1,520
2020	<u>1,520</u>
Total minimum lease payments	4,560
Less amount representing interest	<u>(562)</u>
Present value of net minimum lease payments	<u><u>\$ 3,998</u></u>

NOTE 8 – RISK MANAGEMENT

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

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for firefighters. 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 liabilities	\$ 2,212,988	\$ 95,455	\$ 2,308,443
Deferred outflows of resources	698,852	26,811	725,663
Deferred inflows of resources	197,208	13,554	210,762
Pension expense	293,689	3,538	297,227

The Town reported \$163,168 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. 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, active ASRS members were required by statute 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 the Town was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. The Town's contributions to the pension plan for the year ended

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

June 30, 2017 were \$75,020. The Town's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2017	\$ 3,897	\$ 974
2016	3,729	895
2015	3,753	763

During fiscal year 2017, the Town paid for ASRS pension and OPEB contributions as follows: 51.17 percent from the General Fund, 19.39 percent from the HURF Fund, 21.27 percent from the Community Services Grants Fund, .75 percent from the Community Development Grants Fund, 3.19 percent from the Tianguis Economic Development Fund, and 4.23 percent from the Sewer Fund.

Pension Liability – At June 30, 2017, the Town reported a liability of \$1,286,438 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 .00797 percent, which was an increase of .00106 percent from its proportion measured as of June 30, 2015.

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$47,681. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Differences between expected and actual experience	\$ 7,818	\$ 88,498
Changes of assumptions or other inputs	-	68,063
Net difference between projected and actual earnings on pension plan investments	139,407	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	139,095	26,101
Town contributions subsequent to the measurement date	75,020	-
	<hr/>	<hr/>
Total	<u>\$ 361,340</u>	<u>\$ 182,662</u>

The \$75,020 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ (16,294)
2019	13,124
2020	67,738
2021	39,090
2022	-
Thereafter	-

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

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

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

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

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	1 % Decrease (7 %)	Current Discount Rate (8 %)	1 % Increase (9 %)
Town's proportionate share of the net pension liability	\$ 1,640,306	\$ 1,286,438	\$ 1,002,713

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 fire employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A 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.

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

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

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on 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 GUADALUPE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	<u>PSPRS Fire</u>
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>4</u>
Total	<u><u>5</u></u>

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

	<u>PSPRS Fire</u>
Active Members - Pension	11.65%
Town	
Pension	26.85%
Health insurance premium benefit	0.87%

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Pension	PSPRS Fire
Contributions Made	\$ 91,651
Health Insurance Premium Benefit	
Annual OPEB cost	2,568
Contributions made	2,568

During fiscal year 2017, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Pension Liability (Asset) – At June 30, 2017, the Town reported a net pension liability of \$1,022,004. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date the following net pension liability:

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

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The Town's net pension liability as a result of the statutory adjustment is not known.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

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 Town's net pension liabilities as a result of these changes is not known.

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

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

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 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:

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

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset) – The following tables present changes in the Town's net pension liability for the PSPRS pension plan as follows:

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 1,515,392	\$ 855,708	\$ 659,684
Changes for the year			
Service Cost	59,089	-	59,089
Interest on the total pension liability	119,379	-	119,379
Changes of benefit terms	131,109	-	131,109
Differences between expected and actual experience in the measurement of the pension liability	97,848	-	97,848
Changes of assumptions or other inputs	78,089	-	78,089
Contributions-employer	-	82,876	(82,876)
Contributions-employee	-	36,288	(36,288)
Net investment income	-	5,169	(5,169)
Benefit payments, including refunds of employee	(48,359)	(48,359)	-
Administrative expense	-	(1,144)	1,144
Other changes	-	5	(5)
Net changes	437,155	74,835	362,320
Balances at June 30, 2017	\$ 1,952,547	\$ 930,543	\$ 1,022,004

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town's Net Pension Liability to Changes in the Discount Rate – The following table presents the Town's net pension liabilities (assets) calculated using the discount rate of 7.50 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 %)
Rate		6.50%	7.50%	8.50%
Town's proportionate share of the net pension liability	\$	1,313,602	\$ 1,022,004	\$ 782,430

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 a pension expense of \$249,546.

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
Differences between expected and actual experience	\$ 83,960	\$ 28,100
Changes of assumptions or other inputs	131,829	-
Net difference between projected and actual earnings on pension plan investments	56,883	-
Town contributions subsequent to the measurement date	91,651	-
Total	<u>\$ 364,323</u>	<u>\$ 28,100</u>

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	PSPRS Fire
Year ended June 30,	
2018	\$ 45,025
2019	45,026
2020	52,619
2021	45,857
2022	30,141
Thereafter	25,904

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 GUADALUPE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Projections of benefits are based on (1) the plans as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2017 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

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

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Fire			
2017	\$ 2,568	100%	\$ 17,711
2016	2,465	100%	24,879
2015	4,008	100%	22,310

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

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	PSPRS Fire
Actuarial value of assets (a)	\$ 41,032
Actuarial accrued liability (b)	\$ 58,743
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ 17,711
Funded ratio (a)/(b)	69.85%
Annual covered payroll (c)	\$ 351,344
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) -	5.04%

The actuarial methods and assumptions used for the health insurance premium benefit plan (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 20 years for unfunded actuarial accrued liability, 20 years for 7-year smoothed market value; 80%/120% market corridor
Remaining amortization period	
Asset valuation method	
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4%-8%
Wage growth	4%

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

NOTE 10 – INTERFUND BALANCES AND ACTIVITY

Interfund payables – Interfund payables for the year ended June 30, 2017, were as follows:

Payable from	Payable to
	Sewer Fund
Tianguis Econ. Dev. Fund	\$ 57,362

The purpose of the interfund payables shown above was to temporarily fund the operations of the aforementioned departments/activities.

Interfund transfers – Interfund transfers for the year ended June 30, 2017, were as follows:

Transfer To	Transfer From		
	General Fund	Sewer Fund	Total
HURF/LTAF Fund	\$ -	\$ 137,728	\$ 137,728
Community Services Grants Fund (nonmajor fund)	116,742	-	116,742
Debt Service Fund (nonmajor fund)	290,450	-	290,450
Total	\$ 407,192	\$ 137,728	\$ 544,920

The purpose of the interfund transfer shown above to the Community Service Grants Fund was to help pay for expenditures not reimbursable under grant contracts. The purpose of the transfer to the Debt Service Fund was to pay for debt service expenditures related to the GADA revenue bonds (see Note 7). The purpose of the interfund transfer from the Sewer Fund to the HURF/LTAF Fund was to pay for street expenditures incurred over current year revenues and the fund balance.

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

NOTE 11 – COMMITMENTS

Refuse Collection Contract – The Town has contracted with a waste management firm to provide trash, and rubbish collection services to certain designated areas. The contract period is March 1, 2015 through February 28, 2020. Payments under the current contract for the year ended June 30, 2017, were approximately \$258,105. Payments are based on the number of residences in the Town times a monthly rate of \$16.07. The monthly rate is adjusted annually on March 1 based on the Consumer Price Index as published by the Bureau of Labor Statistics. The approximate total obligation under the contract for each fiscal year based on the current number of residences in the Town is as follows:

Fiscal Year Ending June 30	Amount
2018	\$ 261,431
2019	261,431
2020	174,287

Public Safety – The Town of Guadalupe entered into a contract with the Maricopa County Sheriff's Department for public safety services for the next fiscal year. Based on this agreement, the rendition of police services, the standards of performance, the discipline of officers, and other matters incidental to the performance of such services, and the control of personnel so employed shall remain in the County Sheriff's Department. For the year ending June 30, 2017, the Town paid the County Sheriff \$1,697,381 and has agreed to monthly installments of \$138,349 for the 2018 fiscal year. Under the contract, a notice of termination of contract may be given by either party 180 days prior to the date of intended termination.

NOTE 12 – PSPRS PARKER LIABILITY

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

PSPRS members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of

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

NOTE 12 – PSPRS PARKER LIABILITY – Continued

affected members for each employer, along with the amount of excess contributions that must be returned to them. The Town has estimated that the total amount of refunds due to employees (including applicable interest) will be \$53,246.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Intergovernmental	\$ 5,293,619	\$ 5,293,619	\$ 2,986,229	\$ (2,307,390)
Taxes	2,036,974	2,036,974	2,415,967	378,993
Charges for services	148,089	148,089	149,280	1,191
Other revenue	118,600	118,600	21,660	(96,940)
Licenses and permits	28,000	28,000	50,633	22,633
Fines and forfeitures	86,000	86,000	41,116	(44,884)
Interest	200	200	5,201	5,001
Total revenue	<u>7,711,482</u>	<u>7,711,482</u>	<u>5,670,086</u>	<u>(2,041,396)</u>
Expenditures				
Current				
Public safety	3,884,830	3,884,830	3,029,109	855,721
General government	1,102,755	1,205,755	901,206	304,549
Public works and streets	20,325	20,325	13,974	6,351
Culture and recreation	138,979	144,979	143,068	1,911
Community development	42,286	42,286	38,650	3,636
Debt Service				
Principal	1,164	1,164	1,164	-
Interest	356	356	356	-
Capital outlay	<u>2,500,000</u>	<u>2,391,000</u>	<u>1,156,127</u>	<u>1,234,873</u>
Total expenditures	<u>7,690,695</u>	<u>7,690,695</u>	<u>5,283,654</u>	<u>2,407,041</u>
Excess (deficiency) of revenue over expenditures	20,787	20,787	386,432	365,645
Other financing sources (uses)				
Transfers	<u>(435,175)</u>	<u>(851,747)</u>	<u>(407,192)</u>	<u>444,555</u>
Net changes in fund balances	<u>(414,388)</u>	<u>(830,960)</u>	<u>(20,760)</u>	<u>810,200</u>
Fund balances, beginning of year	<u>911,794</u>	<u>911,794</u>	<u>911,794</u>	<u>-</u>
Fund balances, end of year	<u>\$ 497,406</u>	<u>\$ 80,834</u>	<u>\$ 891,034</u>	<u>\$ 810,200</u>

See accompanying notes to budgetary comparison schedule.

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Intergovernmental	\$ 2,631,340	\$ 2,631,340	\$ 90,155	\$ (2,541,185)
Other revenue	-	-	41,243	41,243
Total revenue	<u>2,631,340</u>	<u>2,631,340</u>	<u>131,398</u>	<u>(2,499,942)</u>
Expenditures				
Current				
Community development	2,583,240	2,583,240	45,190	2,538,050
Capital outlay	<u>48,100</u>	<u>48,100</u>	<u>48,100</u>	<u>-</u>
Total expenditures	<u>2,631,340</u>	<u>2,631,340</u>	<u>93,290</u>	<u>2,538,050</u>
Net changes in fund balances	-	-	38,108	38,108
Fund balances, beginning of year	<u>83,977</u>	<u>83,977</u>	<u>83,977</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 83,977</u></u>	<u><u>\$ 83,977</u></u>	<u><u>\$ 122,085</u></u>	<u><u>\$ 38,108</u></u>

See accompanying notes to budgetary comparison schedule.

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Intergovernmental	\$ 493,102	\$ 493,102	\$ 414,255	\$ (78,847)
Interest	-	-	2,117	2,117
Total revenue	<u>493,102</u>	<u>493,102</u>	<u>416,372</u>	<u>(76,730)</u>
Expenditures				
Current				
Public works and streets	1,053,596	1,053,596	536,189	517,407
Capital outlay	<u>123,623</u>	<u>123,623</u>	<u>123,623</u>	<u>-</u>
Total expenditures	<u>1,177,219</u>	<u>1,177,219</u>	<u>659,812</u>	<u>517,407</u>
Excess (deficiency) of revenue over expenditures	(684,117)	(684,117)	(243,440)	440,677
Other financing sources (uses)				
Transfers	<u>-</u>	<u>194,554</u>	<u>137,728</u>	<u>(56,826)</u>
Net changes in fund balances	(684,117)	(489,563)	(105,712)	383,851
Fund balances, beginning of year	<u>117,288</u>	<u>117,288</u>	<u>117,288</u>	<u>-</u>
Fund balances, end of year	<u>\$ (566,829)</u>	<u>\$ (372,275)</u>	<u>\$ 11,576</u>	<u>\$ 383,851</u>

See accompanying notes to budgetary comparison schedule.

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

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

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

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

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

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
Town's proportion of the net pension liability	0.007970%	0.006910%	0.006605%	Information not available
Town's proportionate share of the net pension liability	\$ 1,286,438	\$ 1,075,859	\$ 977,331	
Town's covered-employee payroll	\$ 745,853	\$ 636,171	\$ 595,402	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.48%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

See accompanying notes to pension plan schedules.

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

PSPRS

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
Total pension liability				Information not available
Service cost	\$ 59,089	\$ 50,177	\$ 50,552	
Interest on the total pension liability	119,379	110,540	96,007	
Changes of benefit terms	131,109	-	21,443	
Differences between expected and actual experience in the measurement of the pension liability	97,848	(4,211)	(41,101)	
Changes of assumptions or other inputs	78,089	-	106,427	
Benefit payments, including refunds of employee contributions	(48,359)	(48,359)	(47,649)	
Net change in total pension liability	437,155	108,147	185,679	
Total pension liability - beginning	1,515,392	1,407,245	1,221,566	
Total pension liability - ending (a)	<u>\$ 1,952,547</u>	<u>\$ 1,515,392</u>	<u>\$ 1,407,245</u>	
Plan fiduciary net position				
Contributions - employer	\$ 82,876	\$ 58,412	\$ 55,194	
Contributions - employee	36,288	30,153	27,116	
Net investment income	5,169	29,544	92,104	
Benefit payments, including refunds of employee contributions	(48,359)	(48,359)	(47,649)	
Administrative expense	(1,144)	(1,107)	-	
Other changes	5	(527)	(23,055)	
Net change in plan fiduciary net position	74,835	68,116	103,710	
Plan fiduciary net position - beginning	855,708	787,592	683,882	
Plan fiduciary net position - ending (b)	<u>\$ 930,543</u>	<u>\$ 855,708</u>	<u>\$ 787,592</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 1,022,004</u>	<u>\$ 659,684</u>	<u>\$ 619,653</u>	
Plan fiduciary net position as a percentage of the total pension liability	47.66%	56.47%	55.97%	
Covered-employee payroll	\$ 311,485	\$ 272,878	\$ 261,991	
Town's net pension liability (asset) as a percentage of covered-employee payroll	328.11%	241.75%	236.52%	

See accompanying notes to pension plan schedules.

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

Arizona State Retirement System

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Statutorily required contribution	\$ 75,020	\$ 80,925	\$ 69,279	\$ 63,708	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(75,020)</u>	<u>(80,925)</u>	<u>(69,279)</u>	<u>(63,708)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 695,918	\$ 745,853	\$ 636,171	\$ 595,402	
Town's contributions as a percentage of covered- employee payroll	10.78%	10.85%	10.89%	10.70%	

PSPRS

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Actuarially determined contribution	\$ 91,651	\$ 82,876	\$ 58,412	\$ 55,194	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(91,651)</u>	<u>(82,876)</u>	<u>(58,412)</u>	<u>(55,194)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 351,344	\$ 311,485	\$ 272,878	\$ 261,990	
Town's contributions as a percentage of covered- employee payroll	26.09%	26.61%	21.41%	21.07%	

See accompanying notes to pension plan schedules.

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

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

Health Insurance Premium Benefit - PSPRS

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([b-a]/c)
06/30/17	\$ 41,032	\$ 58,743	\$ 17,711	69.9 %	\$ 351,344	5.04 %
06/30/16	36,548	61,427	24,879	59.5	311,485	7.99 %
06/30/15	32,693	55,003	22,310	59.4	272,878	8.18 %

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

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

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

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



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

To the Town Council
Town of Guadalupe, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Guadalupe, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Guadalupe, Arizona's basic financial statements and have issued our report thereon dated February 6, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lobby & Powell, PLC". The signature is written in a cursive, flowing style.

February 6, 2018