

CITY OF SOMERTON, ARIZONA



FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH REPORT OF

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SOMERTON, ARIZONA

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FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
City Council
Somerton, 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 City of Somerton, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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 City of Somerton, Arizona, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in footnote 15 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of contributions, the schedule of agent OPEB funding progress, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somerton, Arizona's basic financial statements. The budgetary comparison information for the major funds, the combining and individual major and nonmajor fund financial statements, the schedule of capital assets, statistical section and other supplementary schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison for the major funds, combining and individual major and nonmajor fund financial statements, schedules of capital assets and other supplementary schedules listed in the table of contents were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual major and nonmajor fund financial statements and other supplementary schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the City of Somerton, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Somerton, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
January 29, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Somerton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets plus deferred outflows exceed total liabilities plus deferred inflows (net position) by \$27.3 million at the close of the fiscal year.
- Total net position increased by \$1,045,853 in fiscal year 2015.
- Governmental taxes and other revenues exceeded governmental expenses by \$1,830,908.
- Business-type expenses exceeded total business-type revenues by \$785,055.
- Total revenues from all sources were \$16.3 million.
- The total cost of all City programs were \$15.2 million.
- The General Fund reported excess revenues over expenditures and transfers of \$1,956,540.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,142,748 or 42.2% of total General Fund expenditures, excluding transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City’s basic services are considered to be governmental activities, including general government, public safety, judicial, public works, recreation, community support and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended to cover all or most of the cost of the services provided.

Reporting the City’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City’s two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$27.3 million as of June 30, 2015 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer and sanitation operations in separate enterprise funds which are combined as Business Activities in this condensed statement.

City of Somerton Statements of Net Position

	Governmental activities		Business-type activities	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$ 9,926,887	\$ 3,530,908	\$ 3,694,985	\$ 4,149,229
Capital assets	19,454,527	19,098,434	26,670,091	26,512,093
Total assets	29,381,414	22,629,342	30,365,076	30,661,322
Deferred outflows of resources	1,574,861	-	240,576	-
Long-term liabilities outstanding	19,950,600	9,433,225	11,781,235	10,300,669
Other liabilities	913,732	1,303,980	471,171	527,680
Total liabilities	20,864,332	10,737,205	12,252,406	10,828,349
Deferred inflows of resources	830,007	-	295,036	-
Net position:				
Net investment in capital assets	5,156,050	9,277,492	16,681,165	16,293,897
Restricted	5,812,405	777,792	1,440,519	1,485,242
Unrestricted	(1,706,519)	1,836,853	(63,474)	2,053,834
Total net position	\$ 9,261,936	\$ 11,892,137	\$ 18,058,210	\$ 19,832,973

Governmental Activities

The cost of all Governmental activities this year was \$10,341,432, an increase of \$762,852 over last fiscal year. This is primarily due to an increase in culture & recreation and public safety. As shown on the Statement of Changes in Net Position on the following page, \$3,867,297 of this cost was paid for by those who directly benefited from the programs; \$2,395,322 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid, donations, and fees for services were \$6,262,619. General taxes and investment earnings totaled \$5,890,827.

The City's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, Economic Development, Health and Welfare, and Water, Sewer and Sanitation Services. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

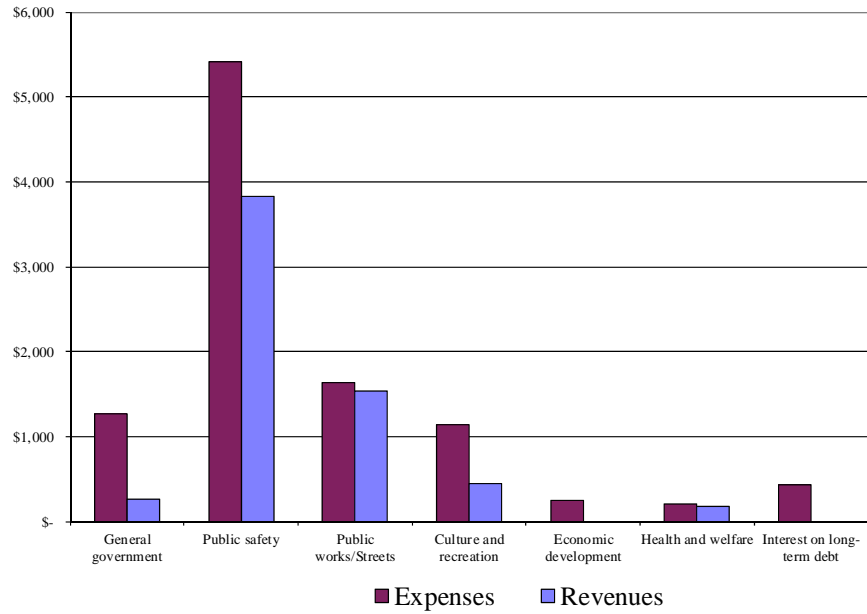
**City of Somerton
Changes in Net Position**

	Governmental activities		Business-type activities	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenues:				
Program revenues:				
Charges for services	\$ 3,867,297	\$ 2,158,187	\$ 3,676,151	\$ 3,432,789
Operating grants and contributions	1,896,810	1,747,867	-	-
Capital grants and contributions	498,512	155,084	452,595	539,360
General revenues:				
Taxes	4,154,083	3,843,787	-	-
State revenue sharing	1,729,530	1,603,767	-	-
Other revenue/(expense)	7,214	10,848	1,384	1,535
Total revenues	<u>12,153,446</u>	<u>9,519,540</u>	<u>4,130,130</u>	<u>3,973,684</u>
Expenses:				
General government	1,263,799	1,258,932	-	-
Public safety	5,408,793	5,225,347	-	-
Public works/Streets	1,627,433	1,587,665	-	-
Culture and recreation	1,142,023	795,215	-	-
Economic development	252,849	246,595	-	-
Health and welfare	211,041	193,620	-	-
Interest on long-term debt	432,600	268,312	-	-
Water	-	-	1,650,207	1,694,204
Sewer	-	-	2,415,275	2,277,664
Sanitation	-	-	833,703	765,568
Total expenses	<u>10,338,538</u>	<u>9,575,686</u>	<u>4,899,185</u>	<u>4,737,436</u>
(Decrease) / Increase in net position before transfers	1,814,908	(56,146)	(769,055)	(763,752)
Transfers	16,000	16,000	(16,000)	(16,000)
(Decrease) / Increase in net position	1,830,908	(40,146)	(785,055)	(779,752)
Net position, beginning	11,892,137	11,932,283	19,832,973	20,612,725
Restatement/reclassifications	(4,720,619)	-	(1,729,272)	-
Prior period adjustment	259,510	-	739,564	-
Net position, ending	<u>\$ 9,261,936</u>	<u>\$ 11,892,137</u>	<u>\$ 18,058,210</u>	<u>\$ 19,832,973</u>

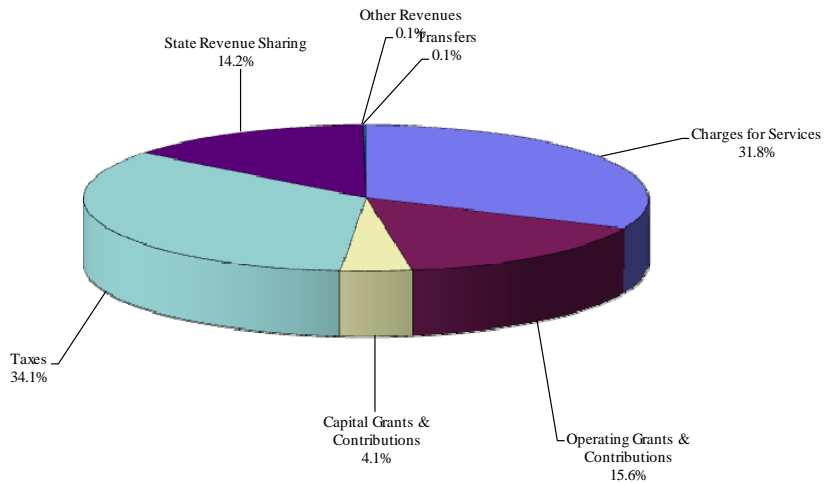
Total resources available during the year to finance governmental operations were \$19.6 million consisting of net position at July 1, 2014 of \$7.4 million, program revenues of \$6.3 million and general revenues of \$5.9 million. Total governmental activities during the year were \$10.3 million, thus governmental net position increased by \$1,830,908 to \$9.3 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Expenses and Program Revenues - Governmental Activities
(in Thousands)



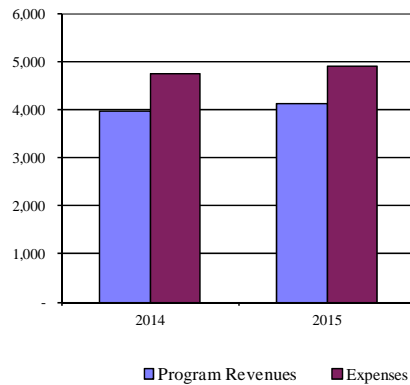
Revenue By Source - Governmental Activities



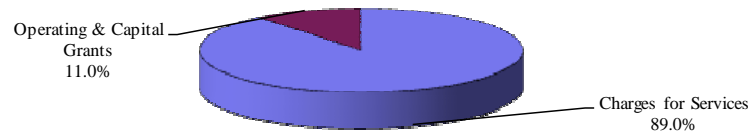
Business Type Activities

Net position of the business type activities at June 30, 2015, as reflected in the Statement of Net Position were \$18.1 million. The cost of providing all Proprietary (Business Type) activities this year was \$4.9 million. As shown in the Statement of Changes in Net Position, the amounts paid by users of the system were \$3.7 million and there was \$452,595 subsidized by capital grants and contributions. Interest earnings were \$1,384. The net position decreased by \$785,055.

Expenses and Program Revenues - Business-type Activities
(in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Somerton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Somerton's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Somerton's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Somerton's governmental funds reported combined ending fund balances of \$8,644,592, an increase of \$6,596,287 in comparison with the prior year. Approximately, 31.9% of this total amount, \$2,757,078 constitutes unassigned, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or committed to be used 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Somerton. At the end of the current fiscal year, unassigned fund balance in the general fund was \$3,142,748, while total fund balance is \$3,231,505. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 42.3% of total general fund expenditures, while total fund balance represents 43.5% of the same amount.

During the year, the City of Somerton's general fund balance increased by \$1,956,540.

The Highway User Revenue Fund (HURF) has a total fund balance of \$862,615. The net increase in the fund balance during the current year was \$234,311. The increase in the fund balance resulted from an increase in revenues.

The Capital Improvement Fund (CIP) has a total fund balance of \$4,823,744. The net increase in the fund balance during the current year was \$4,823,744. The increase in the fund balance resulted from debt proceeds.

The Debt Service Fund (DSF) has a total fund deficit of \$385,670. The net decrease in the fund balance during the current year was \$435,839. The decrease in the fund balance resulted from an advance refunding bond issuance.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$1,552,412 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for public safety projects that did not occur. There were budget amendments or supplemental appropriations made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2015, net capital assets of the government activities totaled \$19.5 million and the net capital assets of the business-type activities totaled \$26.7 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 7 to the financial statements.)

Long Term Obligations

At year-end, the City had \$19,950,600 in governmental type obligations, and \$11,781,235 in proprietary obligations. The obligation is a liability of the government and amounts to \$2,221 per capita (2010 census: 14,287). During the current fiscal year, the City's total obligations increased by \$4,936,380. (See note 8 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2015/2016, the City Council and management remained cautious as to the growth of revenues and expenditures primarily due to the economic down turn being forecasted. Overall General fund operating expenditures were budgeted conservatively.

This will be the eighth fiscal year that the City of Somerton will receive a "voter" approved property tax and keeping with the voter's desires these additional funds will be utilized in support of the debt service for city infrastructure, street improvements.

On May 21st, 2013, the City of Somerton electorate passed Proposition 404 extending the alternative expenditure limitation for an additional 4 years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Somerton, PO Box 638, 110 N. State Avenue, Somerton, AZ 85350-0638.

BASIC FINANCIAL STATEMENTS

CITY OF SOMERTON, ARIZONA
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,755,565	\$ 2,352,561	\$ 5,108,126
Receivables (net of allowance)	1,369,677	443,008	1,812,685
Notes receivable	55,000	-	55,000
Prepaid items/Inventory	57,371	644	58,015
Temporarily restricted assets:			
Cash and cash equivalents	5,689,274	898,772	6,588,046
Capital assets (net of accumulated depreciation):			
Land	984,534	415,399	1,399,933
Buildings	4,690,263	13	4,690,276
Improvements	1,206,870	1,975,813	3,182,683
System improvements	-	23,459,600	23,459,600
Machinery and equipment	384,775	151,733	536,508
Vehicles	664,888	346,845	1,011,733
Infrastructure/Roads	10,897,788	-	10,897,788
Construction in progress	625,409	320,688	946,097
Total assets	<u>29,381,414</u>	<u>30,365,076</u>	<u>59,746,490</u>
Deferred Outflows of Resources			
Deferred charge on refunding	326,462	-	326,462
Deferred outflows related to pensions	1,248,399	240,576	1,488,975
Total deferred outflows	<u>1,574,861</u>	<u>240,576</u>	<u>1,815,437</u>
Liabilities			
Accounts payable and other current liabilities	833,252	392,225	1,225,477
Interest payable	80,480	78,946	159,426
Noncurrent liabilities:			
Due within one year	216,610	627,288	843,898
Due in more than one year	19,733,990	11,153,947	30,887,937
Total liabilities	<u>20,864,332</u>	<u>12,252,406</u>	<u>33,116,738</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	830,007	295,036	1,125,043
Total deferred inflows of resources	<u>830,007</u>	<u>295,036</u>	<u>1,125,043</u>
Net Position			
Net investment in capital assets	5,156,050	16,681,165	21,837,215
Restricted for:			
Highways and streets	5,686,359	-	5,686,359
Debt service	-	809,000	809,000
Capital projects and other	126,046	631,519	757,565
Unrestricted	<u>(1,706,519)</u>	<u>(63,474)</u>	<u>(1,769,993)</u>
Total net position	<u>\$ 9,261,936</u>	<u>\$ 18,058,210</u>	<u>\$ 27,320,146</u>

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

CITY OF SOMERTON, ARIZONA
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,263,799	\$ 256,772	\$ 5,452	\$ -	\$ (1,001,575)	\$ -	\$ (1,001,575)
Public safety	5,408,793	3,101,258	623,599	106,404	(1,577,532)	-	(1,577,532)
Public works/Streets	1,627,433	73,531	1,088,381	379,245	(86,276)	-	(86,276)
Culture and recreation	1,142,023	435,736	-	12,863	(693,424)	-	(693,424)
Economic development	252,849	-	-	-	(252,849)	-	(252,849)
Health and welfare	211,041	-	179,378	-	(31,663)	-	(31,663)
Interest on long-term debt	432,600	-	-	-	(432,600)	-	(432,600)
Total governmental activities	10,338,538	3,867,297	1,896,810	498,512	(4,075,919)	-	(4,075,919)
Business-type activities:							
Water	1,650,207	1,130,176	-	116,728	-	(403,303)	(403,303)
Sewer	2,415,275	1,631,320	-	335,867	-	(448,088)	(448,088)
Sanitation	833,703	914,655	-	-	-	80,952	80,952
Total business-type activities	4,899,185	3,676,151	-	452,595	-	(770,439)	(770,439)
Total primary government	\$ 15,237,723	\$ 7,543,448	\$ 1,896,810	\$ 951,107			
General Revenues:							
Taxes:							
City sales tax					1,709,868	-	1,709,868
State sales tax					1,305,671	-	1,305,671
Property tax					562,771	-	562,771
Auto lieu tax					515,583	-	515,583
Franchise tax					60,190	-	60,190
State income taxes - revenue sharing (unrestricted)					1,729,530	-	1,729,530
Unrestricted investment earnings					7,214	1,384	8,598
Transfers					16,000	(16,000)	-
Total general revenues & transfers					5,906,827	(14,616)	5,892,211
Change in net position					1,830,908	(785,055)	1,045,853
Net position - beginning					11,892,137	19,832,973	31,725,110
Restatements / reclassifications					(4,720,619)	(1,729,272)	(6,449,891)
Prior period adjustments					259,510	739,564	999,074
Net position - ending					\$ 9,261,936	\$ 18,058,210	\$ 27,320,146

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

CITY OF SOMERTON, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

Assets	General	Highway User Revenue Fund	Capital Improvement	Debt Service	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,787,431	\$ 824,409	\$ -	\$ 16,666	\$ 127,059	\$ 2,755,565
Receivables:						
Other	4,017	-	-	-	368	4,385
Ambulance	394,043	-	-	-	-	394,043
Intergovernmental	751,147	99,365	36,443	-	84,294	971,249
Due from other funds	1,264,815	-	-	-	-	1,264,815
Inventories	-	4,647	-	-	-	4,647
Prepaid items	52,724	-	-	-	-	52,724
Restricted cash and investments	-	-	5,621,374	67,900	-	5,689,274
	<u>\$ 4,254,177</u>	<u>\$ 928,421</u>	<u>\$ 5,657,817</u>	<u>\$ 84,566</u>	<u>\$ 211,721</u>	<u>\$ 11,136,702</u>
Liabilities, Deferred Inflows, and Fund Balances						
Liabilities:						
Accounts payable	\$ 420,538	\$ 55,291	\$ 69,351	\$ -	\$ 61,427	\$ 606,607
Accrued wages and benefits	142,698	10,515	-	-	8,039	161,252
Accrued liabilities	65,166	-	-	-	-	65,166
Customer deposits	227	-	-	-	-	227
Due to other funds	-	-	764,722	470,236	29,857	1,264,815
	<u>628,629</u>	<u>65,806</u>	<u>834,073</u>	<u>470,236</u>	<u>99,323</u>	<u>2,098,067</u>
Deferred Inflows of Resources:						
Unavailable revenue - ambulance	394,043	-	-	-	-	394,043
	<u>394,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394,043</u>
Fund Balances:						
Nonspendable:						
Prepays	52,724	-	-	-	-	52,724
Restricted for:						
General government	-	-	-	-	13,309	13,309
Public works/streets	-	862,615	4,823,744	-	-	5,686,359
Public safety	-	-	-	-	76,704	76,704
Parks & recreation	36,033	-	-	-	-	36,033
Committed to:						
Health and welfare	-	-	-	-	22,385	22,385
Capital Improvement Fund	-	-	-	-	-	-
Unassigned:	3,142,748	-	-	(385,670)	-	2,757,078
	<u>3,231,505</u>	<u>862,615</u>	<u>4,823,744</u>	<u>(385,670)</u>	<u>112,398</u>	<u>8,644,592</u>
Total Liabilities, deferred inflows, and fund balances	<u>\$ 4,254,177</u>	<u>\$ 928,421</u>	<u>\$ 5,657,817</u>	<u>\$ 84,566</u>	<u>\$ 211,721</u>	<u>\$ 11,136,702</u>

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

CITY OF SOMERTON, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
For the Year Ended June 30, 2015

Total fund balances - governmental funds \$ 8,644,592

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 32,171,568	
Accumulated depreciation	<u>(12,717,041)</u>	19,454,527

Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.

394,043

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Notes payable	\$ (2,637,445)	
Bonds payable	(11,515,000)	
Add: Issuance premium	(124,079)	
Less: Deferred charge on refunding	326,462	
Leases payable	(21,953)	
Interest Payable	(80,480)	
Net pension liability	(5,301,574)	
Compensated absences	<u>(350,549)</u>	<u>(19,704,618)</u>

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	\$ 1,248,399	
Deferred inflows	<u>(830,007)</u>	418,392

Total net position - governmental activities \$ 9,261,936

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

CITY OF SOMERTON, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2015

REVENUES	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Capital Improvement</u>	<u>Debt Service</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,403,139	\$ -	\$ -	\$ -	\$ -	\$ 2,403,139
Licenses, permits and fees	291,182	-	-	-	-	291,182
Intergovernmental revenue	4,010,455	1,088,235	485,649	-	316,471	5,900,810
Charges for services	3,203,791	-	-	-	-	3,203,791
Fines and forfeitures	117,960	-	-	-	5,452	123,412
Interest	3,638	-	-	3,575	-	7,213
Other revenues	20,873	-	146	-	50,286	71,305
Total revenues	<u>10,051,038</u>	<u>1,088,235</u>	<u>485,795</u>	<u>3,575</u>	<u>372,209</u>	<u>12,000,852</u>
EXPENDITURES						
Current:						
General government	1,232,405	-	-	-	20	1,232,425
Public safety	4,821,350	-	-	-	203,421	5,024,771
Public works/streets	117,616	740,924	-	-	-	858,540
Culture and recreation	1,009,004	-	-	-	-	1,009,004
Economic development	253,649	-	-	-	-	253,649
Health and welfare	-	-	-	-	175,711	175,711
Capital outlay	-	-	1,323,026	-	-	1,323,026
Debt service	-	-	153,918	907,877	-	1,061,795
Total expenditures	<u>7,434,024</u>	<u>740,924</u>	<u>1,476,944</u>	<u>907,877</u>	<u>379,152</u>	<u>10,938,921</u>
Excess of revenues over (under) expenditures	<u>2,617,014</u>	<u>347,311</u>	<u>(991,149)</u>	<u>(904,302)</u>	<u>(6,943)</u>	<u>1,061,931</u>
Other Financing Sources (Uses):						
Bond proceeds	-	-	5,814,893	-	-	5,814,893
Refunding bonds issued	-	-	-	4,865,358	-	4,865,358
Payment to refunded bond escrow agent	-	-	-	(5,161,895)	-	(5,161,895)
Transfers out	(660,474)	(113,000)	-	-	-	(773,474)
Transfers in	-	-	-	765,000	24,474	789,474
Total other financing sources (uses)	<u>(660,474)</u>	<u>(113,000)</u>	<u>5,814,893</u>	<u>468,463</u>	<u>24,474</u>	<u>5,534,356</u>
Net change in fund balances	1,956,540	234,311	4,823,744	(435,839)	17,531	6,596,287
Fund balance, beginning of year	<u>1,274,965</u>	<u>628,304</u>	<u>-</u>	<u>50,169</u>	<u>94,867</u>	<u>2,048,305</u>
Fund balance, end of year	<u>\$ 3,231,505</u>	<u>\$ 862,615</u>	<u>\$ 4,823,744</u>	<u>\$ (385,670)</u>	<u>\$ 112,398</u>	<u>\$ 8,644,592</u>

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

CITY OF SOMERTON, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$	6,596,287
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		152,594
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	\$	1,487,339
Depreciation expense		<u>(1,372,010)</u>
		115,329
Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain or loss on the sale of capital assets is reported net of its net book value.		(18,746)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(4,926,507)
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 net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.		
Pension contributions	\$	474,303
Pension expense		<u>(636,866)</u>
		(162,563)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		37,168
Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.		37,346
Change in net position of governmental activities	<u>\$</u>	<u>1,830,908</u>

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

CITY OF SOMERTON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

Assets	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Current assets:				
Cash	\$ 1,162,803	\$ 769,364	\$ 420,394	\$ 2,352,561
Receivables (net of allowance)	175,736	171,899	95,373	443,008
Prepaid items	-	644	-	644
Total current assets	<u>1,338,539</u>	<u>941,907</u>	<u>515,767</u>	<u>2,796,213</u>
Noncurrent assets:				
Restricted cash and investments	206,362	692,385	25	898,772
Land	-	415,399	-	415,399
Buildings	33,710	-	-	33,710
Improvements other than buildings	1,373,587	804,868	120,193	2,298,648
Treatment facilities	2,276,139	18,010,330	-	20,286,469
Water distribution system	9,612,664	-	-	9,612,664
Sewer collection system	-	8,380,356	-	8,380,356
Machinery and equipment	48,891	218,859	80,455	348,205
Vehicles	15,700	341,178	1,073,681	1,430,559
Construction in progress	196,831	123,857	-	320,688
Accumulated depreciation	(7,367,671)	(8,246,091)	(842,845)	(16,456,607)
Total noncurrent assets	<u>6,396,213</u>	<u>20,741,141</u>	<u>431,509</u>	<u>27,568,863</u>
Total Assets	<u>7,734,752</u>	<u>21,683,048</u>	<u>947,276</u>	<u>30,365,076</u>
Deferred Outflows of Resources				
Deferred outflows related to pensions	82,014	153,094	5,468	240,576
Liabilities				
Current liabilities:				
Accounts payable	66,270	43,873	23,499	133,642
Accrued wages and benefits	16,087	18,751	10,303	45,141
Accrued liabilities	7,055	-	-	7,055
Interest payable	15,576	63,370	-	78,946
Customer deposits	206,362	-	25	206,387
Compensated absences - current portion	15,000	15,000	10,000	40,000
Leases payable - current portion	-	-	52,442	52,442
Notes payable - current portion	91,181	443,665	-	534,846
Bonds payable - current portion	-	-	-	-
Total current liabilities	<u>417,531</u>	<u>584,659</u>	<u>96,269</u>	<u>1,098,459</u>
Noncurrent liabilities:				
Compensated absences	23,350	21,548	20,229	65,127
Net pension liability	575,176	1,073,661	38,345	1,687,182
Leases payable, net of current portion	-	-	180,657	180,657
Notes payable, net of current portion	1,161,061	7,407,250	-	8,568,311
Bonds payable, net of current portion	-	652,670	-	652,670
Total noncurrent liabilities	<u>1,759,587</u>	<u>9,155,129</u>	<u>239,231</u>	<u>11,153,947</u>
Total liabilities	<u>2,177,118</u>	<u>9,739,788</u>	<u>335,500</u>	<u>12,252,406</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	100,581	187,750	6,705	295,036
Net Position				
Net investment in capital assets	4,937,609	11,545,171	198,385	16,681,165
Restricted for debt service	65,874	743,126	-	809,000
Restricted for capital outlay	261,134	370,385	-	631,519
Unrestricted	274,450	(750,078)	412,154	(63,474)
Total net position	<u>\$ 5,539,067</u>	<u>\$ 11,908,604</u>	<u>\$ 610,539</u>	<u>\$ 18,058,210</u>

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

CITY OF SOMERTON, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

Operating Revenues	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Charges for services:	\$ 1,037,606	\$ 1,625,470	\$ 758,322	\$ 3,421,398
Other revenues	92,570	5,850	156,333	254,753
Total operating revenues	<u>1,130,176</u>	<u>1,631,320</u>	<u>914,655</u>	<u>3,676,151</u>
Operating Expenses				
Salaries	358,425	444,977	248,281	1,051,683
Employee benefits	124,602	146,648	110,898	382,148
Service, supplies and other	603,249	633,068	424,728	1,661,045
Depreciation	526,434	949,042	47,298	1,522,774
Total operating expenses	<u>1,612,710</u>	<u>2,173,735</u>	<u>831,205</u>	<u>4,617,650</u>
Operating income (loss)	<u>(482,534)</u>	<u>(542,415)</u>	<u>83,450</u>	<u>(941,499)</u>
Non-operating Revenues (Expenses)				
Investment earnings	438	946	-	1,384
Interest expense and fiscal charges	(30,055)	(240,015)	(2,498)	(272,568)
Grant revenues	30,465	757	-	31,222
Impact fees and connection fees	86,263	335,110	-	421,373
Loss on disposal of capital assets	(7,442)	(1,525)	-	(8,967)
Total non-operating revenue (expense)	<u>79,669</u>	<u>95,273</u>	<u>(2,498)</u>	<u>172,444</u>
Income (Loss) before contributions and transfers	(402,865)	(447,142)	80,952	(769,055)
Transfers out	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Total contributions and transfers	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Change in net position	(410,865)	(455,142)	80,952	(785,055)
Total net position, beginning of year	6,332,855	12,931,229	568,889	19,832,973
Restatements	(589,524)	(1,100,446)	(39,302)	(1,729,272)
Prior period adjustments	206,601	532,963	-	739,564
Total net position, end of year	<u>\$ 5,539,067</u>	<u>\$ 11,908,604</u>	<u>\$ 610,539</u>	<u>\$ 18,058,210</u>

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

CITY OF SOMERTON, ARIZONA
Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2015

	Water	Sewer	Sanitation	Total
Cash Flows From Operating Activities:				
Cash received from customers, service fees	\$ 1,032,111	\$ 1,629,964	\$ 745,361	\$ 3,407,436
Cash received from customers, other	92,570	5,850	156,333	254,753
Cash paid to suppliers	(680,841)	(628,811)	(419,596)	(1,729,248)
Cash paid to employees	(469,236)	(563,964)	(345,278)	(1,378,478)
Cash flows from operating activities	<u>(25,396)</u>	<u>443,039</u>	<u>136,820</u>	<u>554,463</u>
Cash Flows From Noncapital Financing Activities:				
Transfers	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Cash flows from noncapital and related financing activities	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Cash Flows From Capital and Related Financing Activities:				
Purchase of capital assets	(641,554)	(64,906)	(243,711)	(950,171)
Principal paid on long term debt	(88,892)	(420,093)	(10,612)	(519,597)
Interest paid	(29,519)	(249,187)	(2,498)	(281,204)
Long term debt proceeds	197,608	-	243,711	441,319
Grant revenues	30,465	757	-	31,222
Refunding bond proceeds	-	652,670	-	652,670
Payment to refunded bond escrow agent	-	(803,662)	-	(803,662)
Connection & impact fees	86,263	335,110	-	421,373
Cash flows from capital and related financing activities	<u>(445,629)</u>	<u>(549,311)</u>	<u>(13,110)</u>	<u>(1,008,050)</u>
Cash Flows From Investing Activities:				
Investment earnings	<u>438</u>	<u>946</u>	<u>-</u>	<u>1,384</u>
Cash flows from investing activities	<u>438</u>	<u>946</u>	<u>-</u>	<u>1,384</u>
Net change in cash and cash equivalents	(478,587)	(113,326)	123,710	(468,203)
Cash and cash equivalents, including restricted cash, beginning of year	<u>1,847,752</u>	<u>1,575,075</u>	<u>296,710</u>	<u>3,719,537</u>
Cash and Cash Equivalents, including restricted cash, end of year	<u><u>\$ 1,369,165</u></u>	<u><u>\$ 1,461,749</u></u>	<u><u>\$ 420,420</u></u>	<u><u>\$ 3,251,334</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:				
Net operating income/(loss)	\$ (482,534)	\$ (542,415)	\$ 83,450	\$ (941,499)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation/amortization	526,434	949,042	47,298	1,522,774
Pension expense	43,653	81,484	2,910	128,047
Employer contributions	(39,435)	(73,612)	(2,629)	(115,676)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(5,495)	4,494	(12,961)	(13,962)
(Increase)/Decrease in prepaid items	-	-	-	-
Increase/(Decrease) in payables	(77,592)	4,257	5,132	(68,203)
Increase/(Decrease) in accrued liabilities & deposits	9,573	19,789	13,620	42,982
Net cash flows from operating activities	<u><u>\$ (25,396)</u></u>	<u><u>\$ 443,039</u></u>	<u><u>\$ 136,820</u></u>	<u><u>\$ 554,463</u></u>

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The City of Somerton, Arizona (government) is a municipal corporation governed by an elected mayor and five-member council (council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. There are no discretely presented component units and one blended component unit.

Blended component unit. The City of Somerton Municipal Property Corporation's (SMPC) board of directors consists of six members which are appointed by the Somerton City Council. The SMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the government in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Somerton Municipal Property Corporation's bonds. All related receivables and payables between the government and the SMPC have been eliminated. The SMPC has a June 30 year end and is reported within the governmental fund types.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

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

The **highway user revenue special revenue fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.

The **capital improvement capital project fund** is used to account for various grants and other contributions and transfers that are restricted or designated for various capital improvements and projects of the government that are not accounted for in other funds.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for governmental debt principal and interest.

The government reports the following major enterprise funds:

The **water fund** accounts for the activities related to the government's water operations.

The **sewer fund** accounts for the activities related to the government's sewer operations.

The **sanitation fund** accounts for the activities related to the government's sanitation operations.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, state shared revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the accrual basis of accounting.

Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

Investments

The government's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, obligations of the U. S. Government and other investments as allowed by Arizona State Statutes. Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Investment Pool (Pool). In accordance with state law, the Pool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the Pool qualifies as a 2a-7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Inventories for the proprietary funds consist principally of materials used in the repair of the distribution, collection and treatment systems.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	10 to 40 years
Treatment facilities and improvements	15 to 45 years
Machinery and equipment	3 to 10 years
Vehicles	5 to 7 years
Streets, sidewalks & other infrastructure	15-40 years

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 11 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Pension related items reported on the government-wide and proprietary fund financial statements. See footnote 11 for more information. Another item is related to an advance refunding of city obligations, see footnote 16 for more information. Another item, which arises only under a modified accrual basis of accounting, *unavailable revenue - ambulance*, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 plan's fiduciary net position of the Arizona State Retirement System (ASRS) and the Arizona Public Safety Personnel Retirement System (PSPRS), and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. 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.

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

Property taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Yuma County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments on October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date. The County also levies various personal property taxes during the year. A lien against property assessed attaches on the first day of January preceding the assessment and levy.

Compensated absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements unless they have matured, for example, as a result of employee resignations and retirements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and sanitation fund are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue impact fees which are assessed to recover the impact that construction has on the government's established distribution system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

New pronouncements

For the year ended June 30, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 15).

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 17.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 19.

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the government. The use of budgets and monitoring of equity status facilitate the government's compliance with legal requirements.

Budgets and budgetary accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental. All annual appropriations lapse at year end. The council follows these procedures in establishing the budgetary data reflected in the financial statements:

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 3. Stewardship, Compliance, and Accountability, Continued

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the government is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total government expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provides the government with a final expenditure limit for the coming fiscal year.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the government adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager, subject to council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without council approval.
6. The government has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Debt Service and Capital Projects Funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The government is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the government 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 government complied with this law during the year.

Budget adjustments were made during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the government.

Expenditures over appropriations

Expenditures may not legally exceed budgeted appropriations at the department level for the general fund and the fund level for all other funds. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports found in the required supplementary and supplementary information present all of the departments or funds which incurred expenditures/expenses over appropriations for the year ended June 30, 2015, if any.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 3. Stewardship, Compliance, and Accountability, Continued

Highway User Revenue Funds

Highway user revenue fund monies received by the government pursuant to title 28, chapter 18, article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized transportation purposes.

Deficit Fund Balance

The debt service fund ending fund balance was (\$385,670) at June 30, 2015. Management is planning to address the deficit fund balance in fiscal year 2016 with additional transfers from other funds.

Note 4. Deposits and Investments

Deposits and investments of the government at June 30, 2015 consist of the following:

Deposits:	
Cash on hand	\$ 1,311
Cash in bank	8,255,293
Cash with paying agent	55,000
Investments:	
State Treasurer's Investment Pool	<u>3,384,568</u>
Total Deposits and Investments	<u><u>\$ 11,696,172</u></u>

A reconciliation of cash and investments as shown on the statement of net position is as follows:

Cash and cash equivalents	\$ 5,108,126
Restricted cash	6,588,046
	<u><u>\$ 11,696,172</u></u>

Deposits

Custodial credit risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The government does not have a formal policy for custodial credit risk. As of June 30, 2015, \$0 of the government's bank balance of \$2,640,112 was exposed to custodial credit risk because it was either fully insured by FDIC insurance or collateralized by securities held by Wells Fargo Bank.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 4. Deposits and Investments, Continued

Investments

Investment Fund

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2015 the government had the following investments, ratings, and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Arizona State Treasurer's Local Government Investment Pool 7	\$ 3,384,568	AA+	40 days
Total Fair Value	<u>\$3,384,568</u>		

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using the weighted average days to maturity.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The government’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). A.R.S. 35-323 requires that the government’s investment portfolio maturities do not exceed five years from the time of purchase.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 4. Deposits and Investments, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The government's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 5. Restricted Assets

Restricted assets consisted of the following at June 30, 2015:

Qualified Energy Conservation Bond (QECCB) unspent proceeds	6,989
Water fund customer deposit cash reserve	206,362
Series 2015 Advance Refunding of GADA 2006 Bond unspent proceeds	5,617,140
Series 2015 refunding debt reserve	4,233
Series 2015 refunding debt reserve	1,154
USDA Public Safety Facility debt reserve	4,757
WIFA Wastewater Treatment Plant loan debt service reserve	330,575
WIFA Wastewater Treatment Plant loan repair and replacment fund	193,700
WIFA Wastewater Treatment Plant Expansion loan debt service reserve	145,563
USDA Wastewater Treatment Plant Expansion loan reserve fund	22,548
Sanitation fund customer deposit cash reserve	25
Cash with paying agent	55,000
Total	<u><u>\$ 6,588,046</u></u>

Note 6. Receivables

Intergovernmental receivables consist principally of amounts due from the State of Arizona for various taxes, shared revenues, highway user revenues and amounts due from the Cocopah Indian Tribe. Other Accounts Receivable in the General Fund consists principally of ambulance billings receivable. Receivables in the proprietary fund are service billings receivable and are shown net of an allowance for doubtful accounts.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 7. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year:

Governmental Activities:	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 949,417	\$ 38,127	\$ (3,010)	\$ 984,534
Construction in progress	488,276	1,024,724	(887,591)	625,409
Total capital assets, not being depreciated	<u>1,437,693</u>	<u>1,062,851</u>	<u>(890,601)</u>	<u>1,609,943</u>
Capital assets, being depreciated:				
Buildings	6,508,633	46,746	-	6,555,379
Improvements other than buildings	2,065,254	-	(6,900)	2,058,354
Furniture and equipment	2,816,385	48,121	(466,694)	2,397,812
Vehicles	2,985,249	329,620	(60,216)	3,254,653
Infrastructure	* 15,424,275	887,592	(16,440)	16,295,427
Total capital assets, being depreciated	<u>29,799,796</u>	<u>1,312,079</u>	<u>(550,250)</u>	<u>30,561,625</u>
Less accumulated depreciation for:				
Buildings	(1,681,535)	(183,581)	-	(1,865,116)
Improvements other than buildings	(737,452)	(118,248)	4,216	(851,484)
Furniture and equipment	(2,326,764)	(148,679)	462,406	(2,013,037)
Vehicles	(2,485,773)	(163,730)	59,738	(2,589,765)
Infrastructure	* (4,648,021)	(757,772)	8,154	(5,397,639)
Total accumulated depreciation	<u>(11,879,545)</u>	<u>(1,372,010)</u>	<u>534,514</u>	<u>(12,717,041)</u>
Total capital assets, being depreciated, net	<u>17,920,251</u>	<u>(59,931)</u>	<u>(15,736)</u>	<u>17,844,584</u>
Governmental activities capital assets, net	<u>\$ 19,357,944</u>	<u>\$ 1,002,920</u>	<u>\$ (906,337)</u>	<u>\$ 19,454,527</u>

* Prior year balances have been restated. See note 18.

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

Governmental Activities:	
General government	\$ 35,949
Public safety	392,576
Public works/streets	771,035
Culture & recreation	136,534
Health and welfare	35,916
Total depreciation expense - governmental activities	<u>\$ 1,372,010</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 7. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Capital assets not being depreciated:				
Land	\$ 415,399	\$ -	\$ -	\$ 415,399
Construction in progress	221,128	189,985	(90,425)	320,688
Total capital assets, not being depreciated	<u>636,527</u>	<u>189,985</u>	<u>(90,425)</u>	<u>736,087</u>
Capital assets being depreciated:				
Buildings	38,791	-	(5,081)	33,710
Improvements other than buildings	2,298,648	-	-	2,298,648
Treatment facilities	20,292,237	-	(5,768)	20,286,469
Water distribution system	* 9,086,681	541,994	(16,011)	9,612,664
Sewer collection system	* 8,367,077	22,800	(9,521)	8,380,356
Machinery and equipment	382,319	42,107	(76,221)	348,205
Vehicles	1,194,122	243,711	(7,274)	1,430,559
Total capital assets, being depreciated	<u>41,659,875</u>	<u>850,612</u>	<u>(119,876)</u>	<u>42,390,611</u>
Less accumulated depreciation for:				
Buildings	(37,629)	-	3,932	(33,697)
Improvements other than buildings	(204,842)	(117,993)	-	(322,835)
Treatment facilities	(4,275,985)	(510,612)	5,768	(4,780,829)
Water distribution system	* (4,831,997)	(417,320)	10,440	(5,238,877)
Sewer collection system	* (4,436,044)	(372,409)	8,270	(4,800,183)
Machinery and equipment	(244,898)	(27,795)	76,221	(196,472)
Vehicles	(1,013,349)	(76,645)	6,280	(1,083,714)
Total accumulated depreciation	<u>(15,044,744)</u>	<u>(1,522,774)</u>	<u>110,911</u>	<u>(16,456,607)</u>
Total capital assets, being depreciated, net	<u>26,615,131</u>	<u>(672,162)</u>	<u>(8,965)</u>	<u>25,934,004</u>
Business-type activities capital assets, net	<u>\$ 27,251,658</u>	<u>\$ (482,177)</u>	<u>\$ (99,390)</u>	<u>\$ 26,670,091</u>

* Prior year balances have been restated. See note 18.

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

Business-Type Activities:	
Water	\$ 526,434
Sewer	949,042
Sanitation	47,298
Total depreciation expense - governmental activities	<u>\$ 1,522,774</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 8. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Current Portion
Governmental Activities:					
Bonds payable	\$ 6,135,005	\$ 10,560,000	\$ (5,180,005)	\$ 11,515,000	\$ 55,000
Bond premiums	201,909	124,079	(201,909)	124,079	11,284
Total bonds payable	<u>6,336,914</u>	<u>10,684,079</u>	<u>(5,381,914)</u>	<u>11,639,079</u>	<u>66,284</u>
Loans payable	* 2,679,366	-	(41,921)	2,637,445	43,738
Capital leases	29,228	-	(7,275)	21,953	8,588
Net pension liability	5,222,311	79,263	-	5,301,574	-
Accrued compensated absences	<u>387,717</u>	<u>59,889</u>	<u>(97,057)</u>	<u>350,549</u>	<u>98,000</u>
Total Governmental Activities	<u>\$ 14,655,536</u>	<u>\$ 10,823,231</u>	<u>\$ (5,528,167)</u>	<u>\$ 19,950,600</u>	<u>\$ 216,610</u>
Business-Type Activities:					
Bonds payable	\$ 790,000	\$ 645,000	\$ (790,000)	\$ 645,000	\$ -
Less deferred amounts:					
Bond premiums	-	7,670	-	7,670	-
Bond discounts	(5,426)	-	5,426	-	-
Total bonds payable	<u>784,574</u>	<u>652,670</u>	<u>(784,574)</u>	<u>652,670</u>	<u>-</u>
Loans payable	9,433,620	197,608	(528,071)	9,103,157	534,846
Capital leases	-	243,711	(10,612)	233,099	52,442
Net pension liability	1,839,252	-	(152,070)	1,687,182	-
Accrued compensated absences	<u>82,473</u>	<u>60,494</u>	<u>(37,840)</u>	<u>105,127</u>	<u>40,000</u>
Total Business-Type Activities	<u>\$ 12,139,919</u>	<u>\$ 1,154,483</u>	<u>\$ (1,513,167)</u>	<u>\$ 11,781,235</u>	<u>\$ 627,288</u>
Total Long-Term Liabilities	<u>\$ 26,795,455</u>	<u>\$ 11,977,714</u>	<u>\$ (7,041,334)</u>	<u>\$ 31,731,835</u>	<u>\$ 843,898</u>

Long term debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	98,738	346,983	534,846	223,009
2017	620,633	424,674	604,827	214,282
2018	697,611	405,514	625,241	199,701
2019	719,674	381,567	641,100	184,362
2020	746,827	359,885	640,584	168,873
2021-2025	3,979,836	1,544,607	3,125,267	584,389
2026-2030	2,964,505	1,023,634	1,548,081	320,376
2031-2035	2,085,640	625,178	473,596	212,341
2036-2040	1,507,126	303,531	454,029	158,222
2041-2045	688,776	86,304	511,220	101,031
2046-2050	43,079	349	575,617	36,635
2051	-	-	13,750	20
Totals	<u>\$ 14,152,445</u>	<u>\$ 5,502,226</u>	<u>\$ 9,748,158</u>	<u>\$ 2,403,241</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 8. Long-Term Obligations, Continued

The following is a listing of long-term debt outstanding as of June 30, 2015:

Loans Payable:

Governmental Activities:

Public Safety Facility Rural Development Loan payable to
USDA, due in monthly installments of \$12,918, beginning
December 16, 2007, bearing interest at 4.25%, maturing
October 2045. \$ 2,637,445

Total Governmental Activities 2,637,445

Business-Type Activities:

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 3.278%, maturing July 1, 2023. 2,600,905

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 2%, maturing July 1, 2029. 1,863,873

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 2.625%, maturing July 1, 2031. 1,088,692

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 2.625%, maturing July 1, 2031. 469,623

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 3.016%, maturing July 1, 2033. 163,550

Rural Development Authority loan due in monthly
principal and interest installments of \$10,204, bearing
interest at 2.375%, maturing July 15, 2050. 2,916,514

Total Business-Type Activities 9,103,157

Total Loans Payable \$ 11,740,602

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 8. Long-Term Obligations, Continued

Bonds Payable:

Governmental Activities:

Pledged Revenue Obligation, Qualified Energy Conservation Revenue Bonds, Series 2011, due in annual principal and semi-annual interest installments ranging from \$12,006 to \$75,080, bearing interest at 2.0% to 6.415%, maturing July 1, 2030 \$ 955,000

Refunding of Series 2006 Greater Arizona Development Authority Infrastructure Revenue Bonds, due in annual principal and semi-annual interest installments ranging from \$9,400 to \$511,012, bearing interest at 2.0% to 4.0%, maturing July 1, 2026 4,765,000

Pledged Revenue Obligations, Series 2015, due in annual principal and semi-annual interest installments ranging from \$3,587 to \$212,175, bearing interest at 3.125% to 4.0%, maturing July 1, 2039 3,425,000

Pledged Revenue Obligations, Series 2015, due in annual principal and semi-annual interest installments ranging from \$2,800 to \$170,675, bearing interest at 2.0% to 4.0%, maturing July 1, 2034 2,370,000

Total Governmental Activities 11,515,000

Business-Type Activities:

Refunding of Series 2004 Municipal Property Corporation Revenue Bonds, due in annual principal and semi-annual interest installments ranging from \$831 to \$76,100, bearing interest at 2.0% to 4.0%, maturing July 1, 2025 645,000

Total Bonds Payable \$ 12,160,000

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 8. Long-Term Obligations, Continued

Leases Payable:

Governmental Activities:

Lease payable in quarterly installments through March 2018, bearing interest at 4.95%	\$ 21,953
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Business-Type Activities:

Lease payable in monthly installments through April 2020, bearing interest at 2.78%	<u>233,099</u>
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Total Leases Payable	<u>255,052</u>
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Total Loans, Bonds and Leases Payable	24,155,654
----------------------------------------------	------------

Net Pension Liabilities	6,988,756
--------------------------------	-----------

Accrued Vacation and Comp Time Payable	455,676
-----------------------------------------------	---------

Bond Premiums and Discounts, net	<u>131,749</u>
-----------------------------------------	----------------

Total Long-Term Debt	31,731,835
----------------------	------------

Less Current Portion:

Business-type Activities	(627,288)
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Governmental-type Activities	<u>(216,610)</u>
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Net Long-Term Debt	<u><u>\$ 30,887,937</u></u>
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For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Capital Leases Payable

The government has entered into a lease agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board ASC 840-30-25. The lease is shown in the governmental activities of the government-wide statements. The total amount of equipment capitalized under the lease is \$275,086. Amortization on the capital lease is included in depreciation expense.

The following is an annual schedule of future minimum lease payments with an interest rates between 4.95% and 2.78%, together with the present value of the net minimum lease payments:

<u>Year Ending</u> <u>June 30</u>	
2016	\$ 61,030
2017	61,030
2018	58,882
2019	52,442
2020	<u>39,331</u>
Total remaining minimum lease payments	<u>272,715</u>
Less amount representing interest	<u>(17,663)</u>
Present value of net remaining minimum lease payments	<u>\$ 255,052</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2015, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,264,815	\$ -
Capital Improvement Fund		(764,722)
Nonmajor funds:		
Debt Service Fund		(470,236)
Senior Center Fund	-	(29,857)
Total	\$ 1,264,815	\$ (1,264,815)

Interfund balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the fiscal year ended June 30, 2015 are as follows:

Transfer in:	General	Highway User	Water	Sewer	Total Transfers in
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Nonmajor Governmental Funds					
Miscellaneous Grants	23,561	-	-	-	23,561
Debt Service	636,000	113,000	8,000	8,000	765,000
Court Fund	913	-	-	-	913
Total transfers out	\$ 660,474	\$ 113,000	\$ 8,000	\$ 8,000	\$ 789,474
	F	F	F	F	F

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans

The City contributes to the Arizona State Retirement System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2015, the City reported the following aggregate amounts related to pensions for plans to which it contributes:

Statement of Net Position and Statement of Activities	ASRS	PSPRS & CORP	Combined Total
Net pension liability	\$ (3,834,505)	\$ (3,154,251)	\$ (6,988,756)
Deferred outflows of resources	546,763	942,212	1,488,975
Deferred inflows of resources	(670,537)	(454,506)	(1,125,043)
Pension expense	28,116	146,818	174,934

The City reported \$544,878 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – The City participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

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

	Initial Membership Date Before July 1, 2011	Initial Membership Date 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 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

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, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

The City's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2013	\$ 222,043	\$ 14,081	\$ 5,199
2014	249,956	14,065	5,626
2015	262,902	14,244	2,897

Pension liability – At June 30, 2015, the City reported a liability of \$3,834,505 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. 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, 2013, to the measurement date of June 30, 2014. The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The City's proportion measured as of June 30, 2014, was 0.025915 percent, which was an increase of 0.000770 percent from its proportion measured as of June 30, 2013.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2015, the City recognized pension expense for ASRS of \$28,116. At June 30, 2015, the City 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	\$ 194,881	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	670,537
Changes in proportion and differences between contributions and proportional share of contributions	88,980	-
Contributions subsequent to the measurement date	262,902	-
Total	\$ 546,763	\$ 670,537

The \$262,902 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. 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	Deferred Outflows (Inflows) of Resources
2016	\$ (44,216)
2017	(44,216)
2018	(130,609)
2019	(167,635)
2020	-
Thereafter	-

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
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, 2013, 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 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	Expected Return Arithmetic Basis		
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	63%	7.03%	4.43%
Fixed income	25%	3.20%	0.80%
Commodities	4%	4.50%	0.18%
Real Estate	8%	4.75%	0.38%
Totals	100%		5.79%
	Inflation		3.00%
	Expected arithmetic nominal return		8.79%

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

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

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City'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 (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of			
Net pension (asset) / liability	\$ 4,846,618	\$ 3,834,505	\$ 3,285,383

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

Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP)

Plan descriptions – The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

City dispatchers participate in the Corrections Officer Retirement Plan (CORP). The CORP administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan for City dispatchers (agent plans). The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

The PSPRS and CORP issue publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at www.psprs.com.

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

PSPRS	Initial Membership Date Before January 1, 2012	Initial Membership Date 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 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

CORP	Initial Membership Date Before January 1, 2012	Initial Membership Date On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	Sum of years and age equals 80 25 years any age 10 years age 62	25 years age 52.5 10 years age 62
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal Retirement	2.0% to 2.5 % per year of credited service, not to exceed 80%	
Accidental Disability Retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service
Total and Permanent Disability Retirement	50% or normal retirement if more than 25 years of credited service	
Ordinary Disability Retirement	2.5% per year of credited service or normal retirement, whichever is greater	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Employees covered by benefit terms – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Inactive employees or beneficiaries currently receiving benefits	2	4	1
Inactive employees entitled to but not yet receiving benefits	4	2	1
Active employees	19	17	5
Total	25	23	7

Contributions and annual OPEB cost – State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP 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. Contribution rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Active Members -Pension	11.05%	11.05%	7.96%
City			
Pension	17.92%	16.55%	21.79%
Health Insurance Premium Benefit	1.58%	1.06%	1.02%

For the agent plans, the City’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

Pension	PSPRS Police	PSPRS Fire	CORP Dispatchers
Contributions made	\$ 163,815	\$ 144,450	\$ 18,813

Health Insurance Premium Benefit

Annual OPEB cost	15,552	11,285	1,902
Contributions made	15,552	11,285	1,902

Pension liability – At June 30, 2015, the City reported a net pension liability of \$1,460,000 for PSPRS Police, \$1,131,700 for PSPRS Fire, and \$562,551 for CORP Dispatchers. The net pension liabilities were measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

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

PSPRS and CORP - Pension

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.0% to 8.0% for PSPRS and 4.0%-7.25% for CORP
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, 2014, 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 and CORP pension plan investments was determined to be 7.85 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 real rates of return 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 geometrical real rates of return for each major asset class are summarized in the following table:

PSPRS and CORP		Long-Term
Asset Class	Target	Expected Real
Asset Class	Allocation	Rate of Return
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.63%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	4.75%
Credit Opportunities	13.00%	8.00%
Absolute Return	4.00%	6.75%
GTAA	10.00%	5.73%
Real Assets	8.00%	5.96%
Real Estate	11.00%	6.50%
Risk Parity	4.00%	6.04%
Short Term Inv	2.00%	3.25%
Total	100.00%	

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Discount Rate –A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. The projection of cash flows used to determine this Single 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 actuarially determined contribution rates and the member rate. Based on these 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.

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CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Changes in the Net Pension Liability

	PSPRS Police			PSPRS Fire			CORP Dispatchers		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 4,114,682	\$ 2,706,622	\$ 1,408,060	\$ 3,058,246	\$ 2,067,373	\$ 990,873	\$ 848,973	\$ 366,462	\$ 482,511
Changes for the year:									
Service cost	170,215	-	170,215	196,663	-	196,663	25,952	-	25,952
Interest on total pension liability	325,990	-	325,990	244,311	-	244,311	66,412	-	66,412
Changes of benefit terms*	46,240	-	46,240	25,311	-	25,311	7,639	-	7,639
Difference between expected and actual experience in the measurement of the pension liability	(227,043)	-	(227,043)	29,159	-	29,159	(24,442)	-	(24,442)
Changes of assumptions**	365,659	-	365,659	212,674	-	212,674	100,296	-	100,296
Contributions - employer	-	156,039	(156,039)	-	173,752	(173,752)	-	31,926	(31,926)
Contributions - employee	-	91,866	(91,866)	-	99,020	(99,020)	-	13,532	(13,532)
Net investment income	-	384,311	(384,311)	-	296,911	(296,911)	-	50,758	(50,758)
Benefit payments, including refunds of employee contributions	(94,104)	(94,104)	-	(88,662)	(88,662)	-	(31,882)	(31,882)	-
Other changes	-	(3,095)	3,095	-	(2,392)	2,392	-	(399)	399
Net changes	586,957	535,017	51,940	619,456	478,629	140,827	143,975	63,935	80,040
Balances at June 30, 2015	\$ 4,701,639	\$ 3,241,639	\$ 1,460,000	\$ 3,677,702	\$ 2,546,002	\$ 1,131,700	\$ 992,948	\$ 430,397	\$ 562,551

* Changes of benefit terms include the payout of Retro PBI and a change in the employee contribution rate

** Changes of assumptions include a decrease in the wage assumption from 4.5% to 4.0% as well as the inclusion of an assumption to explicitly value future PBI

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

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

	1% Decrease 6.85%	Current Discount Rate 7.85%	1% Increase 8.85%
PSPRS Police			
Net pension (asset) / liability	\$ 2,084,423	\$ 1,460,000	\$ 944,614
PSPRS Fire			
Net pension (asset) / liability	1,673,743	1,131,700	686,756
CORP Dispatchers			
Net pension (asset) / liability	721,159	562,551	433,551

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Pension expense – For the year ended June 30, 2015, the City recognized the following pension expense:

	Pension Expense
PSPRS Police	\$ 215,319
PSPRS Fire	196,131
CORP Dispatchers	62,446

Pension deferred outflows/inflows of resources – At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PSPRS Police		PSPRS Fire	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 193,872	\$ 25,992	\$ -
Changes in assumptions	312,236	-	189,572	-
Net difference between projected and actual earnings on pension plan investments	-	125,704	-	97,116
Contributions subsequent to the measurement date	163,815	-	144,450	-
Total	<u>\$ 476,051</u>	<u>\$ 319,576</u>	<u>\$ 360,014</u>	<u>\$ 97,116</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

	CORP Dispatchers	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 21,283
Changes in assumptions	87,334	-
Net difference between projected and actual earnings on pension plan investments	-	16,531
Contributions subsequent to the measurement date	18,813	-
Total	\$ 106,147	\$ 37,814

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	PSPRS Police	PSPRS Fire	CORP Dispatchers
2016	\$ (11,174)	\$ 1,990	\$ 5,670
2017	(11,174)	1,990	5,670
2018	(11,174)	1,990	5,670
2019	(11,174)	1,990	5,670
2020	20,252	26,269	9,803
Thereafter	17,104	84,219	17,037

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, 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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Projections of benefits are based on (1) the plan as the City and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5% for PSPRS and 4.5%-7.75% for CORP
Wage growth	4.50%

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

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS Police	2013	\$ 15,875	100%	-
	2014	14,014	100%	-
	2015	15,552	100%	-
PSPRS Fire	2013	10,593	100%	-
	2014	10,418	100%	-
	2015	11,285	100%	-
CORP Dispatchers	2013	2,722	100%	-
	2014	2,863	100%	-
	2015	1,902	100%	-

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 11. Retirement and Pension Plans, Continued

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Actuarial accrued liability (AAL)	\$ 178,127	\$ 111,323	\$ 26,289
Actuarial value of plan assets	174,253	115,613	14,268
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,874</u>	<u>\$ (4,290)</u>	<u>\$ 12,021</u>
Funded ratio (actuarial value of plan assets/AAL)	97.83%	103.85%	54.27%
Covered payroll (active plan members)	\$ 904,993	\$ 925,129	\$ 170,002
UAAL as a percentage of covered payroll	0.43%	0.00%	7.07%

The actuarial methods and assumptions used are the same for all PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0% for PSPRS and 4.0%-7.25% for CORP
Wage growth	4.0%

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 12. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The government's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the government is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. The Agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000 for general liability claims and \$100,000 for property claims for each insured event.

The Arizona Municipal Risk Retention Pool is structured such that member's premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The government purchases commercial insurance for employee benefits and for risks of loss for potential worker related accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 13. Contingent Liabilities and Commitments

The government is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of government management, based on the advice of the government Attorney with respect to such litigation, such matters will not have a material adverse effect on the government's financial position at June 30, 2015.

At year end, the government had the following major construction projects/commitments open:

Project	Estimated Cost	Construction in Progress
City Streets (various projects)	\$3.69 million	\$428,571
City Hall	\$3.20 million	\$196,837
Mesa Water Supply	\$1.86 million	\$196,831
Valley Vista Wastewater	\$1.32 million	\$123,857

Note 14. Related Party Transactions

In the normal course of business dealings in the Community, the government is engaged in related party transactions. Below is a schedule showing the related parties, the relationship, the types of goods or services purchased during the year and the total purchases for fiscal year 2014.

Related Party	Relationship	Goods or Services	Total Purchases
Yepez Auto Parts	City Council Member	Auto parts and supplies	\$28,954

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 15. Restatement Adjustment

As mentioned in Note 1 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. This resulted in a restatement of beginning net position as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>
Restatement adjustment - implementation of GASB 68:					
Net pension liability	\$ (5,222,311)	\$ (1,839,252)	\$ (627,018)	\$ (1,170,433)	\$ (41,801)
Deferred outflows - contributions made during fiscal year 2014	<u>501,692</u>	<u>109,981</u>	<u>37,493</u>	<u>69,988</u>	<u>2,500</u>
Total Restatement Adjustment	<u>\$ (4,720,618)</u>	<u>\$ (1,729,272)</u>	<u>\$ (589,524)</u>	<u>\$ (1,100,446)</u>	<u>\$ (39,302)</u>

Note 16. Advance Refunding Bond Issuance

On April 15, 2015, the City issued \$11,205,000 of Pledged Revenue and Refunding Obligation Series 2015 bonds to refund the City's Greater Arizona Development Authority (GADA) Infrastructure Revenue Bonds Series 2006 and the Municipal Property Corporation Revenue Bonds Series 2004. As a result, the bonds will be considered defeased. The transaction resulted in an economic gain (the present value of future cashflows) of \$444,664 and a reduction of \$543,979 in future debt service payments. The interest rate on the bonds ranges from 2 to 4 percent. Semi-annual principal and interest payments are payable through July 1, 2039

Note 17. Subsequent Events

Subsequent to the fiscal year end, the City transferred the ownership of the Miller Building to the industrial development authority (IDA) of the City of Somerton and loaned the IDA approximately \$300,000 to be used to do improvements on the building.

Subsequent to the fiscal year end, the City borrowed \$550,000 from the Water Infrastructure Financing Authority (WIFA) to purchase the Orange Grove Water Company.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 18. Prior Period Adjustment

After the issuance of the fiscal year 2014 financial statements, management determined that a subdivision was contributed to the City during fiscal year 2014, but was not properly recorded in the financial statements. As a result, the City's infrastructure assets and net position were understated in fiscal year 2014 by \$1,010,215. The City recorded a prior period adjustment in fiscal year 2015 for \$999,074 to recognize the capital asset contributions less accumulated depreciation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2015

Arizona State Retirement System

		Reporting Fiscal Year (Measurement Date)
		2015 (2014)
		<hr/>
Proportion of the net pension liability (asset)		0.025915%
Proportionate share of the net pension liability (asset)	\$	3,834,505
Covered employee payroll	\$	537,582
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		713.29%
Plan fiduciary net position as a percentage of the total pension liability		69.49%

Note: The City implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2015

	PSPRS Police Reporting Fiscal Year (Measurement Date) 2015 (2014)	PSPRS Fire Reporting Fiscal Year (Measurement Date) 2015 (2014)	CORP Dispatchers Reporting Fiscal Year (Measurement Date) 2015 (2014)
Total pension liability			
Service cost	\$ 170,215	\$ 196,663	\$ 25,952
Interest on total pension liability	325,990	244,311	66,412
Changes of benefit terms	46,240	25,311	7,639
Difference between expected and actual experience of the total net pension liability	(227,043)	29,159	(24,442)
Changes of assumptions	365,659	212,674	100,296
Benefit payments, including refunds of employee contributions	(94,104)	(88,662)	(31,882)
Net change in total pension liability	<u>586,957</u>	<u>619,456</u>	<u>143,975</u>
Total pension liability - beginning	<u>4,114,682</u>	<u>3,058,246</u>	<u>848,973</u>
Total pension liability - ending (a)	<u>\$ 4,701,639</u>	<u>\$ 3,677,702</u>	<u>\$ 992,948</u>
Plan fiduciary net position			
Contributions - employer	\$ 156,039	\$ 173,752	\$ 31,926
Contributions - employee	91,866	99,020	13,532
Net investment income	384,311	296,911	50,758
Benefit payments, including refunds of employee contributions	(94,104)	(88,662)	(31,882)
Other (net transfer)	(3,095)	(2,392)	(399)
Net change in plan fiduciary net position	<u>535,017</u>	<u>478,629</u>	<u>63,935</u>
Plan fiduciary net position - beginning	<u>2,706,622</u>	<u>2,067,373</u>	<u>366,462</u>
Plan fiduciary net position - ending (b)	<u>\$ 3,241,639</u>	<u>\$ 2,546,002</u>	<u>\$ 430,397</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,460,000</u>	<u>\$ 1,131,700</u>	<u>\$ 562,551</u>
Plan fiduciary net position as a percentage of the total pension liability	68.95%	69.23%	43.35%
Covered employee payroll	\$ 904,992	\$ 925,129	\$ 170,002
Net pension liability as a percentage of covered- employee payroll	161.33%	122.33%	330.91%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Schedule of Contributions
June 30, 2015

Arizona State Retirement System

		Reporting Fiscal Year (Measurement Date) 2015 (2014)
Contractually required contribution	\$	249,956
Contributions in relation to the contractually required contribution	\$	(249,956)
Contribution deficiency (excess)	\$	-
Covered employee payroll	\$	537,582
Contributions as a percentage of covered-employee payroll		46.50%

Note: The City implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Schedule of Contributions, Continued
June 30, 2015

	PSPRS Police Reporting Fiscal Year (Measurement Date) 2015 (2014)	PSPRS Fire Reporting Fiscal Year (Measurement Date) 2015 (2014)	CORP Dispatchers Reporting Fiscal Year (Measurement Date) 2015 (2014)
Actuarially determined contribution	\$ 156,039	\$ 173,752	\$ 31,926
Contributions in relation to the actuarially determined contribution	(156,039)	(173,752)	(31,926)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 904,992	\$ 925,129	\$ 170,002
Contributions as a percentage of covered-employee payroll	17.24%	18.78%	18.78%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Notes to the Pension Plan Schedules
June 30, 2015

NOTE 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for PSPRS and CORP 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	Individual Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial liability, open for excess
Remaining Amortization Period	23 years for unfunded actuarial accrued liability; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5% for PSPRS and from 5.0%-8.25% to 4.5%-7.75% for CORP
Wage growth	In the 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 projected to 2015 using projection scale AA (adjusted by 105% for both males and females)

CITY OF SOMERTON, ARIZONA
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

Health Insurance Premium Benefit

	Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b)-(a)] / (c) UAAL as a % of Covered Payroll
PSPRS	2012	\$ -	\$ 149,931	\$ 149,931	0.0%	\$ 921,077	16.28%
Police	2013	-	165,037	165,037	0.0%	901,334	18.31%
	2014	174,253	178,127	3,874	97.83%	904,993	0.43%
	2015	**	**	**	**	**	**
PSPRS	2012	-	99,416	99,416	0.00%	899,976	11.05%
Fire	2013	-	104,619	104,619	0.00%	974,872	10.73%
	2014	115,613	111,323	(4,290)	103.85%	925,129	0.00%
	2015	**	**	**	**	**	**
CORP	2012	-	39,141	39,141	0.00%	169,726	23.06%
Dispatchers	2013	-	23,173	23,173	0.00%	170,798	13.57%
	2014	14,268	26,289	12,021	54.27%	170,002	7.07%
	2015	**	**	**	**	**	**

** The June 30, 2015 information was not yet available at the time the financial statements were issued.

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

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

NOTE 1. Factors that Affect the Identification of Trends

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- **Highway User Revenue Special Revenue Fund** – This fund is used to account for revenue sources that are legally restricted for road construction and maintenance.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds included in required supplementary information.

CITY OF SOMERTON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
City sales tax	\$ 1,572,610	\$ 1,572,610	\$ 1,709,868	\$ 137,258
Franchise fees	195,000	195,000	60,190	(134,810)
Property taxes	513,341	513,341	509,674	(3,667)
Special assessments	124,190	124,190	123,407	(783)
Total taxes	<u>2,405,141</u>	<u>2,405,141</u>	<u>2,403,139</u>	<u>(2,002)</u>
Licenses, Permits and Fees:				
Parks development fees	65,000	65,000	184,839	119,839
Building permits	57,613	57,613	82,033	24,420
Business licenses	25,000	25,000	24,310	(690)
Total licenses, fees and permits	<u>147,613</u>	<u>147,613</u>	<u>291,182</u>	<u>143,569</u>
Intergovernmental:				
State sales taxes	1,290,950	1,290,950	1,305,671	14,721
State revenue sharing	1,729,428	1,729,428	1,729,530	102
Auto lieu tax	526,507	526,507	515,583	(10,924)
Grants	1,600,000	1,600,000	-	(1,600,000)
Cocopah obligation	404,500	404,500	459,671	55,171
Total intergovernmental	<u>5,551,385</u>	<u>5,551,385</u>	<u>4,010,455</u>	<u>(1,540,930)</u>
Charges for Services:				
Rent revenues	18,120	18,120	17,355	(765)
Ambulance fees	1,013,466	1,013,466	2,836,726	1,823,260
Reimbursements	25,264	25,264	93,774	68,510
Miscellaneous fees and charges	186,334	186,334	255,936	69,602
Total charges for services	<u>1,243,184</u>	<u>1,243,184</u>	<u>3,203,791</u>	<u>1,960,607</u>
Fines and Forfeitures:				
Fines and forfeitures	151,836	151,836	117,960	(33,876)
Total fines and forfeitures	<u>151,836</u>	<u>151,836</u>	<u>117,960</u>	<u>(33,876)</u>
Interest				
Investment earnings	1,879	1,879	3,638	1,759
Total interest	<u>1,879</u>	<u>1,879</u>	<u>3,638</u>	<u>1,759</u>
Other Revenues:				
Donations	-	-	12,863	12,863
Miscellaneous	20,305	20,305	8,010	(12,295)
Total other revenues	<u>20,305</u>	<u>20,305</u>	<u>20,873</u>	<u>568</u>
TOTAL REVENUES	<u>\$ 9,521,343</u>	<u>\$ 9,521,343</u>	<u>\$10,051,038</u>	<u>\$ 529,695</u>

(continued)

CITY OF SOMERTON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Mayor and council	\$ 541,211	\$ 541,211	\$ 145,277	\$ 395,934
Administration	613,930	613,930	524,629	89,301
Finance	205,216	195,216	191,075	4,141
City clerk	28,898	25,888	26,537	(649)
Court	347,350	347,350	344,887	2,463
Total general government	<u>1,736,605</u>	<u>1,723,595</u>	<u>1,232,405</u>	<u>491,190</u>
Public Safety:				
Police	2,897,619	2,897,619	1,995,889	901,730
Fire and ambulance	2,431,311	2,651,364	2,702,311	(50,947)
Animal control	134,672	134,672	123,150	11,522
Total public safety	<u>5,463,602</u>	<u>5,683,655</u>	<u>4,821,350</u>	<u>862,305</u>
Public Works/Streets:				
Assessment districts	124,190	124,190	117,616	6,574
Total public works/streets	<u>124,190</u>	<u>124,190</u>	<u>117,616</u>	<u>6,574</u>
Culture and Recreation:				
Parks and recreation	1,161,873	984,316	893,396	90,920
Youth center	132,562	118,126	115,608	2,518
Total culture and recreation	<u>1,294,435</u>	<u>1,102,442</u>	<u>1,009,004</u>	<u>93,438</u>
Economic Development:				
Community development	193,815	178,765	176,052	2,713
Economic development	173,789	173,789	77,597	96,192
Total economic development	<u>367,604</u>	<u>352,554</u>	<u>253,649</u>	<u>98,905</u>
TOTAL EXPENDITURES	<u>8,986,436</u>	<u>8,986,436</u>	<u>7,434,024</u>	<u>1,552,412</u>
Excess of revenues over expenditures	<u>534,907</u>	<u>534,907</u>	<u>2,617,014</u>	<u>2,082,107</u>
Other Financing Sources (Uses):				
Transfers out	(636,000)	(636,000)	(660,474)	(24,474)
Transfers in	40,000	40,000	-	(40,000)
Total other financing sources (uses)	<u>(596,000)</u>	<u>(596,000)</u>	<u>(660,474)</u>	<u>(64,474)</u>
Net change in fund balance	(61,093)	(61,093)	1,956,540	2,017,633
Fund balance, beginning of year	<u>1,274,965</u>	<u>1,274,965</u>	<u>1,274,965</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,213,872</u>	<u>\$ 1,213,872</u>	<u>\$ 3,231,505</u>	<u>\$ 2,017,633</u>

CITY OF SOMERTON, ARIZONA
HIGHWAY USER REVENUE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 1,037,327	\$ 1,037,327	\$ 1,088,235	\$ 50,908
Other Revenue	2,500,000	2,500,000	-	(2,500,000)
Total revenue	<u>3,537,327</u>	<u>3,537,327</u>	<u>1,088,235</u>	<u>(2,449,092)</u>
EXPENDITURES:				
Salaries	270,499	270,499	253,499	17,000
Employee benefits	135,806	135,806	159,164	(23,358)
Services, supplies, and other	3,088,022	3,088,022	328,261	2,759,761
Capital outlay	250,000	250,000	-	250,000
Total expenditures	<u>3,744,327</u>	<u>3,744,327</u>	<u>740,924</u>	<u>3,003,403</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(207,000)</u>	<u>(207,000)</u>	<u>347,311</u>	<u>554,311</u>
Other Financing Sources (Uses):				
Debt issued	-	-	-	-
Transfers in	20,000	20,000	-	(20,000)
Transfers out	(113,000)	(113,000)	(113,000)	-
Total other financing sources (uses):	<u>(93,000)</u>	<u>(93,000)</u>	<u>(113,000)</u>	<u>(20,000)</u>
Net change in fund balance	(300,000)	(300,000)	234,311	534,311
Fund balance, beginning of year	<u>628,304</u>	<u>628,304</u>	<u>628,304</u>	<u>-</u>
Fund balance, end of year	<u>\$ 328,304</u>	<u>\$ 328,304</u>	<u>\$ 862,615</u>	<u>\$ 534,311</u>

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Capital Project Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

- **Capital Improvement Capital Projects Fund** – This fund is used to account for various grants and other contributions and transfers that are restricted or designated for various capital improvements and projects of the government that are not accounted for in other funds.

Debt Service Funds

- **Debt Service Fund** – This fund is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for governmental debt principal and interest.

CITY OF SOMERTON, ARIZONA
CAPITAL IMPROVEMENT
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 9,654,000	\$ 9,654,000	\$ 485,649	\$ (9,168,351)
Interest revenue	-	-	146	146
Total revenue	<u>9,654,000</u>	<u>9,654,000</u>	<u>485,795</u>	<u>(9,168,205)</u>
EXPENDITURES:				
Capital outlay	9,654,000	9,654,000	1,323,026	8,330,974
Debt service				
Interest and fiscal charges	-	-	153,918	(153,918)
Total expenditures	<u>9,654,000</u>	<u>9,654,000</u>	<u>1,476,944</u>	<u>8,177,056</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>-</u>	<u>-</u>	<u>(991,149)</u>	<u>(991,149)</u>
Other Financing Sources (Uses):				
Debt issued	-	-	5,814,893	5,814,893
Transfers in	-	-	-	-
Net change in fund balance	-	-	4,823,744	(991,149)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,823,744</u>	<u>\$ (991,149)</u>

CITY OF SOMERTON, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest	\$ -	\$ 3,575	\$ (3,575)
Total revenue	<u>-</u>	<u>3,575</u>	<u>(3,575)</u>
EXPENDITURES:			
Debt service - principal	375,000	386,893	(11,893)
Debt service - interest	<u>396,300</u>	<u>520,984</u>	<u>(124,684)</u>
Total expenditures	<u>771,300</u>	<u>907,877</u>	<u>(136,577)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(771,300)</u>	<u>(904,302)</u>	<u>(140,152)</u>
Other Financing Sources (Uses):			
Refunding bonds issued	-	4,865,358	(4,865,358)
Payment to refunded bond escrow agent		(5,161,895)	5,161,895
Transfers in	<u>771,300</u>	<u>765,000</u>	<u>(6,300)</u>
Total other financing sources (uses)	<u>771,300</u>	<u>468,463</u>	<u>290,237</u>
Net change in fund balance	-	(435,839)	150,085
Fund balance, beginning of year	<u>50,169</u>	<u>50,169</u>	<u>-</u>
Fund balance, end of year	<u>\$ 50,169</u>	<u>\$ (385,670)</u>	<u>\$ 150,085</u>

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SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS
AND BUDGETARY COMPARISON SCHEDULES

Non-major Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- **Miscellaneous Grants Fund** – This fund is used to account for miscellaneous federal and state grants and other contributions that are restricted for specific use.
- **Court Fund** – This fund is used to account for the court related revenues that are restricted by State Statute.
- **Senior Nutrition Center** – This fund is to account for revenues and expenditures at the Somerton and San Luis Senior Centers.

CITY OF SOMERTON, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	
ASSETS				
Cash	\$ 58,070	\$ 68,989	\$ -	\$ 127,059
Accounts receivable	-	368	-	368
Due from other governments	25,312	-	58,982	84,294
Restricted cash and investments	-	-	-	-
Total assets	\$ 83,382	\$ 69,357	\$ 58,982	\$ 211,721
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 1,338	\$ 56,048	\$ 4,041	\$ 61,427
Accrued wages and benefits	5,340	-	2,699	8,039
Due to other funds	-	-	29,857	29,857
Total liabilities	6,678	56,048	36,597	99,323
Fund Balance:				
Restricted for:				
General government	-	13,309	-	13,309
Public safety	76,704	-	-	76,704
Committed to:				
Health and welfare	-	-	22,385	22,385
Unassigned:	-	-	-	-
Total fund balance (deficit)	76,704	13,309	22,385	112,398
Total liabilities and fund balance	\$ 83,382	\$ 69,357	\$ 58,982	\$ 211,721

CITY OF SOMERTON, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2015

	Special Revenue			Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	
REVENUES:				
Intergovernmental	\$ 163,928	\$ -	\$ 152,543	\$ 316,471
Fines and forfeitures	-	5,452	-	5,452
Other revenues	23,451	-	26,835	50,286
Total revenues	<u>187,379</u>	<u>5,452</u>	<u>179,378</u>	<u>372,209</u>
EXPENDITURES:				
General government	-	20	-	20
Public safety	203,421	-	-	203,421
Health and welfare	-	-	175,711	175,711
Debt Service	-	-	-	-
Total expenditures	<u>203,421</u>	<u>20</u>	<u>175,711</u>	<u>379,152</u>
Excess of revenues over (under) expenditures	<u>(16,042)</u>	<u>5,432</u>	<u>3,667</u>	<u>(6,943)</u>
Other Financing Sources (Uses):				
Refunding bonds issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	23,561	913	-	24,474
Total other financing sources (uses):	<u>23,561</u>	<u>913</u>	<u>-</u>	<u>24,474</u>
Net change in fund balances	7,519	6,345	3,667	17,531
Fund balance, beginning of year	<u>69,185</u>	<u>6,964</u>	<u>18,718</u>	<u>94,867</u>
Fund balance (deficit), end of year	<u>\$ 76,704</u>	<u>\$ 13,309</u>	<u>\$ 22,385</u>	<u>\$ 112,398</u>

CITY OF SOMERTON, ARIZONA
MISCELLANEOUS GRANTS
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental revenue	\$ 550,000	\$ 163,928	\$ (386,072)
Other revenue	50,000	23,451	(26,549)
Total revenue	<u>600,000</u>	<u>187,379</u>	<u>(412,621)</u>
EXPENDITURES:			
Salaries	585,000	130,478	454,522
Employee benefits	-	57,011	(57,011)
Services, supplies, and other	15,000	15,932	(932)
Total expenditures	<u>600,000</u>	<u>203,421</u>	<u>396,579</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>-</u>	<u>(16,042)</u>	<u>(16,042)</u>
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>23,561</u>	<u>23,561</u>
Net change in fund balance	-	7,519	7,519
Fund balance, beginning of year	<u>69,185</u>	<u>69,185</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 69,185</u></u>	<u><u>\$ 76,704</u></u>	<u><u>\$ 7,519</u></u>

CITY OF SOMERTON, ARIZONA
COURT FUND
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fines and forfeitures	\$ 5,360	\$ 5,452	\$ 92
Total revenue	5,360	5,452	92
EXPENDITURES:			
Services, supplies, and other	5,360	20	5,340
Total expenditures	5,360	20	5,340
Excess of revenue and other sources over (under) expenditures and other uses	-	5,432	5,432
Other Financing Sources (Uses):			
Transfers in	-	913	913
Net change in fund balance	-	6,345	6,345
Fund balance, beginning of year	6,964	6,964	-
Fund balance, end of year	\$ 6,964	\$ 13,309	\$ 6,345

CITY OF SOMERTON, ARIZONA
SENIOR NUTRITION CENTER
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental revenue	\$ 122,840	\$ 152,543	\$ 29,703
Donations and other revenue	31,500	26,835	(4,665)
Total revenue	<u>154,340</u>	<u>179,378</u>	<u>25,038</u>
EXPENDITURES:			
Salaries	72,744	85,898	(13,154)
Employee benefits	17,402	22,557	(5,155)
Services, supplies, and other	47,100	67,256	(20,156)
Total expenditures	<u>137,246</u>	<u>175,711</u>	<u>(38,465)</u>
Net change in fund balance	17,094	3,667	(13,427)
Fund balance, beginning of year	<u>18,718</u>	<u>18,718</u>	<u>-</u>
Fund balance, end of year	<u>\$ 35,812</u>	<u>\$ 22,385</u>	<u>\$ (13,427)</u>

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2015 and 2014

	2015	2014
Capital assets:		
Land	\$ 984,534	\$ 949,417
Buildings and Improvements	6,555,379	6,508,633
Improvements	2,058,354	2,065,254
Furniture and Equipment	2,397,812	2,816,385
Vehicles	3,254,653	2,985,249
Infrastructure/Streets	16,295,427	15,161,871
Construction in Progress	625,409	488,276
	\$ 32,171,568	\$ 30,975,085
 Investment in capital assets by source:		
Investment in property acquired by all sources excluding donations	\$ 28,842,714	\$ 27,908,635
Donations	3,328,854	3,066,450
	\$ 32,171,568	\$ 30,975,085

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2015

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furniture and Equipment</u>	<u>Vehicles</u>	<u>Infrastructure/ Streets</u>	<u>Construction in Progress</u>	<u>Total</u>
General Government	\$ 667,282	\$ 827,474	\$ -	\$ 167,953	\$ 86,999	\$ -	\$ 196,388	\$ 1,946,096
Highways and Streets	6,000	-	19,050	289,913	517,861	16,109,929	429,021	17,371,774
Public Safety	-	3,845,216	784,387	1,685,391	2,593,668	-	-	8,908,662
Culture and Recreation	311,252	1,137,718	1,061,857	244,540	56,125	185,498	-	2,996,990
Health and Welfare	-	744,971	193,060	10,015	-	-	-	948,046
Totals	<u>\$ 984,534</u>	<u>\$ 6,555,379</u>	<u>\$ 2,058,354</u>	<u>\$ 2,397,812</u>	<u>\$ 3,254,653</u>	<u>\$ 16,295,427</u>	<u>\$ 625,409</u>	<u>\$ 32,171,568</u>

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended June 30, 2015

<u>Function and Activity</u>	<u>Capital Assets July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Capital Assets June 30, 2015</u>
General Government	\$ 1,949,640	\$ 60,452	\$ (63,996)	\$ 1,946,096
Highways and Streets	16,259,463	1,414,466	(302,155)	17,371,774
Public Safety	8,749,145	363,361	(203,844)	8,908,662
Culture and Recreation	3,068,791	46,746	(118,547)	2,996,990
Health and Welfare	948,046	-	-	948,046
Totals	<u>\$ 30,975,085</u>	<u>\$ 1,885,025</u>	<u>\$ (688,542)</u>	<u>\$ 32,171,568</u>

STATISTICAL SECTION

This part of the City of Somerton’s financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends	88
<i>These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.</i>	
Revenue Capacity	92
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity	93
<i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	94
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information	95
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i>	

**City of Somerton, Arizona
Net Position by Component,
Last Ten Fiscal Years**

	Fiscal Year									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Governmental activities										
Net investment in capital assets	\$ 6,041,813	\$ 3,753,699	\$ 12,389,422	\$ 12,112,541	\$ 11,650,832	\$ 10,918,698	\$ 10,247,414	\$ 9,577,465	\$ 9,277,492	\$ 5,156,050
Restricted	574,205	5,695,519	4,182,485	3,916,870	3,337,963	2,918,051	2,209,887	1,246,064	777,792	5,812,405
Unrestricted	1,080,679	611,045	(3,273,849)	(3,162,059)	(2,676,083)	(2,090,502)	(671,385)	1,108,754	1,836,853	(1,706,519)
Total governmental activities net position	<u>\$ 7,696,697</u>	<u>\$ 10,060,263</u>	<u>\$ 13,298,058</u>	<u>\$ 12,867,352</u>	<u>\$ 12,312,712</u>	<u>\$ 11,746,247</u>	<u>\$ 11,785,916</u>	<u>\$ 11,932,283</u>	<u>\$ 11,892,137</u>	<u>\$ 9,261,936</u>
Business-type activities										
Net investment in capital assets	\$ 12,290,638	\$ 14,139,276	\$ 16,615,217	\$ 16,377,954	\$ 17,252,324	\$ 17,250,584	\$ 17,616,602	\$ 16,937,710	\$ 16,293,897	\$ 16,681,165
Restricted	3,633,367	2,407,919	2,454,964	2,711,986	2,089,614	1,987,219	2,323,027	1,403,849	1,485,242	1,440,519
Unrestricted	129,743	947,387	970,899	570,584	232,729	1,130,746	1,164,853	2,271,166	2,053,834	(63,474)
Total business-type activities net position	<u>\$ 16,053,748</u>	<u>\$ 17,494,582</u>	<u>\$ 20,041,080</u>	<u>\$ 19,660,524</u>	<u>\$ 19,574,667</u>	<u>\$ 20,368,549</u>	<u>\$ 21,104,482</u>	<u>\$ 20,612,725</u>	<u>\$ 19,832,973</u>	<u>\$ 18,058,210</u>
Primary government										
Net investment in capital assets	\$ 18,332,451	\$ 17,892,975	\$ 29,004,639	\$ 28,490,495	\$ 28,903,156	\$ 28,169,282	\$ 27,864,016	\$ 26,515,175	\$ 25,571,389	\$ 21,837,215
Restricted	4,207,572	8,103,438	6,637,449	6,628,856	5,427,577	4,905,270	4,532,914	2,649,913	2,263,034	7,252,924
Unrestricted	1,210,422	1,558,432	(2,302,950)	(2,591,475)	(2,443,354)	(959,756)	493,468	3,379,920	3,890,687	(1,769,993)
Total primary government net position	<u>\$ 23,750,445</u>	<u>\$ 27,554,845</u>	<u>\$ 33,339,138</u>	<u>\$ 32,527,876</u>	<u>\$ 31,887,379</u>	<u>\$ 32,114,796</u>	<u>\$ 32,890,398</u>	<u>\$ 32,545,008</u>	<u>\$ 31,725,110</u>	<u>\$ 27,320,146</u>

Notes: The government began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

City of Somerton, Arizona
Changes in Net Position, Last Ten Fiscal Years

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 975,809	\$ 837,403	\$ 948,716	\$ 1,028,049	\$ 706,034	\$ 869,252	\$ 1,037,183	\$ 1,029,378	\$ 1,258,932	\$ 1,263,799
Public safety	2,670,218	3,272,603	4,151,463	3,968,062	3,786,409	3,881,916	4,177,834	4,726,696	5,225,347	5,408,793
Public works/Streets	747,154	1,053,982	1,188,207	1,422,319	1,585,303	1,483,084	1,487,541	1,776,755	1,587,665	1,627,433
Culture and recreation	609,037	689,110	790,428	719,824	627,497	633,493	681,096	842,621	795,215	1,142,023
Economic development	217,111	276,780	317,203	259,336	202,788	164,123	196,998	279,406	246,595	252,849
Health and welfare	-	-	-	-	205,878	207,466	197,037	176,147	193,620	211,041
Interest on long-term debt	54,156	338,630	642,710	452,399	423,057	403,368	398,679	421,377	268,312	432,600
Total governmental activities expenses	<u>5,273,485</u>	<u>6,468,508</u>	<u>8,038,727</u>	<u>7,849,989</u>	<u>7,536,966</u>	<u>7,642,702</u>	<u>8,176,368</u>	<u>9,252,380</u>	<u>9,575,686</u>	<u>10,338,538</u>
Business-type activities:										
Water/Sewer/Sanitation	2,416,658	3,104,966	3,734,023	3,712,264	3,796,260	4,383,876	4,234,628	4,384,783	4,737,436	4,899,185
Total business-type activities expenses	<u>2,416,658</u>	<u>3,104,966</u>	<u>3,734,023</u>	<u>3,712,264</u>	<u>3,796,260</u>	<u>4,383,876</u>	<u>4,234,628</u>	<u>4,384,783</u>	<u>4,737,436</u>	<u>4,899,185</u>
Total primary government expenses	<u>\$ 7,690,143</u>	<u>\$ 9,573,474</u>	<u>\$ 11,772,750</u>	<u>\$ 11,562,253</u>	<u>\$ 11,333,226</u>	<u>\$ 12,026,578</u>	<u>\$ 12,410,996</u>	<u>\$ 13,637,163</u>	<u>\$ 14,313,122</u>	<u>\$ 15,237,723</u>
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General government	\$ 1,024,445	\$ 807,144	\$ 832,033	\$ 825,918	\$ 870,346	\$ 765,279	\$ 189,960	\$ 227,730	\$ 288,205	\$ 256,772
Public safety	1,600	114,436	113,924	111,685	119,355	75,935	891,207	1,472,856	1,474,487	3,101,258
Public works/Streets	22,580	37,545	39,392	35,709	27,574	13,137	16,954	23,296	77,197	73,531
Culture and recreation	116,608	80,365	87,052	122,436	130,494	125,844	155,664	256,900	318,298	435,736
Operating grants & contributions	1,326,193	1,383,842	1,420,474	1,391,142	1,626,008	1,664,149	1,857,861	1,751,945	1,747,867	1,896,810
Capital grants & contributions	2,560,925	2,470,948	4,011,389	745,256	241,353	301,300	100,844	824,428	155,084	498,512
Total governmental activities program revenues	<u>5,052,351</u>	<u>4,894,280</u>	<u>6,504,264</u>	<u>3,232,146</u>	<u>3,015,130</u>	<u>2,945,644</u>	<u>3,212,490</u>	<u>4,557,155</u>	<u>4,061,138</u>	<u>6,262,619</u>
Business-type activities:										
Charges for services:										
Water/Sewer/Sanitation	1,862,329	2,166,715	2,456,189	2,634,280	2,874,870	3,151,823	3,302,075	3,352,616	3,432,789	3,676,151
Operating grants & contributions	-	-	-	-	-	-	-	-	-	-
Capital grants & contributions	2,258,755	2,361,831	3,823,575	716,835	873,091	2,075,134	1,727,748	645,416	539,360	452,595
Total business-type activities program revenues	<u>4,121,084</u>	<u>4,528,546</u>	<u>6,279,764</u>	<u>3,351,115</u>	<u>3,747,961</u>	<u>5,226,957</u>	<u>5,029,823</u>	<u>3,998,032</u>	<u>3,972,149</u>	<u>4,128,746</u>
Total primary government program revenues	<u>\$ 9,173,435</u>	<u>\$ 9,422,826</u>	<u>\$ 12,784,028</u>	<u>\$ 6,583,261</u>	<u>\$ 6,763,091</u>	<u>\$ 8,172,601</u>	<u>\$ 8,242,313</u>	<u>\$ 8,555,187</u>	<u>\$ 8,033,287</u>	<u>\$ 10,391,365</u>
Net (Expense)/Revenue										
Governmental activities	\$ (221,134)	\$ (1,574,228)	\$ (1,534,463)	\$ (4,617,843)	\$ (4,521,836)	\$ (4,697,058)	\$ (4,963,878)	\$ (4,695,225)	\$ (5,514,548)	\$ (4,075,919)
Business-type activities	1,704,426	4,528,546	2,545,741	(361,149)	(48,299)	843,081	795,195	(386,751)	(765,287)	(770,439)
Total primary governmental net (expense) revenue	<u>\$ 1,483,292</u>	<u>\$ (150,648)</u>	<u>\$ 1,011,278</u>	<u>\$ (4,978,992)</u>	<u>\$ (4,570,135)</u>	<u>\$ (3,853,977)</u>	<u>\$ (4,168,683)</u>	<u>\$ (5,081,976)</u>	<u>\$ (6,279,835)</u>	<u>\$ (4,846,358)</u>
General Revenues & Other Changes in Net Position										
Government activities:										
Taxes										
City sales tax	\$ 1,204,866	\$ 990,228	\$ 1,363,911	\$ 993,655	\$ 1,084,017	\$ 1,353,720	\$ 1,350,657	\$ 1,378,727	\$ 1,511,036	\$ 1,709,868
State sales tax	787,111	926,710	896,064	775,741	715,508	775,953	1,116,391	1,169,429	1,243,580	1,305,671
Property Tax	-	266,572	294,443	359,745	387,379	461,169	445,863	482,755	498,480	562,771
Auto lieu tax	329,963	381,884	385,030	376,184	360,552	360,782	496,042	458,780	490,479	515,583
Franchise tax	97,353	111,534	124,183	129,840	138,113	153,146	175,842	187,552	100,212	60,190
State income taxes - revenue sharing	769,603	1,109,012	1,358,975	1,418,553	1,233,011	970,402	1,226,959	1,470,598	1,603,767	1,729,530
Unrestricted grants & contributions	-	-	-	-	-	-	-	-	-	-
Investment earnings	90,990	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,214
Miscellaneous	-	17,107	-	-	187	1,050	166,479	3,628	-	-
Transfers	43,591	44,815	59,519	38,509	39,697	50,200	22,400	21,947	16,000	16,000
Total governmental activities	<u>3,323,477</u>	<u>4,090,485</u>	<u>4,799,258</u>	<u>4,161,003</u>	<u>3,967,196</u>	<u>4,130,593</u>	<u>4,978,780</u>	<u>5,188,338</u>	<u>5,474,402</u>	<u>5,906,827</u>
Business-type activities										
Investment earnings	50,069	62,069	60,276	19,102	2,139	1,001	(36,862)	1,130	1,535	1,384
Transfers	(43,591)	(44,815)	(59,519)	(38,509)	(39,697)	(50,200)	(22,400)	(21,947)	(16,000)	(16,000)
Total business-type activities	<u>6,478</u>	<u>17,254</u>	<u>757</u>	<u>(19,407)</u>	<u>(37,558)</u>	<u>(49,199)</u>	<u>(59,262)</u>	<u>(20,817)</u>	<u>(14,465)</u>	<u>(14,616)</u>
Total primary government	<u>\$ 3,329,955</u>	<u>\$ 4,107,739</u>	<u>\$ 4,800,015</u>	<u>\$ 4,141,596</u>	<u>\$ 3,929,638</u>	<u>\$ 4,081,394</u>	<u>\$ 4,919,518</u>	<u>\$ 5,167,521</u>	<u>\$ 5,459,937</u>	<u>\$ 5,892,211</u>
Change in Net Position										
Governmental activities	\$ 3,102,343	\$ 2,516,257	\$ 3,264,795	\$ (456,840)	\$ (554,640)	\$ (566,465)	\$ 14,902	\$ 493,113	\$ (40,146)	\$ 1,830,908
Business-type activities	1,710,904	1,440,834	2,546,498	(380,556)	(85,877)	793,882	735,933	(407,568)	(779,752)	(785,055)
Total primary government	<u>\$ 4,813,247</u>	<u>\$ 3,957,091</u>	<u>\$ 5,811,293</u>	<u>\$ (837,396)</u>	<u>\$ (640,497)</u>	<u>\$ 227,417</u>	<u>\$ 750,835</u>	<u>\$ 85,545</u>	<u>\$ (819,898)</u>	<u>\$ 1,045,853</u>

Notes: The government began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

**City of Somerton, Arizona
Fund Balances, Governmental Funds,
Last Ten Fiscal Years**

	Fiscal Year									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General Fund										
Reserved/restricted	\$ 111,553	\$ 27,301	\$ 40,119	\$ 56,093	\$ 67,861	\$ 50,839	\$ 23,782	\$ 9,446	\$ 23,170	\$ 36,033
Unreserved/unassigned	843,755	825,945	843,929	754,467	742,725	872,052	1,440,298	1,674,948	1,251,795	3,195,472
Total General Fund	<u>\$ 955,308</u>	<u>\$ 853,246</u>	<u>\$ 884,048</u>	<u>\$ 810,560</u>	<u>\$ 810,586</u>	<u>\$ 922,891</u>	<u>\$ 1,464,080</u>	<u>\$ 1,684,394</u>	<u>\$ 1,274,965</u>	<u>\$ 3,231,505</u>
All Other Governmental Funds										
Reserved/restricted	\$ 574,205	\$ 5,668,218	\$ 4,142,366	\$ 3,860,777	\$ 3,270,102	\$ 2,849,746	\$ 2,186,105	\$ 1,229,232	\$ 704,453	\$ 5,776,372
Committed/Unreserved/unassigned, reported in:										
Court trust fund	125,371	112,337	112,874	-	-	-	-	-	-	-
Special Revenue Funds						3,400	530	23,141	18,718	22,385
HURF Funds	-	-	-	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	14,066	16,105	7,386	50,169	(385,670)
Total all other governmental funds	<u>\$ 699,576</u>	<u>\$ 5,780,555</u>	<u>\$ 4,255,240</u>	<u>\$ 3,860,777</u>	<u>\$ 3,270,102</u>	<u>\$ 2,867,212</u>	<u>\$ 2,202,740</u>	<u>\$ 1,259,759</u>	<u>\$ 773,340</u>	<u>\$ 5,413,087</u>

City of Somerton, Arizona
Changes in Fund Balances, Governmental Funds,
Last Ten Years

	Fiscal year									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues										
Taxes	\$ 1,324,797	\$ 1,399,838	\$ 1,817,705	\$ 1,553,469	\$ 1,688,244	\$ 2,047,664	\$ 2,049,387	\$ 2,138,195	\$ 2,233,944	\$ 2,403,139
Licenses, fees and permits	175,402	317,462	291,082	217,338	202,274	99,655	123,082	179,501	157,670	291,182
Fines & penalties	487,817	150,715	191,685	264,677	212,247	174,358	149,624	122,557	143,259	123,412
Charges for services	418,224	497,833	544,879	514,474	589,546	576,898	871,727	1,541,070	1,392,879	3,203,791
Intergovernmental	4,024,265	5,039,275	4,652,964	4,671,884	4,130,675	4,032,548	4,753,429	5,640,583	5,207,087	5,900,810
Investment earnings	90,990	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,213
Other revenues	14,536	4,852	85,655	64,022	113,424	90,743	93,200	86,718	77,154	71,305
Total Revenues	6,536,031	7,652,598	7,901,103	7,354,640	6,945,142	7,026,037	8,018,596	9,723,546	9,222,841	12,000,852
Expenditures										
General government	952,715	856,974	921,684	1,002,452	904,944	907,507	1,076,490	1,247,348	1,439,016	1,232,425
Public safety	2,666,681	4,113,857	3,597,894	3,593,928	3,539,546	3,342,806	3,728,370	4,783,411	4,848,408	5,024,771
Public works/Streets	568,263	718,380	890,229	834,019	719,021	705,140	746,065	948,925	830,701	858,540
Culture and recreation	534,918	618,793	711,013	585,880	496,174	503,956	585,288	710,980	835,346	1,009,004
Economic development	209,453	292,976	316,264	257,958	202,010	162,180	196,502	277,304	250,282	253,649
Health and welfare	-	-	-	-	184,474	180,476	180,651	140,779	160,162	175,711
Capital Outlay	3,405,155	4,113,493	2,046,283	737,222	647,454	716,962	2,075,097	1,597,878	1,079,932	1,323,026
Debt Service										
Interest	30,759	324,548	297,612	459,093	444,137	414,173	402,816	419,000	336,876	674,902
Principal	309,048	159,531	768,951	476,682	437,728	433,622	403,041	342,535	385,341	386,893
Total expenditures	8,676,992	11,198,552	9,549,930	7,947,234	7,575,488	7,366,822	9,394,320	10,468,160	10,166,064	10,938,921
Excess of revenues over (under) expenditures	(2,140,961)	(3,545,954)	(1,648,827)	(592,594)	(630,346)	(340,785)	(1,375,724)	(744,614)	(943,223)	1,061,931
Other Financing Sources (Uses)										
Sale of assets	-	20,898	-	-	-	-	150,274	-	-	-
Bonds/Loans/LPA/Refundings	2,440,283	8,459,158	94,795	60,000	-	-	1,055,000	-	31,375	5,518,356
Transfers in	731,077	1,552,517	1,233,129	1,133,844	1,019,686	967,118	934,328	1,027,066	1,105,148	789,474
Transfers out	(687,486)	(1,507,702)	(1,173,610)	(1,095,335)	(979,989)	(916,918)	(911,928)	(1,005,119)	(1,089,148)	(773,474)
Total other financing sources (uses)	2,483,874	8,524,871	154,314	98,509	39,697	50,200	1,227,674	21,947	47,375	5,534,356
Net change in fund balances	\$ 342,913	\$ 4,978,917	\$ (1,494,513)	\$ (494,085)	\$ (590,649)	\$ (290,585)	\$ (148,050)	\$ (722,667)	\$ (895,848)	\$ 6,596,287
Debt service as a percentage of noncapital expenditures	3.3%	9.5%	9.6%	51.1%	15.0%	14.6%	12.4%	9.4%	8.6%	12.4%

**City of Somerton, Arizona
Taxable Sales by Category,
Last Ten Fiscal Years**

	Fiscal Years									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Mining	\$ -	\$ -	\$ -	\$ 2	\$ 2,112	\$ 1,051	\$ 1,307	\$ 84	\$ -	\$ 92
Construction	453,421	387,297	467,329	596,427	196,957	210,325	213,043	142,716	153,907	176,782
Manufacturing	33,685	15,683	20,567	16,006	16,869	15,135	13,052	1,789	-	8,658
Transportation/Warehousing	-	26	18	38	18	4	72	-	-	-
Communications/Utilities	84,958	87,043	118,451	112,937	103,891	152,783	207,877	206,169	264,346	319,435
Wholesale Trade	171,515	196,126	203,219	205,751	211,423	203,058	149,935	-	-	125,949
Retail Trade	231,919	277,031	279,801	265,964	280,082	329,971	549,476	858,639	860,963	808,931
Restaurants & Bars	7,656	33,535	60,757	75,190	70,262	75,681	95,214	114,680	112,303	129,078
Insurance/Real Estate/Finance	38,345	58,908	46,946	61,419	68,935	66,289	71,534	48,151	48,604	804
Hotels/Lodging/Accommodation	2,531	2,764	3,360	3,534	481	486	407	-	-	56,038
Arts/Entertainment	-	4,978	366	4,929	6,820	7,953	7,521	-	1	20,479
Services	11,093	15,586	13,276	11,915	13,746	15,231	35,517	-	4,464	28,113
All Others Not Specified	68,762	103,346	10,985	9,792	22,609	6,048	8,764	6,498	14,487	10,964
Total	\$ 1,103,885	\$ 1,182,323	\$ 1,225,075	\$ 1,363,904	\$ 994,205	\$ 1,084,015	\$ 1,353,720	\$ 1,378,726	\$ 1,459,075	\$ 1,686,161
City direct sales tax rate	2.50%	2.50%	2.50%	2.50%	2.50%	3.30%	3.30%	3.30%	3.30%	3.30%

Source: Arizona Department of Revenue

**City of Somerton, Arizona
 Legal Debt Margin Information,
 Last Ten Fiscal Years**

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed Value	\$ 31,236,587
Debt Limit (20% of assessed value)	6,247,317
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal debt margin	<u>\$ 6,247,317</u>

	Fiscal Year									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Debt limit	\$ 3,944,723	\$ 4,478,150	\$ 6,427,105	\$ 6,725,509	\$ 7,118,271	\$ 7,052,090	\$ 7,105,022	\$ 7,594,628	\$ 6,084,757	\$ 6,247,317
Total net debt applicable to limit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 3,944,723</u>	<u>\$ 4,478,150</u>	<u>\$ 6,427,105</u>	<u>\$ 6,725,509</u>	<u>\$ 7,118,271</u>	<u>\$ 7,052,090</u>	<u>\$ 7,105,022</u>	<u>\$ 7,594,628</u>	<u>\$ 6,084,757</u>	<u>\$ 6,247,317</u>
Total net debt applicable to limit as a percentage of debt limit.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

City of Somerton, Arizona
Full-time-Equivalent City Government Employees by Function/Program,
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government										
Management services	3	4	3	3	2	2	2	3	2	2
Finance	5	5	8	7	5	5	5	5	5	6
Planning	5	5	5	3	3	3	2	1	4	4
Building	1	2	4	4	4	2	2	1	1	1
Court	3	4	3	3	3	5	4	5	5	5
Public safety										
Police	26	30	33	35	30	29	27	30	30	30
Fire	24	20	23	26	26	19	19	19	19	19
Public works/Streets										
Other	9	11	15	12	14	11	11	13	14	14
Culture and recreation	18	17	14	16	16	16	16	16	10	10
Water/Sewer/Sanitation	17	22	22	18	20	16	19	19	17	17
Total	111	120	130	127	123	108	107	112	107	108

Source: City of Somerton Payroll Reports

Notes: A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total labor hours by 2,088.

**City of Somerton, Arizona
Operating Indicators by Function/Program,
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government										
Building permits issued	284	203	179	97	121	44	43	43	69	97
Police										
Physical arrests	797	600	535	536	425	407	286	230	272	304
Traffic violations	3,945	2,851	3,220	3,958	2,442	2,448	1,400	1,440	1,525	2,468
Fire										
Emergency responses	1,592	1,433	1,467	1,627	1,671	1,664	1,658	3,965	4,618	4,681
Fires extinguished	30	89	55	57	56	34	43	65	49	39
Inspections	391	71	127	199	338	276	198	243	280	300
Water										
New connections	2,381	2,561	2,700	2,900	3,000	2,933	3,092	3,148	3,079	3,581
Water main breaks	-	-	-	-	-	-	2	2	2	2
Average daily consumption	1,250,000	1,500,000	1,500,000	1,500,000	1,500,000	1,100,000	1,400,000	1,400,000	1,400,000	1,500,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	600,000	600,000	705,000	792,612	792,612	800,000	598,000	727,000	1,021,000	1,021,000

Source: City records

**City of Somerton, Arizona
Capital Asset Statistics by Function/Program,
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	15	17	16	16	16	16	19	22	20
Fire Stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	7	5	5	6	6	6	6	6	5	5
Other public works										
Streets (miles)	32	37	41	44	44	44	44	44	44	44
Streetlights	480	534	601	601	601	601	601	706	732	732
Traffic signals	2	2	3	4	4	4	4	4	4	4
Parks and recreation										
Acreage	33	38	38	38	38	38	38	38	38	38
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	32	37	42	42	42	42	42	46	46	46
Fire hydrants	321	363	406	410	410	410	410	397	410	410
Storage capacity (thousands of gallons)	2,900,000	2,900,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000
Wastewater										
Sanitary sewers (miles)	34	41	46	46	46	46	46	46	46	46
Storm sewers (miles)	4	5	5	5	5	5	5	5	5	5
Treatment capacity (thousands of gallons)	800,000	800,000	800,000	800,000	800,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Transit-mini buses	1	1	1	1	1	1	1	1	1	1

Source: City Records

COMPLIANCE SECTION

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**Independent Auditor's Report on Internal Control
Over Financial Reporting and on and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Mayor and
City Council
Somerton, 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 City of Somerton, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Somerton, Arizona's basic financial statements and have issued our report thereon dated January 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Somerton, 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 City of Somerton, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Somerton, Arizona's internal control.

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

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

2007-001 Year End Accounting

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Somerton, 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.



HintonBurdick, PLLC
January 29, 2016

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
City Council
Somerton, Arizona

We have audited the basic financial statements of the City of Somerton; Arizona for the year ended June 30, 2015, and have issued our report thereon dated January 29, 2016. Our audit also included test work on the City of Somerton's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Somerton is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The City of Somerton has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Somerton pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The City of Somerton complied, in all material respects, with the requirements identified above for the year ended June 30, 2015.



HintonBurdick, PLLC
January 29, 2016