

CITY OF SOMERTON, ARIZONA



FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of and for the year ended June 30, 2016, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 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 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 20, 2017, 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 20, 2017

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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, 2016. 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 \$28,347,747 at the close of the fiscal year.
- Total net position increased by \$1,027,601 in fiscal year 2016.
- Governmental taxes and other revenues exceeded governmental expenses by \$1,062,288.
- Business-type revenues exceeded total business-type expenses by \$431,722.
- Total revenues from all sources were \$17,181,494.
- The total cost of all City programs were \$15,687,484.
- The General Fund reported excess revenues over expenditures and transfers of \$1,491,000.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,590,058 or 56.1% 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.
- The government-wide financial statements include not only the City’s itself (known as the primary government), but also a legally separate Industrial Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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 \$28,347,747 as of June 30, 2016 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	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Current and other assets	\$ 11,381,441	\$ 9,926,887	\$ 3,589,268	\$ 3,694,985
Capital assets	19,061,647	19,454,527	27,305,824	26,670,091
Total assets	<u>30,443,088</u>	<u>29,381,414</u>	<u>30,895,092</u>	<u>30,365,076</u>
Deferred outflows of resources	1,734,466	1,574,861	184,509	240,576
Long-term liabilities outstanding	20,060,918	19,950,600	11,639,864	11,781,235
Other liabilities	1,410,957	913,732	772,279	471,171
Total liabilities	<u>21,471,875</u>	<u>20,864,332</u>	<u>12,412,143</u>	<u>12,252,406</u>
Deferred inflows of resources	875,570	830,007	149,820	295,036
Net position:				
Net investment in capital assets	4,762,234	5,156,050	17,458,221	16,681,165
Restricted	5,264,741	5,812,405	1,558,256	1,440,519
Unrestricted	(196,866)	(1,706,519)	(498,839)	(63,474)
Total net position	<u>\$ 9,830,109</u>	<u>\$ 9,261,936</u>	<u>\$ 18,517,638</u>	<u>\$ 18,058,210</u>

Governmental Activities

The cost of all Governmental activities this year was \$10,888,634, an increase of \$550,096 over last fiscal year. This is primarily due to an increase in general government, public works, and economic development. As shown on the Statement of Changes in Net Position on the following page, \$3,326,469 of this cost was paid for by those who directly benefited from the programs; \$2,458,972 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 \$5,785,441. General taxes and investment earnings totaled \$6,149,481.

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.

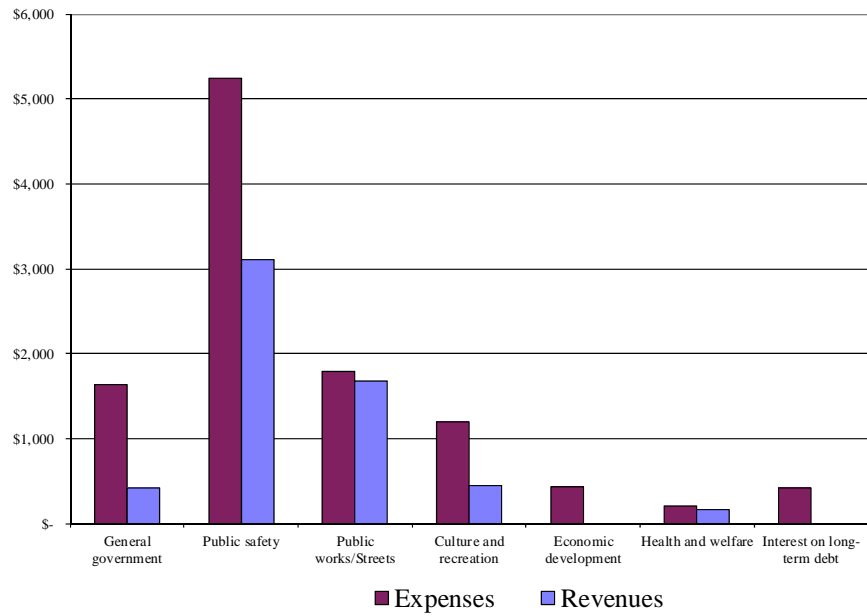
City of Somerton
Changes in Net Position

	Governmental activities		Business-type activities	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Revenues:				
Program revenues:				
Charges for services	\$ 3,326,469	\$ 3,867,297	\$ 3,665,456	\$ 3,676,151
Operating grants and contributions	2,029,451	1,896,810	-	-
Capital grants and contributions	429,521	498,512	1,578,662	452,595
General revenues:				
Taxes	4,412,046	4,154,083	-	-
State revenue sharing	1,729,910	1,729,530	-	-
Other revenue/(expense)	7,525	7,214	2,454	1,384
Total revenues	<u>11,934,922</u>	<u>12,153,446</u>	<u>5,246,572</u>	<u>4,130,130</u>
Expenses:				
General government	1,606,583	1,263,799	-	-
Public safety	5,232,207	5,408,793	-	-
Public works/Streets	1,783,546	1,627,433	-	-
Culture and recreation	1,196,707	1,142,023	-	-
Economic development	438,116	252,849	-	-
Health and welfare	211,667	211,041	-	-
Interest on long-term debt	419,808	432,600	-	-
Water	-	-	1,667,812	1,650,207
Sewer	-	-	2,278,407	2,415,275
Sanitation	-	-	852,631	833,703
Total expenses	<u>10,888,634</u>	<u>10,338,538</u>	<u>4,798,850</u>	<u>4,899,185</u>
(Decrease) / Increase in net position before transfers	1,046,288	1,814,908	447,722	(769,055)
Transfers	<u>16,000</u>	<u>16,000</u>	<u>(16,000)</u>	<u>(16,000)</u>
(Decrease) / Increase in net position	1,062,288	1,830,908	431,722	(785,055)
Net position, beginning	9,261,936	11,892,137	18,058,210	19,832,973
Restatement/reclassifications	-	(4,720,619)	-	(1,729,272)
Prior period adjustment	(494,115)	259,510	27,706	739,564
Net position, ending	<u>\$ 9,830,109</u>	<u>\$ 9,261,936</u>	<u>\$ 18,517,638</u>	<u>\$ 18,058,210</u>

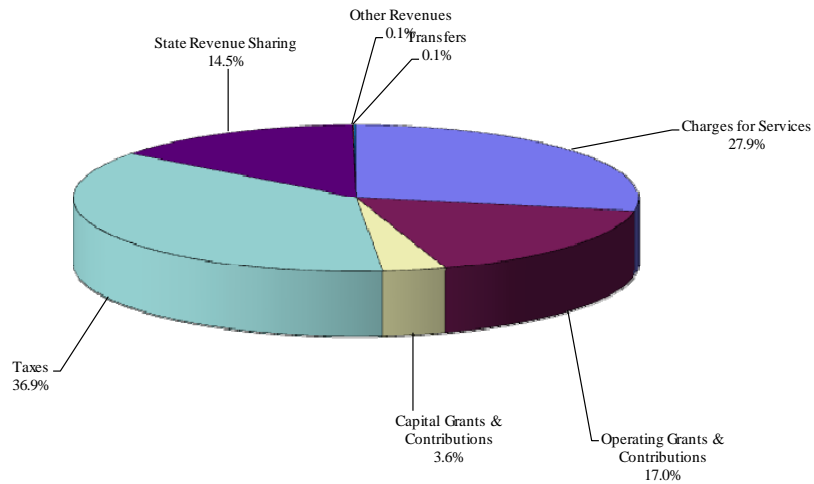
Total resources available during the year to finance governmental operations were \$20,702,743 consisting of net position at July 1, 2015 of \$8,767,821, program revenues of \$5,785,441 and general revenues of \$6,149,481. Total governmental activities during the year were \$10,888,634, thus governmental net position increased by \$1,062,288 to \$9,830,109.

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)



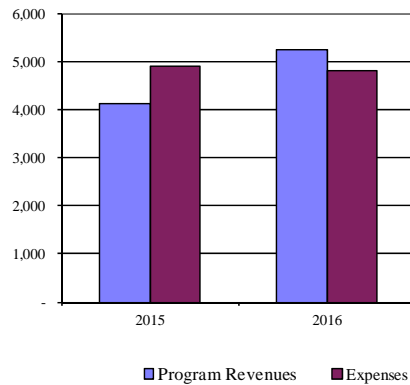
Revenue By Source - Governmental Activities



Business Type Activities

Net position of the business type activities at June 30, 2016, as reflected in the Statement of Net Position were \$18,517,638. The cost of providing all Proprietary (Business Type) activities this year was \$4,798,850. As shown in the Statement of Changes in Net Position, the amounts paid by users of the system were \$3,665,456 and there was \$1,578,662 subsidized by capital grants and contributions. Interest earnings were \$2,454. The net position increased by \$431,722.

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 \$9,928,747, an increase of \$1,284,155 in comparison with the prior year. Approximately, 46.0% of this total amount, \$4,571,663 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 \$4,590,058, while total fund balance is \$4,722,505. 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 56.1% of total general fund expenditures, while total fund balance represents 57.7% of the same amount.

During the year, the City of Somerton's general fund balance increased by \$1,491,000.

The Capital Improvement Fund (CIP) has a total fund balance of \$4,131,572. The net decrease in the fund balance during the current year was \$692,172. The decrease in the fund balance resulted from capital expenditures.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$3,572,847 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for some road projects and the city hall project that were not completed during the year.

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 2016, net capital assets of the government activities totaled \$19,061,647 and the net capital assets of the business-type activities totaled \$27,305,824. 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 \$20,060,918 in governmental type obligations, and \$11,639,864 in proprietary obligations. The obligation is a liability of the government and amounts to \$2,218 per capita (2010 census: 14,287). During the current fiscal year, the City's total obligations decreased by \$31,053. (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 2016/2017, 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 ninth 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.

In November, 2016, 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Industrial Development Authority
Assets				
Cash and cash equivalents	\$ 4,384,133	\$ 1,725,789	\$ 6,109,922	\$ 9,069
Receivables (net of allowance)	1,649,634	726,026	2,375,660	-
Due from component unit	62,222	-	62,222	-
Notes receivable	55,000	-	55,000	-
Prepaid items/inventory	91,516	-	91,516	-
Temporarily restricted assets:				
Cash and cash equivalents	5,138,936	1,137,453	6,276,389	-
Capital assets (net of accumulated depreciation):				
Land	904,486	415,399	1,319,885	80,048
Buildings	4,129,625	13	4,129,638	1,120,783
Improvements	1,196,225	1,944,830	3,141,055	-
System improvements	-	22,885,107	22,885,107	-
Machinery and equipment	279,330	181,632	460,962	-
Vehicles	561,944	299,251	861,195	-
Infrastructure/Roads	10,609,438	-	10,609,438	-
Construction in progress	1,380,599	1,579,592	2,960,191	-
Total assets	<u>30,443,088</u>	<u>30,895,092</u>	<u>61,338,180</u>	<u>1,209,900</u>
Deferred Outflows of Resources				
Deferred charge on refunding	299,257	-	299,257	-
Deferred outflows related to pensions	1,435,209	184,509	1,619,718	-
Total deferred outflows	<u>1,734,466</u>	<u>184,509</u>	<u>1,918,975</u>	<u>-</u>
Liabilities				
Accounts payable and other current liabilities	1,242,910	679,115	1,922,025	2,510
Due to primary government	-	-	-	62,222
Interest payable	168,047	93,164	261,211	1,258
Noncurrent liabilities:				
Due within one year	744,878	723,848	1,468,726	60,141
Due in more than one year	19,316,040	10,916,016	30,232,056	610,597
Total liabilities	<u>21,471,875</u>	<u>12,412,143</u>	<u>33,884,018</u>	<u>736,728</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	875,570	149,820	1,025,390	-
Total deferred inflows of resources	<u>875,570</u>	<u>149,820</u>	<u>1,025,390</u>	<u>-</u>
Net Position				
Net investment in capital assets	4,762,234	17,458,221	22,220,455	530,093
Restricted for:				
Highways and streets	5,115,223	-	5,115,223	-
Debt service	-	897,723	897,723	-
Capital projects and other	149,518	660,533	810,051	-
Unrestricted	(196,866)	(498,839)	(695,705)	(56,921)
Total net position	<u>\$ 9,830,109</u>	<u>\$ 18,517,638</u>	<u>\$ 28,347,747</u>	<u>\$ 473,172</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, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	Industrial Development Authority
Primary government:								
Governmental activities:								
General government	\$ 1,606,583	\$ 399,280	\$ 5,263	\$ -	\$ (1,202,040)	\$ -	\$ (1,202,040)	\$ -
Public safety	5,232,207	2,376,712	722,663	270	(2,132,562)	-	(2,132,562)	-
Public works/Streets	1,783,546	119,934	1,141,876	419,251	(102,485)	-	(102,485)	-
Culture and recreation	1,196,707	430,543	-	10,000	(756,164)	-	(756,164)	-
Economic development	438,116	-	-	-	(438,116)	-	(438,116)	-
Health and welfare	211,667	-	159,649	-	(52,018)	-	(52,018)	-
Interest on long-term debt	419,808	-	-	-	(419,808)	-	(419,808)	-
Total governmental activities	10,888,634	3,326,469	2,029,451	429,521	(5,103,193)	-	(5,103,193)	-
Business-type activities:								
Water	1,667,812	1,181,986	-	1,172,546	-	686,720	686,720	-
Sewer	2,278,407	1,681,099	-	406,116	-	(191,192)	(191,192)	-
Sanitation	852,631	802,371	-	-	-	(50,260)	(50,260)	-
Total business-type activities	4,798,850	3,665,456	-	1,578,662	-	445,268	445,268	-
Total primary government	\$ 15,687,484	\$ 6,991,925	\$ 2,029,451	\$ 2,008,183	(5,103,193)	445,268	(4,657,925)	-
Component unit:								
Industrial Development Authority	\$ 124,414	\$ 131,177	\$ -	\$ -	-	-	-	6,763
Total component unit	\$ 124,414	\$ 131,177	\$ -	\$ -	-	-	-	6,763
General Revenues:								
Taxes:								
City sales tax					1,863,046	-	1,863,046	-
State sales tax					1,353,100	-	1,353,100	-
Property tax					565,422	-	565,422	-
Auto lieu tax					561,557	-	561,557	-
Franchise tax					68,921	-	68,921	-
State income taxes - revenue sharing (unrestricted)					1,729,910	-	1,729,910	-
Unrestricted investment earnings					7,525	2,454	9,979	-
Transfers					16,000	(16,000)	-	-
Total general revenues & transfers					6,165,481	(13,546)	6,151,935	-
Change in net position					1,062,288	431,722	1,494,010	6,763
Net position - beginning					9,261,936	18,058,210	27,320,146	-
Prior period adjustments					(494,115)	27,706	(466,409)	466,409
Net position - ending					\$ 9,830,109	\$ 18,517,638	\$ 28,347,747	\$ 473,172

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

CITY OF SOMERTON, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

Assets	<u>General</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 3,345,902	\$ -	\$ 1,038,231	\$ 4,384,133
Receivables:				
Other	2,142	-	166	2,308
Ambulance	154,784	-	-	154,784
Intergovernmental	1,093,772	217,867	180,903	1,492,542
Due from other funds	1,151,290	-	-	1,151,290
Due from component unit	-	62,222	-	62,222
Inventories	-	-	5,102	5,102
Prepaid items	86,414	-	-	86,414
Restricted cash and investments	69,402	4,958,907	110,627	5,138,936
	<u>\$ 5,903,706</u>	<u>\$ 5,238,996</u>	<u>\$ 1,335,029</u>	<u>\$ 12,477,731</u>
 Liabilities, Deferred Inflows, and Fund Balances				
Liabilities:				
Accounts payable	\$ 366,247	\$ 118,876	\$ 92,732	\$ 577,855
Accrued wages and benefits	48,485	-	4,885	53,370
Accrued liabilities	124,643	-	-	124,643
Customer deposits	1,922	-	-	1,922
Due to other funds	-	988,548	162,742	1,151,290
Due to other governments	485,120	-	-	485,120
	<u>1,026,417</u>	<u>1,107,424</u>	<u>260,359</u>	<u>2,394,200</u>
Deferred Inflows of Resources:				
Unavailable revenue - ambulance	154,784	-	-	154,784
	<u>154,784</u>	<u>-</u>	<u>-</u>	<u>154,784</u>
Fund Balances:				
Nonspendable:				
Prepays	86,414	-	-	86,414
Restricted for:				
General government	-	-	18,571	18,571
Public works/streets	-	4,131,572	983,651	5,115,223
Public safety	-	-	84,914	84,914
Parks & recreation	46,033	-	-	46,033
Committed to:				
Health and welfare	-	-	5,929	5,929
Unassigned:	4,590,058	-	(18,395)	4,571,663
	<u>4,722,505</u>	<u>4,131,572</u>	<u>1,074,670</u>	<u>9,928,747</u>
Total Liabilities, deferred inflows, and fund balances	<u>\$ 5,903,706</u>	<u>\$ 5,238,996</u>	<u>\$ 1,335,029</u>	<u>\$ 12,477,731</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, 2016

Total fund balances - governmental funds	\$	9,928,747
Amounts reported for governmental activities in the statement of net assets are different because:		
Some notes receivable are not available in the current period and therefore are not reported in the funds.		55,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	\$ 33,119,055	
Accumulated depreciation	<u>(14,057,408)</u>	19,061,647
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.		154,784
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Loans payable	\$ (2,593,708)	
Bonds payable	(11,460,000)	
Add: Issuance premium	(118,893)	
Less: Deferred charge on refunding	299,257	
Leases payable	(126,812)	
Interest Payable	(168,047)	
Net pension liability	(5,446,055)	
Compensated absences	<u>(315,450)</u>	(19,929,708)
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	\$ 1,435,209	
Deferred inflows	<u>(875,570)</u>	<u>559,639</u>
Total net position - governmental activities	\$	<u><u>9,830,109</u></u>

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, 2016

REVENUES	<u>General</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,637,818	\$ -	\$ -	\$ 2,637,818
Licenses, permits and fees	506,722	-	-	506,722
Intergovernmental revenue	4,174,408	419,521	1,461,803	6,055,732
Charges for services	2,705,785	-	-	2,705,785
Fines and forfeitures	144,167	-	5,263	149,430
Interest	5,923	-	1,602	7,525
Other revenues	35,986	2,976	72,207	111,169
Total revenues	<u>10,210,809</u>	<u>422,497</u>	<u>1,540,875</u>	<u>12,174,181</u>
 EXPENDITURES				
Current:				
General government	1,629,629	-	-	1,629,629
Public safety	4,685,979	-	240,622	4,926,601
Public works/streets	179,091	-	897,904	1,076,995
Culture and recreation	1,246,378	-	-	1,246,378
Economic development	439,189	-	-	439,189
Health and welfare	-	-	176,105	176,105
Capital outlay	-	1,114,669	-	1,114,669
Debt service	-	-	408,960	408,960
Total expenditures	<u>8,180,266</u>	<u>1,114,669</u>	<u>1,723,591</u>	<u>11,018,526</u>
Excess of revenues over (under) expenditures	<u>2,030,543</u>	<u>(692,172)</u>	<u>(182,716)</u>	<u>1,155,655</u>
 Other Financing Sources (Uses):				
Lease proceedss	112,500	-	-	112,500
Transfers out	(665,693)	-	(133,650)	(799,343)
Transfers in	13,650	-	801,693	815,343
Total other financing sources (uses)	<u>(539,543)</u>	<u>-</u>	<u>668,043</u>	<u>128,500</u>
Net change in fund balances	1,491,000	(692,172)	485,327	1,284,155
Fund balance, beginning of year	<u>3,231,505</u>	<u>4,823,744</u>	<u>589,343</u>	<u>8,644,592</u>
Fund balance, end of year	<u>\$ 4,722,505</u>	<u>\$ 4,131,572</u>	<u>\$ 1,074,670</u>	<u>\$ 9,928,747</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, 2016

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

Net change in fund balances - total governmental funds	\$	1,284,155
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(239,259)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	\$	1,440,877
Depreciation expense		<u>(1,367,348)</u>
		73,529
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.		(28,141)
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	\$	610,752
Pension expense		<u>(586,280)</u>
		24,472
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.		35,099
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.		(87,567)
Change in net position of governmental activities	<u>\$</u>	<u>1,062,288</u>

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

CITY OF SOMERTON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2016

Assets	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Current assets:				
Cash	\$ 555,571	\$ 769,521	\$ 400,697	\$ 1,725,789
Receivables (net of allowance)	475,776	170,262	79,988	726,026
Total current assets	<u>1,031,347</u>	<u>939,783</u>	<u>480,685</u>	<u>2,451,815</u>
Noncurrent assets:				
Restricted cash and investments	339,705	797,723	25	1,137,453
Land	-	415,399	-	415,399
Buildings	33,710	-	-	33,710
Improvements other than buildings	1,373,587	823,799	120,193	2,317,579
Treatment facilities	2,276,139	18,010,330	-	20,286,469
Water distribution system	10,444,070	-	-	10,444,070
Sewer collection system	-	8,380,356	-	8,380,356
Machinery and equipment	48,891	277,379	85,467	411,737
Vehicles	29,120	357,281	1,073,681	1,460,082
Construction in progress	1,396,383	183,209	-	1,579,592
Accumulated depreciation	(7,933,784)	(9,158,577)	(930,809)	(18,023,170)
Total noncurrent assets	<u>8,007,821</u>	<u>20,086,899</u>	<u>348,557</u>	<u>28,443,277</u>
Total Assets	<u>9,039,168</u>	<u>21,026,682</u>	<u>829,242</u>	<u>30,895,092</u>
Deferred Outflows of Resources				
Deferred outflows related to pensions	<u>74,225</u>	<u>68,515</u>	<u>41,769</u>	<u>184,509</u>
Liabilities				
Current liabilities:				
Accounts payable	324,694	73,534	24,223	422,451
Accrued wages and benefits	4,386	4,828	2,677	11,891
Accrued liabilities	8,885	-	-	8,885
Interest payable	20,240	72,483	441	93,164
Customer deposits	235,863	-	25	235,888
Compensated absences - current portion	14,000	13,000	13,000	40,000
Leases payable - current portion	-	-	52,442	52,442
Notes payable - current portion	119,523	456,116	-	575,639
Bonds payable - current portion	-	55,767	-	55,767
Total current liabilities	<u>727,591</u>	<u>675,728</u>	<u>92,808</u>	<u>1,496,127</u>
Noncurrent liabilities:				
Compensated absences	24,556	21,450	20,462	66,468
Net pension liability	678,169	626,003	381,621	1,685,793
Leases payable, net of current portion	-	-	134,213	134,213
Notes payable, net of current portion	1,491,377	6,941,646	-	8,433,023
Bonds payable, net of current portion	-	596,519	-	596,519
Total noncurrent liabilities	<u>2,194,102</u>	<u>8,185,618</u>	<u>536,296</u>	<u>10,916,016</u>
Total liabilities	<u>2,921,693</u>	<u>8,861,346</u>	<u>629,104</u>	<u>12,412,143</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	<u>60,271</u>	<u>55,634</u>	<u>33,915</u>	<u>149,820</u>
Net Position				
Net investment in capital assets	6,057,216	11,239,128	161,877	17,458,221
Restricted for debt service	103,842	793,881	-	897,723
Restricted for capital outlay	270,171	390,362	-	660,533
Unrestricted	(299,800)	(245,154)	46,115	(498,839)
Total net position	<u>\$ 6,131,429</u>	<u>\$ 12,178,217</u>	<u>\$ 207,992</u>	<u>\$ 18,517,638</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, 2016

Operating Revenues	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Charges for services:	\$ 1,116,627	\$ 1,675,799	\$ 768,043	\$ 3,560,469
Other revenues	65,359	5,300	34,328	104,987
Total operating revenues	<u>1,181,986</u>	<u>1,681,099</u>	<u>802,371</u>	<u>3,665,456</u>
Operating Expenses				
Salaries	381,476	420,881	235,436	1,037,793
Employee benefits	123,480	120,897	110,524	354,901
Service, supplies and other	569,580	606,283	412,268	1,588,131
Depreciation	566,112	912,487	87,964	1,566,563
Total operating expenses	<u>1,640,648</u>	<u>2,060,548</u>	<u>846,192</u>	<u>4,547,388</u>
Operating income (loss)	<u>(458,662)</u>	<u>(379,449)</u>	<u>(43,821)</u>	<u>(881,932)</u>
Non-operating Revenues (Expenses)				
Investment earnings	724	1,730	-	2,454
Interest expense and fiscal charges	(27,164)	(217,859)	(6,439)	(251,462)
Grant revenues	1,111,300	12,314	-	1,123,614
Impact fees and connection fees	61,246	393,802	-	455,048
Total non-operating revenue (expense)	<u>1,146,106</u>	<u>189,987</u>	<u>(6,439)</u>	<u>1,329,654</u>
Income (Loss) before contributions and transfers	687,444	(189,462)	(50,260)	447,722
Transfers out	(8,000)	(8,000)	-	(16,000)
Total contributions and transfers	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Change in net position	679,444	(197,462)	(50,260)	431,722
Total net position, beginning of year	5,539,067	11,908,604	610,539	18,058,210
Prior period adjustments	(87,082)	467,075	(352,287)	27,706
Total net position, end of year	<u>\$ 6,131,429</u>	<u>\$ 12,178,217</u>	<u>\$ 207,992</u>	<u>\$ 18,517,638</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, 2016

	Water	Sewer	Sanitation	Total
Cash Flows From Operating Activities:				
Cash received from customers, service fees	\$ 816,587	\$ 1,677,436	\$ 783,428	\$ 3,277,451
Cash received from customers, other	65,359	5,300	34,328	104,987
Cash paid to suppliers	(311,156)	(575,978)	(411,544)	(1,298,678)
Cash paid to employees	(501,730)	(585,920)	(368,456)	(1,456,106)
Cash flows from operating activities	<u>69,060</u>	<u>520,838</u>	<u>37,756</u>	<u>627,654</u>
Cash Flows From Noncapital Financing Activities:				
Transfers	(8,000)	(8,000)	-	(16,000)
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	(2,044,377)	(152,906)	(5,012)	(2,202,295)
Principal paid on long term debt	(91,342)	(453,537)	(46,444)	(591,323)
Interest paid	(22,500)	(208,746)	(5,998)	(237,244)
Long term debt proceeds	450,000	-	-	450,000
Grant revenues	1,111,300	12,314	-	1,123,614
Connection & impact fees	61,246	393,802	-	455,048
Cash flows from capital and related financing activities	<u>(535,673)</u>	<u>(409,073)</u>	<u>(57,454)</u>	<u>(1,002,200)</u>
Cash Flows From Investing Activities:				
Investment earnings	724	1,730	-	2,454
Cash flows from investing activities	<u>724</u>	<u>1,730</u>	<u>-</u>	<u>2,454</u>
Net change in cash and cash equivalents	(473,889)	105,495	(19,698)	(388,092)
Cash and cash equivalents, including restricted cash, beginning of year	1,369,165	1,461,749	420,420	3,251,334
Cash and Cash Equivalents, including restricted cash, end of year	<u><u>\$ 895,276</u></u>	<u><u>\$ 1,567,244</u></u>	<u><u>\$ 400,722</u></u>	<u><u>\$ 2,863,242</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:				
Net operating income/(loss)	\$ (458,662)	\$ (379,449)	\$ (43,821)	\$ (881,932)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation/amortization	566,112	912,487	87,964	1,566,563
Pension expense	30,610	15,468	8,468	54,546
Employer contributions	(47,219)	(43,587)	(26,571)	(117,377)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(300,040)	1,637	15,385	(283,018)
(Increase)/Decrease in prepaid items	-	644	-	644
Increase/(Decrease) in payables	258,424	29,661	724	288,809
Increase/(Decrease) in accrued liabilities & deposits	19,835	(16,023)	(4,393)	(581)
Net cash flows from operating activities	<u><u>\$ 69,060</u></u>	<u><u>\$ 520,838</u></u>	<u><u>\$ 37,756</u></u>	<u><u>\$ 627,654</u></u>

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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.

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.

Discretely presented component unit. The component unit column in the basic financial statements includes the financial data of the Somerton Industrial Development Authority (Authority). The Authority is responsible for the issuance of tax-exempt bonds for qualified projects approved by the Authority. The Authority has no more than a nine-member board of directors appointed by the City Council. The City is able to impose its will on the Authority inasmuch as the City Council elects the Authority's Board of Directors and may remove a board member without cause at any time. The accounting records of the Authority are maintained by the City and are available from the City of Somerton, 110 North State Ave., Somerton, Arizona 85258.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

As discussed earlier, the government has one discretely presented component unit. The Industrial Development Authority is considered to be a major component unit, and is shown in a separate column in 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. 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 **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.

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

(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.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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.

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). The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

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 acquisition 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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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

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 two types of item that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item 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. The first is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 11 for more information. The second 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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies, Continued

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.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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:

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 3. Stewardship, Compliance, and Accountability, Continued

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, 2016, if any.

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 (\$18,395) at June 30, 2016. Management is planning to address the deficit fund balance in fiscal year 2017 with additional transfers from other funds.

Note 4. Deposits and Investments

Deposits and investments of the government at June 30, 2016 consist of the following:

	Primary Government	Component Unit
Deposits:		
Cash on hand	\$ 3,490	-
Cash in bank	8,933,295	9,069
Cash with paying agent	55,000	-
Investments:		
State Treasurer's Investment Pool	3,394,526	-
 Total Deposits and Investments	 <u>\$ 12,386,311</u>	 <u>\$ 9,069</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 4. Deposits and Investments, Continued

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

	Primary Government	Component Unit
Cash and cash equivalents	\$ 6,109,922	\$ 9,069
Restricted cash	6,276,389	-
	\$ 12,386,311	\$ 9,069

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, 2016, \$0 of the primary government and component unit's combined bank balance of \$8,863,919 was exposed to custodial credit risk because it was either fully insured by FDIC insurance or collateralized with securities held by the pledged financial institution's trust department or agent.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 4. Deposits and Investments, Continued

As of June 30, 2016 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	\$3,394,526	AAA	73 days
Total Fair Value	<u>\$3,394,526</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.

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.

Fair value measurements

As noted above, the City holds investments that are measured at fair value on a recurring basis. The City categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The state treasurer's pool, as listed above, is valued using quoted prices in active markets (Level 1 inputs).

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 5. Restricted Assets

Restricted assets consisted of the following at June 30, 2016:

Qualified Energy Conservation Bond (QECCB) unspent proceeds	6,997
Water fund customer deposit cash reserve	235,863
Series 2015 Advance Refunding of GADA 2006 Bond unspent proceeds	4,958,907
Series 2015 refunding debt reserve	-
Series 2015 refunding debt reserve	1,154
USDA Public Safety Facility debt reserve	4,768
WIFA Wastewater Treatment Plant loan debt service reserve	331,417
WIFA Wastewater Treatment Plant loan repair and replacement fund	194,202
WIFA Wastewater Treatment Plant Expansion loan debt service reserve	145,889
WIFA Wastewater Treatment Plant Expansion loan repair and replacement	29,011
USDA Wastewater Treatment Plant Expansion loan reserve fund	51,142
WIFA Solar Project Sewer loan debt service reserve	46,062
WIFA Solar Project Water loan debt service reserve	69,936
WIFA Water Meter loan debt service reserve	26,843
WIFA Mesa/Orange Grove Water Company loan debt service reserve	7,063
Sanitation fund customer deposit cash reserve	25
YEPCO project	69,402
Grants	42,708
Cash with paying agent	55,000
Total	\$ 6,276,389

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. All receivables and amounts due from other governments are considered by management to be fully collectible and therefore, no allowance for doubtful accounts is necessary.

Receivables in the proprietary fund are service billings receivable and are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on professional judgment and historical information. The allowances for doubtful accounts at June 30, 2016 were as follows:

Water Fund	\$ 21,472
Sewer Fund	26,931
Sanitation Fund	12,651
Industrial Development Authority	-
	\$ 61,054

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 7. Capital Assets

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

Governmental Activities:	Balance 6/30/2015	Additions	Deletions	Adjustment*	Balance 6/30/2016
Capital assets, not being depreciated:					
Land	\$ 984,534	\$ -	\$ -	\$ (80,048)	\$ 904,486
Construction in progress	625,409	1,213,348	(458,158)	-	1,380,599
Total capital assets, not being depreciated	<u>1,609,943</u>	<u>1,213,348</u>	<u>(458,158)</u>	<u>(80,048)</u>	<u>2,285,085</u>
Capital assets, being depreciated:					
Buildings	6,555,379	-	-	(413,342)	6,142,037
Improvements other than buildings	2,058,354	112,500	-	-	2,170,854
Furniture and equipment	2,397,812	17,189	-	-	2,415,001
Vehicles	3,254,653	51,795	-	-	3,306,448
Infrastructure	16,295,427	504,203	-	-	16,799,630
Total capital assets, being depreciated	<u>30,561,625</u>	<u>685,687</u>	<u>-</u>	<u>(413,342)</u>	<u>30,833,970</u>
Less accumulated depreciation for:					
Buildings	(1,865,116)	(174,277)	-	26,981	(2,012,412)
Improvements other than buildings	(851,484)	(123,145)	-	-	(974,629)
Furniture and equipment	(2,013,037)	(122,634)	-	-	(2,135,671)
Vehicles	(2,589,765)	(154,739)	-	-	(2,744,504)
Infrastructure	(5,397,639)	(792,553)	-	-	(6,190,192)
Total accumulated depreciation	<u>(12,717,041)</u>	<u>(1,367,348)</u>	<u>-</u>	<u>26,981</u>	<u>(14,057,408)</u>
Total capital assets, being depreciated, net	<u>17,844,584</u>	<u>(681,661)</u>	<u>-</u>	<u>(386,361)</u>	<u>16,776,562</u>
Governmental activities capital assets, net	<u>\$ 19,454,527</u>	<u>\$ 531,687</u>	<u>\$ (458,158)</u>	<u>\$ (466,409)</u>	<u>\$ 19,061,647</u>

* See Note 15 on prior period adjustment

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

Governmental Activities:	
General government	\$ 27,952
Public safety	369,219
Public works/streets	794,588
Culture & recreation	139,673
Health and welfare	35,916
Total depreciation expense - governmental activities	<u>\$ 1,367,348</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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 6/30/2015	Additions	Deletions	Balance 6/30/2016
Capital assets not being depreciated:				
Land	\$ 415,399	\$ -	\$ -	\$ 415,399
Construction in progress	320,688	1,810,643	(551,739)	1,579,592
Total capital assets, not being depreciated	<u>736,087</u>	<u>1,810,643</u>	<u>(551,739)</u>	<u>1,994,991</u>
Capital assets being depreciated:				
Buildings	33,710	-	-	33,710
Improvements other than buildings	2,298,648	18,931	-	2,317,579
Treatment facilities	20,286,469	-	-	20,286,469
Water distribution system	9,612,664	831,406	-	10,444,070
Sewer collection system	8,380,356	-	-	8,380,356
Machinery and equipment	348,205	63,532	-	411,737
Vehicles	1,430,558	29,524	-	1,460,082
Total capital assets, being depreciated	<u>42,390,610</u>	<u>943,393</u>	<u>-</u>	<u>43,334,003</u>
Less accumulated depreciation for:				
Buildings	(33,697)	-	-	(33,697)
Improvements other than buildings	(322,835)	(49,914)	-	(372,749)
Treatment facilities	(4,780,829)	(542,516)	-	(5,323,345)
Water distribution system	(5,238,877)	(492,872)	-	(5,731,749)
Sewer collection system	(4,800,183)	(370,511)	-	(5,170,694)
Machinery and equipment	(196,472)	(33,633)	-	(230,105)
Vehicles	(1,083,714)	(77,117)	-	(1,160,831)
Total accumulated depreciation	<u>(16,456,607)</u>	<u>(1,566,563)</u>	<u>-</u>	<u>(18,023,170)</u>
Total capital assets, being depreciated, net	<u>25,934,003</u>	<u>(623,170)</u>	<u>-</u>	<u>25,310,833</u>
Business-type activities capital assets, net	<u>\$ 26,670,090</u>	<u>\$ 1,187,473</u>	<u>\$ (551,739)</u>	<u>\$ 27,305,824</u>

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

Business-Type Activities:	
Water	\$ 566,112
Sewer	912,487
Sanitation	87,964
Total depreciation expense - governmental activities	<u>\$ 1,566,563</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 7. Capital Assets, Continued

The following table summarizes the changes to capital assets for the component unit during the year.

Component Unit:	Balance 6/30/2015	Additions	Deletions	Adjustment*	Balance 6/30/2016
Capital assets not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ 80,048	\$ 80,048
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,048</u>	<u>80,048</u>
Capital assets being depreciated:					
Buildings	\$ -	\$ 763,744	\$ -	\$ 413,342	\$ 1,177,086
Total capital assets, being depreciated	<u>-</u>	<u>763,744</u>	<u>-</u>	<u>413,342</u>	<u>1,177,086</u>
Less accumulated depreciation for:					
Buildings	\$ -	(29,322)	-	(26,981)	(56,303)
Total accumulated depreciation	<u>-</u>	<u>(29,322)</u>	<u>-</u>	<u>(26,981)</u>	<u>(56,303)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>734,422</u>	<u>-</u>	<u>386,361</u>	<u>1,120,783</u>
Component units capital assets, net	<u>\$ -</u>	<u>\$ 734,422</u>	<u>\$ -</u>	<u>\$ 466,409</u>	<u>\$ 1,200,831</u>

* See Note 15 on prior period adjustment

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CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2016:

	Primary Government			Balance 6/30/2016	Current Portion
	Balance 6/30/2015	Additions	Retirements		
Governmental Activities:					
Bonds payable	\$ 11,515,000	\$ -	\$ (55,000)	\$ 11,460,000	\$ 575,000
Bond premiums	124,079	-	(5,186)	118,893	10,371
Total bonds payable	<u>11,639,079</u>	<u>-</u>	<u>(60,186)</u>	<u>11,578,893</u>	<u>585,371</u>
Loans payable	2,637,445	-	(43,737)	2,593,708	45,633
Capital leases	21,953	112,500	(7,641)	126,812	33,874
Net pension liability	* 5,328,416	117,639	-	5,446,055	-
Accrued compensated absences	350,549	79,242	(114,341)	315,450	80,000
Total Governmental Activities	<u>\$ 19,977,442</u>	<u>\$ 309,381</u>	<u>\$ (225,905)</u>	<u>\$ 20,060,918</u>	<u>\$ 744,878</u>
Business-Type Activities:					
Bonds payable	\$ 645,000	\$ -	\$ -	\$ 645,000	\$ 55,000
Less deferred amounts:					
Bond premiums	7,670	-	(384)	7,286	767
Total bonds payable	<u>652,670</u>	<u>-</u>	<u>(384)</u>	<u>652,286</u>	<u>55,767</u>
Loans payable	9,103,156	450,000	(544,494)	9,008,662	575,639
Capital leases	233,099	-	(46,444)	186,655	52,442
Net pension liability	* 1,660,340	25,453	-	1,685,793	-
Accrued compensated absences	105,127	38,828	(37,487)	106,468	40,000
Total Business-Type Activities	<u>\$ 11,754,392</u>	<u>\$ 514,281</u>	<u>\$ (628,809)</u>	<u>\$ 11,639,864</u>	<u>\$ 723,848</u>
Total Long-Term Liabilities	<u>\$ 31,731,834</u>	<u>\$ 823,662</u>	<u>\$ (854,714)</u>	<u>\$ 31,700,782</u>	<u>\$ 1,468,726</u>
			Component Unit		
	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016	Current Portion
Loans payable	<u>\$ -</u>	<u>699,976</u>	<u>(29,238)</u>	<u>670,738</u>	<u>60,141</u>
Total Long-Term Liabilities	<u>\$ -</u>	<u>\$ 699,976</u>	<u>\$ (29,238)</u>	<u>\$ 670,738</u>	<u>\$ 60,141</u>

* Prior year balances have been restated. See note 15.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Obligations, Continued

Long term debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 620,633	\$ 424,674	\$ 630,639	\$ 222,406	\$ 60,141	\$ 24,127
2018	697,611	405,514	651,597	207,274	62,437	21,831
2019	719,674	381,567	668,014	191,372	64,817	19,451
2020	746,827	359,885	667,905	175,309	67,292	16,976
2021	759,073	343,774	666,777	155,314	69,860	14,408
2022-2026	4,072,613	1,451,790	3,018,863	542,147	72,523	11,745
2027-2031	2,560,302	926,046	1,469,003	297,623	273,668	4,841
2032-2036	1,915,170	554,836	412,918	199,333	-	-
2037-2041	1,356,270	249,199	464,931	147,320	-	-
2042-2046	605,535	57,958	523,496	88,755	-	-
2047-2051	-	-	479,519	23,931	-	-
Totals	<u>\$ 14,053,708</u>	<u>\$ 5,155,243</u>	<u>\$ 9,653,662</u>	<u>\$ 2,250,784</u>	<u>\$ 670,738</u>	<u>\$ 113,379</u>

The following is a listing of long-term debt outstanding as of June 30, 2016:

Primary Government

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.

\$ 2,593,708

Total Governmental Activities

2,593,708

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.

2,348,191

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

1,756,094

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Obligations, Continued

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.	1,032,418
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.	430,933
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.	128,482
Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.112%, maturing July 1, 2030	450,000
Rural Development Authority loan due in monthly principal and interest installments of \$10,204, bearing interest at 2.375%, maturing July 15, 2050.	<u>2,862,544</u>
Total Business-Type Activities	<u>9,008,662</u>
Total Loans Payable	<u>\$ 11,602,370</u>

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	\$ 900,000
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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Obligations, Continued

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	<u>2,370,000</u>
Total Governmental Activities	<u>11,460,000</u>

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	<u>645,000</u>
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Total Bonds Payable	<u>\$ 12,105,000</u>
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Leases Payable:

Governmental Activities:

Lease payable in quarterly installments through March 2018, bearing interest at 4.95%	\$ 14,312
Lease payable in yearly installments through November 2020, bearing interest at 3.95%	<u>112,500</u>
Total Governmental Activities	126,812

Business-Type Activities:

Lease payable in monthly installments through April 2020, bearing interest at 2.78%	<u>186,655</u>
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Total Leases Payable	<u>313,467</u>
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Total Loans, Bonds and Leases Payable	24,020,837
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Net Pension Liabilities	7,131,848
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Accrued Vacation and Comp Time Payable	421,918
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Bond Premiums and Discounts, net	<u>126,179</u>
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Total Long-Term Debt	31,700,782
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Less Current Portion:	
Business-type Activities	(723,848)
Governmental-type Activities	<u>(744,878)</u>

Net Long-Term Debt	<u><u>\$ 30,232,056</u></u>
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CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 8. Long-Term Obligations, Continued

Component Unit

Loans Payable:

Miller Building Improvements Loan payable to 1st Bank Yuma guaranteed by the City of Somerton, due in 83 monthly installments of \$7,022, beginning January 12, 2022, and one principal and interest payment of \$245,575 on December 12, 2022, bearing interest at 3.75%, maturing on December 12, 2022.

\$ 670,738

Total Component Unit Long-Term Debt

670,738

Less Current Portion:

(60,141)

Net Component Unit Long-Term Debt

\$ 610,597

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

Note 9. Capital Leases Payable

The government has entered into lease agreements, which are considered capital leases in accordance with Financial Accounting Standard Board ASC 840-30-25. The total amount of equipment capitalized under the leases is \$384,732. Amortization on the capital leases is included in depreciation expense.

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$ 33,874	\$ 52,442
2018	31,726	52,442
2019	25,286	52,442
2020	25,286	39,331
2021	25,286	-
Total remaining minimum lease payments	<u>141,458</u>	<u>196,657</u>
Less amount representing interest	<u>(14,646)</u>	<u>(10,002)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 126,812</u></u>	<u><u>\$ 186,655</u></u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2016, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,151,290	\$ -
Capital Improvement Fund	-	(988,548)
Nonmajor funds:		
Debt Service Fund	-	(119,235)
Senior Center Fund	-	(29,857)
Court Fund	-	(13,650)
Total	\$ 1,151,290	\$ (1,151,290)

	Due from Component Unit	Due to Primary Government
Capital Improvement Fund	\$ 62,222	\$ -
Component Unit	-	(62,222)
Total	\$ 62,222	\$ (62,222)

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, 2016 are as follows:

	Transfers out:					Total Transfers in
	General	Highway User	Court Fund	Water	Sewer	
Transfer in:						
General Fund	\$ -	\$ -	\$ 13,650	\$ -	\$ -	\$ 13,650
Nonmajor Governmental Funds						
Miscellaneous Grants	27,060	-	-	-	-	27,060
Debt Service	638,633	120,000	-	8,000	8,000	774,633
Total transfers out	\$ 665,693	\$ 120,000	\$ 13,650	\$ 8,000	\$ 8,000	\$ 815,343

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, 2016

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, 2016, 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	\$ (4,012,837)	\$ (3,119,011)	\$ (7,131,848)
Deferred outflows of resources	439,200	1,180,518	1,619,718
Deferred inflows of resources	(356,628)	(668,762)	(1,025,390)
Pension expense	246,891	421,417	668,308

The City reported \$668,308 of pension expenditures in the 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, 2016

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 retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 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
2014	\$ 249,956	\$ 14,065	\$ 5,626
2015	258,403	13,993	2,846
2016	279,403	12,876	3,090

Pension liability – At June 30, 2016, the City reported a liability of \$4,012,837 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. 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, 2015. The City's proportion measured as of June 30, 2015, was 0.025760 percent, which was a decrease of 0.000155 percent from its proportion measured as of June 30, 2014.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 11. Retirement and Pension Plans, Continued

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$246,891. At June 30, 2016, 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	\$ 109,502	\$ 210,277
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	128,603
Changes in proportion and differences between contributions and proportional share of contributions	50,293	17,747
Contributions subsequent to the measurement date	279,403	-
Total	\$ 439,198	\$ 356,627

The \$279,403 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, 2017. 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
2017	(54,541)
2018	(140,584)
2019	(94,542)
2019	92,835
2020	-
Thereafter	-

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

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

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Arithmetic Real Rate of Return
Equity	58%	6.79%	3.94%
Fixed income	25%	3.70%	0.93%
Commodities	2%	4.25%	0.08%
Multi-asset	5%	3.41%	0.17%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.54%
	Inflation		3.25%
	Expected arithmetic nominal return		8.79%

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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	\$ 5,258,187	\$ 4,012,837	\$ 3,159,363

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). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) 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. A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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, 2016

Note 11. Retirement and Pension Plans, Continued

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS and CORP plans. The report is 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, 2016

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	
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. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 11. Retirement and Pension Plans, Continued

Employees covered by benefit terms – At June 30, 2016, 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	3	3	1
Inactive employees entitled to but not yet receiving benefits	5	3	2
Active employees	19	17	4
Total	27	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, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Active Members -Pension	11.65%	11.65%	7.96%
City			
Pension	22.17%	20.33%	27.63%
Health Insurance Premium Benefit	0.52%	0.37%	0.72%

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, 2016, were:

Pension	PSPRS Police	PSPRS Fire	CORP Dispatchers
Contributions made	\$ 232,978	\$ 176,521	\$ 39,226

Health Insurance Premium Benefit

Annual OPEB cost	5,090	3,702	1,324
Contributions made	5,090	3,702	1,324

Pension liability – At June 30, 2016, the City reported a net pension liability of \$1,415,788 for PSPRS Police, \$1,129,366 for PSPRS Fire, and \$573,857 for CORP Dispatchers. The net pension liabilities were measured as of June 30, 2015, 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, 2015, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the City’s net pension liability as a result of the statutory adjustments is not known.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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, 2015
Actuarial cost method	Individual Entry Age Normal
Investment rate of return	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, 2015, 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. 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 Expected Geometric Real Rate of Return	
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Rate of Return</u>
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term Inv.	2.00%	0.75%
Total	<u>100.00%</u>	

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 11. Retirement and Pension Plans, Continued

Discount Rate –The discount rate used to measure the PSPRS and CORP total pension liabilities was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between 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, 2016

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, 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 for the year:									
Service cost	170,091	-	170,091	187,423	-	187,423	25,339	-	25,339
Interest on total pension liability	366,673	-	366,673	291,160	-	291,160	77,670	-	77,670
Changes of benefit terms	-	-	-	-	-	-	-	-	-
Difference between expected and actual experience in the measurement of the pension liability	(196,861)	-	(196,861)	(136,597)	-	(136,597)	(25,832)	-	(25,832)
Changes of assumptions	-	-	-	-	-	-	-	-	-
Contributions - employer	-	166,006	(166,006)	-	155,837	(155,837)	-	37,216	(37,216)
Contributions - employee	-	102,364	(102,364)	-	97,766	(97,766)	-	13,596	(13,596)
Net investment income	-	121,631	(121,631)	-	95,426	(95,426)	-	16,191	(16,191)
Benefit payments, including refunds of employee contributions	(231,391)	(231,391)	-	(124,729)	(124,729)	-	(32,389)	(32,389)	-
Plan Administrative Expense	-	(3,347)	3,347	-	(2,711)	2,711	-	(787)	787
Other*	-	(2,539)	2,539	-	(1,998)	1,998	-	(345)	345
Net changes	108,512	152,724	(44,212)	217,257	219,591	(2,334)	44,788	33,482	11,306
Balances at June 30, 2016	\$ 4,810,151	\$ 3,394,363	\$ 1,415,788	\$ 3,894,959	\$ 2,765,593	\$ 1,129,366	\$ 1,037,736	\$ 463,879	\$ 573,857

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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 of 7.85 percent, 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 (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	1% Decrease 6.85%	Current Discount Rate 7.85%	1% Increase 8.85%
PSPRS Police			
Net pension (asset) / liability	\$ 2,058,382	\$ 1,415,788	\$ 884,963
PSPRS Fire			
Net pension (asset) / liability	1,681,309	1,129,366	675,129
CORP Dispatchers			
Net pension (asset) / liability	723,824	573,857	451,177

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, 2016, the City recognized the following pension expense:

	Pension Expense
PSPRS Police	\$ 170,259
PSPRS Fire	189,580
CORP Dispatchers	61,578

Pension deferred outflows/inflows of resources – At June 30, 2016, 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	\$ -	\$ 327,586	\$ 22,825	\$ 121,534
Changes in assumptions	258,813	-	166,470	-
Net difference between projected and actual earnings on pension plan investments	107,246	94,278	87,447	72,837
Contributions subsequent to the measurement date	232,978	-	176,521	-
Total	<u>\$ 599,037</u>	<u>\$ 421,864</u>	<u>\$ 453,263</u>	<u>\$ 194,371</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 11. Retirement and Pension Plans, Continued

	CORP Dispatchers	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 40,129
Changes in assumptions	74,372	-
Net difference between projected and actual earnings on pension plan investments	14,619	12,398
Contributions subsequent to the measurement date	39,226	-
Total	\$ 128,217	\$ 52,527

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, 2017. 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
2017	\$ (14,338)	\$ 8,789	\$ 5,498
2018	(14,338)	8,789	5,498
2019	(14,338)	8,789	5,499
2020	17,086	33,067	9,630
2021	(12,872)	11,206	5,976
Thereafter	(17,005)	11,731	4,363

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, 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, 2016

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 2016 contribution requirements:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
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%

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	2014	\$ 14,014	100%	-
	2015	15,552	100%	-
	2016	5,090	100%	-
PSPRS Fire	2014	10,418	100%	-
	2015	11,285	100%	-
	2016	3,702	100%	-
CORP Dispatchers	2014	2,863	100%	-
	2015	1,902	100%	-
	2016	1,324	100%	-

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

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, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Actuarial accrued liability (AAL)	\$ 164,079	\$ 123,296	\$ 26,709
Actuarial value of plan assets	195,478	129,338	16,743
Unfunded actuarial accrued liability (UAAL)	<u>\$ (31,399)</u>	<u>\$ (6,042)</u>	<u>\$ 9,966</u>
Funded ratio (actuarial value of plan assets/AAL)	119.14%	104.90%	62.69%
Covered payroll (active plan members)	\$ 957,413	\$ 883,152	\$ 143,534
UAAL as a percentage of covered payroll	0.00%	0.00%	6.94%

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, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market 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, 2016

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, 2016.

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

Project	Estimated Cost	Construction in Progress
City Streets (various projects)	\$1.72 million	\$581,113
City Hall	\$3.20 million	\$771,061
Mesa Water Supply	\$1.86 million	\$1,396,383
Valley Vista Wastewater	\$1.32 million	\$167,287

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 2016.

Related Party	Relationship	Goods or Services	Total Purchases
Yepez Auto Parts	City Council Member	Auto parts and supplies	\$4,223

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2016

Note 15. Prior Period Adjustment

The allocation of the ASRS deferred outflow, deferred inflow, and net pension liability between the funds was miscalculated on the 2015 financial statements. The City recorded a prior period adjustment in fiscal year 2016 for (\$27,706) in the governmental activities of the government-wide statement and (\$87,082), \$467,075, and (\$352,287) in the water, sewer, and sanitation funds respectively to recognize the proper allocation of these balances in each fund.

The City sold assets to the Industrial Development Authority in 2015 that weren't removed from the 2015 financial statements. The City recorded a prior period adjustment in fiscal year 2016 for \$466,409 to remove these assets from the City's books and record them in the Industrial Development Authority component unit.

Note 16. Segment Information

Segment information for the Industrial Development Authority is disclosed below. Segment information for the other proprietary funds is disclosed in the basic financial statements.

	6/30/2016
Operating Revenues	\$ 131,177
Depreciation	(29,323)
Operating Expenses	(95,091)
Change in Net Position	6,763
Beginning Net Position	466,409
Ending Net Position	473,172
Capital Asset Additions	763,774
Net Working Capital	(56,921)
Total Assets	1,209,900
Current Liabilities	3,768
Due to Primary Government	62,222
Total Long-Term Liabilities	670,738
Net Position	
Net Investment in Capital Assets	530,093
Unrestricted	(56,921)
Total Net Position	473,172
 <u>Condensed Statement of Cash Flows</u>	
Net Cash Flows from:	
Operating Activities	60,011
Noncapital Financing Activities	62,222
Capital and Related Financing Activities	(113,164)
Net Increase (Decrease)	9,069
Beginning Cash and Cash Equivalents	-
Ending Cash and Cash Equivalents	\$ 9,069

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERTON, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.025760%	0.025915%
Proportionate share of the net pension liability (asset)	\$ 4,012,837	\$ 3,834,505
Covered payroll	\$ 590,087	\$ 537,582
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	680.04%	713.29%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

Note: GASB 68 requires employers to disclose a 10-year history in RSI. 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, 2016

	PSPRS Police		PSPRS Fire		CORP Dispatchers	
	Reporting Fiscal Year (Measurement Date)					
	2016 (2015)	2015 (2014)	2016 (2015)	2015 (2014)	2016 (2015)	2015 (2014)
Total pension liability						
Service cost	\$ 170,091	\$ 170,215	\$ 187,423	\$ 196,663	\$ 25,339	\$ 25,952
Interest on total pension liability	366,673	325,990	291,160	244,311	77,670	66,412
Changes of benefit terms	-	46,240	-	25,311	-	7,639
Difference between expected and actual experience of the total net pension liability	(196,861)	(227,043)	(136,597)	29,159	(25,832)	(24,442)
Changes of assumptions	-	365,659	-	212,674	-	100,296
Benefit payments, including refunds of employee contributions	(231,391)	(94,104)	(124,729)	(88,662)	(32,389)	(31,882)
Net change in total pension liability	108,512	586,957	217,257	619,456	44,788	143,975
Total pension liability - beginning	4,701,639	4,114,682	3,677,702	3,058,246	992,948	848,973
Total pension liability - ending (a)	\$ 4,810,151	\$ 4,701,639	\$ 3,894,959	\$ 3,677,702	\$ 1,037,736	\$ 992,948
Plan fiduciary net position						
Contributions - employer	\$ 166,006	\$ 156,039	\$ 155,837	\$ 173,752	\$ 37,216	\$ 31,926
Contributions - employee	102,364	91,866	97,766	99,020	13,596	13,532
Net investment income	121,631	384,311	95,426	296,911	16,191	50,758
Benefit payments, including refunds of employee contributions	(231,391)	(94,104)	(124,729)	(88,662)	(32,389)	(31,882)
Plan administrative expense	(3,347)	-	(2,711)	-	(787)	-
Other (net transfer)	(2,539)	(3,095)	(1,998)	(2,392)	(345)	(399)
Net change in plan fiduciary net position	152,724	535,017	219,591	478,629	33,482	63,935
Plan fiduciary net position - beginning	3,241,639	2,706,622	2,546,002	2,067,373	430,397	366,462
Plan fiduciary net position - ending (b)	\$ 3,394,363	\$ 3,241,639	\$ 2,765,593	\$ 2,546,002	\$ 463,879	\$ 430,397
Net pension liability - ending (a) - (b)	\$ 1,415,788	\$ 1,460,000	\$ 1,129,366	\$ 1,131,700	\$ 573,857	\$ 562,551
Plan fiduciary net position as a percentage of the total pension liability	70.57%	68.95%	71.00%	69.23%	44.70%	43.35%
Covered payroll	\$ 957,413	\$ 904,992	\$ 883,152	\$ 925,129	\$ 143,534	\$ 170,002
Net pension liability as a percentage of covered payroll	147.88%	161.33%	127.88%	122.33%	399.81%	330.91%

Note: GASB 68 requires employers to disclose a 10-year history in RSI. 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
June 30, 2016

Arizona State Retirement System

Year Ended June 30, (Measurement Date)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll*	Actual Contribution as a % of Covered Valuation Payroll
2014	\$ 249,956	\$ 249,956	\$ -	\$ 537,582	46.50%
2015	258,403	258,403	-	590,087	43.79%

Note: GASB 68 requires employers to disclose a 10-year history in RSI. 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, 2016

	<u>Year Ended June 30,</u>	<u>Actuarially Determined Contribution</u>		<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Valuation Payroll*</u>	<u>Actual Contribution as a % of Covered Valuation Payroll</u>
PSPRS Police							
	2014	\$ 156,039 **	\$	156,039	\$ -	\$ 904,992	17.24%
	2015	166,006 **		166,006	-	957,413	17.34%
PSPRS Fire							
	2014	\$ 173,752 **	\$	173,752	\$ -	\$ 925,129	18.78%
	2015	155,837 **		155,837	-	883,152	17.65%
CORP Dispatchers							
	2014	\$ 31,926 **	\$	31,926	\$ -	\$ 170,002	18.78%
	2015	37,216 **		37,216	-	143,534	25.93%

* Does not necessarily represent Covered Employee Payroll as defined in GASB Statement Nos. 67-68

** Actual contributions are based on covered payroll at the time of contribution. It is the actuary's understanding that the Employer's practice is to contribute the percent-of-payroll employer contribution rate (or flat dollar amount if there are no active employees) shown in the actuarial valuation report. Because of this understanding, the Actuarially Determined Contributions shown in the Schedule of Employer contributions are the actual contributions made by the Employer in the fiscal year.

Note: GASB 68 requires employers to disclose a 10-year history in RSI. 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
Notes to the Pension Plan Schedules
June 30, 2016

NOTE 1. Change in Accounting Principle

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

NOTE 2. 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	22 years for unfunded actuarial accrued liability; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market 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 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. 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 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. 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, 2016

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	2013	\$ -	\$ 165,037	\$ 165,037	0.0%	\$ 901,334	18.31%
Police	2014	174,253	178,127	3,874	97.83%	904,993	0.43%
	2015	195,478	164,079	(31,399)	119.14%	957,413	0.00%
	2016	**	**	**	**	**	**
PSPRS	2013	-	104,619	104,619	0.00%	974,872	10.73%
Fire	2014	115,613	111,323	(4,290)	103.85%	925,129	0.00%
	2015	129,338	123,296	(6,042)	104.90%	883,152	0.00%
	2016	**	**	**	**	**	**
CORP	2013	-	23,173	23,173	0.00%	170,798	13.57%
Dispatchers	2014	14,268	26,289	12,021	54.27%	170,002	7.07%
	2015	16,743	26,709	9,966	62.69%	143,534	6.94%
	2016	**	**	**	**	**	**

** The June 30, 2016 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, 2016

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.

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, 2016

REVENUES:	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Taxes:				
City sales tax	\$ 1,613,407	\$ 1,613,407	\$ 1,863,046	\$ 249,639
Franchise fees	100,000	100,000	68,921	(31,079)
Property taxes	584,045	584,045	559,938	(24,107)
Special assessments	137,912	137,912	145,913	8,001
Total taxes	2,435,364	2,435,364	2,637,818	202,454
Licenses, Permits and Fees:				
Parks development fees	172,552	172,552	302,416	129,864
Building permits	55,000	55,000	180,811	125,811
Liquor license	1,650	1,650	-	(1,650)
Business licenses	28,574	28,574	23,495	(5,079)
Total licenses, fees and permits	257,776	257,776	506,722	248,946
Intergovernmental:				
State sales taxes	1,364,881	1,364,881	1,353,100	(11,781)
State revenue sharing	1,720,153	1,720,153	1,729,910	9,757
Auto lieu tax	538,688	538,688	561,557	22,869
Grants	1,624,789	1,624,789	-	(1,624,789)
Cocopah obligation	870,431	870,431	529,841	(340,590)
Total intergovernmental	6,118,942	6,118,942	4,174,408	(1,944,534)
Charges for Services:				
Rent revenues	176,712	176,712	14,170	(162,542)
Ambulance fees	2,640,669	2,640,669	2,441,010	(199,659)
Reimbursements	163,920	163,920	29,911	(134,009)
Miscellaneous fees and charges	330,715	330,715	220,694	(110,021)
Total charges for services	3,312,016	3,312,016	2,705,785	(606,231)
Fines and Forfeitures:				
Fines and forfeitures	152,400	152,400	144,167	(8,233)
Total fines and forfeitures	152,400	152,400	144,167	(8,233)
Interest				
Investment earnings	1,700	1,700	5,923	4,223
Total interest	1,700	1,700	5,923	4,223
Other Revenues:				
Donations	13,000	13,000	10,000	(3,000)
Miscellaneous	34,005	34,005	25,986	(8,019)
Total other revenues	47,005	47,005	35,986	(11,019)
TOTAL REVENUES	\$ 12,325,203	\$ 12,325,203	\$ 10,210,809	\$ (2,114,394)

(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, 2016

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Mayor and council	\$ 677,156	\$ 677,156	\$ 304,177	\$ 372,979
Administration	869,913	869,913	616,644	253,269
Finance	412,421	412,421	327,077	85,344
City clerk	52,285	52,285	23,559	28,726
Court	390,266	390,266	358,172	32,094
Total general government	2,402,041	2,402,041	1,629,629	772,412
Public Safety:				
Police	3,167,356	3,167,356	2,104,113	1,063,243
Fire and ambulance	3,634,971	3,634,971	2,459,193	1,175,778
Animal control	150,063	150,063	122,673	27,390
Total public safety	6,952,390	6,952,390	4,685,979	2,266,411
Public Works/Streets:				
Assessment districts	162,312	162,312	179,091	(16,779)
Total public works/streets	162,312	162,312	179,091	(16,779)
Culture and Recreation:				
Parks and recreation	1,639,957	1,639,957	1,178,827	461,130
Youth center	90,387	90,387	67,551	22,836
Total culture and recreation	1,730,344	1,730,344	1,246,378	483,966
Economic Development:				
Community development	222,493	222,493	199,322	23,171
Economic development	283,533	283,533	239,867	43,666
Total economic development	506,026	506,026	439,189	66,837
TOTAL EXPENDITURES	11,753,113	11,753,113	8,180,266	3,572,847
Excess of revenues over expenditures	572,090	572,090	2,030,543	1,458,453
Other Financing Sources (Uses):				
Lease proceeds	-	-	112,500	112,500
Transfers out	(638,633)	(638,633)	(665,693)	(27,060)
Transfers in	-	-	13,650	13,650
Total other financing sources (uses)	(638,633)	(638,633)	(539,543)	99,090
Net change in fund balance	(66,543)	(66,543)	1,491,000	1,557,543
Fund balance, beginning of year	3,231,505	3,231,505	3,231,505	-
Fund balance, end of year	\$ 3,164,962	\$ 3,164,962	\$ 4,722,505	\$ 1,557,543

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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.

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 5,476,927	\$ 5,476,927	\$ 419,521	\$ (5,057,406)
Interest revenue	-	-	2,976	2,976
Total revenue	<u>5,476,927</u>	<u>5,476,927</u>	<u>422,497</u>	<u>(5,054,430)</u>
EXPENDITURES:				
Capital outlay	<u>12,359,927</u>	<u>12,359,927</u>	<u>1,114,669</u>	<u>11,245,258</u>
Total expenditures	<u>12,359,927</u>	<u>12,359,927</u>	<u>1,114,669</u>	<u>11,245,258</u>
Net change in fund balance	(6,883,000)	(6,883,000)	(692,172)	6,190,828
Fund balance, beginning of year	<u>4,823,744</u>	<u>4,823,744</u>	<u>4,823,744</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (2,059,256)</u>	<u>\$ (2,059,256)</u>	<u>\$ 4,131,572</u>	<u>\$ 6,190,828</u>

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.

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

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
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue				Debt Service	Total
	Highway User Revenue Fund	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
ASSETS						
Cash	\$ 946,328	\$ -	\$ 55,840	\$ 3,142	\$ 32,921	\$ 1,038,231
Accounts receivable	-	-	166	-	-	166
Due from other governments	98,421	44,812	-	37,670	-	180,903
Inventory	5,102	-	-	-	-	5,102
Restricted cash and investments	-	42,708	-	-	67,919	110,627
Total assets	<u>\$ 1,049,851</u>	<u>\$ 87,520</u>	<u>\$ 56,006</u>	<u>\$ 40,812</u>	<u>\$ 100,840</u>	<u>\$ 1,335,029</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 63,508	\$ 1,330	\$ 23,785	\$ 4,109	\$ -	\$ 92,732
Accrued wages and benefits	2,692	1,276	-	917	-	4,885
Due to other funds	-	-	13,650	29,857	119,235	162,742
Total liabilities	<u>66,200</u>	<u>2,606</u>	<u>37,435</u>	<u>34,883</u>	<u>119,235</u>	<u>260,359</u>
Fund Balance:						
Restricted for:						
General government	-	-	18,571	-	-	18,571
Public safety	-	84,914	-	-	-	84,914
Public works/streets	983,651	-	-	-	-	983,651
Committed to:						
Health and welfare	-	-	-	5,929	-	5,929
Unassigned:	-	-	-	-	(18,395)	(18,395)
Total fund balance (deficit)	<u>983,651</u>	<u>84,914</u>	<u>18,571</u>	<u>5,929</u>	<u>(18,395)</u>	<u>1,074,670</u>
Total liabilities and fund balance	<u>\$ 1,049,851</u>	<u>\$ 87,520</u>	<u>\$ 56,006</u>	<u>\$ 40,812</u>	<u>\$ 100,840</u>	<u>\$ 1,335,029</u>

CITY OF SOMERTON, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2016

	Special Revenue				Debt Service	Total
	Highway User Revenue Fund	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
REVENUES:						
Intergovernmental	\$ 1,138,900	\$ 192,823	\$ -	\$ 130,080	\$ -	\$ 1,461,803
Fines and forfeitures	-	-	5,263	-	-	5,263
Interest	-	-	-	-	1,602	1,602
Other revenues	40	28,949	13,649	29,569	-	72,207
Total revenues	<u>1,138,940</u>	<u>221,772</u>	<u>18,912</u>	<u>159,649</u>	<u>1,602</u>	<u>1,540,875</u>
EXPENDITURES:						
Public safety	-	240,622	-	-	-	240,622
Public works/streets	897,904	-	-	-	-	897,904
Health and welfare	-	-	-	176,105	-	176,105
Debt Service	-	-	-	-	408,960	408,960
Total expenditures	<u>897,904</u>	<u>240,622</u>	<u>-</u>	<u>176,105</u>	<u>408,960</u>	<u>1,723,591</u>
Excess of revenues over (under) expenditures	<u>241,036</u>	<u>(18,850)</u>	<u>18,912</u>	<u>(16,456)</u>	<u>(407,358)</u>	<u>(182,716)</u>
Other Financing Sources (Uses):						
Transfers in	-	27,060	-	-	774,633	801,693
Transfers out	<u>(120,000)</u>	<u>-</u>	<u>(13,650)</u>	<u>-</u>	<u>-</u>	<u>(133,650)</u>
Total other financing sources (uses):	<u>(120,000)</u>	<u>27,060</u>	<u>(13,650)</u>	<u>-</u>	<u>774,633</u>	<u>668,043</u>
Net change in fund balances	121,036	8,210	5,262	(16,456)	367,275	485,327
Fund balance, beginning of year	<u>862,615</u>	<u>76,704</u>	<u>13,309</u>	<u>22,385</u>	<u>(385,670)</u>	<u>589,343</u>
Fund balance (deficit), end of year	<u>\$ 983,651</u>	<u>\$ 84,914</u>	<u>\$ 18,571</u>	<u>\$ 5,929</u>	<u>\$ (18,395)</u>	<u>\$ 1,074,670</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:			
Intergovernmental revenue	\$ 1,089,620	\$ 1,138,900	\$ 49,280
Other Revenue	-	40	40
Total revenue	<u>1,089,620</u>	<u>1,138,940</u>	<u>49,320</u>
EXPENDITURES:			
Salaries	297,170	235,901	61,269
Employee benefits	213,387	191,416	21,971
Services, supplies, and other	694,440	464,757	229,683
Capital outlay	91,626	5,830	85,796
Total expenditures	<u>1,296,623</u>	<u>897,904</u>	<u>398,719</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(207,003)</u>	<u>241,036</u>	<u>448,039</u>
Other Financing Sources (Uses):			
Transfers out	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Total other financing sources (uses):	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Net change in fund balance	(327,003)	121,036	448,039
Fund balance, beginning of year	<u>862,615</u>	<u>862,615</u>	<u>-</u>
Fund balance, end of year	<u>\$ 535,612</u>	<u>\$ 983,651</u>	<u>\$ 448,039</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:			
Intergovernmental revenue	\$ 587,409	\$ 192,823	\$ (394,586)
Other revenue	<u>50,000</u>	<u>28,949</u>	<u>(21,051)</u>
Total revenue	<u>637,409</u>	<u>221,772</u>	<u>(415,637)</u>
EXPENDITURES:			
Salaries	586,298	136,812	449,486
Employee benefits	36,110	60,893	(24,783)
Services, supplies, and other	15,000	20,739	(5,739)
Capital outlay	<u>-</u>	<u>22,178</u>	<u>(22,178)</u>
Total expenditures	<u>637,408</u>	<u>240,622</u>	<u>396,786</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>1</u>	<u>(18,850)</u>	<u>(18,851)</u>
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>27,060</u>	<u>27,060</u>
Net change in fund balance	1	8,210	8,209
Fund balance, beginning of year	<u>76,704</u>	<u>76,704</u>	<u>-</u>
Fund balance, end of year	<u>\$ 76,705</u>	<u>\$ 84,914</u>	<u>\$ 8,209</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, 2016

	Final Budget	Actual	Variance with Final Budget
REVENUES:			
Fines and forfeitures	\$ 5,360	\$ 5,263	\$ (97)
Other revenue	-	13,649	13,649
Total revenue	<u>5,360</u>	<u>18,912</u>	<u>13,552</u>
EXPENDITURES:			
Services, supplies, and other	<u>5,360</u>	<u>-</u>	<u>5,360</u>
Total expenditures	<u>5,360</u>	<u>-</u>	<u>5,360</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>-</u>	<u>18,912</u>	<u>18,912</u>
Other Financing Sources (Uses):			
Transfers out	<u>-</u>	<u>(13,650)</u>	<u>(13,650)</u>
Net change in fund balance	-	5,262	5,262
Fund balance, beginning of year	<u>13,309</u>	<u>13,309</u>	<u>-</u>
Fund balance, end of year	<u>\$ 13,309</u>	<u>\$ 18,571</u>	<u>\$ 5,262</u>

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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:			
Intergovernmental revenue	\$ 127,056	\$ 130,080	\$ 3,024
Donations and other revenue	<u>51,361</u>	<u>29,569</u>	<u>(21,792)</u>
Total revenue	<u>178,417</u>	<u>159,649</u>	<u>(18,768)</u>
EXPENDITURES:			
Salaries	70,566	68,515	2,051
Employee benefits	34,237	30,083	4,154
Services, supplies, and other	<u>84,105</u>	<u>77,507</u>	<u>6,598</u>
Total expenditures	<u>188,908</u>	<u>176,105</u>	<u>12,803</u>
Net change in fund balance	(10,491)	(16,456)	(5,965)
Fund balance, beginning of year	<u>22,385</u>	<u>22,385</u>	<u>-</u>
Fund balance, end of year	<u>\$ 11,894</u>	<u>\$ 5,929</u>	<u>\$ (5,965)</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, 2016

	Final Budget	Actual	Variance with Final Budget
REVENUES:			
Interest	\$ -	\$ 1,602	\$ (1,602)
Total revenue	<u>-</u>	<u>1,602</u>	<u>(1,602)</u>
EXPENDITURES:			
Debt service - principal	384,997	98,738	286,259
Debt service - interest	<u>389,636</u>	<u>310,222</u>	<u>79,414</u>
Total expenditures	<u>774,633</u>	<u>408,960</u>	<u>365,673</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(774,633)</u>	<u>(407,358)</u>	<u>364,071</u>
Other Financing Sources (Uses):			
Transfers in	<u>774,633</u>	<u>774,633</u>	<u>-</u>
Total other financing sources (uses)	<u>774,633</u>	<u>774,633</u>	<u>-</u>
Net change in fund balance	-	367,275	364,071
Fund balance, beginning of year	<u>(385,670)</u>	<u>(385,670)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (385,670)</u></u>	<u><u>\$ (18,395)</u></u>	<u><u>\$ 364,071</u></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, 2016 and 2015

	2016	2015
Capital assets:		
Land	\$ 904,486	\$ 984,534
Buildings and Improvements	6,142,037	6,555,379
Improvements	2,170,854	2,058,354
Furniture and Equipment	2,415,001	2,397,812
Vehicles	3,306,448	3,254,653
Infrastructure/Streets	16,799,630	16,295,427
Construction in Progress	1,380,599	625,409
	\$ 33,119,055	\$ 32,171,568
 Investment in capital assets by source:		
Investment in property acquired by all sources excluding donations	\$ 29,790,201	\$ 28,842,714
Donations	3,328,854	3,328,854
	\$ 33,119,055	\$ 32,171,568

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2016

<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	\$ 587,234	\$ 414,132	\$ -	\$ 167,953	\$ 125,623	\$ -	\$ 771,061	\$ 2,066,003
Highways and Streets	6,000	-	19,050	307,102	517,861	16,568,086	581,113	17,999,212
Public Safety	-	3,845,216	784,387	1,685,391	2,606,839	-	-	8,921,833
Culture and Recreation	311,252	1,137,718	1,174,357	244,540	56,125	231,544	28,425	3,183,961
Health and Welfare	-	744,971	193,060	10,015	-	-	-	948,046
Totals	<u>\$ 904,486</u>	<u>\$ 6,142,037</u>	<u>\$ 2,170,854</u>	<u>\$ 2,415,001</u>	<u>\$ 3,306,448</u>	<u>\$ 16,799,630</u>	<u>\$ 1,380,599</u>	<u>\$ 33,119,055</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, 2016

	Capital Assets <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Capital Assets <u>June 30, 2016</u>
<u>Function and Activity</u>					
General Government	\$ 1,946,096	\$ 1,377,041	\$ -	\$ (1,257,134)	\$ 2,066,003
Highways and Streets	17,371,774	627,438	-	-	17,999,212
Public Safety	8,908,662	13,171	-	-	8,921,833
Culture and Recreation	2,996,990	186,971	-	-	3,183,961
Health and Welfare	948,046	-	-	-	948,046
Totals	<u>\$ 32,171,568</u>	<u>\$ 2,204,621</u>	<u>\$ -</u>	<u>\$ (1,257,134)</u>	<u>\$ 33,119,055</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	90
<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	94
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity	95
<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.....	96
<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	97
<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>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>	<u>2016</u>
Governmental activities										
Net investment in capital assets	\$ 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	\$ 4,762,234
Restricted	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	5,264,741
Unrestricted	<u>611,045</u>	<u>(3,273,849)</u>	<u>(3,162,059)</u>	<u>(2,676,083)</u>	<u>(2,090,502)</u>	<u>(671,385)</u>	<u>1,108,754</u>	<u>1,836,853</u>	<u>(1,706,519)</u>	<u>(196,866)</u>
Total governmental activities net position	<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>	<u>\$ 9,830,109</u>
Business-type activities										
Net investment in capital assets	\$ 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	\$ 17,458,221
Restricted	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	1,558,256
Unrestricted	<u>947,387</u>	<u>970,899</u>	<u>570,584</u>	<u>232,729</u>	<u>1,130,746</u>	<u>1,164,853</u>	<u>2,271,166</u>	<u>2,053,834</u>	<u>(63,474)</u>	<u>(498,839)</u>
Total business-type activities net position	<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>	<u>\$ 18,517,638</u>
Primary government										
Net investment in capital assets	\$ 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	\$ 22,220,455
Restricted	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	6,822,997
Unrestricted	<u>1,558,432</u>	<u>(2,302,950)</u>	<u>(2,591,475)</u>	<u>(2,443,354)</u>	<u>(959,756)</u>	<u>493,468</u>	<u>3,379,920</u>	<u>3,890,687</u>	<u>(1,769,993)</u>	<u>(695,705)</u>
Total primary government net position	<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>	<u>\$ 28,347,747</u>

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$ 837,403	\$ 948,716	\$ 1,028,049	\$ 706,034	\$ 869,252	\$ 1,037,183	\$ 1,029,378	\$ 1,258,932	\$ 1,263,799	\$ 1,606,583
Public safety	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	5,232,207
Public works/Streets	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	1,783,546
Culture and recreation	689,110	790,428	719,824	627,497	633,493	681,096	842,621	795,215	1,142,023	1,196,707
Economic development	276,780	317,203	259,336	202,788	164,123	196,998	279,406	246,595	252,849	438,116
Health and welfare	-	-	-	205,878	207,466	197,037	176,147	193,620	211,041	211,667
Interest on long-term debt	338,630	642,710	452,399	423,057	403,368	398,679	421,377	268,312	432,600	419,808
Total governmental activities expenses	6,468,508	8,038,727	7,849,989	7,536,966	7,642,702	8,176,368	9,252,380	9,575,686	10,338,538	10,888,634
Business-type activities:										
Water/Sewer/Sanitation	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	4,798,850
Total business-type activities expenses	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	4,798,850
Total primary government expenses	\$ 9,573,474	\$ 11,772,750	\$ 11,562,253	\$ 11,333,226	\$ 12,026,578	\$ 12,410,996	\$ 13,637,163	\$ 14,313,122	\$ 15,237,723	\$ 15,687,484
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General government	\$ 807,144	\$ 832,033	\$ 825,918	\$ 870,346	\$ 765,279	\$ 189,960	\$ 227,730	\$ 288,205	\$ 256,772	\$ 399,280
Public safety	114,436	113,924	111,685	119,355	75,935	891,207	1,472,856	1,474,487	3,101,258	2,376,712
Public works/Streets	37,545	39,392	35,709	27,574	13,137	16,954	23,296	77,197	73,531	119,934
Culture and recreation	80,365	87,052	122,436	130,494	125,844	155,664	256,900	318,298	435,736	430,543
Operating grants & contributions	1,383,842	1,420,474	1,391,142	1,626,008	1,664,109	1,857,861	1,751,945	1,747,867	1,896,810	2,029,451
Capital grants & contributions	2,470,948	4,011,389	745,256	241,353	301,340	100,844	824,428	155,084	498,512	429,521
Total governmental activities program revenues	4,894,280	6,504,264	3,232,146	3,015,130	2,945,644	3,212,490	4,557,155	4,061,138	6,262,619	5,785,441
Business-type activities:										
Charges for services:										
Water/Sewer/Sanitation	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	3,665,456
Operating grants & contributions	-	-	-	-	-	-	-	-	-	-
Capital grants & contributions	2,361,831	3,823,575	716,835	873,091	2,075,134	1,727,748	645,416	539,360	452,595	1,578,662
Total business-type activities program revenues	4,528,546	6,279,764	3,351,115	3,747,961	5,226,957	5,029,823	3,998,032	3,972,149	4,128,746	5,244,118
Total primary government program revenues	\$ 9,422,826	\$ 12,784,028	\$ 6,583,261	\$ 6,763,091	\$ 8,172,601	\$ 8,242,313	\$ 8,555,187	\$ 8,033,287	\$ 10,391,365	\$ 11,029,559
Net (Expense)/Revenue										
Governmental activities	\$ (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)	\$ (5,103,193)
Business-type activities	1,423,580	2,545,741	(361,149)	(48,299)	843,081	795,195	(386,751)	(765,287)	(770,439)	445,268
Total primary governmental net (expense) revenue	\$ (150,648)	\$ 1,011,278	\$ (4,978,992)	\$ (4,570,135)	\$ (3,853,977)	\$ (4,168,683)	\$ (5,081,976)	\$ (6,279,835)	\$ (4,846,358)	\$ (4,657,925)
General Revenues & Other Changes in Net Position										
Government activities:										
Taxes										
City sales tax	\$ 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	\$ 1,863,046
State sales tax	926,710	896,064	775,741	715,508	775,953	1,116,391	1,169,429	1,243,580	1,305,671	1,353,100
Property Tax	266,572	294,443	359,745	387,379	461,169	445,863	482,755	498,480	562,771	565,422
Auto lieu tax	381,884	385,030	376,184	360,552	360,782	496,042	458,780	490,479	515,583	561,557
Franchise tax	111,534	124,183	129,840	138,113	153,146	175,842	187,552	100,212	60,190	68,921
State income taxes - revenue sharing	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	1,729,910
Unrestricted grants & contributions	-	-	-	-	-	-	-	-	-	-
Investment earnings	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,214	7,525
Miscellaneous	17,107	-	-	187	1,050	166,479	3,628	-	-	-
Transfers	44,815	59,519	38,509	39,697	50,200	22,400	21,947	16,000	16,000	16,000
Total governmental activities	4,090,485	4,799,258	4,161,003	3,967,196	4,130,593	4,978,780	5,188,338	5,474,402	5,906,827	6,165,481
Business-type activities										
Investment earnings	62,069	60,276	19,102	2,139	1,001	(36,862)	1,130	1,535	1,384	2,454
Transfers	(44,815)	(59,519)	(38,509)	(39,697)	(50,200)	(22,400)	(21,947)	(16,000)	(16,000)	(16,000)
Total business-type activities	17,254	757	(19,407)	(37,558)	(49,199)	(59,262)	(20,817)	(14,465)	(14,616)	(13,546)
Total primary government	\$ 4,107,739	\$ 4,800,015	\$ 4,141,596	\$ 3,929,638	\$ 4,081,394	\$ 4,919,518	\$ 5,167,521	\$ 5,459,937	\$ 5,892,211	\$ 6,151,935
Change in Net Position										
Governmental activities	\$ 2,516,257	\$ 3,264,795	\$ (456,840)	\$ (554,640)	\$ (566,465)	\$ 14,902	\$ 493,113	\$ (40,146)	\$ 1,830,908	\$ 1,062,288
Business-type activities	1,440,834	2,546,498	(380,556)	(85,857)	793,882	735,933	(407,568)	(779,752)	(785,055)	431,722
Total primary government	\$ 3,957,091	\$ 5,811,293	\$ (837,396)	\$ (640,497)	\$ 227,417	\$ 750,835	\$ 85,545	\$ (819,898)	\$ 1,045,853	\$ 1,494,010

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

	Fiscal Year									
	<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>	<u>2016</u>
General Fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,167	\$ 52,724	\$ 86,414
Reserved/restricted	27,301	40,119	56,093	67,861	50,839	23,782	9,446	23,170	36,033	46,033
Unreserved/unassigned	825,945	843,929	754,467	742,725	872,052	1,440,298	1,674,948	1,250,628	3,142,748	4,590,058
Total General Fund	<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>	<u>\$ 4,722,505</u>
All Other Governmental Funds										
Reserved/restricted	\$ 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	\$ 5,218,708
Committed/Unreserved/unassigned, reported in:										
Court trust fund	112,337	112,874	-	-	-	-	-	-	-	-
Special Revenue Funds	-	-	-	-	3,400	530	23,141	18,718	22,385	5,929
HURF Funds	-	-	-	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	14,066	16,105	7,386	50,169	(385,670)	(18,395)
Total all other governmental funds	<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>	<u>\$ 5,206,242</u>

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

	Fiscal year									
	<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>	<u>2016</u>
Revenues										
Taxes	\$ 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	\$ 2,637,818
Licenses, fees and permits	317,462	291,082	217,338	202,274	99,655	123,082	179,501	157,670	291,182	506,722
Fines & penalties	150,715	191,685	264,677	212,247	174,358	149,624	122,557	143,259	123,412	149,430
Charges for services	497,833	544,879	514,474	589,546	576,898	871,727	1,541,070	1,392,879	3,203,791	2,705,785
Intergovernmental	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	6,055,732
Investment earnings	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,213	7,525
Other revenues	4,852	85,655	64,022	113,424	90,743	93,200	86,718	77,154	71,305	111,169
Total Revenues	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	12,174,181
Expenditures										
General government	856,974	921,684	1,002,452	904,944	907,507	1,076,490	1,247,348	1,439,016	1,232,425	1,629,629
Public safety	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	4,926,601
Public works/Streets	718,380	890,229	834,019	719,021	705,140	746,065	948,925	830,701	858,540	1,076,995
Culture and recreation	618,793	711,013	585,880	496,174	503,956	585,288	710,980	835,346	1,009,004	1,246,378
Economic development	292,976	316,264	257,958	202,010	162,180	196,502	277,304	250,282	253,649	439,189
Health and welfare	-	-	-	184,474	180,476	180,651	140,779	160,162	175,711	176,105
Capital Outlay	4,113,493	2,046,283	737,222	647,454	716,962	2,075,097	1,597,878	1,079,932	1,323,026	1,114,669
Debt Service										
Interest	324,548	297,612	459,093	444,137	414,173	402,816	419,000	336,876	674,902	98,738
Principal	159,531	768,951	476,682	437,728	433,622	403,041	342,535	385,341	386,893	310,222
Total expenditures	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	11,018,526
Excess of revenues over (under) expenditures	<u>(3,545,954)</u>	<u>(1,648,827)</u>	<u>(592,594)</u>	<u>(630,346)</u>	<u>(340,785)</u>	<u>(1,375,724)</u>	<u>(744,614)</u>	<u>(943,223)</u>	<u>1,061,931</u>	<u>1,155,655</u>
Other Financing Sources (Uses)										
Sale of assets	20,898	-	-	-	-	150,274	-	-	-	-
Bonds/Loans/LPA/Refundings	8,459,158	94,795	60,000	-	-	1,055,000	-	31,375	5,518,356	112,500
Transfers in	1,552,517	1,233,129	1,133,844	1,019,686	967,118	934,328	1,027,066	1,105,148	789,474	815,343
Transfers out	(1,507,702)	(1,173,610)	(1,095,335)	(979,989)	(916,918)	(911,928)	(1,005,119)	(1,089,148)	(773,474)	(799,343)
Total other financing sources (uses)	8,524,871	154,314	98,509	39,697	50,200	1,227,674	21,947	47,375	5,534,356	128,500
Net change in fund balances	\$ 4,978,917	\$ (1,494,513)	\$ (494,085)	\$ (590,649)	\$ (290,585)	\$ (148,050)	\$ (722,667)	\$ (895,848)	\$ 6,596,287	\$ 1,284,155
Debt service as a percentage of noncapital expenditures	9.5%	9.6%	51.1%	15.0%	14.6%	12.4%	9.4%	8.6%	12.4%	4.3%

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

	Fiscal Years									
	<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>	<u>2016</u>
Mining	\$ -	\$ -	\$ 2	\$ 2,112	\$ 1,051	\$ 1,307	\$ 84	\$ -	\$ 92	\$ 287
Construction	387,297	467,329	596,427	196,957	210,325	213,043	142,716	153,907	176,782	199,321
Manufacturing	15,683	20,567	16,006	16,869	15,135	13,052	1,789	-	8,658	30,510
Transportation/Warehousing	26	18	38	18	4	72	-	-	-	53
Communications/Utilities	87,043	118,451	112,937	103,891	152,783	207,877	206,169	264,346	319,435	329,719
Wholesale Trade	196,126	203,219	205,751	211,423	203,058	149,935	-	-	125,949	286,626
Retail Trade	277,031	279,801	265,964	280,082	329,971	549,476	858,639	860,963	808,931	628,468
Restaurants & Bars	33,535	60,757	75,190	70,262	75,681	95,214	114,680	112,303	129,078	130,352
Insurance/Real Estate/Finance	58,908	46,946	61,419	68,935	66,289	71,534	48,151	48,604	804	93,898
Hotels/Lodging/Accommodation	2,764	3,360	3,534	481	486	407	-	-	56,038	425
Arts/Entertainment	4,978	366	4,929	6,820	7,953	7,521	-	1	20,479	23,743
Services	15,586	13,276	11,915	13,746	15,231	35,517	-	4,464	28,113	76,898
Government	-	-	-	-	-	-	-	-	838	878
All Others Not Specified	103,346	10,985	9,792	22,609	6,048	8,764	6,498	14,487	10,964	16,201
Total	<u>\$ 1,182,323</u>	<u>\$ 1,225,075</u>	<u>\$ 1,363,904</u>	<u>\$ 994,205</u>	<u>\$ 1,084,015</u>	<u>\$ 1,353,720</u>	<u>\$ 1,378,726</u>	<u>\$ 1,459,075</u>	<u>\$ 1,686,161</u>	<u>\$ 1,817,379</u>
City direct sales tax rate	2.50%	2.50%	2.50%	2.50%	3.30%	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 2016

Assessed Value	\$ 32,357,725
Debt Limit (20% of assessed value)	6,471,545
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><u>\$ 6,471,545</u></u>

	Fiscal Year									
	<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>	<u>2016</u>
Debt limit	\$ 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	\$ 6,471,545
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><u>\$ 4,478,150</u></u>	<u><u>\$ 6,427,105</u></u>	<u><u>\$ 6,725,509</u></u>	<u><u>\$ 7,118,271</u></u>	<u><u>\$ 7,052,090</u></u>	<u><u>\$ 7,105,022</u></u>	<u><u>\$ 7,594,628</u></u>	<u><u>\$ 6,084,757</u></u>	<u><u>\$ 6,247,317</u></u>	<u><u>\$ 6,471,545</u></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>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>	<u>2016</u>
General government										
Management services	4	3	3	2	2	2	3	2	2	2
Finance	5	8	7	5	5	5	5	5	6	7
Planning	5	5	3	3	3	2	1	4	4	5
Building	2	4	4	4	2	2	1	1	1	2
Court	4	3	3	3	5	4	5	5	5	5
Public safety										
Police	30	33	35	30	29	27	30	30	30	28
Fire	20	23	26	26	19	19	19	19	19	19
Public works/Streets										
Other	11	15	12	14	11	11	13	14	14	12
Culture and recreation	17	14	16	16	16	16	16	10	10	14
Water/Sewer/Sanitation	22	22	18	20	16	19	19	17	17	14
Total	120	130	127	123	108	107	112	107	108	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>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>	<u>2016</u>
General government										
Building permits issued	203	179	97	121	44	43	43	69	97	112
Police										
Physical arrests	600	535	536	425	407	286	230	272	304	380
Traffic violations	2,851	3,220	3,958	2,442	2,448	1,400	1,440	1,525	2,468	1,495
Fire										
Emergency responses	1,433	1,467	1,627	1,671	1,664	1,658	3,965	4,618	4,681	4,189
Fires extinguished	89	55	57	56	34	43	65	49	39	32
Inspections	71	127	199	338	276	198	243	280	300	326
Water										
New connections	2,561	2,700	2,900	3,000	2,933	3,092	3,148	3,079	3,581	4,154
Water main breaks	-	-	-	-	-	2	2	2	2	4
Average daily consumption	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	1,500,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	600,000	705,000	792,612	792,612	800,000	598,000	727,000	1,021,000	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>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>	<u>2016</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	17	16	16	16	16	19	22	20	20
Fire Stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	5	5	6	6	6	6	6	5	5	5
Other public works										
Streets (miles)	37	41	44	44	44	44	44	44	44	44
Streetlights	534	601	601	601	601	601	706	732	732	732
Traffic signals	2	3	4	4	4	4	4	4	4	4
Parks and recreation										
Acreage	38	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)	37	42	42	42	42	42	46	46	46	46
Fire hydrants	363	406	410	410	410	410	397	410	410	410
Storage capacity (thousands of gallons)	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	2,250,000
Wastewater										
Sanitary sewers (miles)	41	46	46	46	46	46	46	46	46	46
Storm sewers (miles)	5	5	5	5	5	5	5	5	5	5
Treatment capacity (thousands of gallons)	800,000	800,000	800,000	800,000	1,600,000	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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Somerton, Arizona, as of and for the year ended June 30, 2016, 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 20, 2017.

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 separately issued findings and recommendations letter dated January 20, 2017, we did identify certain deficiencies in internal control that we consider to be significant deficiencies.

2007-001 Year End Accounting
2016-001 Internal Controls over the Industrial Development Authority

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
Flagstaff, Arizona
January 20, 2017

**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, 2016, and have issued our report thereon dated January 20, 2017. 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, 2016.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the requirements. Accordingly, this report is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
January 20, 2017