

**CITY OF SOMERTON, ARIZONA**



**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the June 30, 2017 financial statements have been restated to correct a misstatement.

## *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, other supplementary schedules listed in the table of contents are the responsibility of management and 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 19, 2018, 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 19, 2018



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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, 2017. 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 \$29,442,533 at the close of the fiscal year.
- Total net position increased by \$1,248,302 in fiscal year 2017, not including the prior period adjustment.
- Governmental taxes and other revenues exceeded governmental expenses by \$800,883.
- Business-type revenues exceeded total business-type expenses by \$447,419.
- Total revenues from all sources were \$17,891,546.
- The total cost of all City programs were \$16,643,244.
- The General Fund reported excess revenues over expenditures and transfers of \$472,925.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,722,505 or 56.26% 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 \$29,442,533 as of June 30, 2017 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	
	06/30/17	06/30/16	06/30/17	06/30/16
Current and other assets	\$ 7,981,958	\$ 11,381,441	\$ 3,852,004	\$ 3,589,268
Capital assets	23,328,414	19,061,647	27,131,244	27,305,824
Total assets	<u>31,310,372</u>	<u>30,443,088</u>	<u>30,983,248</u>	<u>30,895,092</u>
Deferred outflows of resources	<u>2,657,420</u>	<u>1,734,466</u>	<u>400,055</u>	<u>184,509</u>
Long-term liabilities outstanding	21,304,186	20,060,918	11,740,197	11,639,864
Other liabilities	<u>1,241,204</u>	<u>1,410,957</u>	<u>459,319</u>	<u>772,279</u>
Total liabilities	<u>22,545,390</u>	<u>21,471,875</u>	<u>12,199,516</u>	<u>12,412,143</u>
Deferred inflows of resources	<u>944,926</u>	<u>875,570</u>	<u>218,730</u>	<u>149,820</u>
Net position:				
Net investment in capital assets	9,688,793	4,762,234	17,262,550	17,458,221
Restricted	1,583,311	5,264,741	2,048,451	1,558,256
Unrestricted	<u>(794,628)</u>	<u>(196,866)</u>	<u>(345,944)</u>	<u>(498,839)</u>
Total net position	<u>\$ 10,477,476</u>	<u>\$ 9,830,109</u>	<u>\$ 18,965,057</u>	<u>\$ 18,517,638</u>

### Governmental Activities

The cost of all Governmental activities this year was \$11,788,706, an increase of \$900,072 over last fiscal year. This is primarily due to an increase in general government and public safety. As shown on the Statement of Changes in Net Position on the following page, \$2,887,739 of this cost was paid for by those who directly benefited from the programs; \$2,985,356 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 \$5,873,095. General taxes and investment earnings totaled \$6,716,494.

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.

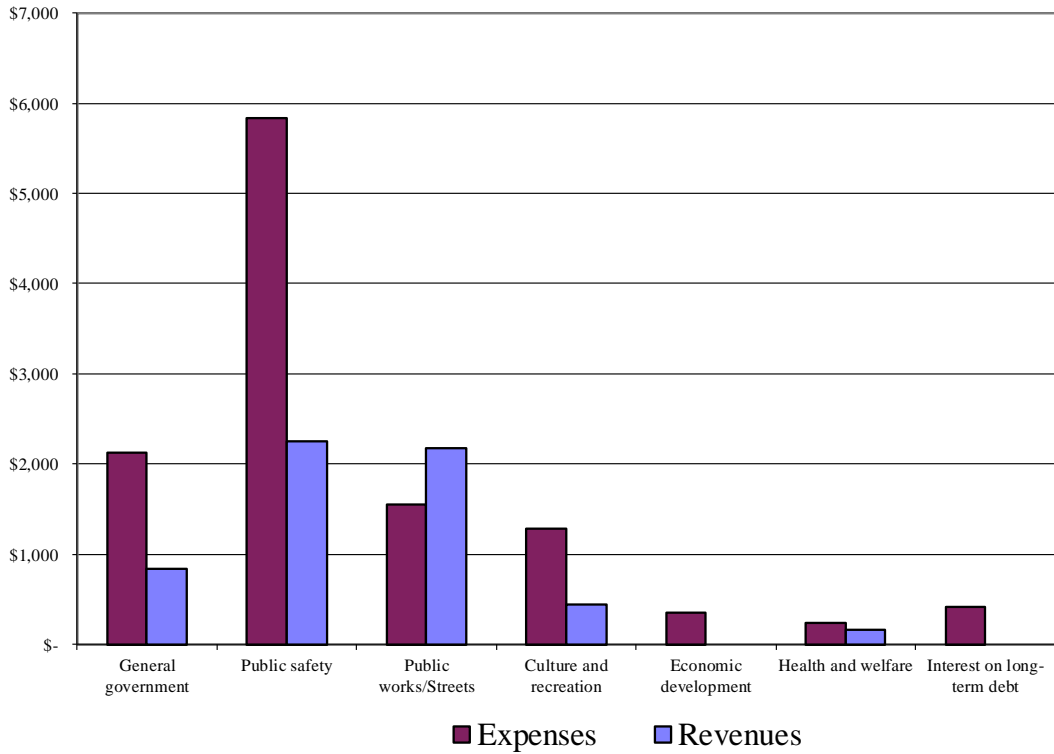
**City of Somerton  
Changes in Net Position**

	Governmental activities		Business-type activities	
	06/30/17	06/30/16	06/30/17	06/30/16
Revenues:				
Program revenues:				
Charges for services	\$ 2,887,739	\$ 3,326,469	\$ 3,795,405	\$ 3,665,456
Operating grants and contributions	2,162,628	2,029,451	-	-
Capital grants and contributions	822,728	429,521	1,502,499	1,578,662
General revenues:				
Taxes	4,861,788	4,412,046	-	-
State revenue sharing	1,841,014	1,729,910	-	-
Other revenue/(expense)	13,692	7,525	4,053	2,454
Total revenues	<u>12,589,589</u>	<u>11,934,922</u>	<u>5,301,957</u>	<u>5,246,572</u>
Expenses:				
General government	2,123,661	1,606,583	-	-
Public safety	5,836,223	5,232,207	-	-
Public works/Streets	1,549,027	1,783,546	-	-
Culture and recreation	1,278,119	1,196,707	-	-
Economic development	351,746	438,116	-	-
Health and welfare	238,384	211,667	-	-
Interest on long-term debt	411,546	419,808	-	-
Water	-	-	1,675,033	1,667,812
Sewer	-	-	2,333,308	2,278,407
Sanitation	-	-	846,197	852,631
Total expenses	<u>11,788,706</u>	<u>10,888,634</u>	<u>4,854,538</u>	<u>4,798,850</u>
(Decrease) / Increase in net position before transfers	800,883	1,046,288	447,419	447,722
Transfers	-	16,000	-	(16,000)
(Decrease) / Increase in net position	800,883	1,062,288	447,419	431,722
Net position, beginning	9,830,109	9,261,936	18,517,638	18,058,210
Prior period adjustment	(153,516)	(494,115)	-	27,706
Net position, ending	<u>\$ 10,477,476</u>	<u>\$ 9,830,109</u>	<u>\$ 18,965,057</u>	<u>\$ 18,517,638</u>

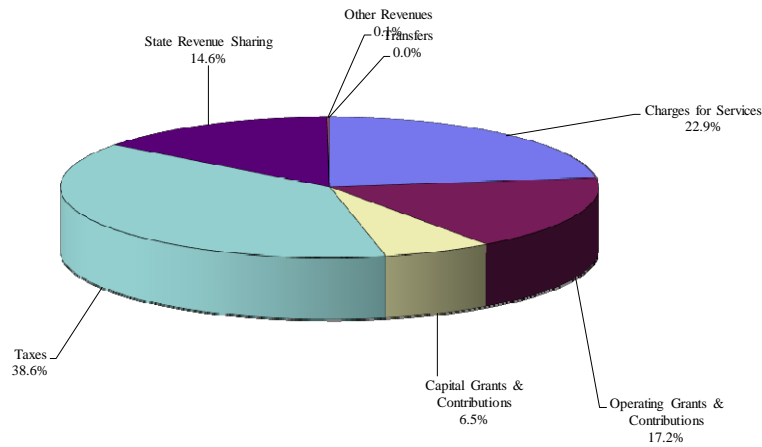
Total resources available during the year to finance governmental operations were \$22,419,698 consisting of net position at July 1, 2016 of \$9,830,109 program revenues of \$5,873,095 and general revenues of \$6,716,494. Total governmental activities expended during the year were \$11,788,706 with a restatement of prior period of (\$153,516), thus governmental net position increased by \$800,883 to \$10,477,476.

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)



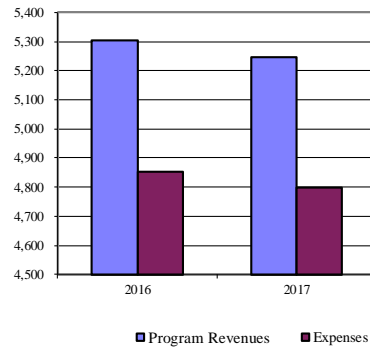
**Revenue By Source - Governmental Activities**



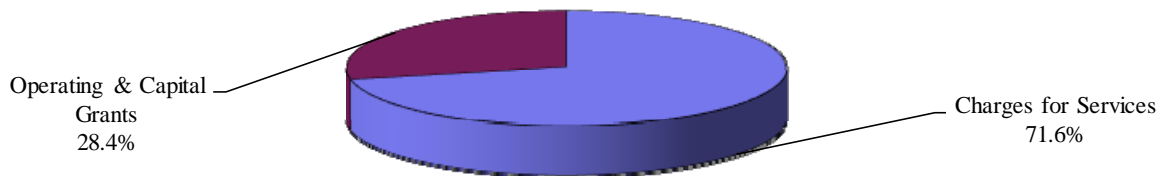
## Business Type Activities

Net position of the business type activities at June 30, 2017, as reflected in the Statement of Net Position were \$18,965,057. The cost of providing all Proprietary (Business Type) activities this year was \$4,854,538. As shown in the Statement of Changes in Net Position, the amounts paid by users of the system were \$3,795,405 and there was \$1,502,499 subsidized by capital grants and contributions. Interest earnings were \$4,053. The net position increased by \$447,419.

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 \$6,692,209, a decrease of \$3,083,022 in comparison with the prior year. Approximately, 70.6% of this total amount or \$4,722,038 constitutes unassigned, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or assigned 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 \$4,722,038, while total fund balance is \$5,041,914. 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 56.25% of total general fund expenditures, while total fund balance represents 60.07% of the same amount.

During the year, the City of Somerton's general fund balance increased by \$472,925.

During the year the City of Somerton's highway user revenue fund balance increased by \$424,994.

The Capital Improvement Fund (CIP) has a total fund balance of \$0. The net decrease in the fund balance during the current year was \$4,131,572. 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 \$2,234,391 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for public safety and general government more than what was actually expended.



## **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 2017, net capital assets of the government activities totaled \$23,328,414 and the net capital assets of the business-type activities totaled \$27,131,244. 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 \$21,304,186 in governmental type obligations, and \$11,740,197 in proprietary obligations. The obligation is a liability of the government and amounts to \$2,313 per capita (2010 census: 14,287). During the current fiscal year, the City's total obligations increased by \$1,343,601. (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 2017/2018, 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, 2017**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Industrial Development Authority</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 4,914,889	\$ 1,157,264	\$ 6,072,153	\$ 34,421
Receivables (net of allowance)	1,059,102	388,117	1,447,219	-
Due from component unit	75,000	-	75,000	-
Notes receivable	55,000	-	55,000	-
Prepaid items/inventory/refundable deposits	265,678	-	265,678	-
Temporarily restricted assets:				
Cash and cash equivalents	1,612,289	2,306,623	3,918,912	-
Capital assets (net of accumulated depreciation):				
Land	934,486	415,399	1,349,885	80,048
Buildings	7,743,267	13	7,743,280	1,072,262
Improvements	1,134,014	1,825,573	2,959,587	-
System improvements	-	24,050,532	24,050,532	-
Machinery and equipment	272,713	182,171	454,884	-
Vehicles	436,960	323,669	760,629	-
Infrastructure/Roads	11,332,480	-	11,332,480	-
Construction in progress	1,474,494	333,887	1,808,381	-
Total assets	<u>31,310,372</u>	<u>30,983,248</u>	<u>62,293,620</u>	<u>1,186,731</u>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	272,052	-	272,052	-
Deferred outflows related to pensions	2,385,368	400,055	2,785,423	-
Total deferred outflows	<u>2,657,420</u>	<u>400,055</u>	<u>3,057,475</u>	<u>-</u>
<b>Liabilities</b>				
Accounts payable and other current liabilities	1,081,744	363,800	1,445,544	2,790
Due to primary government	-	-	-	75,000
Interest payable	159,460	95,519	254,979	1,146
Noncurrent liabilities:				
Due within one year	837,708	744,941	1,582,649	62,437
Due in more than one year	20,466,478	10,995,256	31,461,734	548,511
Total liabilities	<u>22,545,390</u>	<u>12,199,516</u>	<u>34,744,906</u>	<u>689,884</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	944,926	218,730	1,163,656	-
Total deferred inflows of resources	<u>944,926</u>	<u>218,730</u>	<u>1,163,656</u>	<u>-</u>
<b>Net Position</b>				
Net investment in capital assets	9,688,793	17,262,550	26,951,343	541,362
Restricted for:				
Highways and streets	1,408,645	-	1,408,645	-
Debt service	-	925,439	925,439	-
Capital projects and other	174,666	1,123,012	1,297,678	-
Unrestricted	(794,628)	(345,944)	(1,140,572)	(44,515)
Total net position	<u>\$ 10,477,476</u>	<u>\$ 18,965,057</u>	<u>\$ 29,442,533</u>	<u>\$ 496,847</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, 2017**

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
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 2,123,661	\$ 830,806	\$ 8,649	\$ -	\$ (1,284,206)	\$ -	\$ (1,284,206)	\$ -
Public safety	5,836,223	1,463,718	782,797	-	(3,589,708)	-	(3,589,708)	-
Public works/Streets	1,549,027	160,041	1,209,125	810,956	631,095	-	631,095	-
Culture and recreation	1,278,119	433,174	-	11,772	(833,173)	-	(833,173)	-
Economic development	351,746	-	-	-	(351,746)	-	(351,746)	-
Health and welfare	238,384	-	162,057	-	(76,327)	-	(76,327)	-
Interest on long-term debt	411,546	-	-	-	(411,546)	-	(411,546)	-
Total governmental activities	11,788,706	2,887,739	2,162,628	822,728	(5,915,611)	-	(5,915,611)	-
Business-type activities:								
Water	1,675,033	1,208,630	-	863,907	-	397,504	397,504	-
Sewer	2,333,308	1,733,356	-	638,592	-	38,640	38,640	-
Sanitation	846,197	853,419	-	-	-	7,222	7,222	-
Total business-type activities	4,854,538	3,795,405	-	1,502,499	-	443,366	443,366	-
Total primary government	\$ 16,643,244	\$ 6,683,144	\$ 2,162,628	\$ 2,325,227	(5,915,611)	443,366	(5,472,245)	-
<b>Component unit:</b>								
Industrial Development Authority	\$ 129,655	\$ 153,330	\$ -	\$ -	-	-	-	23,675
Total component unit	\$ 129,655	\$ 153,330	\$ -	\$ -	-	-	-	23,675
General Revenues:								
Taxes:								
City sales tax					2,218,051	-	2,218,051	-
State sales tax					1,376,723	-	1,376,723	-
Property tax					601,656	-	601,656	-
Auto lieu tax					600,650	-	600,650	-
Franchise tax					64,708	-	64,708	-
State income taxes - revenue sharing (unrestricted)					1,841,014	-	1,841,014	-
Unrestricted investment earnings					13,692	4,053	17,745	-
Transfers					-	-	-	-
Total general revenues & transfers					6,716,494	4,053	6,720,547	-
Change in net position					800,883	447,419	1,248,302	23,675
Net position - beginning					9,830,109	18,517,638	28,347,747	473,172
Prior period adjustments					(153,516)	-	(153,516)	-
Net position - ending					\$ 10,477,476	\$ 18,965,057	\$ 29,442,533	\$ 496,847

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

**CITY OF SOMERTON, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

<b>Assets</b>	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,775,388	\$ 1,349,920	\$ -	\$ 789,581	\$ 4,914,889
Receivables:					
Other	2,107	-	-	378	2,485
Ambulance	153,005	-	-	-	153,005
Intergovernmental	721,731	105,165	-	76,716	903,612
Due from other funds	1,650,483	-	-	-	1,650,483
Due from component unit	-	-	75,000	-	75,000
Inventories	-	3,607	-	-	3,607
Refundable deposits	149,409	-	-	-	149,409
Prepaid items	112,662	-	-	-	112,662
Restricted cash and investments	69,741	-	1,476,604	65,944	1,612,289
	<u>\$ 5,634,526</u>	<u>\$ 1,458,692</u>	<u>\$ 1,551,604</u>	<u>\$ 932,619</u>	<u>\$ 9,577,441</u>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 259,474	\$ 46,418	\$ 563,056	\$ 25,823	\$ 894,771
Accrued wages and benefits	52,052	3,629	-	3,211	58,892
Accrued liabilities	127,374	-	-	-	127,374
Customer deposits	707	-	-	-	707
Due to other funds	-	-	988,548	661,935	1,650,483
	<u>439,607</u>	<u>50,047</u>	<u>1,551,604</u>	<u>690,969</u>	<u>2,732,227</u>
Deferred Inflows of Resources:					
Unavailable revenue - ambulance	153,005	-	-	-	153,005
	<u>153,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,005</u>
Fund Balances:					
Nonspendable:					
Refundable deposits	149,409	-	-	-	149,409
Prepays	112,662	-	-	-	112,662
Restricted for:					
General government	-	-	-	23,191	23,191
Public works/streets	-	1,408,645	-	-	1,408,645
Public safety	-	-	-	93,670	93,670
Parks & recreation	57,805	-	-	-	57,805
Assigned to:					
Debt service	-	-	-	124,789	124,789
Unassigned:	4,722,038	-	-	-	4,722,038
	<u>5,041,914</u>	<u>1,408,645</u>	<u>-</u>	<u>241,650</u>	<u>6,692,209</u>
Total Liabilities, deferred inflows, and fund balances	<u>\$ 5,634,526</u>	<u>\$ 1,458,692</u>	<u>\$ 1,551,604</u>	<u>\$ 932,619</u>	<u>\$ 9,577,441</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, 2017**

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Total fund balances - governmental funds	\$	6,692,209
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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
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 38,810,758		
Accumulated depreciation	<u>(15,482,344)</u>		23,328,414

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

153,005

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

Loans payable	\$ (2,548,075)		
Bonds payable	(10,885,000)		
Add: Issuance premium	(108,522)		
Less: Deferred charge on refunding	272,052		
Leases payable	(98,024)		
Interest Payable	(159,460)		
Net pension liability	(7,369,790)		
Compensated absences	<u>(294,775)</u>		(21,191,594)

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	\$ 2,385,368		
Deferred inflows	<u>(944,926)</u>		<u>1,440,442</u>

Total net position - governmental activities	\$	<u><u>10,477,476</u></u>
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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, 2017**

<b>REVENUES</b>	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 3,036,253	\$ -	\$ -	\$ -	\$ 3,036,253
Licenses, permits and fees	727,884	-	-	-	727,884
Intergovernmental revenue	4,447,683	1,203,552	-	284,664	5,935,899
Charges for services	1,547,961	-	-	-	1,547,961
Fines and forfeitures	120,826	-	-	4,399	125,225
Interest	9,050	-	-	4,642	13,692
Other revenues	332,710	493	5,573	54,722	393,498
Total revenues	<u>10,222,367</u>	<u>1,204,045</u>	<u>5,573</u>	<u>348,427</u>	<u>11,780,412</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,176,785	-	-	331	2,177,116
Public safety	4,329,267	-	-	199,211	4,528,478
Public works/streets	142,550	659,051	-	-	801,601
Culture and recreation	1,281,057	-	-	-	1,281,057
Economic development	463,916	-	-	-	463,916
Health and welfare	-	-	-	201,730	201,730
Capital outlay	-	-	4,385,604	-	4,385,604
Debt service	-	-	-	1,023,932	1,023,932
Total expenditures	<u>8,393,575</u>	<u>659,051</u>	<u>4,385,604</u>	<u>1,425,204</u>	<u>14,863,434</u>
Excess of revenues over (under) expenditures	<u>1,828,792</u>	<u>544,994</u>	<u>(4,380,031)</u>	<u>(1,076,777)</u>	<u>(3,083,022)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers out	(1,355,867)	(120,000)	-	-	(1,475,867)
Transfers in	-	-	248,459	1,227,408	1,475,867
Total other financing sources (uses)	<u>(1,355,867)</u>	<u>(120,000)</u>	<u>248,459</u>	<u>1,227,408</u>	<u>-</u>
Net change in fund balances	472,925	424,994	(4,131,572)	150,631	(3,083,022)
Fund balance, beginning of year	4,722,505	983,651	4,131,572	91,019	9,928,747
Prior period adjustments	(153,516)	-	-	-	(153,516)
Fund balance, end of year	<u>\$ 5,041,914</u>	<u>\$ 1,408,645</u>	<u>\$ -</u>	<u>\$ 241,650</u>	<u>\$ 6,692,209</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, 2017**

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

Net change in fund balances - total governmental funds	\$	(3,083,022)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,779)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	\$ 4,880,747	
Depreciation expense	<u>(1,424,936)</u>	3,455,811
Governmental funds do not report contributions of capital assets as revenue, unless the assets will be held for sale. However, in the statement of activities, the donation of capital assets is reported as revenue.		810,956
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.		632,587
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	\$ 672,646	
Pension expense	<u>(1,715,578)</u>	(1,042,932)
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.		20,675
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.		8,587
Change in net position of governmental activities	<u>\$</u>	<u>800,883</u>

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



**CITY OF SOMERTON, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

<b>Assets</b>	Water	Sewer	Sanitation	Total
<b>Current assets:</b>				
Cash	\$ 600,169	\$ 201,143	\$ 355,952	\$ 1,157,264
Receivables (net of allowance)	138,164	170,027	79,926	388,117
Due from other governments	0	0	0	-
Prepaid items	0	0	0	-
Total current assets	<u>738,333</u>	<u>371,170</u>	<u>435,878</u>	<u>1,545,381</u>
<b>Noncurrent assets:</b>				
Restricted cash and investments	666,399	1,639,899	325	2,306,623
Deferred charges	0	0	0	-
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	18,046,169	-	20,322,308
Water distribution system	12,884,281	-	-	12,884,281
Sewer collection system	-	8,458,763	-	8,458,763
Machinery and equipment	77,825	289,438	85,466	452,729
Vehicles	29,120	368,281	1,173,680	1,571,081
Construction in progress	117,635	216,252	-	333,887
Accumulated depreciation	(8,556,314)	(10,079,588)	(1,022,591)	(19,658,493)
Total noncurrent assets	<u>8,902,382</u>	<u>20,178,412</u>	<u>357,073</u>	<u>29,437,867</u>
<b>Total Assets</b>	<u>9,640,715</u>	<u>20,549,582</u>	<u>792,951</u>	<u>30,983,248</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	138,342	166,672	95,041	400,055
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	24,968	37,854	20,030	82,852
Accrued wages and benefits	5,853	5,864	3,608	15,325
Accrued liabilities	7,451	-	-	7,451
Interest payable	29,142	65,706	671	95,519
Customer deposits	257,847	-	325	258,172
Compensated absences - current portion	14,000	13,000	13,000	40,000
Leases payable - current portion	-	-	52,442	52,442
Notes payable - current portion	122,669	469,063	-	591,732
Bonds payable - current portion	-	60,767	-	60,767
Total current liabilities	<u>461,930</u>	<u>652,254</u>	<u>90,076</u>	<u>1,204,260</u>
<b>Noncurrent liabilities:</b>				
Compensated absences	26,121	18,991	20,798	65,910
Net pension liability	610,553	735,590	419,450	1,765,593
Leases payable, net of current portion	-	-	90,491	90,491
Notes payable, net of current portion	2,074,414	6,463,096	-	8,537,510
Bonds payable, net of current portion	-	535,752	-	535,752
Total noncurrent liabilities	<u>2,711,088</u>	<u>7,753,429</u>	<u>530,739</u>	<u>10,995,256</u>
Total liabilities	<u>3,173,018</u>	<u>8,405,683</u>	<u>620,815</u>	<u>12,199,516</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	75,639	91,128	51,963	218,730
Total Deferred inflows of resources	<u>75,639</u>	<u>91,128</u>	<u>51,963</u>	<u>218,730</u>
<b>Net Position</b>				
Net investment in capital assets	6,038,900	11,009,835	213,815	17,262,550
Restricted for debt service	138,381	787,058	-	925,439
Restricted for capital outlay	270,171	852,841	-	1,123,012
Unrestricted	82,948	(430,291)	1,399	(345,944)
Total net position	<u>\$ 6,530,400</u>	<u>\$ 12,219,443</u>	<u>\$ 215,214</u>	<u>\$ 18,965,057</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, 2017**

<b>Operating Revenues</b>	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Charges for services:	\$ 1,146,649	\$ 1,727,556	\$ 801,638	\$ 3,675,843
Other revenues	61,981	5,800	51,781	119,562
Total operating revenues	<u>1,208,630</u>	<u>1,733,356</u>	<u>853,419</u>	<u>3,795,405</u>
<b>Operating Expenses</b>				
Salaries	412,754	414,867	253,114	1,080,735
Employee benefits	30,558	188,303	122,080	340,941
Service, supplies and other	583,543	616,707	374,643	1,574,893
Depreciation	622,530	921,011	91,781	1,635,322
Total operating expenses	<u>1,649,385</u>	<u>2,140,888</u>	<u>841,618</u>	<u>4,631,891</u>
Operating income (loss)	<u>(440,755)</u>	<u>(407,532)</u>	<u>11,801</u>	<u>(836,486)</u>
<b>Non-operating Revenues (Expenses)</b>				
Investment earnings	1,467	2,586	-	4,053
Interest expense and fiscal charges	(25,648)	(192,420)	(4,579)	(222,647)
Grant revenues	806,279	2,371	-	808,650
Impact fees and connection fees	57,628	636,221	-	693,849
Total non-operating revenue (expense)	<u>839,726</u>	<u>448,758</u>	<u>(4,579)</u>	<u>1,283,905</u>
<b>Income (Loss) before contributions and transfers</b>	398,971	41,226	7,222	447,419
Total contributions and transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	398,971	41,226	7,222	447,419
Total net position, beginning of year	<u>6,131,429</u>	<u>12,178,217</u>	<u>207,992</u>	<u>18,517,638</u>
Total net position, end of year	<u>\$ 6,530,400</u>	<u>\$ 12,219,443</u>	<u>\$ 215,214</u>	<u>\$ 18,965,057</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, 2017**

	Water	Sewer	Sanitation	Total
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers, service fees	\$ 1,484,261	\$ 1,727,791	\$ 801,700	\$ 4,013,752
Cash received from customers, other	61,981	5,800	51,781	119,562
Cash paid to suppliers	(883,269)	(652,387)	(378,839)	(1,914,495)
Cash paid to employees	(536,096)	(557,671)	(371,022)	(1,464,789)
Cash flows from operating activities	<u>126,877</u>	<u>523,533</u>	<u>103,620</u>	<u>754,030</u>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Cash flows from noncapital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Purchase of capital assets	(1,190,397)	(170,348)	(99,998)	(1,460,743)
Principal paid on long term debt	(119,673)	(520,603)	(43,722)	(683,998)
Interest paid	(16,745)	(199,964)	(4,345)	(221,054)
Long term debt proceeds	705,856	-	-	705,856
Grant revenues	806,279	2,371	-	808,650
Connection & impact fees	57,628	636,221	-	693,849
Cash flows from capital and related financing activities	<u>242,948</u>	<u>(252,323)</u>	<u>(148,065)</u>	<u>(157,440)</u>
<b>Cash Flows From Investing Activities:</b>				
Investment earnings	1,467	2,588	-	4,055
Cash flows from investing activities	<u>1,467</u>	<u>2,588</u>	<u>-</u>	<u>4,055</u>
Net change in cash and cash equivalents	371,292	273,798	(44,445)	600,645
Cash and cash equivalents, including restricted cash, beginning of year	895,276	1,567,244	400,722	2,863,242
<b>Cash and Cash Equivalents, including restricted cash, end of year</b>	<u>\$ 1,266,568</u>	<u>\$ 1,841,042</u>	<u>\$ 356,277</u>	<u>\$ 3,463,887</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>				
Net operating income/(loss)	\$ (440,755)	\$ (407,532)	\$ 11,801	\$ (836,486)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation/amortization	622,530	921,011	91,781	1,635,322
Pension expense	(69,329)	94,182	28,795	53,648
Employer contributions	(47,036)	(47,258)	(26,190)	(120,484)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	337,612	235	62	337,909
(Increase)/Decrease in prepaid items	-	-	-	-
Increase/(Decrease) in payables	(299,726)	(35,680)	(4,196)	(339,602)
Increase/(Decrease) in accrued liabilities & deposits	23,581	(1,425)	1,567	23,723
Net cash flows from operating activities	<u>\$ 126,877</u>	<u>\$ 523,533</u>	<u>\$ 103,620</u>	<u>\$ 754,030</u>

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies**

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**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, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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

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

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, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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(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, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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, 2017**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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*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, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**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, 2017**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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**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.

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

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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, 2017**

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**Note 3. Stewardship, Compliance, and Accountability**

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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, 2017**

**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, 2017, 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.

**Note 4. Deposits and Investments**

Deposits and investments of the government at June 30, 2017 consist of the following:

	Primary Government	Component Unit
Deposits:		
Cash on hand	\$ 2,361	\$ -
Cash in bank	6,576,443	34,421
Investments:		
State Treasurer's Investment Pool	3,412,261	-
Total Deposits and Investments	\$ 9,991,065	\$ 34,421

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 4. Deposits and Investments, Continued**

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

	<u>Primary Government</u>	<u>Component Unit</u>
Cash and cash equivalents	\$ 6,072,153	\$ 34,421
Restricted cash	3,918,912	-
	<u>\$ 9,991,065</u>	<u>\$ 34,421</u>

**Deposits**

*Custodial credit risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The government does not have a formal policy for custodial credit risk. As of June 30, 2017, \$0 of the primary government and component unit's combined bank balance of \$7,030,579 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, 2017**

**Note 4. Deposits and Investments, Continued**

As of June 30, 2017 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	\$ 3,412,261	AAA	80.3 days
Total Fair Value	<u>\$ 3,412,261</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, 2017**

**Note 5.           Restricted Assets**

Restricted assets consisted of the following at June 30, 2017:

Qualified Energy Conservation Bond (QECCB) unspent proceeds	\$	7,006
Water fund customer deposit cash reserve		257,847
Series 2015 Advance Refunding of GADA 2006 Bond unspent proceeds		1,476,604
USDA Public Safety Facility debt reserve		4,791
WIFA Wastewater Treatment Plant loan debt service reserve		327,471
WIFA Wastewater Treatment Plant loan repair and replacement fund		195,138
WIFA Wastewater Treatment Plant Expansion loan debt service reserve		145,055
WIFA Wastewater Treatment Plant Expansion loan repair and replacement		58,023
USDA Wastewater Treatment Plant Expansion loan reserve fund		61,371
Sewer impact fees restricted for capital outlay		852,841
WIFA Solar Project Water loan debt service reserve		87,420
WIFA Water Meter loan debt service reserve		36,835
WIFA Mesa/Orange Grove Water Company loan debt service reserve		14,126
Sanitation fund customer deposit cash reserve		325
Water impact fees restricted for capital outlay		270,171
GF - YEPCO project		69,741
Grants		54,147
Total	<u>\$</u>	<u>3,918,912</u>

**Note 6.           Receivables**

Intergovernmental receivables consist principally of amounts due from the State of Arizona for various taxes, shared revenues, highway user revenues and amounts due from the Cocopah Indian Tribe. Other Accounts Receivable in the General Fund consists principally of ambulance billings receivable. 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, 2017 were as follows:

Water Fund	\$	25,501
Sewer Fund		31,382
Sanitation Fund		14,750
Industrial Development Authority		-
	<u>\$</u>	<u>71,633</u>



**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 7. Capital Assets**

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2017</b>
Capital assets, not being depreciated:				
Land	\$ 904,486	\$ 30,000	\$ -	\$ 934,486
Construction in progress	1,380,599	4,645,776	(4,551,881)	1,474,494
Total capital assets, not being depreciated	<u>2,285,085</u>	<u>4,675,776</u>	<u>(4,551,881)</u>	<u>2,408,980</u>
Capital assets, being depreciated:				
Buildings	6,142,037	3,782,511	-	9,924,548
Improvements other than buildings	2,170,854	65,726	-	2,236,580
Furniture and equipment	2,415,001	112,425	-	2,527,426
Vehicles	3,306,448	30,400	-	3,336,848
Infrastructure	16,799,630	1,576,746	-	18,376,376
Total capital assets, being depreciated	<u>30,833,970</u>	<u>5,567,808</u>	<u>-</u>	<u>36,401,778</u>
Less accumulated depreciation for:				
Buildings	(2,012,412)	(168,869)	-	(2,181,281)
Improvements other than buildings	(974,629)	(127,937)	-	(1,102,566)
Furniture and equipment	(2,135,671)	(119,043)	-	(2,254,714)
Vehicles	(2,744,504)	(155,383)	-	(2,899,887)
Infrastructure	(6,190,192)	(853,704)	-	(7,043,896)
Total accumulated depreciation	<u>(14,057,408)</u>	<u>(1,424,936)</u>	<u>-</u>	<u>(15,482,344)</u>
Total capital assets, being depreciated, net	<u>16,776,562</u>	<u>4,142,872</u>	<u>-</u>	<u>20,919,434</u>
Governmental activities capital assets, net	<u>\$ 19,061,647</u>	<u>\$ 8,818,648</u>	<u>\$ (4,551,881)</u>	<u>\$ 23,328,414</u>

\* See Note 15 on prior period adjustment

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

<b>Governmental Activities:</b>	
General government	\$ 33,518
Public safety	362,079
Public works/streets	847,454
Culture & recreation	145,969
Health and welfare	35,916
Total depreciation expense - governmental activities	<u>\$ 1,424,936</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 7. Capital Assets, Continued**

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

<b>Business Type Activities:</b>	<b>Balance 6/30/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2017</b>
Capital assets not being depreciated:				
Land	\$ 415,399	\$ -	\$ -	\$ 415,399
Construction in progress	1,579,592	689,950	(1,935,655)	333,887
Total capital assets, not being depreciated	<u>1,994,991</u>	<u>689,950</u>	<u>(1,935,655)</u>	<u>749,286</u>
Capital assets being depreciated:				
Buildings	33,710	-	-	33,710
Improvements other than buildings	2,317,579	-	-	2,317,579
Treatment facilities	20,286,469	35,839	-	20,322,308
Water distribution system	10,444,070	2,440,211	-	12,884,281
Sewer collection system	8,380,356	78,407	-	8,458,763
Machinery and equipment	411,737	40,992	-	452,729
Vehicles	1,460,082	110,999	-	1,571,081
Total capital assets, being depreciated	<u>43,334,003</u>	<u>2,706,448</u>	<u>-</u>	<u>46,040,451</u>
Less accumulated depreciation for:				
Buildings	(33,697)	-	-	(33,697)
Improvements other than buildings	(372,749)	(119,257)	-	(492,006)
Treatment facilities	(5,323,345)	(511,178)	-	(5,834,523)
Water distribution system	(5,731,749)	(510,179)	-	(6,241,928)
Sewer collection system	(5,170,694)	(367,675)	-	(5,538,369)
Machinery and equipment	(230,105)	(40,453)	-	(270,558)
Vehicles	(1,160,831)	(86,581)	-	(1,247,412)
Total accumulated depreciation	<u>(18,023,170)</u>	<u>(1,635,323)</u>	<u>-</u>	<u>(19,658,493)</u>
Total capital assets, being depreciated, net	<u>25,310,833</u>	<u>1,071,125</u>	<u>-</u>	<u>26,381,958</u>
Business-type activities capital assets, net	<u>\$ 27,305,824</u>	<u>\$ 1,761,075</u>	<u>\$ (1,935,655)</u>	<u>\$ 27,131,244</u>

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

<b>Business-Type Activities:</b>	
Water	\$ 622,531
Sewer	921,011
Sanitation	91,781
Total depreciation expense - governmental activities	<u>\$ 1,635,323</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 7. Capital Assets, Continued**

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

<b>Component Unit:</b>	<b>Balance 6/30/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2017</b>
Capital assets not being depreciated:				
Land	\$ 80,048	\$ -	\$ -	\$ 80,048
Total capital assets, not being depreciated	<u>80,048</u>	<u>-</u>	<u>-</u>	<u>80,048</u>
Capital assets being depreciated:				
Buildings	1,177,086	-	-	1,177,086
Total capital assets, being depreciated	<u>1,177,086</u>	<u>-</u>	<u>-</u>	<u>1,177,086</u>
Less accumulated depreciation for:				
Buildings	(56,303)	(48,521)	-	(104,824)
Total accumulated depreciation	<u>(56,303)</u>	<u>(48,521)</u>	<u>-</u>	<u>(104,824)</u>
Total capital assets, being depreciated, net	<u>1,120,783</u>	<u>(48,521)</u>	<u>-</u>	<u>1,072,262</u>
Component units capital assets, net	<u>\$ 1,200,831</u>	<u>\$ (48,521)</u>	<u>\$ -</u>	<u>\$ 1,152,310</u>

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**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 8. Long-Term Obligations**

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

	<b>Primary Government</b>				
	Balance 06/30/16	Additions	Retirements	Balance 06/30/17	Current Portion
<b>Governmental Activities:</b>					
Bonds payable	\$ 11,460,000	\$ -	\$ (575,000)	\$ 10,885,000	\$ 650,000
Bond premiums	118,893	-	(10,371)	108,522	10,371
Total bonds payable	<u>11,578,893</u>	<u>-</u>	<u>(585,371)</u>	<u>10,993,522</u>	<u>660,371</u>
Notes payable	2,593,708	-	(45,633)	2,548,075	47,611
Capital leases	126,812	-	(28,788)	98,024	31,726
Net pension liability	5,446,055	1,923,735	-	7,369,790	-
Accrued compensated absences	315,450	97,697	(118,372)	294,775	98,000
Total Governmental Activities	<u>\$ 20,060,918</u>	<u>\$ 2,021,432</u>	<u>\$ (778,164)</u>	<u>\$ 21,304,186</u>	<u>\$ 837,708</u>
<b>Business-Type Activities:</b>					
Bonds payable	\$ 645,000	\$ -	\$ (55,000)	\$ 590,000	\$ 60,000
Less deferred amounts:					
Bond premiums	7,286	-	(767)	6,519	767
Total bonds payable	<u>652,286</u>	<u>-</u>	<u>(55,767)</u>	<u>596,519</u>	<u>60,767</u>
Notes payable	9,008,662	705,856	(585,276)	9,129,242	591,732
Capital leases	186,655	-	(43,722)	142,933	52,442
Net pension liability	1,685,793	79,800	-	1,765,593	-
Accrued compensated absences	106,468	37,301	(37,859)	105,910	40,000
Total Business-Type Activities	<u>\$ 11,639,864</u>	<u>\$ 822,957</u>	<u>\$ (722,624)</u>	<u>\$ 11,740,197</u>	<u>\$ 744,941</u>
Total Long-Term Liabilities	<u>\$ 31,700,782</u>	<u>\$ 2,844,389</u>	<u>\$ (1,500,788)</u>	<u>\$ 33,044,383</u>	<u>\$ 1,582,649</u>
<b>Component Unit</b>					
	Balance 6/30/2016	Additions	Retirements	Balance 6/30/2017	Current Portion
Notes payable	\$ 670,738	\$ -	\$ (59,790)	\$ 610,948	\$ 62,437
Total Long-Term Liabilities	<u>\$ 670,738</u>	<u>\$ -</u>	<u>\$ (59,790)</u>	<u>\$ 610,948</u>	<u>\$ 62,437</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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
2018	\$ 697,611	\$ 405,514	\$ 651,732	\$ 230,273	\$ 62,437	\$ 21,831
2019	719,674	381,567	664,723	217,057	64,817	19,451
2020	746,827	359,885	686,856	199,571	67,292	16,976
2021	759,073	343,774	704,494	182,156	69,860	14,408
2022	776,416	327,209	722,653	164,247	72,523	11,745
2023-2027	4,155,944	1,347,936	2,859,628	574,137	274,019	4,841
2028-2032	2,091,784	841,872	1,503,642	323,981	-	-
2033-2037	1,815,546	487,954	546,021	194,395	-	-
2038-2042	1,196,461	200,120	476,094	136,156	-	-
2043-2047	473,739	34,738	536,067	76,185	-	-
2048-2052	-	-	367,332	13,841	-	-
<b>Totals</b>	<b>\$ 13,433,075</b>	<b>\$ 4,730,569</b>	<b>\$ 9,719,242</b>	<b>\$ 2,311,999</b>	<b>\$ 610,948</b>	<b>\$ 89,252</b>

The following is a listing of long-term debt outstanding as of June 30, 2017:

**Primary Government**

**Notes 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.	\$ 2,548,075
Total Governmental Activities	2,548,075

**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.	2,087,194
Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2%, maturing July 1, 2029.	1,646,159
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.	974,666
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.	391,227

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 8. Long-Term Obligations, Continued**

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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.	798,229
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	424,188
Rural Development Authority loan due in monthly principal and interest installments of \$10,204, bearing interest at 2.375%, maturing July 15, 2050.	<u>2,807,579</u>
Total Business-Type Activities	<u>9,129,242</u>
Total Notes Payable	<u>\$ 11,677,317</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	845,000
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	4,405,000
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	3,345,000
Pledged Revenue Obligations, Series 2015, due in annual principal and semi-annual interest installments ranging from \$2,800 to \$170,675, bearing interest at 2.0% to 4.0%, maturing July 1, 2034	<u>2,290,000</u>
Total Governmental Activities	<u>10,885,000</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>590,000</u>
Total Bonds Payable	<u>\$ 11,475,000</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 8. Long-Term Obligations, Continued**

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**Leases Payable:**

**Governmental Activities:**

Lease payable in quarterly installments through March 2018, bearing interest at 4.95%	6,285
Lease payable in yearly installments through November 2020, bearing interest at 3.95%	<u>91,739</u>
Total Governmental Activities	98,024

**Business-Type Activities:**

Lease payable in monthly installments through April 2020, bearing interest at 2.78%	<u>142,933</u>
Total Leases Payable	<u>240,957</u>

<b>Total Loans, Bonds and Leases Payable</b>	23,393,274
<b>Net Pension Liabilities</b>	9,135,383
<b>Accrued Vacation and Comp Time Payable</b>	400,685
<b>Bond Premiums and Discounts, net</b>	<u>115,041</u>
Total Long-Term Debt	33,044,383
Less Current Portion:	
Business-type Activities	(744,941)
Governmental-type Activities	<u>(837,708)</u>
Net Long-Term Debt	<u><u>\$ 31,461,734</u></u>

**Component Unit**

**Notes 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.	<u>610,948</u>
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Total Component Unit Long-Term Debt	610,948
Less Current Portion:	(62,437)
Net Component Unit Long-Term Debt	<u><u>\$ 548,511</u></u>

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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>
2018	\$ 31,726	\$ 52,442
2019	25,286	52,442
2020	25,286	43,701
2021	25,286	-
2022	-	-
Total remaining minimum lease payments	<u>107,584</u>	<u>148,585</u>
Less amount representing interest	<u>(9,560)</u>	<u>(5,652)</u>
Present value of net remaining minimum lease payments	<u>\$ 98,024</u>	<u>\$ 142,933</u>

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**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 10. Interfund Receivables, Payables and Transfers**

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,650,483	\$ -
Capital Improvement Fund	-	(988,548)
Nonmajor funds:		
Debt Service Fund	-	(582,441)
Senior Center Fund	-	(65,613)
Court Fund	-	(13,881)
<b>Total</b>	<b>\$ 1,650,483</b>	<b>\$ (1,650,483)</b>

	Due from Component Unit	Due to Primary Government
Capital Improvement Fund	\$ 75,000	\$ -
Component Unit	-	(75,000)
<b>Total</b>	<b>\$ 75,000</b>	<b>\$ (75,000)</b>

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, 2017 are as follows:

	<b>Transfers out:</b>		
<b>Transfer in:</b>	General	Highway User	Total Transfers in
Capital Improvement	\$ 128,459	\$ 120,000	\$ 248,459
Nonmajor Governmental Funds			
Miscellaneous Grants	31,190	-	31,190
Debt Service	1,162,474	-	1,162,474
Senior Nutrition Center	33,744	-	33,744
<b>Total transfers out</b>	<b>\$ 1,355,867</b>	<b>\$ 120,000</b>	<b>\$ 1,475,867</b>

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, 2017**

**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, 2017, the City reported the following aggregate amounts related to pensions for plans to which it contributes:

<b>Statement of Net Position and Statement of Activities</b>	<b>ASRS</b>	<b>PSPRS &amp; CORP</b>	<b>Combined Total</b>
Net pension liability	\$ (4,433,934)	\$ (4,701,449)	\$ (9,135,383)
Deferred outflows of resources	1,004,657	1,780,766	2,785,423
Deferred inflows of resources	(549,295)	(614,361)	(1,163,656)
Pension expense	340,271	927,789	1,268,060

The City reported \$1,268,060 of pension expenditures in the funds related to all pension plans to which it contributes. The City's accrued payroll and employee benefits includes \$24,589 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the City reported \$652,996 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

**Arizona State Retirement System (ASRS)**

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

	<b>Initial Membership Date Before July 1, 2011</b>	<b>Initial Membership Date On or After July 1, 2011</b>
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.

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

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to ASRS would typically fill.

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 258,403	\$ 13,993	\$ 2,846
2016	279,095	13,184	3,090
2017	292,274	15,183	3,796

**Pension liability** – At June 30, 2017, the City reported a liability of \$4,433,934 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016 reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The 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, 2016. The City's proportion measured as of June 30, 2016, was 0.027470 percent, which was a decrease of 0.001710 percent from its proportion measured as of June 30, 2015.

**Pension expense and deferred outflows/inflows of resources** – For the year ended June 30, 2017, the City recognized pension expense for ASRS of \$340,271. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 26,945	\$ 305,022
Changes in assumptions	-	234,591
Net difference between projected and actual earnings on pension plan investments	480,491	-
Changes in proportion and differences between contributions and proportional share of contributions	204,946	9,680
Contributions subsequent to the measurement date	292,274	-
Total	<u>\$ 1,004,656</u>	<u>\$ 549,293</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

The \$292,274 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ (117,215)
2019	(67,778)
2020	213,354
2021	134,728
2022	-

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

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

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

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Real Return Arithmetic Basis</b>
Equity	58%	6.73%
Fixed income	25%	3.70%
Commodities	2%	3.41%
Multi-asset	5%	3.84%
Real Estate	10%	4.25%
<b>Totals</b>	<b>100%</b>	

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

**Sensitivity of the City's 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	\$ 5,653,602	\$ 4,433,934	\$ 3,456,026

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 11. Retirement and Pension Plans, Continued**

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

**Plan descriptions** – City police employees and city attorney investigators who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement (PSPRS). The PSPRS administers agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions 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.

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](http://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:

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

<b>PSPRS</b>	<b>Initial Membership Date Before January 1, 2012</b>	<b>Initial Membership Date On or After January 1, 2012</b>
<b>Retirement and Disability</b>		
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	
<b>Survivor Benefit</b>		
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, 2017**

**Note 11. Retirement and Pension Plans, Continued**

<b>CORP</b>	<b>Initial Membership Date Before January 1, 2012</b>	<b>Initial Membership Date On or After January 1, 2012</b>
<b>Retirement and Disability</b>		
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	
<b>Survivor Benefit</b>		
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, 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, 2017**

**Note 11. Retirement and Pension Plans, Continued**

**Employees covered by benefit terms** – At June 30, 2017, 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	2	1
Inactive employees entitled to but not yet receiving benefits	5	3	2
Active employees	20	17	4
Total	28	22	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, 2017, 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	21.04%	20.55%	32.27%
Health Insurance Premium Benefit	0.30%	0.42%	0.73%

In addition, statute required the City to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to PSPRS or CORPS would typically fill.

<b>Pension</b>	PSPRS Police	PSPRS Fire	CORP Dispatchers
Contributions made	\$ 250,010	\$ 185,610	\$ 12,075

**Health Insurance Premium Benefit**

Annual OPEB cost	3,107	4,012	1,133
Contributions made	3,107	4,012	1,133

**Pension liability** – At June 30, 2017, the City reported a net pension liability of \$2,370,865 for PSPRS Police, \$1,709,877 for PSPRS Fire, and \$620,707 for CORP Dispatchers. The net pension liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments 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, 2017**

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**Note 11. Retirement and Pension Plans, Continued**

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- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017

The investment rate of return actuarial assumption was decreased from 7.85% percent to 7.50% percent for PSPRS and CORPS plans.

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

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

**PSPRS and CORP - Pension**

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Investment rate of return	7.50%
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, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.50% 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 arithmetic real rates of return for each major asset class are summarized in the following table:

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**Note 11. Retirement and Pension Plans, Continued**

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<b>PSPRS and CORP</b>		<b>Long-Term Expected Arithmetic Real Rate of Return</b>
<b>Asset Class</b>	<b>Target Allocation</b>	
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%
<b>Total</b>	<b>100.00%</b>	

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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, 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
Changes for the year:									
Service cost	203,857	-	203,857	175,209	-	175,209	22,192	-	22,192
Interest on total pension liability	375,584	-	375,584	308,366	-	308,366	81,062	-	81,062
Changes of benefit terms	406,547	-	406,547	366,876	-	366,876	2,699	-	2,699
Difference between expected and actual experience in the measurement of the pension liability	111,859	-	111,859	(206,224)	-	(206,224)	(32,880)	-	(32,880)
Changes of assumptions	228,950	-	228,950	185,089	-	185,089	27,171	-	27,171
Contributions - employer	-	233,387	(233,387)	-	188,368	(188,368)	-	39,841	(39,841)
Contributions - employee	-	122,642	(122,642)	-	101,848	(101,848)	-	11,478	(11,478)
Net investment income	-	19,691	(19,691)	-	16,375	(16,375)	-	2,886	(2,886)
Benefit payments, including refunds of employee contributions	(255,135)	(255,135)	-	(108,658)	(108,658)	-	(32,389)	(32,389)	-
Plan Administrative Expense	-	(3,233)	3,233	-	(2,756)	2,756	-	(808)	808
Other*	-	(767)	767	-	(55,030)	55,030	-	(3)	3
Net changes	1,071,662	116,585	955,077	720,658	140,147	580,511	67,855	21,005	46,850
Balances at June 30, 2017	\$ 5,881,813	\$ 3,510,948	\$ 2,370,865	\$ 4,615,617	\$ 2,905,740	\$ 1,709,877	\$ 1,105,591	\$ 484,884	\$ 620,707

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

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PSPRS Police			
Net pension (asset) / liability	\$ 3,229,597	\$ 2,370,865	\$ 1,671,044
PSPRS Fire			
Net pension (asset) / liability	2,415,829	1,709,877	1,136,523
CORP Dispatchers			
Net pension (asset) / liability	781,464	620,707	489,977

**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, 2017, the City recognized the following pension expense:

	<b>Pension Expense</b>
PSPRS Police	\$ 686,868
PSPRS Fire	631,971
CORP Dispatchers	69,515

**Pension deferred outflows/inflows of resources** – At June 30, 2017, 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	\$ 94,133	\$ 264,439	\$ 19,658	\$ 289,604
Changes in assumptions	398,059	-	307,732	-
Net difference between projected and actual earnings on pension plan investments	218,038	-	181,493	-
Contributions subsequent to the measurement date	250,010	-	185,610	-
Total	<u>\$ 960,240</u>	<u>\$ 264,439</u>	<u>\$ 694,493</u>	<u>\$ 289,604</u>

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 11. Retirement and Pension Plans, Continued**

	<b>CORP Dispatchers</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 60,318
Changes in assumptions	83,867	-
Net difference between projected and actual earnings on pension plan investments	30,091	-
Contributions subsequent to the measurement date	12,075	-
Total	\$ 126,033	\$ 60,318

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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30</b>	<b>PSPRS Police</b>	<b>PSPRS Fire</b>	<b>CORP Dispatchers</b>
2018	\$ 89,783	\$ 47,539	\$ 11,355
2019	89,783	47,539	11,356
2020	121,207	71,817	15,487
2021	91,249	49,958	11,833
2022	37,002	8,840	3,609
Thereafter	16,767	(6,414)	-

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

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

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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 2017 contribution requirements:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	20 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	7.50%
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	2015	\$ 15,552	100%	-
	2016	5,090	100%	-
	2017	3,107	100%	-
PSPRS Fire	2015	11,285	100%	-
	2016	3,702	100%	-
	2017	4,012	100%	-
CORP Dispatchers	2015	1,902	100%	-
	2016	1,324	100%	-
	2017	1,133	100%	-



**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**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, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Police	PSPRS Fire	CORP Dispatchers
Actuarial accrued liability (AAL)	\$ 181,712	\$ 141,131	\$ 30,116
Actuarial value of plan assets	212,524	140,287	18,979
Unfunded actuarial accrued liability (UAAL)	<u>\$ (30,812)</u>	<u>\$ 844</u>	<u>\$ 11,137</u>
Funded ratio (actuarial value of plan assets/AAL)	117.00%	99.40%	63.02%
Covered payroll (active plan members)	\$ 1,056,801	\$ 882,220	\$ 144,417
UAAL as a percentage of covered payroll	0.00%	0.10%	7.72%

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, 2016
Actuarial cost method	Entry Age Normal
Amortization Method	Level percentage of Pay, Closed
Remaining Amortization Period	20 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	7.50%
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, 2017**

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**Note 12. Risk Management**

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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.

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**Note 13. Contingent Liabilities and Commitments**

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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, 2017.

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

<u>Project</u>	<u>Estimated Cost</u>	<u>Construction in Progress</u>
City Streets (various projects)	\$1.72 million	\$743,866
Centennial Park	\$3.20 million	\$36,720
Sunset Subdivision	\$1.86 million	\$827,292
Valley Vista Wastewater	\$1.32 million	\$178,580

**CITY OF SOMERTON, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 14. Prior Period Adjustment**

Historically the City has been accruing state revenue sharing taxes received in July of the subsequent period. Typically most cities and towns do not accrue revenue for these taxes as the state collects these taxes up to two years after the end of the year in which the taxes are associated with. As of June 30, 2017, management of the City decided to no longer accrue the revenues and record a prior period adjustment of \$153,516 which represents the revenues to be recognized as of June 30, 2017 and were previously recognized as revenues as of June 30, 2016.

**Note 15. 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.

	IDA 6/30/2017
Operating Revenues	\$ 153,330
Depreciation	(48,521)
Operating Expenses	(81,134)
Change in Net Position	23,675
Beginning Net Position	473,172
Ending Net Position	496,847
Net Working Capital	(44,515)
Total Assets	1,186,731
Current Liabilities	3,936
Due to Primary Government	75,000
Total Long-Term Liabilities	610,948
Net Position	
Net Investment in Capital Assets	541,362
Unrestricted	(44,515)
Total Net Position	496,847
<u>Condensed Statement of Cash Flows</u>	
Net Cash Flows from:	
Operating Activities	96,841
Noncapital Financing Activities	12,779
Capital and Related Financing Activities	(84,268)
Net Increase (Decrease)	25,352
Beginning Cash and Cash Equivalents	9,069
Ending Cash and Cash Equivalents	\$ 34,421

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SOMERTON, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**June 30, 2017**

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.027470%	0.025760%	0.00025915
Proportionate share of the net pension liability (asset)	\$ 4,433,934	\$ 4,012,837	\$ 3,834,505
Covered payroll	\$ 2,456,023	\$ 2,388,365	\$ 2,380,882
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	180.53%	168.02%	161.05%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes 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, 2017**

	PSPRS Police			PSPRS Fire			CORP Dispatchers		
	Reporting Fiscal Year (Measurement Date)								
	2017 (2016)	2016 (2015)	2015 (2014)	2017 (2016)	2016 (2015)	2015 (2014)	2017 (2016)	2016 (2015)	2015 (2014)
<b>Total pension liability</b>									
Service cost	\$ 203,857	\$ 170,091	\$ 170,215	\$ 175,209	\$ 187,423	\$ 196,663	\$ 22,192	\$ 25,339	\$ 25,952
Interest on total pension liability	375,584	366,673	325,990	308,366	291,160	244,311	81,062	77,670	66,412
Changes of benefit terms	406,547	-	46,240	366,876	-	25,311	2,699	-	7,639
Difference between expected and actual experience of the total net pension liability	111,859	(196,861)	(227,043)	(206,224)	(136,597)	29,159	(32,880)	(25,832)	(24,442)
Changes of assumptions	228,950	-	365,659	185,089	-	212,674	27,171	-	100,296
Benefit payments, including refunds of employee contributions	(255,135)	(231,391)	(94,104)	(108,658)	(124,729)	(88,662)	(32,389)	(32,389)	(31,882)
<b>Net change in total pension liability</b>	<b>1,071,662</b>	<b>108,512</b>	<b>586,957</b>	<b>720,658</b>	<b>217,257</b>	<b>619,456</b>	<b>67,855</b>	<b>44,788</b>	<b>143,975</b>
<b>Total pension liability - beginning</b>	<b>4,810,151</b>	<b>4,701,639</b>	<b>4,114,682</b>	<b>3,894,959</b>	<b>3,677,702</b>	<b>3,058,246</b>	<b>1,037,736</b>	<b>992,948</b>	<b>848,973</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 5,881,813</b>	<b>\$ 4,810,151</b>	<b>\$ 4,701,639</b>	<b>\$ 4,615,617</b>	<b>\$ 3,894,959</b>	<b>\$ 3,677,702</b>	<b>\$ 1,105,591</b>	<b>\$ 1,037,736</b>	<b>\$ 992,948</b>
<b>Plan fiduciary net position</b>									
Contributions - employer	\$ 233,387	\$ 166,006	\$ 156,039	\$ 188,368	\$ 155,837	\$ 173,752	\$ 39,841	\$ 37,216	\$ 31,926
Contributions - employee	122,642	102,364	91,866	101,848	97,766	99,020	11,478	13,596	13,532
Net investment income	19,691	121,631	384,311	16,375	95,426	296,911	2,886	16,191	50,758
Benefit payments, including refunds of employee contributions	(255,135)	(231,391)	(94,104)	(108,658)	(124,729)	(88,662)	(32,389)	(32,389)	(31,882)
Plan administrative expense	(3,233)	(3,347)	-	(2,756)	(2,711)	-	(808)	(787)	-
Other (net transfer)	(767)	(2,539)	(3,095)	(55,030)	(1,998)	(2,392)	(3)	(345)	(399)
<b>Net change in plan fiduciary net position</b>	<b>116,585</b>	<b>152,724</b>	<b>535,017</b>	<b>140,147</b>	<b>219,591</b>	<b>478,629</b>	<b>21,005</b>	<b>33,482</b>	<b>63,935</b>
<b>Plan fiduciary net position - beginning</b>	<b>3,394,363</b>	<b>3,241,639</b>	<b>2,706,622</b>	<b>2,765,593</b>	<b>2,546,002</b>	<b>2,067,373</b>	<b>463,879</b>	<b>430,397</b>	<b>366,462</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 3,510,948</b>	<b>\$ 3,394,363</b>	<b>\$ 3,241,639</b>	<b>\$ 2,905,740</b>	<b>\$ 2,765,593</b>	<b>\$ 2,546,002</b>	<b>\$ 484,884</b>	<b>\$ 463,879</b>	<b>\$ 430,397</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 2,370,865</b>	<b>\$ 1,415,788</b>	<b>\$ 1,460,000</b>	<b>\$ 1,709,877</b>	<b>\$ 1,129,366</b>	<b>\$ 1,131,700</b>	<b>\$ 620,707</b>	<b>\$ 573,857</b>	<b>\$ 562,551</b>
Plan fiduciary net position as a percentage of the total pension liability	59.69%	70.57%	68.95%	62.95%	71.00%	69.23%	43.86%	44.70%	43.35%
Covered payroll	\$ 1,056,801	\$ 957,413	\$ 904,992	\$ 882,220	\$ 883,152	\$ 925,129	\$ 144,197	\$ 143,534	\$ 170,002
Net pension liability as a percentage of covered payroll	224.34%	147.88%	161.33%	193.82%	127.88%	122.33%	430.46%	399.81%	330.91%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension plan schedules.

**CITY OF SOMERTON, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**June 30, 2017**

**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	\$ -	\$ 2,380,882	10.50%
2015	258,403	258,403	-	2,388,365	10.82%
2016	279,095	279,095	-	2,456,023	11.36%

Note: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

Year Ended June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll*	Actual Contribution as a % of Covered Valuation Payroll
<b>PSPRS Police</b>					
2014	\$ 156,039 **	\$ 156,039	\$ -	\$ 904,992	17.24%
2015	166,006 **	166,006	-	957,413	17.34%
2016	233,387 **	233,387	-	1,056,801	22.08%
<b>PSPRS Fire</b>					
2014	\$ 173,752 **	\$ 173,752	\$ -	\$ 925,129	18.78%
2015	155,837 **	155,837	-	883,152	17.65%
2016	188,368 **	188,368	-	882,220	21.35%
<b>CORP Dispatchers</b>					
2014	\$ 31,926 **	\$ 31,926	\$ -	\$ 170,002	18.78%
2015	37,216 **	37,216	-	143,534	25.93%
2016	39,841 **	39,841	-	144,197	27.63%

\* 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: In accordance with GASB68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension plan schedules.

**CITY OF SOMERTON, ARIZONA**  
**Required Supplementary Information**  
**Notes to the Pension Plan Schedules**  
**June 30, 2017**

**NOTE 1. Actuarially Determined Contribution Rates**

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

Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial liability, open for excess
Remaining Amortization Period of the 2015 actuarial valuation	21 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**  
**Required Supplementary Information**  
**Notes to the Pension Plan Schedules**  
**June 30, 2017**

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**NOTE 1. Factors That Affect Trends**

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In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS, CORP, and CORP-AOC changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' and CORP's changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the County's net pension liability and related ratios. These changes also increased the PSPRS, CORP, and CORP-AOC's required contributions beginning in fiscal year 2016 in the schedule of county pension contributions.

**CITY OF SOMERTON, ARIZONA**  
**Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2017**

**Health Insurance Premium Benefit**

	<b>Valuation Date June 30,</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>[(b)-(a)] / (c) UAAL as a % of Covered Payroll</b>
PSPRS	2014	174,253	178,127	3,874	97.83%	904,993	0.43%
Police	2015	195,478	164,079	(31,399)	119.14%	957,413	0.00%
	2016	212,524	181,712	(30,812)	117.0%	1,056,801	0.00%
PSPRS	2014	115,613	111,323	(4,290)	103.85%	925,129	0.00%
Fire	2015	129,338	123,296	(6,042)	104.90%	883,152	0.00%
	2016	140,287	141,131	844	99.40%	882,220	0.10%
CORP	2014	14,268	26,289	12,021	54.27%	170,002	7.07%
Dispatchers	2015	16,743	26,709	9,966	62.69%	143,534	6.94%
	2016	18,979	30,116	11,137	63.02%	144,417	7.72%

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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULES**

**FOR THE FOLLOWING MAJOR FUNDS:**

**General Fund**

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

**Special Revenue Fund**

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

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

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

**CITY OF SOMERTON, ARIZONA**  
**GENERAL FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
<b>Taxes:</b>				
City sales tax	\$ 2,000,000	\$ 2,000,000	\$ 2,218,049	\$ 218,049
Franchise fees	100,000	100,000	64,708	(35,292)
Property taxes	573,010	573,010	589,460	16,450
Special assessments	175,130	175,130	164,036	(11,094)
Total taxes	<u>2,848,140</u>	<u>2,848,140</u>	<u>3,036,253</u>	<u>188,113</u>
<b>Licenses, Permits and Fees:</b>				
Parks development fees	400,386	400,386	400,146	(240)
Building permits	262,816	262,816	299,023	36,207
Liquor license	1,650	1,650	-	(1,650)
Business licenses	32,093	32,093	28,715	(3,378)
Total licenses, fees and permits	<u>696,945</u>	<u>696,945</u>	<u>727,884</u>	<u>30,939</u>
<b>Intergovernmental:</b>				
State sales taxes	1,417,310	1,417,310	1,376,723	(40,587)
State revenue sharing	1,842,191	1,842,191	1,841,014	(1,177)
Auto lieu tax	568,800	568,800	600,650	31,850
Cocopah obligation	548,325	548,325	629,296	80,971
Total intergovernmental	<u>4,376,626</u>	<u>4,376,626</u>	<u>4,447,683</u>	<u>71,057</u>
<b>Charges for Services:</b>				
Rent revenues	174,013	174,013	50,915	(123,098)
Ambulance fees	2,702,830	2,702,830	1,298,083	(1,404,747)
Reimbursements	25,000	25,000	24,972	(28)
Miscellaneous fees and charges	332,021	332,021	173,991	(158,030)
Total charges for services	<u>3,233,864</u>	<u>3,233,864</u>	<u>1,547,961</u>	<u>(1,685,903)</u>
<b>Fines and Forfeitures:</b>				
Fines and forfeitures	254,326	254,326	120,826	(133,500)
Total fines and forfeitures	<u>254,326</u>	<u>254,326</u>	<u>120,826</u>	<u>(133,500)</u>
<b>Interest</b>				
Investment earnings	5,000	5,000	9,050	4,050
Total interest	<u>5,000</u>	<u>5,000</u>	<u>9,050</u>	<u>4,050</u>
<b>Other Revenues:</b>				
Donations	13,000	13,000	16,022	3,022
Miscellaneous	293,958	293,958	316,688	22,730
Total other revenues	<u>306,958</u>	<u>306,958</u>	<u>332,710</u>	<u>25,752</u>
<b>TOTAL REVENUES</b>	<u>\$ 11,721,859</u>	<u>\$ 11,721,859</u>	<u>\$ 10,222,367</u>	<u>\$ (1,499,492)</u>

(continued)

**CITY OF SOMERTON, ARIZONA**  
**GENERAL FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**

<b>EXPENDITURES</b>	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>General Government:</b>				
Mayor and council	\$ 786,777	\$ 776,777	\$ 299,286	\$ 477,491
Administration	1,353,678	1,353,678	703,268	650,410
Finance	1,119,995	1,119,767	746,766	373,001
City clerk	51,935	51,594	44,535	7,059
Court	542,786	383,523	382,930	593
Total general government	3,855,171	3,685,339	2,176,785	1,508,554
<b>Public Safety:</b>				
Police	2,353,399	2,355,718	2,160,196	195,522
Fire and ambulance	2,443,557	2,443,557	2,034,580	408,977
Animal control	184,519	184,519	134,491	50,028
Total public safety	4,981,475	4,983,794	4,329,267	654,527
<b>Public Works/Streets:</b>				
Assessment districts	178,730	178,730	142,550	36,180
Total public works/streets	178,730	178,730	142,550	36,180
<b>Culture and Recreation:</b>				
Parks and recreation	1,616,045	1,272,328	1,281,057	(8,729)
Youth center	90,387	-	-	-
Total culture and recreation	1,706,432	1,272,328	1,281,057	(8,729)
<b>Economic Development:</b>				
Community development	292,589	276,806	220,308	56,498
Economic development	230,969	230,969	243,608	(12,639)
Total economic development	523,558	507,775	463,916	43,859
<b>TOTAL EXPENDITURES</b>	<b>11,245,366</b>	<b>10,627,966</b>	<b>8,393,575</b>	<b>2,234,391</b>
Excess of revenues over expenditures	476,493	1,093,893	1,828,792	734,899
<b>Other Financing Sources (Uses):</b>				
Lease proceeds	48,800	48,800	-	(48,800)
Sale of assets	225,000	225,000	-	(225,000)
Transfers out	-	-	(1,355,867)	(1,355,867)
Total other financing sources (uses)	273,800	273,800	(1,355,867)	(1,629,667)
Net change in fund balance	750,293	1,367,693	472,925	(894,768)
Fund balance, beginning of year	4,722,505	4,722,505	4,722,505	-
Prior period adjustments	(153,516)	(153,516)	(153,516)	-
Fund balance, end of year	\$ 5,472,798	\$ 6,090,198	\$ 5,041,914	\$ (894,768)

**CITY OF SOMERTON, ARIZONA**  
**HIGHWAY USER REVENUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**

	<u>Original</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 1,182,576	\$ 1,182,576	\$ 1,203,552	\$ 20,976
Other Revenue	-	-	493	493
Total revenue	<u>1,182,576</u>	<u>1,182,576</u>	<u>1,204,045</u>	<u>21,469</u>
<b>EXPENDITURES:</b>				
Salaries	243,190	243,190	243,182	8
Employee benefits	143,090	143,090	180,014	(36,924)
Services, supplies, and other	684,628	684,628	235,855	448,773
Capital outlay	<u>127,981</u>	<u>127,981</u>	-	<u>127,981</u>
Total expenditures	<u>1,198,889</u>	<u>1,198,889</u>	<u>659,051</u>	<u>539,838</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(16,313)</u>	<u>(16,313)</u>	<u>544,994</u>	<u>561,307</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	<u>(166,254)</u>	<u>(166,254)</u>	<u>(120,000)</u>	<u>46,254</u>
Total other financing sources (uses):	<u>(166,254)</u>	<u>(166,254)</u>	<u>(120,000)</u>	<u>46,254</u>
Net change in fund balance	(182,567)	(182,567)	424,994	607,561
Fund balance, beginning of year	<u>983,651</u>	<u>983,651</u>	<u>983,651</u>	<u>-</u>
Fund balance, end of year	<u>\$ 801,084</u>	<u>\$ 801,084</u>	<u>\$ 1,408,645</u>	<u>\$ 607,561</u>

**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULES**  
**FOR THE FOLLOWING MAJOR FUNDS:**

**Capital Project Funds**

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

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

**COMBINING STATEMENTS**  
**AND BUDGETARY COMPARISON SCHEDULES**

**Non-major Governmental Funds**

**Special Revenue Funds**

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

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

**Debt Service Funds**

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



**CITY OF SOMERTON, ARIZONA**  
**CAPITAL IMPROVEMENT**  
**Capital Project Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 12,661,773	\$ 12,661,773	\$ -	\$ (12,661,773)
Interest revenue	-	-	5,573	5,573
Total revenue	<u>12,661,773</u>	<u>12,661,773</u>	<u>5,573</u>	<u>(12,656,200)</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>20,056,627</u>	<u>20,056,627</u>	<u>4,385,604</u>	<u>15,671,023</u>
Total expenditures	<u>20,056,627</u>	<u>20,056,627</u>	<u>4,385,604</u>	<u>15,671,023</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(7,394,854)</u>	<u>(7,394,854)</u>	<u>(4,380,031)</u>	<u>3,014,823</u>
Other Financing Sources (Uses):				
Transfers in	<u>263,000</u>	<u>263,000</u>	<u>248,459</u>	<u>(14,541)</u>
Net change in fund balance	(7,131,854)	(7,131,854)	(4,131,572)	3,000,282
Fund balance, beginning of year	<u>4,131,572</u>	<u>4,131,572</u>	<u>4,131,572</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (3,000,282)</u>	<u>\$ (3,000,282)</u>	<u>\$ -</u>	<u>\$ 3,000,282</u>

**CITY OF SOMERTON, ARIZONA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue			Debt Service	Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
<b>ASSETS</b>					
Cash	\$ -	\$ 60,404	\$ 33,744	\$ 695,433	\$ 789,581
Accounts receivable	-	378	-	-	378
Due from other governments	42,503	-	34,213	-	76,716
Restricted cash and investments	54,147	-	-	11,797	65,944
Total assets	<u>\$ 96,650</u>	<u>\$ 60,782</u>	<u>\$ 67,957</u>	<u>\$ 707,230</u>	<u>\$ 932,619</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable	\$ 1,086	\$ 23,710	\$ 1,027	\$ -	\$ 25,823
Accrued wages and benefits	1,894	-	1,317	-	3,211
Due to other funds	-	13,881	65,613	582,441	661,935
Total liabilities	<u>2,980</u>	<u>37,591</u>	<u>67,957</u>	<u>582,441</u>	<u>690,969</u>
Fund Balance:					
Restricted for:					
General government	-	23,191	-	-	23,191
Public safety	93,670	-	-	-	93,670
Assigned to:					
Debt service	-	-	-	124,789	124,789
Total fund balance (deficit)	<u>93,670</u>	<u>23,191</u>	<u>-</u>	<u>124,789</u>	<u>241,650</u>
Total liabilities and fund balance	<u>\$ 96,650</u>	<u>\$ 60,782</u>	<u>\$ 67,957</u>	<u>\$ 707,230</u>	<u>\$ 932,619</u>

**CITY OF SOMERTON, ARIZONA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue			Debt Service	Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
<b>REVENUES:</b>					
Intergovernmental	\$ 153,502	\$ -	\$ 131,162	\$ -	\$ 284,664
Fines and forfeitures	-	4,399	-	-	4,399
Interest	-	-	-	4,642	4,642
Other revenues	23,275	552	30,895	-	54,722
<b>Total revenues</b>	<b>176,777</b>	<b>4,951</b>	<b>162,057</b>	<b>4,642</b>	<b>348,427</b>
<b>EXPENDITURES:</b>					
General government	-	331	-	-	331
Public safety	199,211	-	-	-	199,211
Health and welfare	-	-	201,730	-	201,730
Debt Service	-	-	-	1,023,932	1,023,932
<b>Total expenditures</b>	<b>199,211</b>	<b>331</b>	<b>201,730</b>	<b>1,023,932</b>	<b>1,425,204</b>
Excess of revenues over (under) expenditures	(22,434)	4,620	(39,673)	(1,019,290)	(1,076,777)
Other Financing Sources (Uses):					
Transfers in	31,190	-	33,744	1,162,474	1,227,408
<b>Total other financing sources (uses):</b>	<b>31,190</b>	<b>-</b>	<b>33,744</b>	<b>1,162,474</b>	<b>1,227,408</b>
Net change in fund balances	8,756	4,620	(5,929)	143,184	150,631
Fund balance, beginning of year	84,914	18,571	5,929	(18,395)	91,019
Fund balance (deficit), end of year	<u>\$ 93,670</u>	<u>\$ 23,191</u>	<u>\$ -</u>	<u>\$ 124,789</u>	<u>\$ 241,650</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, 2017**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>			
Intergovernmental revenue	\$ 697,764	\$ 153,502	\$ (544,262)
Other revenue	55,920	23,275	(32,645)
Total revenue	<u>753,684</u>	<u>176,777</u>	<u>(576,907)</u>
<b>EXPENDITURES:</b>			
Salaries	677,830	128,892	548,938
Employee benefits	111,093	55,800	55,293
Services, supplies, and other	27,694	14,519	13,175
Total expenditures	<u>816,617</u>	<u>199,211</u>	<u>617,406</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(62,933)</u>	<u>(22,434)</u>	<u>40,499</u>
Other Financing Sources (Uses):			
Transfers in	<u>6,774</u>	<u>31,190</u>	<u>24,416</u>
Net change in fund balance	(56,159)	8,756	64,915
Fund balance, beginning of year	<u>84,914</u>	<u>84,914</u>	<u>-</u>
Fund balance, end of year	<u>\$ 28,755</u>	<u>\$ 93,670</u>	<u>\$ 64,915</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, 2017**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>			
Fines and forfeitures	\$ 16,723	\$ 4,399	\$ (12,324)
Other revenue	-	552	552
	<u>16,723</u>	<u>4,951</u>	<u>(11,772)</u>
Total revenue	<u>16,723</u>	<u>4,951</u>	<u>(11,772)</u>
<b>EXPENDITURES:</b>			
Services, supplies, and other	<u>16,783</u>	<u>331</u>	<u>16,452</u>
	<u>16,783</u>	<u>331</u>	<u>16,452</u>
Total expenditures	<u>16,783</u>	<u>331</u>	<u>16,452</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(60)</u>	<u>4,620</u>	<u>4,680</u>
Other Financing Sources (Uses):			
Net change in fund balance	(60)	4,620	4,680
Fund balance, beginning of year	<u>18,571</u>	<u>18,571</u>	<u>-</u>
Fund balance, end of year	<u>\$ 18,511</u>	<u>\$ 23,191</u>	<u>\$ 4,680</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, 2017**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>			
Intergovernmental revenue	\$ 135,315	\$ 131,162	\$ (4,153)
Donations and other revenue	<u>58,549</u>	<u>30,895</u>	<u>(27,654)</u>
Total revenue	<u>193,864</u>	<u>162,057</u>	<u>(31,807)</u>
<b>EXPENDITURES:</b>			
Salaries	84,147	93,632	(9,485)
Employee benefits	33,772	39,639	(5,867)
Services, supplies, and other	<u>77,891</u>	<u>68,459</u>	<u>9,432</u>
Total expenditures	<u>195,810</u>	<u>201,730</u>	<u>(5,920)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(1,946)</u>	<u>(39,673)</u>	<u>(37,727)</u>
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>33,744</u>	<u>33,744</u>
Net change in fund balance	(1,946)	(5,929)	(3,983)
Fund balance, beginning of year	<u>5,929</u>	<u>5,929</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,983</u>	<u>\$ -</u>	<u>\$ (3,983)</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, 2017**

	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>			
Interest	\$ -	\$ 4,642	\$ (4,642)
Total revenue	-	4,642	(4,642)
<b>EXPENDITURES:</b>			
Debt service - principal	656,376	620,593	35,783
Debt service - interest	506,998	403,339	103,659
Total expenditures	1,163,374	1,023,932	139,442
Excess of revenue and other sources over (under) expenditures and other uses	(1,163,374)	(1,019,290)	134,800
Other Financing Sources (Uses):			
Transfers in	1,163,374	1,162,474	(900)
Total other financing sources (uses)	1,163,374	1,162,474	(900)
Net change in fund balance	-	143,184	133,900
Fund balance, beginning of year	(18,395)	(18,395)	-
Fund balance, end of year	\$ (18,395)	\$ 124,789	\$ 133,900

**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, 2017 and 2016**

	2017	2016
<b>Capital assets:</b>		
Land	\$ 934,486	\$ 904,486
Buildings and Improvements	9,924,548	6,142,037
Improvements	2,236,580	2,170,854
Furniture and Equipment	2,527,426	2,415,001
Vehicles	3,336,848	3,306,448
Infrastructure/Streets	18,376,376	16,799,630
Construction in Progress	1,474,494	1,380,599
	\$ 38,810,758	\$ 33,119,055
 <b>Investment in capital assets by source:</b>		
Investment in property acquired by all sources excluding donations	\$ 35,481,904	\$ 29,790,201
Donations	3,328,854	3,328,854
	\$ 38,810,758	\$ 33,119,055

**CITY OF SOMERTON, ARIZONA**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule By Function and Activity**  
**June 30, 2017**

<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	\$ 4,166,693	\$ 17,980	\$ 183,600	\$ 143,503	\$ -	\$ -	\$ 5,099,010
Highways and Streets	36,000	-	19,050	307,102	517,861	18,125,051	1,431,773	20,436,837
Public Safety	-	3,845,216	784,387	1,740,821	2,613,226	-	-	8,983,650
Culture and Recreation	311,252	1,167,668	1,222,103	285,888	62,258	251,325	42,721	3,343,215
Health and Welfare	-	744,971	193,060	10,015	-	-	-	948,046
Totals	<u>\$ 934,486</u>	<u>\$ 9,924,548</u>	<u>\$ 2,236,580</u>	<u>\$ 2,527,426</u>	<u>\$ 3,336,848</u>	<u>\$ 18,376,376</u>	<u>\$ 1,474,494</u>	<u>\$ 38,810,758</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, 2017**

	Capital Assets <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Capital Assets <u>June 30, 2017</u>
<u>Function and Activity</u>					
General Government	\$ 2,066,003	\$ 3,033,007	\$ -	\$ -	\$ 5,099,010
Highways and Streets	17,999,212	2,437,625	-	-	20,436,837
Public Safety	8,921,833	61,817	-	-	8,983,650
Culture and Recreation	3,183,961	159,254	-	-	3,343,215
Health and Welfare	948,046	-	-	-	948,046
Totals	<u>\$ 33,119,055</u>	<u>\$ 5,691,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,810,758</u>

## STATISTICAL SECTION

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

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

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

	<b>Fiscal Year</b>									
	<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>	<u>2017</u>
<b>Governmental activities</b>										
Net investment in capital assets	\$ 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	\$ 9,688,793
Restricted	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	1,583,311
Unrestricted	(3,273,849)	(3,162,059)	(2,676,083)	(2,090,502)	(671,385)	1,108,754	1,836,853	(1,706,519)	(196,866)	(794,628)
<b>Total governmental activities net position</b>	<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>	<u>\$ 10,477,476</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 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	\$ 17,262,550
Restricted	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	2,048,451
Unrestricted	970,899	570,584	232,729	1,130,746	1,164,853	2,271,166	2,053,834	(63,474)	(498,839)	(345,944)
<b>Total business-type activities net position</b>	<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>	<u>\$ 18,965,057</u>
<b>Primary government</b>										
Net investment in capital assets	\$ 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	\$ 26,951,343
Restricted	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	3,631,762
Unrestricted	(2,302,950)	(2,591,475)	(2,443,354)	(959,756)	493,468	3,379,920	3,890,687	(1,769,993)	(695,705)	(1,140,572)
<b>Total primary government net position</b>	<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>	<u>\$ 29,442,533</u>

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Expenses</b>										
Governmental activities:										
General government	\$ 948,716	\$ 1,028,049	\$ 706,034	\$ 869,252	\$ 1,037,183	\$ 1,029,378	\$ 1,258,932	\$ 1,263,799	\$ 1,606,583	\$ 2,123,661
Public safety	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	5,836,223
Public works/Streets	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	1,549,027
Culture and recreation	790,428	719,824	627,497	633,493	681,096	842,621	795,215	1,142,023	1,196,707	1,278,119
Economic development	317,203	259,336	202,788	164,123	196,998	279,406	246,595	252,849	438,116	351,746
Health and welfare	-	-	205,878	207,466	197,037	176,147	193,620	211,041	211,667	238,384
Interest on long-term debt	642,710	452,399	423,057	403,368	398,679	421,377	268,312	432,600	419,808	411,546
Total governmental activities expenses	<u>8,038,727</u>	<u>7,849,989</u>	<u>7,536,966</u>	<u>7,642,702</u>	<u>8,176,368</u>	<u>9,252,380</u>	<u>9,575,686</u>	<u>10,338,538</u>	<u>10,888,634</u>	<u>11,788,706</u>
Business-type activities:										
Water/Sewer/Sanitation	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	4,854,538
Total business-type activities expenses	<u>3,734,023</u>	<u>3,712,264</u>	<u>3,796,260</u>	<u>4,383,876</u>	<u>4,234,628</u>	<u>4,384,783</u>	<u>4,737,436</u>	<u>4,899,185</u>	<u>4,798,850</u>	<u>4,854,538</u>
Total primary government expenses	<u>\$ 11,772,750</u>	<u>\$ 11,562,253</u>	<u>\$ 11,333,226</u>	<u>\$ 12,026,578</u>	<u>\$ 12,410,996</u>	<u>\$ 13,637,163</u>	<u>\$ 14,313,122</u>	<u>\$ 15,237,723</u>	<u>\$ 15,687,484</u>	<u>\$ 16,643,244</u>
<b>Program Revenues (see Schedule 3)</b>										
Governmental activities:										
Charges for services:										
General government	\$ 832,033	\$ 825,918	\$ 870,346	\$ 765,279	\$ 189,960	\$ 227,730	\$ 288,205	\$ 256,772	\$ 399,280	\$ 830,806
Public safety	113,924	111,685	119,355	75,935	891,207	1,472,856	1,474,487	3,101,258	2,376,712	1,463,718
Public works/Streets	39,392	35,709	27,574	13,137	16,954	23,296	77,197	73,531	119,934	160,041
Culture and recreation	87,052	122,436	130,494	125,844	155,664	256,900	318,298	435,736	430,543	433,174
Operating grants & contributions	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	2,162,628
Capital grants & contributions	4,011,389	745,256	241,353	301,340	100,844	824,428	155,084	498,512	429,521	822,728
Total governmental activities program revenues	<u>6,504,264</u>	<u>3,232,146</u>	<u>3,015,130</u>	<u>2,945,644</u>	<u>3,212,490</u>	<u>4,557,155</u>	<u>4,061,138</u>	<u>6,262,619</u>	<u>5,785,441</u>	<u>5,873,095</u>
Business-type activities:										
Charges for services:										
Water/Sewer/Sanitation	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	3,795,405
Operating grants & contributions	-	-	-	-	-	-	-	-	-	-
Capital grants & contributions	3,823,575	716,835	873,091	2,075,134	1,727,748	645,416	539,360	452,595	1,578,662	1,502,499
Total business-type activities program revenues	<u>6,279,764</u>	<u>3,351,115</u>	<u>3,747,961</u>	<u>5,226,957</u>	<u>5,029,823</u>	<u>3,998,032</u>	<u>3,972,149</u>	<u>4,128,746</u>	<u>5,244,118</u>	<u>5,297,904</u>
Total primary government program revenues	<u>\$ 12,784,028</u>	<u>\$ 6,583,261</u>	<u>\$ 6,763,091</u>	<u>\$ 8,172,601</u>	<u>\$ 8,242,313</u>	<u>\$ 8,555,187</u>	<u>\$ 8,033,287</u>	<u>\$ 10,391,365</u>	<u>\$ 11,029,559</u>	<u>\$ 11,170,999</u>
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (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)	\$ (5,915,611)
Business-type activities	2,545,741	(361,149)	(48,299)	843,081	795,195	(386,751)	(765,287)	(770,439)	445,268	443,366
Total primary governmental net (expense) revenue	<u>\$ 1,011,278</u>	<u>\$ (4,978,992)</u>	<u>\$ (4,570,135)</u>	<u>\$ (3,853,977)</u>	<u>\$ (4,168,683)</u>	<u>\$ (5,081,976)</u>	<u>\$ (6,279,835)</u>	<u>\$ (4,846,358)</u>	<u>\$ (4,657,925)</u>	<u>\$ (5,472,245)</u>
<b>General Revenues &amp; Other Changes in Net Position</b>										
Government activities:										
Taxes										
City sales tax	\$ 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	\$ 2,218,051
State sales tax	896,064	775,741	715,508	775,953	1,116,391	1,169,429	1,243,580	1,305,671	1,353,100	1,376,723
Property Tax	294,443	359,745	387,379	461,169	445,863	482,755	498,480	562,771	565,422	601,656
Auto lieu tax	385,030	376,184	360,552	360,782	496,042	458,780	490,479	515,583	561,557	600,650
Franchise tax	124,183	129,840	138,113	153,146	175,842	187,552	100,212	60,190	68,921	64,708
State income taxes - revenue sharing	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	1,841,014
Unrestricted grants & contributions	-	-	-	-	-	-	-	-	-	-
Investment earnings	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,214	7,525	13,692
Miscellaneous	-	-	187	1,050	166,479	3,628	-	-	-	-
Transfers	59,519	38,509	39,697	50,200	22,400	21,947	16,000	16,000	16,000	-
Total governmental activities	<u>4,799,258</u>	<u>4,161,003</u>	<u>3,967,196</u>	<u>4,130,593</u>	<u>4,978,780</u>	<u>5,188,338</u>	<u>5,474,402</u>	<u>5,906,827</u>	<u>6,165,481</u>	<u>6,716,494</u>
Business-type activities										
Investment earnings	60,276	19,102	2,139	1,001	(36,862)	1,130	1,535	1,384	2,454	4,053
Transfers	(59,519)	(38,509)	(39,697)	(50,200)	(22,400)	(21,947)	(16,000)	(16,000)	(16,000)	-
Total business-type activities	<u>757</u>	<u>(19,407)</u>	<u>(37,558)</u>	<u>(49,199)</u>	<u>(59,262)</u>	<u>(20,817)</u>	<u>(14,465)</u>	<u>(14,616)</u>	<u>(13,546)</u>	<u>4,053</u>
Total primary government	<u>\$ 4,800,015</u>	<u>\$ 4,141,596</u>	<u>\$ 3,929,638</u>	<u>\$ 4,081,394</u>	<u>\$ 4,919,518</u>	<u>\$ 5,167,521</u>	<u>\$ 5,459,937</u>	<u>\$ 5,892,211</u>	<u>\$ 6,151,935</u>	<u>\$ 6,720,547</u>
<b>Change in Net Position</b>										
Governmental activities	\$ 3,264,795	\$ (456,840)	\$ (554,640)	\$ (566,465)	\$ 14,902	\$ 493,113	\$ (40,146)	\$ 1,830,908	\$ 1,062,288	\$ 800,883
Business-type activities	2,546,498	(380,556)	(85,857)	793,882	735,933	(407,568)	(779,752)	(785,055)	431,722	447,419
Total primary government	<u>\$ 5,811,293</u>	<u>\$ (837,396)</u>	<u>\$ (640,497)</u>	<u>\$ 227,417</u>	<u>\$ 750,835</u>	<u>\$ 85,545</u>	<u>\$ (819,898)</u>	<u>\$ 1,045,853</u>	<u>\$ 1,494,010</u>	<u>\$ 1,248,302</u>

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

	Fiscal Year									
	<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>	<u>2017</u>
General Fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,167	\$ 52,724	\$ 86,414	\$ 262,071
Reserved/restricted	40,119	56,093	67,861	50,839	23,782	9,446	23,170	36,033	46,033	57,805
Unreserved/unassigned	843,929	754,467	742,725	872,052	1,440,298	1,674,948	1,250,628	3,142,748	4,590,058	4,722,038
Total General Fund	<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>	<u>\$ 5,041,914</u>
All Other Governmental Funds										
Reserved/restricted	\$ 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	\$ 1,525,506
Committed/assigned/unassigned, reported in:										
Court trust fund	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)	124,789
Total all other governmental funds	<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>	<u>\$ 1,650,295</u>

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

	Fiscal year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Taxes	\$ 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	\$ 3,036,253
Licenses, fees and permits	291,082	217,338	202,274	99,655	123,082	179,501	157,670	291,182	506,722	727,884
Fines & penalties	191,685	264,677	212,247	174,358	149,624	122,557	143,259	123,412	149,430	125,225
Charges for services	544,879	514,474	589,546	576,898	871,727	1,541,070	1,392,879	3,203,791	2,705,785	1,547,961
Intergovernmental	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	5,935,899
Investment earnings	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848	7,213	7,525	13,692
Other revenues	85,655	64,022	113,424	90,743	93,200	86,718	77,154	71,305	111,169	393,498
<b>Total Revenues</b>	<b>7,901,103</b>	<b>7,354,640</b>	<b>6,945,142</b>	<b>7,026,037</b>	<b>8,018,596</b>	<b>9,723,546</b>	<b>9,222,841</b>	<b>12,000,852</b>	<b>12,174,181</b>	<b>11,780,412</b>
<b>Expenditures</b>										
General government	921,684	1,002,452	904,944	907,507	1,076,490	1,247,348	1,439,016	1,232,425	1,629,629	2,177,116
Public safety	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	4,528,478
Public works/Streets	890,229	834,019	719,021	705,140	746,065	948,925	830,701	858,540	1,076,995	801,601
Culture and recreation	711,013	585,880	496,174	503,956	585,288	710,980	835,346	1,009,004	1,246,378	1,281,057
Economic development	316,264	257,958	202,010	162,180	196,502	277,304	250,282	253,649	439,189	463,916
Health and welfare	-	-	184,474	180,476	180,651	140,779	160,162	175,711	176,105	201,730
Capital Outlay	2,046,283	737,222	647,454	716,962	2,075,097	1,597,878	1,079,932	1,323,026	1,114,669	4,385,604
Debt Service										
Interest	297,612	459,093	444,137	414,173	402,816	419,000	336,876	674,902	98,738	620,593
Principal	768,951	476,682	437,728	433,622	403,041	342,535	385,341	386,893	310,222	403,339
<b>Total expenditures</b>	<b>9,549,930</b>	<b>7,947,234</b>	<b>7,575,488</b>	<b>7,366,822</b>	<b>9,394,320</b>	<b>10,468,160</b>	<b>10,166,064</b>	<b>10,938,921</b>	<b>11,018,526</b>	<b>14,863,434</b>
Excess of revenues over (under) expenditures	(1,648,827)	(592,594)	(630,346)	(340,785)	(1,375,724)	(744,614)	(943,223)	1,061,931	1,155,655	(3,083,022)
<b>Other Financing Sources (Uses)</b>										
Sale of assets	-	-	-	-	150,274	-	-	-	-	-
Bonds/Loans/LPA/Refundings	94,795	60,000	-	-	1,055,000	-	31,375	5,518,356	112,500	-
Transfers in	1,233,129	1,133,844	1,019,686	967,118	934,328	1,027,066	1,105,148	789,474	815,343	1,459,867
Transfers out	(1,173,610)	(1,095,335)	(979,989)	(916,918)	(911,928)	(1,005,119)	(1,089,148)	(773,474)	(799,343)	(1,459,867)
<b>Total other financing sources (uses)</b>	<b>154,314</b>	<b>98,509</b>	<b>39,697</b>	<b>50,200</b>	<b>1,227,674</b>	<b>21,947</b>	<b>47,375</b>	<b>5,534,356</b>	<b>128,500</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>\$ (1,494,513)</b>	<b>\$ (494,085)</b>	<b>\$ (590,649)</b>	<b>\$ (290,585)</b>	<b>\$ (148,050)</b>	<b>\$ (722,667)</b>	<b>\$ (895,848)</b>	<b>\$ 6,596,287</b>	<b>\$ 1,284,155</b>	<b>\$ (3,083,022)</b>
Debt service as a percentage of noncapital expenditures	9.6%	51.1%	15.0%	14.6%	12.4%	9.4%	8.6%	12.4%	4.3%	10.8%



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

	<b>Fiscal Years</b>									
	<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>	<u>2017</u>
Mining	\$ -	\$ 2	\$ 2,112	\$ 1,051	\$ 1,307	\$ 84	\$ -	\$ 92	\$ 287	\$ 209
Construction	467,329	596,427	196,957	210,325	213,043	142,716	153,907	176,782	199,321	356,116
Manufacturing	20,567	16,006	16,869	15,135	13,052	1,789	-	8,658	30,510	21,017
Transportation/Warehousing	18	38	18	4	72	-	-	-	53	31
Communications/Utilities	118,451	112,937	103,891	152,783	207,877	206,169	264,346	319,435	329,719	356,920
Wholesale Trade	203,219	205,751	211,423	203,058	149,935	-	-	125,949	286,626	321,535
Retail Trade	279,801	265,964	280,082	329,971	549,476	858,639	860,963	808,931	628,468	587,794
Restaurants & Bars	60,757	75,190	70,262	75,681	95,214	114,680	112,303	129,078	130,352	103,333
Insurance/Real Estate/Finance	46,946	61,419	68,935	66,289	71,534	48,151	48,604	804	93,898	79,772
Hotels/Lodging/Accommodation	3,360	3,534	481	486	407	-	-	56,038	425	-
Arts/Entertainment	366	4,929	6,820	7,953	7,521	-	1	20,479	23,743	20,408
Services	13,276	11,915	13,746	15,231	35,517	-	4,464	28,113	76,898	16,484
Government	-	-	-	-	-	-	-	838	878	2,381
All Others Not Specified	10,985	9,792	22,609	6,048	8,764	6,498	14,487	10,964	16,201	175,933
<b>Total</b>	<b>\$ 1,225,075</b>	<b>\$ 1,363,904</b>	<b>\$ 994,205</b>	<b>\$ 1,084,015</b>	<b>\$ 1,353,720</b>	<b>\$ 1,378,726</b>	<b>\$ 1,459,075</b>	<b>\$ 1,686,161</b>	<b>\$ 1,817,379</b>	<b>\$ 2,041,933</b>
City direct sales tax rate	2.50%	2.50%	2.50%	3.30%	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 2017**

Assessed Value	\$ 34,585,453
Debt Limit (20% of assessed value)	6,917,091
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal debt margin	<u>\$ 6,917,091</u>

	Fiscal Year									
	<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>	<u>2017</u>
Debt limit	\$ 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	\$ 6,917,091
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>\$ 6,427,105</u>	<u>\$ 6,725,509</u>	<u>\$ 7,118,271</u>	<u>\$ 7,052,090</u>	<u>\$ 7,105,022</u>	<u>\$ 7,594,628</u>	<u>\$ 6,084,757</u>	<u>\$ 6,247,317</u>	<u>\$ 6,471,545</u>	<u>\$ 6,917,091</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>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>	<u>2017</u>
General government										
Management services	3	3	2	2	2	3	2	2	2	2
Finance	8	7	5	5	5	5	5	6	7	7
Planning	5	3	3	3	2	1	4	4	5	5
Building	4	4	4	2	2	1	1	1	2	2
Court	3	3	3	5	4	5	5	5	5	5
Public safety										
Police	33	35	30	29	27	30	30	30	28	29
Fire	23	26	26	19	19	19	19	19	19	19
Public works/Streets										
Other	15	12	14	11	11	13	14	14	12	12
Culture and recreation	14	16	16	16	16	16	10	10	14	14
Water/Sewer/Sanitation	22	18	20	16	19	19	17	17	14	14
<b>Total</b>	<b>130</b>	<b>127</b>	<b>123</b>	<b>108</b>	<b>107</b>	<b>112</b>	<b>107</b>	<b>108</b>	<b>108</b>	<b>109</b>

**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**

<b><u>Function/Program</u></b>	<b>Fiscal Year</b>									
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
General government										
Building permits issued	179	97	121	44	43	43	69	97	112	479
Police										
Physical arrests	535	536	425	407	286	230	272	304	380	364
Traffic violations	3,220	3,958	2,442	2,448	1,400	1,440	1,525	2,468	1,495	651
Fire										
Emergency responses	1,467	1,627	1,671	1,664	1,658	3,965	4,618	4,681	4,189	2,547
Fires extinguished	55	57	56	34	43	65	49	39	32	32
Inspections	127	199	338	276	198	243	280	300	326	103
Water										
New connections	2,700	2,900	3,000	2,933	3,092	3,148	3,079	3,581	4,154	3,903
Water main breaks	-	-	-	-	2	2	2	2	4	-
Average daily consumption	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	1,500,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	705,000	792,612	792,612	800,000	598,000	727,000	1,021,000	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>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>	<u>2017</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	17	16	16	16	16	19	22	20	20	20
Fire Stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	5	6	6	6	6	6	5	5	5	5
Other public works										
Streets (miles)	41	44	44	44	44	44	44	44	44	44
Streetlights	601	601	601	601	601	706	732	732	732	732
Traffic signals	3	4	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)	42	42	42	42	42	46	46	46	46	46
Fire hydrants	406	410	410	410	410	397	410	410	410	410
Storage capacity (thousands of gallons)	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	2,250,000
Wastewater										
Sanitary sewers (miles)	46	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	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Transit-minibuses	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, 2017, 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 19, 2018.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 19, 2018

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**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, 2017, and have issued our report thereon dated January 19, 2018. 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, 2017.

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 19, 2018