

TOWN OF JEROME, ARIZONA

Annual Financial Statements
and Independent Auditors' Report

June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Jerome, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Jerome, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Jerome, Arizona, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the schedule of agent retirement plan funding progress on pages 29 to 32 and page 33 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 Town of Jerome, Arizona's basic financial statements. The Segmented Statement of Revenue, Expenses, and Changes in Fund Net Position are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Segmented Statement of Revenue, Expenses, and Changes in Fund Net Position is the responsibility of management and was 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 Segmented Statement of Revenue, Expenses, and Changes in Fund Net Position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015, on our consideration of the Town of Jerome, 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 the Town of Jerome, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Colby + Powell

June 24, 2015

TOWN OF JEROME, ARIZONA
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 452,861	\$ -	\$ 452,861
Cash and cash equivalents, restricted	-	99,386	99,386
Other receivables	8,350	55,930	64,280
Due from other governments	245,863	-	245,863
Interfund balances	27,997	(27,997)	-
Other assets	20,800	-	20,800
Capital assets, not being depreciated	252,283	-	252,283
Capital assets, being depreciated, net	669,495	2,375,981	3,045,476
Total assets	1,677,649	2,503,300	4,180,949
LIABILITIES			
Accounts payable	141,511	82,286	223,797
Accrued expenses	57,012	9,644	66,656
Deposits held for others	2,678	13,809	16,487
Deferred revenue	52,704	-	52,704
Due to fiduciary fund	1,471	-	1,471
Noncurrent liabilities			
Due within 1 year	33,087	13,779	46,866
Due in more than 1 year	11,029	192,024	203,053
Total liabilities	299,492	311,542	611,034
NET POSITION			
Net investment in capital assets	921,778	2,175,986	3,097,764
Restricted for:			
Court enhancement fund	64,624	-	64,624
Debt service	-	85,577	85,577
Unrestricted	391,755	(69,805)	321,950
Total net position	\$ 1,378,157	2,191,758	\$ 3,569,915

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Activities
June 30, 2014

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 479,015	\$ 16,300	\$ -	\$ -	\$ (462,715)	\$ -	\$ (462,715)
Public safety	720,927	67,442	40,490	1,742	(611,253)	-	(611,253)
Public works and streets	56,695	-	32,241	238,096	213,642	-	213,642
Community development	147,750	62,319	400	-	(85,031)	-	(85,031)
Culture and recreation	74,636	-	22,081	-	(52,555)	-	(52,555)
Total governmental activities	1,479,023	146,061	95,212	239,838	(997,912)	-	(997,912)
Business-type activities							
Utilities	508,485	544,100	-	-	-	35,615	35,615
Total business-type activities	508,485	544,100	-	-	-	35,615	35,615
Total primary government	\$ 1,987,508	\$ 690,161	\$ 95,212	\$ 239,838	(997,912)	35,615	(962,297)
General revenue:							
Taxes:							
Property					47,760	-	47,760
Sales					705,636	-	705,636
Franchise fees					17,748	-	17,748
State sales tax revenue sharing					38,708	-	38,708
Urban revenue sharing					168,380	-	168,380
Vehicle license taxes					24,681	-	24,681
Investment income (loss)					3,181	35	3,216
Gain (loss) on disposition of assets					(11,952)	(12,063)	(24,015)
Miscellaneous					13,461	-	13,461
Total general revenue					1,007,603	(12,028)	995,575
Transfers					(208,290)	208,290	-
Change in net position					(198,599)	231,877	33,278
Net position, July 1, 2013					1,576,756	1,959,881	3,536,637
Net position, June 30, 2014					\$ 1,378,157	\$ 2,191,758	\$ 3,569,915

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 425,883	\$ -	\$ 26,978	\$ 452,861
Other receivables	8,350	-	-	8,350
Due from other governments	135,324	5,916	104,623	245,863
Due from other funds	30,360	-	-	30,360
Other assets	20,800	-	-	20,800
Total assets	\$ 620,717	\$ 5,916	\$ 131,601	\$ 758,234
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 55,751	\$ 2,990	\$ 82,770	\$ 141,511
Accrued expenses	56,449	563	-	57,012
Deposits held for others	2,678	-	-	2,678
Deferred revenue	-	-	52,704	52,704
Due to other funds	1,471	2,363	-	3,834
Total liabilities	116,349	5,916	135,474	257,739
Fund balances				
Restricted for:				
Court enhancement	64,624	-	-	64,624
Unassigned	439,744	-	(3,873)	435,871
Total fund balances	504,368	-	(3,873)	500,495
Total liabilities and fund balances	\$ 620,717	\$ 5,916	\$ 131,601	\$ 758,234

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2014

Fund balances--total governmental funds	\$ 500,495
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	921,778
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.	<u>(44,116)</u>
Net position of governmental activities	<u><u>\$ 1,378,157</u></u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
Revenue				
Taxes	\$ 753,395	\$ -	\$ -	\$ 753,395
Intergovernmental	252,223	32,241	276,591	561,055
Charges for services	63,297	-	-	63,297
Fines and forfeits	61,767	-	-	61,767
Licenses and permits	30,921	-	-	30,921
Miscellaneous	23,027	-	-	23,027
Donations and grants	4,022	-	-	4,022
Investment earnings	3,113	68	-	3,181
Total revenue	<u>1,191,765</u>	<u>32,309</u>	<u>276,591</u>	<u>1,500,665</u>
Expenditures				
Current				
General government	413,017	-	39,131	452,148
Public safety	604,019	-	11,868	615,887
Public works and streets	-	52,212	-	52,212
Community development	145,687	-	-	145,687
Culture and recreation	73,214	-	291	73,505
Capital outlay	11,040	5,520	224,625	241,185
Total expenditures	<u>1,246,977</u>	<u>57,732</u>	<u>275,915</u>	<u>1,580,624</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(55,212)</u>	<u>(25,423)</u>	<u>676</u>	<u>(79,959)</u>
Other financing sources (uses)				
Sale of assets	3,334	-	-	3,334
Transfers	(9,088)	25,423	-	16,335
Total other financing sources (uses)	<u>(5,754)</u>	<u>25,423</u>	<u>-</u>	<u>19,669</u>
Net change in fund balances	<u>(60,966)</u>	<u>-</u>	<u>676</u>	<u>(60,290)</u>
Fund balances, July 1, 2013	<u>565,334</u>	<u>-</u>	<u>(4,549)</u>	<u>560,785</u>
Fund balances, June 30, 2014	<u>\$ 504,368</u>	<u>\$ -</u>	<u>\$ (3,873)</u>	<u>\$ 500,495</u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2014

Net change in fund balances--total governmental funds \$ (60,290)

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

Governmental funds report capital outlays as expenditures.

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

Capital outlay	241,185	
Capital asset transferred to Utility Fund	(224,625)	
Depreciation expense	<u>(125,163)</u>	(108,603)

In the Statement of Activities, only the gain/loss on the
sale of capital assets is reported whereas in the
governmental funds, the proceeds from the sale
increase financial resources. Thus, the change in
net position differs from the change in fund balance
by the book value of the capital assets sold. (15,285)

Some 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.

Increase in compensated absences	<u>(14,421)</u>
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Change in net position of governmental activities \$ (198,599)

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

ASSETS	Utilities Fund
Current assets	
Cash and cash equivalents, restricted	\$ 99,386
Accounts receivable-net	55,930
Total current assets	155,316
Noncurrent assets	
Capital assets, net of accumulated depreciation, where applicable:	
Buildings and infrastructure, net	2,343,505
Vehicles and equipment, net	32,476
Total noncurrent assets	2,375,981
Total assets	2,531,297
 LIABILITIES	
Current liabilities	
Accounts payable	82,286
Accrued expenses	5,144
Interest payable	4,500
Deposits held for customers	13,809
Due to other funds	27,997
Compensated absences-current portion	4,356
Revenue bond payable-current portion	9,423
Total current liabilities	147,515
Noncurrent liabilities	
Compensated absences-net of current portion	1,452
Revenue bond payable-net of current portion	190,572
Total noncurrent liabilities	192,024
Total liabilities	339,539
 NET POSITION	
Net investment in capital assets	2,175,986
Restricted for:	
Debt service	85,577
Unrestricted	(69,805)
Total net position	\$ 2,191,758

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2014

	<u>Utilities Fund</u>
Operating revenue	
Charges for services	
Sewer user fees	\$ 180,606
Water user fees	176,779
Sanitation user fees	153,966
Miscellaneous	<u>32,749</u>
Total operating revenue	<u>544,100</u>
Operating expenses	
Personnel	212,672
Depreciation	68,847
Repairs and maintenance	58,462
Contract services	41,554
Insurance	31,027
Fees and permits	23,712
Office	17,887
Legal and professional	17,460
Fuel	15,456
Tools and equipment	5,294
Utilities	4,238
Miscellaneous	<u>2,678</u>
Total operating expenses	<u>499,287</u>
Operating income	44,813
Nonoperating revenue (expense)	
Interest earnings	35
Interest expense	(9,198)
Loss on disposition of capital assets	<u>(12,063)</u>
Total nonoperating revenue (expense)	<u>(21,226)</u>
Income before transfers and capital contributions	23,587
Transfers	(16,335)
Capital contribution	<u>224,625</u>
Change in net position	231,877
Net position, July 1, 2013	<u>1,959,881</u>
Net position, June 30, 2014	<u><u>\$ 2,191,758</u></u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Utilities Fund
Cash flows from operating activities:	
Receipts from customers	\$ 534,676
Payments to suppliers and providers of goods and services	(262,831)
Payments to employees	(154,953)
	116,892
Cash flows from noncapital financing activities:	
Transfers to other funds	(16,335)
Repayment of advances from other funds	(49,647)
	(65,982)
Cash flows from capital and related financing activities:	
Purchase of capital assets	(22,543)
Principal paid on revenue bond maturities	(9,017)
Interest paid on revenue bonds	(4,698)
Proceeds from the sale of capital assets	3,368
	(32,890)
Cash flows from investing activities:	
Interest received on investments	35
	35
Net cash provided (used) by noncapital financing activities	35
Net increase (decrease) in cash	18,055
Cash, July, 1, 2013	81,331
Cash, June, 30, 2014	\$ 99,386

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014
(Continued)

		Utilities Fund
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$	44,813
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		68,847
(Increase) decrease in:		
Account receivable		(6,539)
Increase (decrease) in:		
Accounts payable		12,051
Accrued expenses		(3,633)
Deposits held for customers		(2,885)
Compensated absences		4,238
Net cash provided (used) by operating activities	\$	116,892

Noncash investing, capital, and noncapital financing activities: The Town acquired \$49,289 of capital assets financed by accounts payable.

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2014

	Investment Trust Fund
ASSETS	
Investments, at fair value	\$ 167,147
Due from Town	1,471
Total assets	168,618
 LIABILITIES	
Deferred retirement contributions	8,000
 NET POSITION	
Held in trust for investment trust participants	\$ 160,618

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2014

	Investment Trust Fund
Additions:	
Contributions	\$ 9,706
Investment income:	
Interest and dividends	1,236
Unrealized gain	12,458
Total additions	23,400
Distributions:	
Distributions to participants	19,899
Administrative fees	4,093
Total distributions	23,992
Change in net position	(592)
Net Position, July 1, 2013	161,210
Net Position, June 30, 2014	\$ 160,618

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Jerome, Arizona have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

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

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund financial statements—provide information about the Town’s funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

The Town reports the following major governmental funds:

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

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

The ***Grants Fund*** accounts for financial resources received from various entities. Restrictions on the use of these resources are derived from the agreements from which the resources were provided.

The Town reports the following major enterprise fund:

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

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town reports the following fund types:

The ***Investment Trust Fund*** accounts for pension funds for various firefighters. The Town acts as a trustee for such funds and does not have title to the assets or liabilities accounted for in this fund.

C. Basis of Accounting

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

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

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Property Tax Calendar

Property taxes are levied on or before the third Monday in August and are payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the General and Utilities Funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2014 totaled \$27,663 and \$7,000 respectively.

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life (years)</u>
Land	\$ 5,000	N/A	N/A
Buildings and improvements	5,000	Straight-line	5-30
Machinery and equipment	5,000	Straight-line	3-20
Vehicles	5,000	Straight-line	5-10
Water system and improvements	5,000	Straight-line	15-50
Wastewater plant	5,000	Straight-line	15-50

H. Investment Income

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

I. Compensated Absences

Compensated absences consist of PTO leave earned by employees based on services already rendered. Employees may accumulate up to 480 hours of PTO; however, upon termination of employment, only 60% of accrued PTO, up to a maximum of 180 hours, is paid to employees.

Accordingly, an estimate for PTO benefits has been accrued as a liability in the financial statements.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

J. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process. The Town's policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

K. Impact of Recently Issued Accounting Principles

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town’s allowable deposits or investments and which address the specific types of risk to which the Town is exposed such as interest rate risk, credit risk, and custodial credit risk.

Deposits—At June 30, 2014, the carrying amount of the Town’s total nonpooled cash in bank was \$549,812, and the bank balance was \$660,751. Of the bank balance, \$410,751 was covered by federal depository or similar insurance; the remainder was covered by collateral held by the pledging financial institution’s trust department or agent in the Town’s name.

Restricted cash and cash equivalents on the Statement of Net Position consists of cash restricted for debt service and customer deposits.

Investments—At June 30, 2014, the investments consisted of the following.

<u>Investment</u>	<u>Rating Organization</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 5	S&P	AAA	<u>\$ 1,595</u>	<u>\$ 1,595</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amount due from other governments at June 30, 2014, included \$15,132 in state-shared revenue, \$5,916 from Highway User Revenue Fund (HURF) taxes, \$6,454 in state-shared revenue from sales taxes, \$3,350 in county-shared revenue from auto lieu taxes, \$5,495 in property taxes, \$104,893 from city sales taxes, and \$104,623 from grants.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July, 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 252,283	\$ -	\$ -	\$ 252,283
Capital assets being depreciated:				
Buildings and improvements	1,133,298	-	-	1,133,298
Vehicles and equipment	933,898	16,554	(17,629)	932,823
Infrastructure	136,463	-	-	136,463
Total	<u>2,203,659</u>	<u>16,554</u>	<u>(17,629)</u>	<u>2,202,584</u>
Less accumulated depreciation for:				
Buildings and improvements	(782,651)	(54,151)	-	(836,802)
Vehicles and equipment	(624,213)	(67,600)	2,350	(689,463)
Infrastructure	(3,412)	(3,412)	-	(6,824)
Total	<u>(1,410,276)</u>	<u>(125,163)</u>	<u>2,350</u>	<u>(1,533,089)</u>
Total capital assets being depreciated, net	<u>793,383</u>	<u>(108,609)</u>	<u>(15,279)</u>	<u>669,495</u>
Governmental activities capital assets, net	<u>\$ 1,045,666</u>	<u>\$ (108,609)</u>	<u>\$ (15,279)</u>	<u>\$ 921,778</u>

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 4 – CAPITAL ASSETS – Continued

	Balance <u>July, 1, 2013</u>	Increases	Decreases	Balance <u>June 30, 2014</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 19,982	\$ 274,684	\$ (294,666)	\$ -
Capital assets being depreciated:				
Buildings and infrastructure	3,172,763	299,879	-	3,472,642
Vehicles and equipment	181,193	16,561	(17,804)	179,950
Total	<u>3,353,956</u>	<u>316,440</u>	<u>(17,804)</u>	<u>3,652,592</u>
Less accumulated depreciation for:				
Buildings and infrastructure	(1,069,912)	(59,225)	-	(1,129,137)
Vehicles and equipment	(140,224)	(9,622)	2,372	(147,474)
Total	<u>(1,210,136)</u>	<u>(68,847)</u>	<u>2,372</u>	<u>(1,276,611)</u>
Total capital assets being depreciated, net	<u>2,143,820</u>	<u>247,593</u>	<u>(15,432)</u>	<u>2,375,981</u>
Business-type activities capital assets, net	<u>\$ 2,163,802</u>	<u>\$ 522,277</u>	<u>\$ (310,098)</u>	<u>\$ 2,375,981</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 22,028
Public safety	98,363
Public works and streets	3,924
Community Development	504
Culture and recreation	344
Total governmental activities depreciation expense	<u>\$ 125,163</u>
Business-type activities:	
Water	\$ 43,137
Sewer	18,841
Sanitation and recycling	6,869
Total business-type activities depreciation expense	<u>\$ 68,847</u>

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 29,695	\$ 14,421	\$ -	\$ 44,116	\$ 33,087
	<u>\$ 29,695</u>	<u>\$ 14,421</u>	<u>\$ -</u>	<u>\$ 44,116</u>	<u>\$ 33,087</u>
Business-type activities					
Compensated absences payable	\$ 1,570	\$ 4,238	\$ -	\$ 5,808	\$ 4,356
Revenue bonds payable	209,012	-	(9,017)	199,995	9,423
Business-type activities long-term liabilities	<u>\$ 210,582</u>	<u>\$ 4,238</u>	<u>\$ (9,017)</u>	<u>\$ 205,803</u>	<u>\$ 13,779</u>

The following schedule details debt service requirements to maturity for the Town’s revenue bonds at June 30, 2014:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2015	\$ 9,423	\$ 9,386
2016	9,847	8,953
2017	10,290	8,500
2018	10,753	8,026
2019	11,237	7,531
2020-24	64,239	29,420
2025-29	80,054	13,250
2030-34	4,152	93
Total	<u>\$ 199,995</u>	<u>\$ 85,159</u>

Bonds Payable – The City’s bonded debt consists of sewer improvement bonds that are generally non-callable with interest payments payable semiannually. Bonds outstanding at June 30, 2014 were as follows:

Description	Original Amount	Maturity Range	Interest Rate	Outstanding Principal
Sewer revenue bonds, Series 2001	300,000	2030	4.50%	199,995

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – RETIREMENT PLANS

Plan Descriptions—The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Town's Volunteer Fire Department's Alternative Pension and Benefit Plan* is a discretionary defined contribution pension plan administered by the Town and Board of Trustees for the Town's volunteer firefighters. Approximately 20 volunteer firefighters participate in the plan. The plan is authorized by Title 9, Chapter VIII, Article 4 of the Arizona Revised Statutes. As of June 30, 2014, the fund held no securities other than mutual funds.

As established by the plan, the only eligibility requirement is that all volunteer firefighters of the Town must participate in the pension plan after one year of service. For the year ended June 30, 2014, the Town contributed \$8,000.

The *Public Safety Personnel Retirement System (PSPRS)* administers agent multiple-employer defined benefit pension and health insurance premium plans that cover public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

Agent plans – For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 10.28 percent, of which 0.86 percent was the health insurance premium portion.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 7 – RETIREMENT PLANS – Continued

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans 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 status presented below 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.

Projections of benefits are based on 1) the plans as understood by the Town of Jerome, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability, 20
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Payroll growth	5.00%

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 7 – RETIREMENT PLANS – Continued

Trend Information – Annual pension cost information for the current and two preceding years follows:

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribute	Net Pension Obligation
Pension	2014	\$ 11,207	100 %	\$ -
	2013	12,172	100	-
	2012	9,463	100	-
Health Insurance	2014	\$ 1,126	100 %	\$ -
	2013	1,331	100	-
	2012	1,199	100	-

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2014, and the previous two fiscal years. The fiscal year 2014 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2013 actuarial methods and assumptions as described on page above.

Pension

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 352,104	\$ 234,482	\$ 117,622	150.2 %	\$ 167,936	0.0 %
6/30/2013	338,991	218,204	120,787	155.4	170,819	0.0
6/30/2012	261,838	145,803	116,035	179.6	118,752	0.0

Health Insurance

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 18,011	\$ 11,085	\$ 6,926	162.5 %	\$ 167,936	0.0 %
6/30/2013	-	10,220	(10,220)	0.0	170,819	6.0
6/30/2012	-	6,480	(6,480)	0.0	118,752	5.5

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – Interfund balances at June 30, 2014, were as follows:

Payable from	Payable to		Total
	General Fund	Investment Trust Fund	
General Fund	\$ -	\$ 1,471	\$ 1,471
HURF Fund	2,363	-	2,363
Utilities Fund	27,997	-	27,997
Total	\$ 30,360	\$ 1,471	\$ 31,831

The purpose of the interfund balances between the General Fund and the HURF Fund shown above were to help the HURF Fund pay for expenditures expected to be reimbursed in future periods from HURF proceeds from the State of Arizona. The purpose of the interfund balances between the General Fund and the Utilities Fund shown above were to help the Utilities Fund pay for operating expenses in the current and prior years which the fund could not cover itself.

Transfers between funds at June 30, 2014 are as follows:

Transfer To	Transfer From		Total
	General Fund	Utilities Fund	
General Fund	\$ -	\$ 16,335	\$ 16,335
HURF Fund	25,423	-	25,423
	\$ 25,423	\$ 16,335	\$ 41,758

Transfers from the Utilities Fund were made to cover administrative costs of the Utilities Fund paid out of the General Fund. Transfers to the HURF Fund from the General Fund were to cover current year expenditures over revenues in the HURF Fund.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 754,500	\$ 754,500	\$ 753,395	\$ (1,105)
Intergovernmental	253,522	253,522	252,223	(1,299)
Charges for services	129,900	129,900	63,297	(66,603)
Fines and forfeits	63,000	63,000	61,767	(1,233)
Licenses and permits	37,100	37,100	30,921	(6,179)
Miscellaneous	29,813	29,813	23,027	(6,786)
Donations and grants	8,701	8,701	4,022	(4,679)
Investment earnings	200	200	3,113	2,913
Total revenue	<u>1,276,736</u>	<u>1,276,736</u>	<u>1,191,765</u>	<u>(84,971)</u>
Expenditures				
Current				
General government	528,048	528,048	413,017	115,031
Public safety	616,643	616,643	604,019	12,624
Community development	184,829	184,829	145,687	39,142
Culture and recreation	85,190	85,190	73,214	11,976
Capital outlay	355,000	355,000	11,040	343,960
Total expenditures	<u>1,769,710</u>	<u>1,769,710</u>	<u>1,246,977</u>	<u>522,733</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(492,974)</u>	<u>(492,974)</u>	<u>(55,212)</u>	<u>437,762</u>
Other financing sources (uses)				
Sale of assets	305,000	305,000	3,334	(301,666)
Transfers	5,131	5,131	(9,088)	(14,219)
Total other financing sources (uses)	<u>310,131</u>	<u>310,131</u>	<u>(5,754)</u>	<u>(315,885)</u>
Net change in fund balances	<u>(182,843)</u>	<u>(182,843)</u>	<u>(60,966)</u>	<u>121,877</u>
Fund balances, July 1, 2013	<u>565,334</u>	<u>565,334</u>	<u>565,334</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ 382,491</u>	<u>\$ 382,491</u>	<u>\$ 504,368</u>	<u>\$ 121,877</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 31,320	\$ 31,320	\$ 32,241	\$ 921
Investment earnings	20	20	68	48
Total revenue	<u>31,340</u>	<u>31,340</u>	<u>32,309</u>	<u>969</u>
Expenditures				
Current				
Public works and streets	80,183	80,183	52,212	27,971
Capital outlay	-	-	5,520	(5,520)
Total expenditures	<u>80,183</u>	<u>80,183</u>	<u>57,732</u>	<u>22,451</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(48,843)</u>	<u>(48,843)</u>	<u>(25,423)</u>	<u>23,420</u>
Other financing sources (uses)				
Transfers	<u>48,843</u>	<u>48,843</u>	<u>25,423</u>	<u>(23,420)</u>
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 597,050	\$ 597,050	\$ 276,591	\$ (320,459)
Expenditures				
Current				
General government	235,400	235,400	39,131	196,269
Public safety	-	-	11,868	(11,868)
Culture and recreation	-	-	291	(291)
Capital outlay	361,650	361,650	224,625	137,025
Total expenditures	597,050	597,050	275,915	321,135
Net change in fund balances	-	-	676	676
Fund balances, July 1, 2013	(4,549)	(4,549)	(4,549)	-
Fund balances, June 30, 2014	\$ (4,549)	\$ (4,549)	\$ (3,873)	\$ 676

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2014

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (A.R.S.) requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

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

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Schedule of Agent Retirement Plan Funding Progress
June 30, 2014

Public Safety Personnel Retirement System

Pension

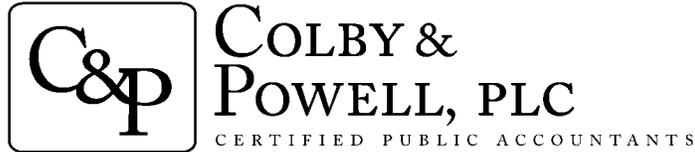
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 352,104	\$ 234,482	\$ 117,622	150.2 %	\$ 167,936	0.0 %
6/30/2013	338,991	218,204	120,787	155.4	170,819	0.0
6/30/2012	261,838	145,803	116,035	179.6	118,752	0.0

Health Insurance

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2014	\$ 18,011	\$ 11,085	\$ 6,926	162.5 %	\$ 167,936	0.0 %
6/30/2013	-	10,220	(10,220)	0.0	170,819	6.0
6/30/2012	-	6,480	(6,480)	0.0	118,752	5.5

TOWN OF JEROME, ARIZONA
Supplementary Information
Segmented Statement of Revenue, Expenses, and Changes
in Fund Net Position
Utilities Fund
Year Ended June 30, 2014

	Water Utility	Sewer Utility	Sanitation Utility	Utilities Fund
Operating revenue				
Charges for services	\$ 176,779	\$ 180,606	\$ 153,966	\$ 511,351
Miscellaneous	29,126	350	3,273	32,749
Total operating revenue	<u>205,905</u>	<u>180,956</u>	<u>157,239</u>	<u>544,100</u>
Operating expenses				
Personnel	101,981	50,566	60,125	212,672
Depreciation	43,137	18,841	6,869	68,847
Repairs and maintenance	30,804	21,181	6,477	58,462
Contract services	3,575	36,329	1,650	41,554
Insurance	8,950	10,143	11,934	31,027
Fees and permits	60	2,145	21,507	23,712
Office	7,938	8,139	1,810	17,887
Legal and professional	5,614	11,846	-	17,460
Fuel	1,662	1,662	12,132	15,456
Tools and equipment	1,877	2,598	819	5,294
Utilities	1,070	2,403	765	4,238
Miscellaneous	1,698	471	509	2,678
Total operating expenses	<u>208,366</u>	<u>166,324</u>	<u>124,597</u>	<u>499,287</u>
Operating income	(2,461)	14,632	32,642	44,813
Nonoperating revenue (expense)				
Interest earnings	16	19	-	35
Interest expense	-	(9,198)	-	(9,198)
Gain (loss) on disposition of capital assets	(6,031)	(6,032)	-	(12,063)
Total nonoperating revenue (expense)	<u>(6,015)</u>	<u>(15,211)</u>	<u>-</u>	<u>(21,226)</u>
Income before transfers and capital contributions	(8,476)	(579)	32,642	23,587
Transfer out	(29,279)	(29,278)	(29,278)	(87,835)
Transfer in	53,000	6,000	12,500	71,500
Capital contribution	224,625	-	-	224,625
Change in net position	186,870	(29,857)	3,364	160,377
Net position, July 1, 2013	<u>1,387,839</u>	<u>777,248</u>	<u>(205,206)</u>	<u>1,959,881</u>
Net position, June 30, 2014	<u><u>\$ 1,574,709</u></u>	<u><u>\$ 747,391</u></u>	<u><u>\$ (201,842)</u></u>	<u><u>\$ 2,120,258</u></u>



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

To the Town Council
Town of Jerome, 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, and each major fund of the Town of Jerome, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Jerome, Arizona's basic financial statements and have issued our report thereon dated June 24, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the all of the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Jerome, Arizona's financial statements are free of 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*.

Town of Jerome, Arizona's Response to Findings

The Town of Jerome, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Jerome, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



June 24, 2015

TOWN OF JEROME, ARIZONA
Schedule of Findings and Responses
June 30, 2014

Financial Statement Findings

Audit findings and responses are as follows:

Item: 13-01

Subject: Accounting policies and procedures manual

Criteria/Specific Requirements: Written policies and procedures may prevent or reduce misunderstandings and errors that can result in inaccurate accounting records.

Condition: The Town does not maintain a written accounting policies and procedures manual.

Cause and Effect: Over the years, the Town has incorporated policies and procedures in maintaining internal controls and effective procedures over the accounting processes. However, current internal controls and procedures have not been documented in formal written procedures. The lack of written procedures may result in inefficiencies through common usage and during times of employee turnover.

Recommendation: We recommend that policies and procedures be in writing, to avoid the acceptance of weak procedures established through common usage and to assist in maintaining procedures at times of employee turnover.

Response: Management agrees with the audit finding and, over the past year, has been implementing a written policies and procedures manual.

Item: 13-02

Subject: Capital assets

Criteria/Specific Requirements: Significant assets should be inventoried on a regular basis.

Condition: The Town does not inventory significant capital assets on a regular basis.

Cause and Effect: Most capital assets are never physically inventoried. By inventorying capital assets on a regular basis, it will help to detect the loss or unauthorized use of valuable Town property, help determine accurate amounts and values of insurable assets, and assist in planning for capital expenditures.

Recommendation: We recommend that periodic physical counts of property, especially removable equipment items, be taken and compared to the detailed capital asset ledgers.

Response: Management agrees with the audit finding and is in the process of implementing procedures to regularly inventory capital assets.

TOWN OF JEROME, ARIZONA
Schedule of Findings and Responses
June 30, 2014

Item: 14-01

Subject: Segregation of duties

Criteria/Specific Requirements: Duties of billing, recording, and cash collections should be segregated. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

Condition: Fire, rescue, and EMS services for non-residents are billed, recorded, and the cash collections are all done by the same individual.

Cause and Effect: It appears that due to the size of the Town and convenience that the Town has allowed for these functions to be performed by the same person. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

Recommendation: We recommend that management segregate the duties of billing, recording, and cash collections of fire, rescue, and EMS services to the greatest extent possible. One option would be to centralize these functions with the accounting department.

Response: Management agrees with the audit finding will implement procedures for the segregation of duties of the fire, rescue, and EMS services.