

**TOWN OF JEROME, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report

June 30, 2016

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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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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 Schedules on pages 40 through 43, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 44, Schedule of Town Pension Contributions on page 45, and Schedule of Agent OPEB Plans' Funding Progress on page 47 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*

The Segmented Statement of Revenue, Expenses, and Changes in Fund Net Position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining 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 May 19, 2017, 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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

*Lobby & Powell, PLC*

May 19, 2017

**TOWN OF JEROME, ARIZONA**  
**Statement of Net Position**  
**June 30, 2016**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 521,227	\$ -	\$ 521,227
Cash and cash equivalents, restricted	-	65,615	65,615
Other receivables	3,782	47,325	51,107
Due from other governments	204,290	-	204,290
Interfund balances	72,076	(72,076)	-
Inventories	17,813	-	17,813
Net pension asset	119,119	-	119,119
Capital assets, not being depreciated	252,283	22,080	274,363
Capital assets, being depreciated, net	591,673	2,314,605	2,906,278
<b>Total assets</b>	<u>1,782,263</u>	<u>2,377,549</u>	<u>4,159,812</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	<u>35,600</u>	<u>-</u>	<u>35,600</u>
<b>LIABILITIES</b>			
Accounts payable	71,195	15,363	86,558
Accrued expenses	63,645	6,032	69,677
Deposits held for others	6,647	20,604	27,251
Deferred revenue	44,219	-	44,219
Due to fiduciary fund	27	-	27
Noncurrent liabilities			
Due within 1 year	34,890	16,300	51,190
Due in more than 1 year	34,408	182,927	217,335
<b>Total liabilities</b>	<u>255,031</u>	<u>241,226</u>	<u>496,257</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	<u>45,694</u>	<u>-</u>	<u>45,694</u>
<b>NET POSITION</b>			
Net investment in capital assets	811,859	2,137,766	2,949,625
Restricted for:			
Court enhancement fund	14,423	-	14,423
Debt service	-	39,511	39,511
Repairs and replacements	-	5,500	5,500
Unrestricted	690,856	(46,454)	644,402
<b>Total net position</b>	<u>\$ 1,517,138</u>	<u>\$ 2,136,323</u>	<u>\$ 3,653,461</u>

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Statement of Activities**  
**June 30, 2016**

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	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 433,953	\$ 11,611	\$ -	\$ -	\$ (422,342)	\$ -	\$ (422,342)
Public safety	796,677	164,707	42,418	2,493	(587,059)	-	(587,059)
Public works and streets	82,711	-	36,271	30,493	(15,947)	-	(15,947)
Community development	171,859	77,271	-	-	(94,588)	-	(94,588)
Culture and recreation	93,267	-	19,008	-	(74,259)	-	(74,259)
Interest on long-term debt	391	-	-	-	(391)	-	(391)
<b>Total governmental activities</b>	<b>1,578,858</b>	<b>253,589</b>	<b>97,697</b>	<b>32,986</b>	<b>(1,194,586)</b>	<b>-</b>	<b>(1,194,586)</b>
Business-type activities							
Utilities	459,650	522,957	-	-	-	63,307	63,307
<b>Total business-type activities</b>	<b>459,650</b>	<b>522,957</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,307</b>	<b>63,307</b>
<b>Total primary government</b>	<b>\$ 2,038,508</b>	<b>\$ 776,546</b>	<b>\$ 97,697</b>	<b>\$ 32,986</b>	<b>(1,194,586)</b>	<b>63,307</b>	<b>(1,131,279)</b>
<b>General revenue:</b>							
Taxes:							
Property					46,118	-	46,118
Sales					863,649	-	863,649
Franchise fees					17,040	-	17,040
State sales tax revenue sharing					41,980	-	41,980
Urban revenue sharing					180,852	-	180,852
Vehicle license taxes					28,035	-	28,035
Investment income (loss)					430	40	470
Miscellaneous					17,437	-	17,437
Total general revenue					1,203,419	40	1,203,459
Transfers					163,446	(163,446)	-
Change in net position					172,279	(100,099)	72,180
Net position, July 1, 2015					1,344,859	2,236,422	3,581,281
Net position, June 30, 2016					<u>\$ 1,517,138</u>	<u>\$ 2,136,323</u>	<u>\$ 3,653,461</u>

*See accompanying notes to financial statements.*



**TOWN OF JEROME, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 492,204	\$ -	\$ 29,023	\$ 521,227
Other receivables	3,782	-	-	3,782
Due from other governments	169,773	6,175	28,342	204,290
Due from other funds	81,424	-	-	81,424
Inventories	-	-	17,813	17,813
<b>Total assets</b>	<b>\$ 747,183</b>	<b>\$ 6,175</b>	<b>\$ 75,178</b>	<b>\$ 828,536</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 47,429	\$ 3,223	\$ 20,543	\$ 71,195
Accrued expenses	63,226	419	-	63,645
Deposits held for others	6,647	-	-	6,647
Deferred revenue	-	-	44,219	44,219
Due to other funds	27	9,348	-	9,375
<b>Total liabilities</b>	<b>117,329</b>	<b>12,990</b>	<b>64,762</b>	<b>195,081</b>
<b>Fund balances</b>				
Nonspendable	-	-	17,813	17,813
Restricted for:				
Court enhancement	14,423	-	-	14,423
Unassigned	615,431	(6,815)	(7,397)	601,219
<b>Total fund balances</b>	<b>629,854</b>	<b>(6,815)</b>	<b>10,416</b>	<b>633,455</b>
<b>Total liabilities and fund balances</b>	<b>\$ 747,183</b>	<b>\$ 6,175</b>	<b>\$ 75,178</b>	<b>\$ 828,536</b>

*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, 2016**

Fund balances-total governmental funds	\$ 633,455
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.	843,956
Net pension assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.	119,119
Long-term liabilities, such as bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(69,298)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>(10,094)</u>
<b>Net position of governmental activities</b>	<b><u>\$1,517,138</u></b>

*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, 2016**

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
<b>Revenue</b>				
Taxes	\$ 909,767	\$ -	\$ -	\$ 909,767
Intergovernmental	268,890	36,271	60,535	365,696
Charges for services	152,243	-	-	152,243
Fines and forfeits	84,202	-	-	84,202
Licenses and permits	29,014	-	-	29,014
Miscellaneous	25,098	-	-	25,098
Donations and grants	985	-	12,375	13,360
Investment earnings	8,260	51	-	8,311
<b>Total revenue</b>	<u>1,478,459</u>	<u>36,322</u>	<u>72,910</u>	<u>1,587,691</u>
<b>Expenditures</b>				
Current				
General government	400,615	-	-	400,615
Public safety	710,740	-	13,908	724,648
Public works and streets	-	69,665	7,860	77,525
Community development	170,797	-	122	170,919
Culture and recreation	92,333	-	-	92,333
Debt service				
Principal	1,601	801	-	2,402
Interest	261	130	-	391
Capital outlay	88,246	5,947	36,148	130,341
<b>Total expenditures</b>	<u>1,464,593</u>	<u>76,543</u>	<u>58,038</u>	<u>1,599,174</u>
Excess (deficiency) of revenue over (under) expenditures	<u>13,866</u>	<u>(40,221)</u>	<u>14,872</u>	<u>(11,483)</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisitions	31,100	3,399	-	34,499
Transfers	130,042	33,404	-	163,446
<b>Total other financing sources (uses)</b>	<u>161,142</u>	<u>36,803</u>	<u>-</u>	<u>197,945</u>
<b>Net change in fund balances</b>	175,008	(3,418)	14,872	186,462
Fund balances, July 1, 2015	454,846	(3,397)	(4,456)	446,993
<b>Fund balances, June 30, 2016</b>	<u>\$ 629,854</u>	<u>\$ (6,815)</u>	<u>\$ 10,416</u>	<u>\$ 633,455</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, 2016**

Net change in fund balances-total governmental funds \$ 186,462

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.

Current year capital acquisitions	130,341	
Current year depreciation expense	<u>(128,378)</u>	1,963

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

Town pension contributions	19,486	
Pension expense	<u>(669)</u>	18,817

Debt proceeds provide current financial resources to  
governmental funds, but issuing debt increases long-term  
liabilities in the Statement of Net Position. (34,499)

Repayment of debt principal is an expenditure in the  
governmental funds, but the repayment reduces  
long-term liabilities in the Statement of Net Position. 2,402

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 payable	<u>(2,866)</u>	
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**Change in net position of governmental activities \$ 172,279**

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

<b>ASSETS</b>	Utilities Fund
Current assets	
Cash and cash equivalents, restricted	\$ 65,615
Accounts receivable-net	47,325
<b>Total current assets</b>	<b>112,940</b>
Noncurrent assets	
Capital assets, not being depreciated	22,080
Capital assets, being depreciated, net	2,314,605
<b>Total noncurrent assets</b>	<b>2,336,685</b>
<b>Total assets</b>	<b>2,449,625</b>
 <b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	15,363
Accrued expenses	1,666
Interest payable	4,366
Deposits held for customers	20,604
Due to other funds	72,076
Compensated absences-current portion	231
Capital lease payable-current portion	5,779
Revenue bond payable-current portion	10,290
<b>Total current liabilities</b>	<b>130,375</b>
<b>Noncurrent liabilities</b>	
Compensated absences-net of current portion	77
Capital lease payable-net of current portion	12,415
Revenue bond payable-net of current portion	170,435
<b>Total noncurrent liabilities</b>	<b>182,927</b>
<b>Total liabilities</b>	<b>313,302</b>
 <b>NET POSITION</b>	
Net investment in capital assets	2,137,766
Restricted for:	
Debt service	39,511
Repairs and replacements	5,500
Unrestricted	(46,454)
<b>Total net position</b>	<b>\$ 2,136,323</b>

*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, 2016**

	Utilities Fund
<b>Operating revenue</b>	
Charges for services	
Sewer user fees	\$ 181,526
Water user fees	168,855
Sanitation user fees	166,486
Miscellaneous	6,090
<b>Total operating revenue</b>	522,957
<b>Operating expenses</b>	
Personnel	150,973
Depreciation	77,486
Repairs and maintenance	55,478
Contract services	43,270
Insurance	34,329
Fees and permits	29,582
Tools and equipment	17,709
Office	17,227
Fuel	9,768
Legal and professional	6,803
Utilities	3,358
Miscellaneous	4,401
<b>Total operating expenses</b>	450,384
<b>Operating income</b>	72,573
<b>Nonoperating revenue (expense)</b>	
Interest earnings	40
Interest expense	(9,266)
<b>Total nonoperating revenue (expense)</b>	(9,226)
<b>Income before transfers</b>	63,347
Transfers	(163,446)
<b>Change in net position</b>	(100,099)
Net position, July 1, 2015	2,236,422
<b>Net position, June 30, 2016</b>	\$ 2,136,323

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2016**

	<u>Utilities Fund</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 529,253
Payments to suppliers and providers of goods and services	(225,527)
Payments to employees	<u>(151,876)</u>
<b>Net cash provided (used) by operating activities</b>	<u>151,850</u>
<b>Cash flows from noncapital financing activities:</b>	
Transfers to other funds	(163,446)
Borrowings repaid to other funds	<u>(27,511)</u>
<b>Net cash provided (used) by noncapital financing</b>	<u>(190,957)</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal paid on capital lease	(5,606)
Principal paid on revenue bond maturities	(9,847)
Interest paid	<u>(9,487)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(24,940)</u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	<u>40</u>
<b>Net increase (decrease) in cash</b>	<u>(64,007)</u>
Cash, July, 1, 2015	<u>129,622</u>
<b>Cash, June, 30, 2016</b>	<u><u>\$ 65,615</u></u>

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2016**  
*(Continued)*

		Utilities Fund
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	\$	72,573
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		77,486
(Increase) decrease in:		
Account receivable		5,413
Increase (decrease) in:		
Accounts payable		(3,602)
Accrued expenses		749
Deposits held for customers		883
Compensated absences		(1,652)
		(1,652)
<b>Net cash provided (used) by operating activities</b>	<b>\$</b>	<b>151,850</b>

**Noncash investing, capital, and noncapital financing activities:** The Town acquired \$23,800 of capital assets financed with a capital lease.

*See accompanying notes to financial statements.*



**TOWN OF JEROME, ARIZONA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2016**

	Investment Trust Fund
<b>ASSETS</b>	
Cash	\$ 11,168
Investments, at fair value	121,259
Due from Town	27
<b>Total assets</b>	132,454
 <b>NET POSITION</b>	
Held in trust for investment trust participants	\$ 132,455

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**Year Ended June 30, 2016**

	Investment Trust Fund
<b>Additions:</b>	
Contributions	\$ 9,865
Investment income:	
Interest and dividends	5,893
Unrealized gain (loss)	(14,074)
<b>Total additions</b>	<b>1,684</b>
<b>Distributions:</b>	
Distributions to participants	27,748
Administrative fees	4,140
<b>Total distributions</b>	<b>31,888</b>
Change in net position	(30,204)
Net Position, July 1, 2015	162,659
Net Position, June 30, 2016	<b>\$ 132,455</b>

*See accompanying notes to financial statements.*

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***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, 2016**

***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, 2016**

***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, 2016**

**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, 2016 totaled \$1,011 and \$15,000 respectively.

**G. Inventories**

The Town accounts for its inventories in the governmental funds using the consumption method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of consumption.

These inventories are stated at cost using the first-in, first-out (FIFO) method of valuation.

**H. 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

**I. Investment Income**

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

**J. Compensated Absences**

Compensated absences consist of PTO leave earned by employees based on services already rendered. There is no limit as to the number of hours employees may accumulate; however, any

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

hours earned and unused in excess of 480 at the end of the calendar year is paid out to the employees at 60%. 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.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and or balance sheet 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 periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet 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 not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**L. 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

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

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.

**M. Impact of Recently Issued Accounting Principles**

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves



**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

**N. Pensions**

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

***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, 2016, the carrying amount of the Town's total nonpooled cash in bank was \$584,693, and the bank balance was \$589,674. Of the bank balance, \$491,675 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, 2016, 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>\$ 1,603</u>	<u>\$ 1,603</u>

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 2 – DEPOSITS AND INVESTMENTS – Continued**

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 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, 2016, included \$15,303 in state-shared revenue, \$6,769 in state-shared revenue from sales taxes, \$4,855 in county-shared revenue from auto lieu taxes, \$1,947 in property taxes, \$140,343 from city sales taxes, \$556 from wildland fire charges, \$6,175 from Highway User Revenue Fund (HURF) taxes, and \$28,342 from grants.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July, 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 252,283	\$ -	\$ -	\$ 252,283
Capital assets being depreciated:				
Buildings and improvements	1,133,298	69,938	-	1,203,236
Vehicles and equipment	961,085	60,403	-	1,021,488
Infrastructure	153,050	-	-	153,050
<b>Total</b>	<b>2,247,433</b>	<b>130,341</b>	<b>-</b>	<b>2,377,774</b>
Less accumulated depreciation for:				
Buildings and improvements	(890,953)	(56,400)	-	(947,353)
Vehicles and equipment	(756,341)	(68,235)	-	(824,576)
Infrastructure	(10,429)	(3,743)	-	(14,172)
<b>Total</b>	<b>(1,657,723)</b>	<b>(128,378)</b>	<b>-</b>	<b>(1,786,101)</b>
<b>Total capital assets being depreciated, net</b>	<b>589,710</b>	<b>1,963</b>	<b>-</b>	<b>591,673</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 841,993</b>	<b>\$ 1,963</b>	<b>\$ -</b>	<b>\$ 843,956</b>

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance <u>July, 1, 2015</u>	Increases	Decreases	Balance <u>June 30, 2016</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 13,036	\$ -	\$ (13,036)	\$ -
Land	<u>22,080</u>	<u>-</u>	<u>-</u>	<u>22,080</u>
<b>Total capital assets not being depreciated</b>	<u>13,036</u>	<u>-</u>	<u>(13,036)</u>	<u>22,080</u>
Capital assets being depreciated:				
Buildings and infrastructure	3,531,173	13,036	-	3,544,209
Vehicles and equipment	<u>164,215</u>	<u>23,800</u>	<u>-</u>	<u>188,015</u>
<b>Total</b>	<u>3,695,388</u>	<u>36,836</u>	<u>-</u>	<u>3,732,224</u>
Less accumulated depreciation for:				
Buildings and infrastructure	(1,199,522)	(69,244)	-	(1,268,766)
Vehicles and equipment	<u>(140,611)</u>	<u>(8,242)</u>	<u>-</u>	<u>(148,853)</u>
<b>Total</b>	<u>(1,340,133)</u>	<u>(77,486)</u>	<u>-</u>	<u>(1,417,619)</u>
<b>Total capital assets being depreciated, net</b>	<u>2,355,255</u>	<u>(40,650)</u>	<u>-</u>	<u>2,314,605</u>
Business-type activities capital assets, net	<u>\$ 2,368,291</u>	<u>\$ (40,650)</u>	<u>\$ (13,036)</u>	<u>\$ 2,336,685</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 32,535
Public safety	89,413
Public works and streets	5,043
Community Development	625
Culture and recreation	<u>762</u>
<b>Total governmental activities depreciation expense</b>	<u>\$ 128,378</u>
Business-type activities:	
Water	\$ 51,603
Sewer	19,202
Sanitation and recycling	<u>6,681</u>
<b>Total business-type activities depreciation expense</b>	<u>\$ 77,486</u>

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 34,335	\$ 2,866	\$ -	\$ 37,201	\$ 27,901
Capital leases payable	-	34,499	(2,402)	32,097	6,989
	<u>\$ 34,335</u>	<u>\$ 37,365</u>	<u>\$ (2,402)</u>	<u>\$ 69,298</u>	<u>\$ 34,890</u>
Business-type activities					
Compensated absences payable	\$ 1,960	\$ -	\$ (1,652)	\$ 308	\$ 231
Capital leases payable	-	23,800	(5,606)	18,194	5,779
Revenue bonds payable	190,572	-	(9,847)	180,725	10,290
Business-type activities long-term liabilities	<u>\$ 192,532</u>	<u>\$ 23,800</u>	<u>\$ (17,105)</u>	<u>\$ 199,227</u>	<u>\$ 16,300</u>

The following schedule details debt service requirements to maturity for the Town’s revenue bonds at June 30, 2016:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2017	\$ 10,290	\$ 8,500
2018	10,753	8,026
2019	11,237	7,531
2020	11,742	7,014
2021	12,271	6,474
2022-26	70,151	23,375
2027-31	54,281	5,899
Total	<u>\$ 180,725</u>	<u>\$ 66,820</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, 2016 were as follows:

Description	Original Amount	Maturity Range	Interest Rate	Outstanding Principal
Sewer revenue bonds, Series 2001	300,000	2030	4.50%	180,725

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 – LONG-TERM LIABILITIES – Continued**

Capital leases—The Town has acquired vehicles and equipment under the provisions of long-term lease agreements classified as a capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease terms.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities	Total
Vehicles	\$ 29,300	\$ -	\$ 29,300
Equipment	10,199	23,800	33,999
Less: accumulated depreciation	<u>(5,330)</u>	<u>(2,182)</u>	<u>(7,512)</u>
Carrying value	<u>\$ 34,169</u>	<u>\$ 21,618</u>	<u>\$ 55,787</u>

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2016:

Year Ending June 30	Governmental Activities	Business-Type Activities	Total
2017	\$ 8,210	\$ 6,518	\$ 14,728
2018	8,210	6,518	14,728
2019	8,210	6,518	14,728
2020	5,416	1	5,417
2021	<u>5,416</u>	<u>-</u>	<u>5,416</u>
Total minimum lease payments	35,462	19,555	55,017
Less amount representing interest	<u>(3,365)</u>	<u>(1,361)</u>	<u>(4,726)</u>
Present value of net minimum lease payments	<u>\$ 32,097</u>	<u>\$ 18,194</u>	<u>\$ 50,291</u>

**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.

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
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**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The Town participates in two separate retirement plans.

For nonpublic safety employees, the Town contributes five percent of the employees’ covered payroll to a defined contribution plan. Employees may contribute to the plan; however, they are not required to make any contributions the plan. For the year ended June 30, 2016, the Town contributed a total \$21,360 on behalf of employees to the plan.

For public safety employees, the Town contributes to the Public Safety Personnel Retirement System (PSPRS). PSPRS is a component unit of the State of Arizona.

At June 30, 2016, the Town reported the following amounts related to PSPRS:

<b>Statement of Net Position and Statement of Activities</b>	<u>Governmental Activities</u>
Net pension assets	\$ 119,119
Deferred outflows of resources	35,600
Deferred inflows of resources	45,694
Pension expense	669

The Town reported \$21,444 of pension expenditures in the governmental funds for PSPRS.

**Plan Descriptions** – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

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

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

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

	<u>Initial membership date:</u>	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
<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 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
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% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

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



**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Employees Covered by Benefit Terms** – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

	<b>PSPRS Police</b>
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	2
Active employees	3
Total	5

**Contributions and Annual OPEB Cost** – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<b>PSPRS Police</b>
Active Members - Pension	11.65%
Town Pension	13.13%
Health insurance premium benefit	0.00%

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

<b>Pension</b>	<u><b>PSPRS Police</b></u>	
Contributions Made	\$	21,444
<b>Health Insurance Premium Benefit</b>		
Annual OPEB cost		-
Contributions made		-

During fiscal year 2016, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

**Net Pension Liability (Asset)** – At June 30, 2016, the Town reported the following net pension liability:

	<u><b>Net Pension Liability</b></u> <u><b>(Asset)</b></u>	
PSPRS Police	\$	(119,119)

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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 Town’s net pension liability as a result of the statutory adjustments is not known.

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

**Pension Discount Rates** – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Changes in the Net Pension Liability (Asset)**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (Asset) (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at June 30, 2015	\$ 234,482	\$ 347,222	\$ (112,740)
Changes for the year			
Service Cost	33,397	-	33,397
Interest on the total pension liability	19,718	-	19,718
Differences between expected and actual experience in the measurement of the pension liability	(10,398)	-	(10,398)
Contributions-employer	-	18,279	(18,279)
Contributions-employee	-	18,421	(18,421)
Net investment income	-	13,372	(13,372)
Administrative expense	-	(707)	707
Other changes	-	(269)	269
Net changes	42,717	49,096	(6,379)
Balances at June 30, 2016	\$ 277,199	\$ 396,318	\$ (119,119)

**Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate** – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	<b>1% Decrease (6.85%)</b>	<b>Current Discount Rate (7.85%)</b>	<b>1% Increase (8.85%)</b>
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ (81,764)	\$ (119,119)	\$ (150,437)

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Pension Expense** – For the year ended June 30, 2016, the Town recognized the following pension expense:

	<b>Pension Expense</b>	
PSPRS Police	\$	669

**Pension Deferred Outflows/Inflows of Resources** – At June 30, 2016, the Town 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	\$	-	\$	35,623
Changes of assumptions or other inputs		1,926		-
Net difference between projected and actual earnings on pension plan investments		12,230		10,071
Town contributions subsequent to the measurement date		21,444		-
<b>Total</b>	<b>\$</b>	<b>35,600</b>	<b>\$</b>	<b>45,694</b>

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	<b>PSPRS Police</b>
2017	\$ (6,342)
2018	(6,342)
2019	(6,342)
2020	(2,983)
2021	(6,042)
Thereafter	(3,487)

**Agent Plan OPEB Actuarial Assumptions** – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Projections of benefits are based on (1) the plans as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

**PSPRS - OPEB Contribution Requirements**

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ -	100%	\$ (7,276)
2015	1,828	100%	(7,885)
2014	1,126	100%	(6,926)

**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.



**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

	<u><b>PSPRS Police</b></u>
Actuarial value of assets (a)	\$ 22,725
Actuarial accrued liability (b)	\$ 15,449
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (7,276)
Funded ratio (a)/(b)	147.10%
Annual covered payroll (c)	\$ 136,151
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)	0.00%

The actuarial methods and assumptions for the most recent valuation date are as follows:

**PSPRS - OPEB Funded Status**

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

**TOWN OF JEROME, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 8 – INTERFUND BALANCES AND ACTIVITY***

Interfund receivables and payables – Interfund balances at June 30, 2016, were as follows:

Payable from	Payable to		Total
	General Fund	Investment Trust Fund	
General Fund	\$ -	\$ 27	\$ 27
HURF Fund	9,348	-	9,348
Utilities Fund	72,076	-	72,076
<b>Total</b>	<b>\$ 81,424</b>	<b>\$ 27</b>	<b>\$ 81,451</b>

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.

The Town transferred \$28,800 and \$134,646 from the Utilities Fund to the General Fund to set aside savings for future capital improvements and to reimburse the General Fund for administrative costs, respectively. The Town transferred \$9,401 from the HURF Fund to the General Fund for administrative costs. In addition, the Town transferred \$42,805 from the General Fund to the HURF Fund to cover expenditures of the HURF Fund in excess of current year revenues.

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Taxes	\$ 897,000	\$ 897,000	\$ 909,767	\$ 12,767
Intergovernmental	269,406	269,406	268,890	(516)
Charges for services	123,500	123,500	152,243	28,743
Fines and forfeits	83,000	83,000	84,202	1,202
Licenses and permits	38,000	38,000	29,014	(8,986)
Miscellaneous	68,450	68,450	25,098	(43,352)
Donations and grants	5,675	5,675	985	(4,690)
Investment earnings	100	100	8,260	8,160
<b>Total revenue</b>	<u>1,485,131</u>	<u>1,485,131</u>	<u>1,478,459</u>	<u>(6,672)</u>
<b>Expenditures</b>				
General government	385,571	385,571	400,615	(15,044)
Magistrate court	87,077	87,077	116,228	(29,151)
Police	402,443	402,443	409,854	(7,411)
Fire	207,658	269,404	229,427	39,977
Library	79,060	79,060	74,352	4,708
Planning and zoning	94,164	94,164	63,952	30,212
Parks	18,529	18,529	19,805	(1,276)
Properties	151,950	151,950	117,626	34,324
Youth	3,125	3,125	2,507	618
Capital	66,500	66,500	-	66,500
Contingency	550,500	488,754	30,227	458,527
<b>Total expenditures</b>	<u>2,046,577</u>	<u>2,046,577</u>	<u>1,464,593</u>	<u>581,984</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(561,446)</u>	<u>(561,446)</u>	<u>13,866</u>	<u>575,312</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisitions	-	-	31,100	31,100
Sale of assets	306,000	306,000	-	(306,000)
Transfers	86,446	86,446	130,042	43,596
<b>Total other financing sources (uses)</b>	<u>392,446</u>	<u>392,446</u>	<u>161,142</u>	<u>(231,304)</u>
<b>Net change in fund balances</b>	<u>(169,000)</u>	<u>(169,000)</u>	<u>175,008</u>	<u>344,008</u>
Fund balances, July 1, 2015	<u>454,846</u>	<u>454,846</u>	<u>454,846</u>	<u>-</u>
<b>Fund balances, June 30, 2016</b>	<u>\$ 285,846</u>	<u>\$ 285,846</u>	<u>\$ 629,854</u>	<u>\$ 344,008</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 33,371	\$ 33,371	\$ 36,271	\$ 2,900
Investment earnings	11	11	51	40
<b>Total revenue</b>	<u>33,382</u>	<u>33,382</u>	<u>36,322</u>	<u>2,940</u>
<b>Expenditures</b>				
Current				
Public works and streets	78,904	78,904	69,665	9,239
Debt service				
Principal	801	801	801	-
Interest	130	130	130	-
Capital outlay	5,947	5,947	5,947	-
<b>Total expenditures</b>	<u>85,782</u>	<u>85,782</u>	<u>76,543</u>	<u>9,239</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(52,400)</u>	<u>(52,400)</u>	<u>(40,221)</u>	<u>12,179</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisitions	-	-	3,399	3,399
Transfers	52,400	52,400	33,404	(18,996)
<b>Total other financing sources (uses)</b>	<u>52,400</u>	<u>52,400</u>	<u>36,803</u>	<u>(15,597)</u>
<b>Net change in fund balances</b>	-	-	(3,418)	(3,418)
Fund balances, July 1, 2015	<u>(3,397)</u>	<u>(3,397)</u>	<u>(3,397)</u>	<u>-</u>
<b>Fund balances, June 30, 2016</b>	<u>\$ (3,397)</u>	<u>\$ (3,397)</u>	<u>\$ (6,815)</u>	<u>\$ (3,418)</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 1,095,300	\$ 1,095,300	\$ 60,535	\$ (1,034,765)
Donations and grants	-	-	12,375	12,375
<b>Total revenue</b>	<u>1,095,300</u>	<u>1,095,300</u>	<u>72,910</u>	<u>(1,022,390)</u>
<b>Expenditures</b>				
Current				
Public safety	1,033,357	1,033,357	13,908	1,019,449
Public works and streets	7,860	7,860	7,860	-
Community development	122	122	122	-
Capital outlay	<u>53,961</u>	<u>53,961</u>	<u>36,148</u>	<u>17,813</u>
<b>Total expenditures</b>	<u>1,095,300</u>	<u>1,095,300</u>	<u>58,038</u>	<u>1,037,262</u>
<b>Net change in fund balances</b>	-	-	14,872	14,872
Fund balances, July 1, 2015	<u>(4,456)</u>	<u>(4,456)</u>	<u>(4,456)</u>	-
<b>Fund balances, June 30, 2016</b>	<u><u>\$ (4,456)</u></u>	<u><u>\$ (4,456)</u></u>	<u><u>\$ 10,416</u></u>	<u><u>\$ 14,872</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2016**

***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. With the exception of the General Fund, each fund includes only one department.

***NOTE 2 – BUDGETARY BASIS OF ACCOUNTING***

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

***NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS***

For the year ended June 30, 2016, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the general government, magistrate court, police, and parks departments by \$15,044, \$29,151, \$7,411, and \$1,276, respectively.

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Changes in the Town's**  
**Net Pension Liability (Asset) and Related Ratios**  
**Agent Pension Plans**  
**June 30, 2016**

**PSPRS**

	<b>Reporting Fiscal Year</b> <b>(Measurement Date)</b>		
	<b>2016</b> <b>(2015)</b>	<b>2015</b> <b>(2014)</b>	<b>2014</b> <b>through</b> <b>2007</b>
Total pension liability			Information not available
Service cost	\$ 33,397	\$ 32,631	
Interest on the total pension liability	19,718	18,410	
Changes of benefit terms	-	(1,024)	
Differences between expected and actual experience in the measurement of the pension liability	(10,398)	(36,345)	
Changes of assumptions or other inputs	-	2,606	
Net change in total pension liability	<u>42,717</u>	<u>16,278</u>	
Total pension liability - beginning	<u>234,482</u>	<u>218,204</u>	
Total pension liability - ending (a)	<u><u>\$ 277,199</u></u>	<u><u>\$ 234,482</u></u>	
Plan fiduciary net position			
Contributions - employer	\$ 18,279	\$ 13,997	
Contributions - employee	18,421	15,379	
Net investment income	13,372	40,722	
Administrative expense	(707)	-	
Other changes	(269)	(26,233)	
Net change in plan fiduciary net position	<u>49,096</u>	<u>43,865</u>	
Plan fiduciary net position - beginning	<u>347,222</u>	<u>303,357</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 396,318</u></u>	<u><u>\$ 347,222</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ (119,119)</u></u>	<u><u>\$ (112,740)</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	142.97%	148.08%	
Covered-employee payroll	\$ 134,655	\$ 167,936	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-88.46%	-67.13%	

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Town Pension Contributions**  
**June 30, 2016**

**PSPRS**

	<u>Reporting Fiscal Year</u>			<b>2013 through 2007</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Actuarially determined contribution	\$ 21,444	\$ 18,279	\$ 13,997	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(21,444)</u>	<u>(18,279)</u>	<u>(13,997)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 163,321	\$ 134,655	\$ 167,936	
Town's contributions as a percentage of covered- employee payroll	13.13%	13.57%	8.33%	



**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Notes to Pension Plan Schedules**  
**June 30, 2016**

***NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES***

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2016**

**Health Insurance Premium Benefit - PSPRS**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((b-a)/c)
06/30/16	\$ 22,725	\$ 15,449	\$ (7,276)	147.1 %	\$ 136,151	0.00 %
06/30/15	20,503	12,618	(7,885)	162.5	134,655	0.00
06/30/14	18,011	11,085	(6,926)	162.5	167,936	0.00

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

**TOWN OF JEROME, ARIZONA**  
**Required Supplementary Information**  
**Notes to Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2016**

***NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS***

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

**TOWN OF JEROME, ARIZONA**  
**Other Supplementary Information**  
**Segmented Statement of Revenue, Expenses, and Changes**  
**in Fund Net Position**  
**Utilities Fund**  
**Year Ended June 30, 2016**

	Water Utility	Sewer Utility	Sanitation Utility	Total Utilities Fund
<b>Operating revenue</b>				
Charges for services	\$ 168,855	\$ 181,526	\$ 166,486	\$ 516,867
Miscellaneous	4,469	161	1,460	6,090
<b>Total operating revenue</b>	<u>173,324</u>	<u>181,687</u>	<u>167,946</u>	<u>522,957</u>
<b>Operating expenses</b>				
Personnel	66,497	31,900	52,576	150,973
Depreciation	51,603	19,202	6,681	77,486
Repairs and maintenance	32,092	14,467	8,919	55,478
Contract services	3,600	37,200	2,470	43,270
Insurance	9,902	11,223	13,204	34,329
Fees and permits	892	6,494	22,196	29,582
Tools and equipment	9,080	8,042	587	17,709
Office	6,204	8,884	2,139	17,227
Fuel	1,716	1,524	6,528	9,768
Legal and professional	6,588	215	-	6,803
Utilities	951	1,866	541	3,358
Miscellaneous	2,381	1,138	882	4,401
<b>Total operating expenses</b>	<u>191,506</u>	<u>142,155</u>	<u>116,723</u>	<u>450,384</u>
<b>Operating income</b>	(18,182)	39,532	51,223	72,573
<b>Nonoperating revenue (expense)</b>				
Interest earnings	-	40	-	40
Interest expense	(456)	(8,810)	-	(9,266)
<b>Total nonoperating revenue (expense)</b>	<u>(456)</u>	<u>(8,770)</u>	<u>-</u>	<u>(9,226)</u>
<b>Income before transfers</b>	(18,638)	30,762	51,223	63,347
Transfer out	(56,782)	(56,782)	(49,882)	(163,446)
<b>Change in net position</b>	(75,420)	(26,020)	1,341	(100,099)
Net position, July 1, 2015	<u>1,639,385</u>	<u>787,400</u>	<u>(190,363)</u>	<u>2,236,422</u>
<b>Net position, June 30, 2016</b>	<u>\$ 1,563,965</u>	<u>\$ 761,380</u>	<u>\$ (189,022)</u>	<u>\$ 2,136,323</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, 2016, 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 May 19, 2017.

**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.

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Jerome, 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.

*Colby & Powell, PLC*

May 19, 2017