

TOWN OF JEROME, ARIZONA

Annual Financial Statements
and Independent Auditors' Report

June 30, 2015

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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, 2015, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

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 39 through 42, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 43, Schedule of Town Pension Contributions on page 44, and Schedule of Agent OPEB Plans' Funding Progress on page 46 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 16, 2016, 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 16, 2016

TOWN OF JEROME, ARIZONA
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 307,605	\$ -	\$ 307,605
Cash and cash equivalents, restricted	-	129,622	129,622
Other receivables	10,097	52,738	62,835
Due from other governments	229,380	-	229,380
Interfund balances	99,587	(99,587)	-
Other assets	15,122	-	15,122
Net pension asset	112,740	-	112,740
Capital assets, not being depreciated	252,283	35,116	287,399
Capital assets, being depreciated, net	589,710	2,355,255	2,944,965
Total assets	1,616,524	2,473,144	4,089,668
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	22,767	-	22,767
LIABILITIES			
Accounts payable	107,768	18,965	126,733
Accrued expenses	43,111	5,504	48,615
Deposits held for others	5,693	19,721	25,414
Deferred revenue	57,096	-	57,096
Due to fiduciary fund	1,130	-	1,130
Noncurrent liabilities			
Due within 1 year	25,751	11,317	37,068
Due in more than 1 year	8,584	181,215	189,799
Total liabilities	249,133	236,722	485,855
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	45,299	-	45,299
NET POSITION			
Net investment in capital assets	841,993	2,199,799	3,041,792
Restricted for:			
Court enhancement fund	59,546	-	59,546
Debt service	-	46,113	46,113
Repairs and replacements	-	43,788	43,788
Unrestricted	443,320	(53,278)	390,042
Total net position	\$ 1,344,859	\$ 2,236,422	\$ 3,581,281

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Activities
June 30, 2015

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	\$ 537,526	\$ 15,895	\$ -	\$ 16,875	\$ (504,756)	\$ -	\$ (504,756)
Public safety	741,347	117,309	124,846	3,301	(495,891)	-	(495,891)
Public works and streets	85,544	-	34,910	15,116	(35,518)	-	(35,518)
Community development	216,205	70,531	451	-	(145,223)	-	(145,223)
Culture and recreation	77,059	-	19,715	-	(57,344)	-	(57,344)
Total governmental activities	<u>1,657,681</u>	<u>203,735</u>	<u>179,922</u>	<u>35,292</u>	<u>(1,238,732)</u>	<u>-</u>	<u>(1,238,732)</u>
Business-type activities							
Utilities	456,579	515,893	-	-	-	59,314	59,314
Total business-type activities	<u>456,579</u>	<u>515,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,314</u>	<u>59,314</u>
Total primary government	<u>\$ 2,114,260</u>	<u>\$ 719,628</u>	<u>\$ 179,922</u>	<u>\$ 35,292</u>	<u>(1,238,732)</u>	<u>59,314</u>	<u>(1,179,418)</u>
General revenue:							
Taxes:							
Property					45,057	-	45,057
Sales					745,829	-	745,829
Franchise fees					16,588	-	16,588
State sales tax revenue sharing					40,747	-	40,747
Urban revenue sharing					181,502	-	181,502
Vehicle license taxes					27,091	-	27,091
Investment income (loss)					2,443	38	2,481
Miscellaneous					11,170	-	11,170
Total general revenue					<u>1,070,427</u>	<u>38</u>	<u>1,070,465</u>
Transfers					<u>31,856</u>	<u>(31,856)</u>	<u>-</u>
Change in net position					<u>(136,449)</u>	<u>27,496</u>	<u>(108,953)</u>
Net position, July 1, 2014, as restated					<u>1,481,308</u>	<u>2,208,926</u>	<u>3,690,234</u>
Net position, June 30, 2015					<u>\$ 1,344,859</u>	<u>\$ 2,236,422</u>	<u>\$ 3,581,281</u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 291,338	\$ -	\$ 16,267	\$ 307,605
Other receivables	10,097	-	-	10,097
Due from other governments	140,816	6,239	82,325	229,380
Due from other funds	105,301	-	-	105,301
Other assets	15,122	-	-	15,122
Total assets	<u>\$ 562,674</u>	<u>\$ 6,239</u>	<u>\$ 98,592</u>	<u>\$ 667,505</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 58,182	\$ 3,634	\$ 45,952	\$ 107,768
Accrued expenses	42,823	288	-	43,111
Deposits held for others	5,693	-	-	5,693
Deferred revenue	-	-	57,096	57,096
Due to other funds	1,130	5,714	-	6,844
Total liabilities	<u>107,828</u>	<u>9,636</u>	<u>103,048</u>	<u>220,512</u>
Fund balances				
Restricted for:				
Court enhancement	59,546	-	-	59,546
Unassigned	395,300	(3,397)	(4,456)	387,447
Total fund balances	<u>454,846</u>	<u>(3,397)</u>	<u>(4,456)</u>	<u>446,993</u>
Total liabilities and fund balances	<u>\$ 562,674</u>	<u>\$ 6,239</u>	<u>\$ 98,592</u>	<u>\$ 667,505</u>

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, 2015

Fund balances-total governmental funds	\$ 446,993
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.	841,993
Net pension assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.	112,740
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.	(34,335)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>(22,532)</u>
Net position of governmental activities	<u><u>\$1,344,859</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, 2015

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
Revenue				
Taxes	\$ 790,886	\$ -	\$ -	\$ 790,886
Intergovernmental	273,533	34,910	141,000	449,443
Fines and forfeits	98,729	-	-	98,729
Charges for services	72,149	-	-	72,149
Licenses and permits	35,327	-	-	35,327
Miscellaneous	22,322	-	-	22,322
Donations and grants	2,238	-	15,836	18,074
Investment earnings	2,420	26	-	2,446
Total revenue	<u>1,297,604</u>	<u>34,936</u>	<u>156,836</u>	<u>1,489,376</u>
Expenditures				
Current				
General government	398,639	-	117,698	516,337
Public safety	638,042	-	7,610	645,652
Public works and streets	-	81,123	-	81,123
Community development	215,947	-	-	215,947
Culture and recreation	77,296	-	-	77,296
Capital outlay	6,268	-	32,111	38,379
Total expenditures	<u>1,336,192</u>	<u>81,123</u>	<u>157,419</u>	<u>1,574,734</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(38,588)</u>	<u>(46,187)</u>	<u>(583)</u>	<u>(85,358)</u>
Other financing sources (uses)				
Transfers	<u>(10,934)</u>	<u>42,790</u>	<u>-</u>	<u>31,856</u>
Net change in fund balances	<u>(49,522)</u>	<u>(3,397)</u>	<u>(583)</u>	<u>(53,502)</u>
Fund balances, July 1, 2014	<u>504,368</u>	<u>-</u>	<u>(3,873)</u>	<u>500,495</u>
Fund balances, June 30, 2015	<u>\$ 454,846</u>	<u>\$ (3,397)</u>	<u>\$ (4,456)</u>	<u>\$ 446,993</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, 2015

Net change in fund balances-total governmental funds \$ (53,502)

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	38,379	
Current year depreciation expense	<u>(122,165)</u>	(83,786)

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	20,501	
PSPRS health insurance transfer	(14,505)	
Pension expense	<u>(14,938)</u>	(8,942)

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.

Decrease in compensated absences payable	<u>9,781</u>	
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Change in net position of governmental activities \$ (136,449)

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

ASSETS	Utilities Fund
Current assets	
Cash and cash equivalents, restricted	\$ 129,622
Accounts receivable-net	52,738
Total current assets	182,360
Noncurrent assets	
Capital assets, not being depreciated	35,116
Capital assets, being depreciated, net	2,355,255
Total noncurrent assets	2,390,371
Total assets	2,572,731
 LIABILITIES	
Current liabilities	
Accounts payable	18,965
Accrued expenses	917
Interest payable	4,587
Deposits held for customers	19,721
Due to other funds	99,587
Compensated absences-current portion	1,470
Revenue bond payable-current portion	9,847
Total current liabilities	155,094
Noncurrent liabilities	
Compensated absences-net of current portion	490
Revenue bond payable-net of current portion	180,725
Total noncurrent liabilities	181,215
Total liabilities	336,309
 NET POSITION	
Net investment in capital assets	2,199,799
Restricted for:	
Debt service	46,113
Repairs and replacements	43,788
Unrestricted	(53,278)
Total net position	\$ 2,236,422

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, 2015

	<u>Utilities Fund</u>
Operating revenue	
Charges for services	
Sewer user fees	\$ 181,911
Water user fees	178,258
Sanitation user fees	153,656
Miscellaneous	<u>2,068</u>
Total operating revenue	<u>515,893</u>
Operating expenses	
Personnel	155,640
Depreciation	76,425
Repairs and maintenance	60,960
Contract services	42,759
Insurance	33,146
Fees and permits	25,626
Tools and equipment	14,021
Office	12,444
Fuel	11,914
Legal and professional	6,564
Utilities	4,059
Miscellaneous	<u>3,934</u>
Total operating expenses	<u>447,492</u>
Operating income	68,401
Nonoperating revenue (expense)	
Interest earnings	38
Interest expense	<u>(9,087)</u>
Total nonoperating revenue (expense)	<u>(9,049)</u>
Income before transfers	59,352
Transfers	<u>(31,856)</u>
Change in net position	27,496
Net position, July 1, 2014, as restated	<u>2,208,926</u>
Net position, June 30, 2015	<u><u>\$ 2,236,422</u></u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	<u>Utilities Fund</u>
Cash flows from operating activities:	
Receipts from customers	\$ 524,997
Payments to suppliers and providers of goods and services	(229,459)
Payments to employees	(163,715)
Net cash provided (used) by operating activities	<u>131,823</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	(31,856)
Advances from other funds	71,590
Net cash provided (used) by noncapital financing	<u>39,734</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(122,936)
Principal paid on revenue bond maturities	(9,423)
Interest paid on revenue bonds	(9,000)
Net cash provided (used) by capital and related financing activities	<u>(141,359)</u>
Cash flows from investing activities:	
Interest received on investments	38
Net increase (decrease) in cash	<u>30,236</u>
Cash, July, 1, 2014	<u>99,386</u>
Cash, June, 30, 2015	<u><u>\$ 129,622</u></u>

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015
(Continued)

		Utilities Fund
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$	68,401
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		76,425
(Increase) decrease in:		
Account receivable		3,192
Increase (decrease) in:		
Accounts payable		(14,032)
Accrued expenses		(4,227)
Deposits held for customers		5,912
Compensated absences		(3,848)
		(3,848)
Net cash provided (used) by operating activities	\$	131,823

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2015

	Investment Trust Fund
ASSETS	
Cash	\$ 17,160
Investments, at fair value	144,369
Due from Town	1,130
Total assets	162,659
 NET POSITION	
Held in trust for investment trust participants	\$ 162,659

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2015

	Investment Trust Fund
Additions:	
Contributions	\$ 9,577
Investment income:	
Interest and dividends	4,255
Unrealized gain	1,413
Total additions	15,245
Distributions:	
Distributions to participants	8,806
Administrative fees	4,398
Total distributions	13,204
Change in net position	2,041
Net Position, July 1, 2014	160,618
Net Position, June 30, 2015	\$ 162,659

See accompanying notes to financial statements.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015

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, 2015

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, 2015

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, 2015 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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

J. 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.

K. 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.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

L. Impact of Recently Issued Accounting Principles

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 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. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

M. 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.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015, the carrying amount of the Town’s total nonpooled cash in bank was \$435,054, and the bank balance was \$462,225. Of the bank balance, \$456,194 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, 2015, 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>\$ 1,598</u>	<u>\$ 1,598</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 participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amount due from other governments at June 30, 2015, included \$15,050 in state-shared revenue, \$6,239 from Highway User Revenue Fund (HURF) taxes, \$6,878 in state-shared revenue from sales taxes, \$4,779 in county-shared revenue from auto lieu taxes, \$2,222 in property taxes, \$111,887 from city sales taxes, and \$82,325 from grants.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July, 1, 2014	Increases	Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 252,283	\$ -	\$ -	\$ 252,283
Total capital assets not being depreciated	<u>252,283</u>	<u>-</u>	<u>-</u>	<u>252,283</u>
Capital assets being depreciated:				
Buildings and improvements	1,133,298	-	-	1,133,298
Vehicles and equipment	941,293	21,792	(2,000)	961,085
Infrastructure	136,463	16,587	-	153,050
Total	<u>2,211,054</u>	<u>38,379</u>	<u>(2,000)</u>	<u>2,247,433</u>
Less accumulated depreciation for:				
Buildings and improvements	(836,802)	(54,151)	-	(890,953)
Vehicles and equipment	(693,932)	(64,409)	2,000	(756,341)
Infrastructure	(6,824)	(3,605)	-	(10,429)
Total	<u>(1,537,558)</u>	<u>(122,165)</u>	<u>2,000</u>	<u>(1,657,723)</u>
Total capital assets being depreciated, net	<u>673,496</u>	<u>(83,786)</u>	<u>-</u>	<u>589,710</u>
Governmental activities capital assets, net	<u>\$ 925,779</u>	<u>\$ (83,786)</u>	<u>\$ -</u>	<u>\$ 841,993</u>

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS – Continued

	Balance <u>July, 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 13,036	\$ -	\$ 13,036
Land	22,080	-	-	22,080
Total capital assets not being depreciated	<u>-</u>	<u>13,036</u>	<u>-</u>	<u>35,116</u>
Capital assets being depreciated:				
Buildings and infrastructure	3,470,562	60,611	-	3,531,173
Vehicles and equipment	179,950	-	(15,735)	164,215
Total	<u>3,650,512</u>	<u>60,611</u>	<u>(15,735)</u>	<u>3,695,388</u>
Less accumulated depreciation for:				
Buildings and infrastructure	(1,131,969)	(67,553)	-	(1,199,522)
Vehicles and equipment	(147,474)	(8,872)	15,735	(140,611)
Total	<u>(1,279,443)</u>	<u>(76,425)</u>	<u>15,735</u>	<u>(1,340,133)</u>
Total capital assets being depreciated, net	<u>2,371,069</u>	<u>(15,814)</u>	<u>-</u>	<u>2,355,255</u>
Business-type activities capital assets, net	<u>\$ 2,371,069</u>	<u>\$ (2,778)</u>	<u>\$ -</u>	<u>\$ 2,390,371</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 24,346
Public safety	92,504
Public works and streets	4,239
Community Development	625
Culture and recreation	451
Total governmental activities depreciation expense	<u>\$ 122,165</u>
Business-type activities:	
Water	\$ 50,663
Sewer	18,871
Sanitation and recycling	6,891
Total business-type activities depreciation expense	<u>\$ 76,425</u>

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 44,116	\$ -	\$ (9,781)	\$ 34,335	\$ 25,751
	<u>\$ 44,116</u>	<u>\$ -</u>	<u>\$ (9,781)</u>	<u>\$ 34,335</u>	<u>\$ 25,751</u>
Business-type activities					
Compensated absences payable	\$ 5,808	\$ -	\$ (3,848)	\$ 1,960	\$ 1,470
Revenue bonds payable	199,995	-	(9,423)	190,572	9,847
Business-type activities long-term liabilities	<u>\$ 205,803</u>	<u>\$ -</u>	<u>\$ (13,271)</u>	<u>\$ 192,532</u>	<u>\$ 11,317</u>

The following schedule details debt service requirements to maturity for the Town’s revenue bonds at June 30, 2015:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2016	\$ 9,847	\$ 8,953
2017	10,290	8,500
2018	10,753	8,026
2019	11,237	7,531
2020	11,742	7,014
2021-25	67,130	26,464
2026-30	<u>69,573</u>	<u>9,285</u>
Total	<u>\$ 190,572</u>	<u>\$ 75,773</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, 2015 were as follows:

Description	Original Amount	Maturity Range	Interest Rate	Outstanding Principal
Sewer revenue bonds, Series 2001	300,000	2030	4.50%	190,572

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

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 – RESTATEMENT OF BEGINNING NET POSITION

The Town increased beginning net position of the Governmental Activities by \$21,168 to record capital assets which were incorrectly recorded as disposed in a prior year.

In addition, in a prior period, the Town incorrectly recognized a Utility Fund capital asset in the Governmental Activities. The correction required that beginning net position of the Governmental Activities was reduced by \$17,167 and the beginning net position of the Business-type Activities was increased by the same amount.

The total net changes for corrections to the beginning net position of the Governmental and Business-type Activities are increases of \$4,001 and \$17,167, respectively.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities
Net position as previously reported at June 30, 2014, as restated	\$ 1,382,158
Prior period adjustments-implementation of GASB 68:	
Net pension asset (measurement date as of June 30, 2013)	85,153
Deferred outflows-Town contributions made during fiscal year 2014	13,997
Total prior period adjustment	99,150
Net position, as restated, July 1, 2014	\$ 1,481,308

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – 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, 2015, the Town contributed a total \$11,273 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, 2015, the Town reported the following amounts related to PSPRS:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>
Net pension assets	\$ 112,740
Deferred outflows of resources	22,767
Deferred inflows of resources	45,299
Pension expense	14,938

The Town reported \$22,329 of pension expenditures in the governmental funds for PSPRS.

Plan Description – Town police employees participate in the 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 issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at 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, 2015

NOTE 9 – 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:

PSPRS

	<u>Initial membership date:</u>	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age	25 years and age 52.5
	15 years age 62	
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		2.5% per year of credited service, not to exceed 80%
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%	
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% 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. 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, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	1
Active employees	4
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, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police
Active Members - Pension	11.05%
Town	
Pension	10.99%
Health insurance premium benefit	0.98%

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – 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, 2015, were:

	PSPRS Police	
Contributions Made	\$	20,501
Health Insurance Premium Benefit		
Annual OPEB cost		1,828
Contributions made		1,828

During fiscal year 2015, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Asset – At June 30, 2015, the Town reported the following net pension asset:

	Net Pension Asset	
PSPRS Police	\$	112,740

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions:

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

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

Actuarial valuation date	June 30, 2014
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, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS 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 Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed Income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

PSPRS Police

Discount rates	7.85%
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The projection of cash flows used to determine the PSPRS 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, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 218,204	\$ 303,357	\$ (85,153)
Changes for the year			
Service Cost	32,631	-	32,631
Interest on the total pension liability	18,410	-	18,410
Changes of benefit terms	(1,024)	-	(1,024)
Differences between expected and actual experience in the measurement of the pension liability	(36,345)	-	(36,345)
Changes of assumptions or other inputs	2,606	-	2,606
Contributions-employer	-	13,997	(13,997)
Contributions-employee	-	15,379	(15,379)
Net investment income	-	40,722	(40,722)
Other changes	-	(26,233)	26,233
Net changes	16,278	43,865	(27,587)
Balances at June 30, 2015	\$ 234,482	\$ 347,222	\$ (112,740)

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

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability (asset)	\$ (77,770)	\$ (112,740)	\$ (141,845)

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, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	Pension Expense	
PSPRS Police	\$	14,938

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	\$	-	\$	31,607
Changes of assumptions or other inputs		2,266		-
Net difference between projected and actual earnings on pension plan investments		-		13,692
Town contributions subsequent to the measurement date		20,501		-
Total	\$	22,767	\$	45,299

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	PSPRS Police
2016	\$ (7,821)
2017	(7,821)
2018	(7,821)
2019	(7,821)
2020	(4,398)
Thereafter	(7,351)

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – 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 2015 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.5%

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			
2015	\$ 1,828	100%	\$ (7,885)
2014	1,126	100%	(6,936)
2013	1,331	100%	10,220

Agent Plan OPEB Funded Status – The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

PSPRS - OPEB

	<u>PSPRS Police</u>
Actuarial value of assets (a)	\$ 20,503
Actuarial accrued liability (b)	\$ 12,618
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (7,885)
Funded ratio (a)/(b)	162.49%
Annual covered payroll (c)	\$ 186,542
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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 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%-8%
Wage growth	4%

TOWN OF JEROME, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 10 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables – Interfund balances at June 30, 2015, were as follows:

Payable from	Payable to		Total
	General Fund	Investment Trust Fund	
General Fund	\$ -	\$ 1,130	\$ 1,130
HURF Fund	5,714	-	5,714
Utilities Fund	99,587	-	99,587
Total	\$ 105,301	\$ 1,130	\$ 106,431

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, 2015 are as follows:

Transfer To	Transfer From		Total
	General Fund	Utilities Fund	
General Fund	\$ -	\$ 31,856	\$ 31,856
HURF Fund	42,790	-	42,790
	\$ 42,790	\$ 31,856	\$ 74,646

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 822,500	\$ 822,500	\$ 790,886	\$ (31,614)
Intergovernmental	310,556	310,556	273,533	(37,023)
Fines and forfeits	62,100	62,100	98,729	36,629
Charges for services	94,500	94,500	72,149	(22,351)
Licenses and permits	40,300	40,300	35,327	(4,973)
Miscellaneous	34,000	34,000	22,322	(11,678)
Donations and grants	5,049	5,049	2,238	(2,811)
Investment earnings	200	200	2,420	2,220
Total revenue	<u>1,369,205</u>	<u>1,369,205</u>	<u>1,297,604</u>	<u>(71,601)</u>
Expenditures				
Current				
General government	413,845	413,845	398,639	15,206
Public safety	666,130	666,130	638,042	28,088
Community development	228,722	228,722	215,947	12,775
Culture and recreation	90,079	90,079	77,296	12,783
Capital outlay	465,000	465,000	6,268	458,732
Total expenditures	<u>1,863,776</u>	<u>1,863,776</u>	<u>1,336,192</u>	<u>527,584</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(494,571)</u>	<u>(494,571)</u>	<u>(38,588)</u>	<u>455,983</u>
Other financing sources (uses)				
Sale of assets	308,800	308,800	-	(308,800)
Transfers	(46,729)	(46,729)	(10,934)	35,795
Total other financing sources (uses)	<u>262,071</u>	<u>262,071</u>	<u>(10,934)</u>	<u>(273,005)</u>
Net change in fund balances	<u>(232,500)</u>	<u>(232,500)</u>	<u>(49,522)</u>	<u>182,978</u>
Fund balances, July 1, 2014	<u>504,368</u>	<u>504,368</u>	<u>504,368</u>	<u>-</u>
Fund balances, June 30, 2015	<u>\$ 271,868</u>	<u>\$ 271,868</u>	<u>\$ 454,846</u>	<u>\$ 182,978</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 31,608	\$ 31,608	\$ 34,910	\$ 3,302
Investment earnings	75	75	26	(49)
Total revenue	<u>31,683</u>	<u>31,683</u>	<u>34,936</u>	<u>3,253</u>
Expenditures				
Current				
Public works and streets	<u>101,244</u>	<u>101,244</u>	<u>81,123</u>	<u>20,121</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(69,561)</u>	<u>(69,561)</u>	<u>(46,187)</u>	<u>23,374</u>
Other financing sources (uses)				
Transfers	<u>69,561</u>	<u>69,561</u>	<u>42,790</u>	<u>(26,771)</u>
Net change in fund balances	-	-	(3,397)	(3,397)
Fund balances, July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,397)</u>	<u>\$ (3,397)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 840,750	\$ 840,750	\$ 141,000	\$ (699,750)
Donations and grants	-	-	15,836	15,836
Total revenue	<u>840,750</u>	<u>840,750</u>	<u>156,836</u>	<u>(683,914)</u>
Expenditures				
Current				
General government	274,490	274,490	117,698	156,792
Public safety	7,610	7,610	7,610	-
Capital outlay	558,650	558,650	32,111	526,539
Total expenditures	<u>840,750</u>	<u>840,750</u>	<u>157,419</u>	<u>683,331</u>
Net change in fund balances	-	-	(583)	(583)
Fund balances, July 1, 2014	<u>(3,873)</u>	<u>(3,873)</u>	<u>(3,873)</u>	-
Fund balances, June 30, 2015	<u><u>\$ (3,873)</u></u>	<u><u>\$ (3,873)</u></u>	<u><u>\$ (4,456)</u></u>	<u><u>\$ (583)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2015

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 Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

PSPRS

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014
	(2014)	through
	(2014)	2006
Total pension liability		Information
Service cost	\$ 32,631	not available
Interest on the total pension liability	18,410	
Changes of benefit terms	(1,024)	
Differences between expected and actual experience in the measurement of the pension liability	(36,345)	
Changes of assumptions or other inputs	<u>2,606</u>	
Net change in total pension liability	16,278	
Total pension liability - beginning	<u>218,204</u>	
Total pension liability - ending (a)	<u><u>\$ 234,482</u></u>	
Plan fiduciary net position		
Contributions - employer	\$ 13,997	
Contributions - employee	15,379	
Net investment income	40,722	
Other changes	<u>(26,233)</u>	
Net change in plan fiduciary net position	43,865	
Plan fiduciary net position - beginning	<u>303,357</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 347,222</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ (112,740)</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	148.08%	
Covered-employee payroll	\$ 186,542	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-60.44%	

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2015

PSPRS

	<u>Reporting Fiscal Year</u>		
	2015	2014	2013 through 2006
Actuarially determined contribution	\$ 20,501	\$ 13,997	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(20,501)</u>	<u>(13,997)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 186,542	\$ 167,936	
Town's contributions as a percentage of covered- employee payroll	10.99%	8.33%	

TOWN OF JEROME, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2015

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 2013 actuarial valuation	23 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	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%
Wage growth	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, 2015

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 ([a-b]/c)
06/30/15	\$ 20,503	\$ 12,618	\$ (7,885)	162.5 %	\$ 186,542	0.00 %
06/30/14	18,011	11,085	(6,926)	162.5	167,936	0.00
06/30/13	-	10,220	10,220	0.0	170,819	5.98

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, 2015

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, 2015

	Water Utility	Sewer Utility	Sanitation Utility	Total Utilities Fund
Operating revenue				
Charges for services	\$ 178,258	\$ 181,911	\$ 153,656	\$ 513,825
Miscellaneous	1,170	-	898	2,068
Total operating revenue	<u>179,428</u>	<u>181,911</u>	<u>154,554</u>	<u>515,893</u>
Operating expenses				
Personnel	64,169	36,323	55,148	155,640
Depreciation	50,663	18,871	6,891	76,425
Repairs and maintenance	34,006	15,918	11,036	60,960
Contract services	3,600	37,203	1,956	42,759
Insurance	9,562	10,836	12,748	33,146
Fees and permits	402	2,590	22,634	25,626
Tools and equipment	4,350	8,572	1,099	14,021
Office	4,087	6,903	1,454	12,444
Fuel	1,141	1,134	9,639	11,914
Legal and professional	3,864	2,700	-	6,564
Utilities	1,048	2,390	621	4,059
Miscellaneous	1,105	2,432	397	3,934
Total operating expenses	<u>177,997</u>	<u>145,872</u>	<u>123,623</u>	<u>447,492</u>
Operating income	1,431	36,039	30,931	68,401
Nonoperating revenue (expense)				
Interest earnings	29	9	-	38
Interest expense	-	(9,087)	-	(9,087)
Total nonoperating revenue (expense)	<u>29</u>	<u>(9,078)</u>	<u>-</u>	<u>(9,049)</u>
Income before transfers	1,460	26,961	30,931	59,352
Transfer out	(31,952)	(31,952)	(31,952)	(95,856)
Transfer in	25,000	39,000	-	64,000
Change in net position	(5,492)	34,009	(1,021)	27,496
Net position, July 1, 2014, as restated	<u>1,644,877</u>	<u>753,391</u>	<u>(189,342)</u>	<u>2,208,926</u>
Net position, June 30, 2015	<u>\$ 1,639,385</u>	<u>\$ 787,400</u>	<u>\$ (190,363)</u>	<u>\$ 2,236,422</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, 2015, 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 16, 2016.

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 16, 2016