

CITY OF SOMERTON, ARIZONA
SINGLE AUDIT ACT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

CITY OF SOMERTON, ARIZONA

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**Independent Auditors' 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***

The Honorable Mayor and
City Council
Somerton, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Somerton, Arizona's basic financial statements and have issued our report thereon dated December 31, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Somerton, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
December 31, 2018



**Independent Auditors' Report on Compliance for Each Major Program
And On Internal Control over Compliance Required by
the Uniform Guidance**

Honorable Mayor & City Council
City of Somerton
Somerton, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Somerton, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Somerton, Arizona's major federal programs for the year ended June 30, 2018. The City of Somerton, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Somerton, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Somerton, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Somerton, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Somerton, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City of Somerton, Arizona, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Somerton, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Somerton, Arizona's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Somerton, Arizona's basic financial statements. We issued our report thereon dated December 31, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HintonBurdick, PLLC

HintonBurdick, PLLC

Gilbert, Arizona

January 15, 2019

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CITY OF SOMERTON, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:

- Material weakness (es) identified? _____ yes X no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified? _____ yes X no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

CITY OF SOMERTON, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Section IV – Summary Schedule of Prior Audit Findings

None noted.

CITY OF SOMERTON, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Grantor Agency	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-Through to Subrecipients	Expenditures
U.S. Department of Housing and Urban Development:				
(Passed through Arizona Department of Housing)				
Community Development Block Grant	14.228	103-16	\$ -	\$ 405,513
U.S. Department of Justice:				
(Passed through the Yuma County, Arizona)				
Yuma County Drug Task Force	16.738		-	30,134
U.S. Department of Agriculture				
USDA Rural Utility Services				
Capitalization Loan for construction and capital improvements of a waste water system	10.760		-	403,202
U.S. Department of Health and Human Services:				
(Passed through Western Arizona Council of Government)				
Special Programs for the Aging - Title III, Part C, Nutrition Services	93.045		-	131,162
Total expenditure of federal awards			<u>\$ -</u>	<u>\$ 970,011</u>

The accompanying notes are an integral part of this schedule.

CITY OF SOMERTON, ARIZONA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Reporting Entity:

The accompanying schedule of expenditures of federal awards (schedule) presents all activity or expenditure or all federal award programs of the City of Somerton, Arizona (City) for the year ended June 30, 2018. The City's reporting entity is defined in note 1 of the basic financial statements. All expenditure of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting:

This accompanying schedule has been prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Relationship to the Basic Financial Statements:

Expenditures of federal awards have been reported in the following funds. Expenditures in the business-type activities have been capitalized and reported as capital assets:

Governmental-Type Activities:

General Fund	\$ 405,513
Non-major funds:	
Miscellaneous Grants Fund	30,134
Senior Nutrition Center Fund	131,162

Business-Type Activities:

Sewer Fund	403,202
	<u>\$ 970,011</u>

Indirect Cost Rate:

The City did not elect to use the 10% de minimis indirect cost rate for fiscal year 2018.

Federal Loans and Loan Guarantee Programs Outstanding:

The City received funding from the Environmental Protection Agency passed through the Water Infrastructure Financing Authority for CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds in fiscal year ending June 30, 2017 in the amount of \$798,229. The balance of the loan outstanding at June 30, 2018 is \$761,050. Additional compliance requirements for this loan are the debt service reserves. The debt service reserve of \$61,108 is funded annually and should be fully funded by January 1, 2019. In addition, a repair and replacement fund is required to begin July 1, 2019 with semi-annual deposits of \$6,110.

CITY OF SOMERTON, ARIZONA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

The City received funding from the U.S. Department of Agriculture Rural Utility Services for CFDA #10.760 Capitalization Loan for construction and capital improvement of a waste water system. The loan proceeds accrued during fiscal year 2018 have been included in the schedule of expenditures of federal awards. The balance of the loan outstanding at June 30, 2018 is \$378,784.

Subrecipients:

The City did not have any subrecipients for the fiscal year 2018.