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CITY OF SOMERTON, ARIZONA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

WITH REPORT OF

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SOMERTON, ARIZONA

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FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
City Council
Somerton, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerton, Arizona, as of June 30, 2013, 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 described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and public safety retirement system information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somerton, Arizona's basic financial statements. The combining and individual nonmajor fund financial statements, and other supplementary schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary schedules listed in the table of contents were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2013, on our consideration of the City of Somerton, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Somerton, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
October 12, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Somerton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$32.6 million at the close of the fiscal year.
- Total net position increased by \$85,545 in fiscal year 2013, but decreased by \$345,390 overall due to inclusion of restatement adjustments and prior period adjustments, see notes 16 & 17.
- Taxes and other governmental revenues exceeded governmental expenses by \$493,113.
- Business-type expenses exceeded total business-type revenues by \$407,568.
- Total revenues from all sources were \$13.7 million.
- The total cost of all City programs was \$13.6 million.
- The General Fund reported excess revenues over expenditures and transfers of \$ 220,314.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,674,948 or 24.39% of total General Fund expenditures, excluding transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City’s basic services are considered to be governmental activities, including general government, public safety, judicial, public works, recreation, community support and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended to cover all or most of the cost of the services provided.

Reporting the City’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City’s two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$32.6 million as of June 30, 2013 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer and sanitation operations in separate enterprise funds which are combined as Business Activities in this condensed statement.

City of Somerton Statements of Net Position

| | Governmental activities | | Business-type activities | |
|-----------------------------------|-------------------------|----------------------|--------------------------|----------------------|
| | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 |
| Current and other assets | \$ 3,848,493 | \$ 4,506,296 | \$ 4,183,445 | \$ 4,346,673 |
| Capital assets | 19,271,759 | 18,228,674 | 27,732,864 | 28,416,993 |
| Total assets | <u>23,120,252</u> | <u>22,734,970</u> | <u>31,916,309</u> | <u>32,763,666</u> |
| Long-term liabilities outstanding | 10,143,447 | 10,229,874 | 10,894,856 | 11,310,345 |
| Other liabilities | 1,044,522 | 719,180 | 408,728 | 348,839 |
| Total liabilities | <u>11,187,969</u> | <u>10,949,054</u> | <u>11,303,584</u> | <u>11,659,184</u> |
| Net position: | | | | |
| Net investment in capital assets | 9,577,465 | 10,247,414 | 16,937,710 | 17,616,602 |
| Restricted | 1,246,064 | 2,209,887 | 1,403,849 | 2,323,027 |
| Unrestricted | 1,108,754 | (671,385) | 2,271,166 | 1,164,853 |
| Total net position | <u>\$ 11,932,283</u> | <u>\$ 11,785,916</u> | <u>\$ 20,612,725</u> | <u>\$ 21,104,482</u> |

Governmental Activities

The cost of all Governmental activities this year was \$9,252,380, an increase of \$1,076,012 over last fiscal year. This is primarily due to an increase in public safety, public works/streets, and recreation. As shown on the Statement of Changes in Net Position on the following page, \$1,980,782 of this cost was paid for by those who directly benefited from the programs; \$2,576,373 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid, donations, and fees for services were \$9,723,546. General taxes and investment earnings totaled \$5,166,391.

The City's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, Economic Development, Health and Welfare, and Water, Sewer and Sanitation Services. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

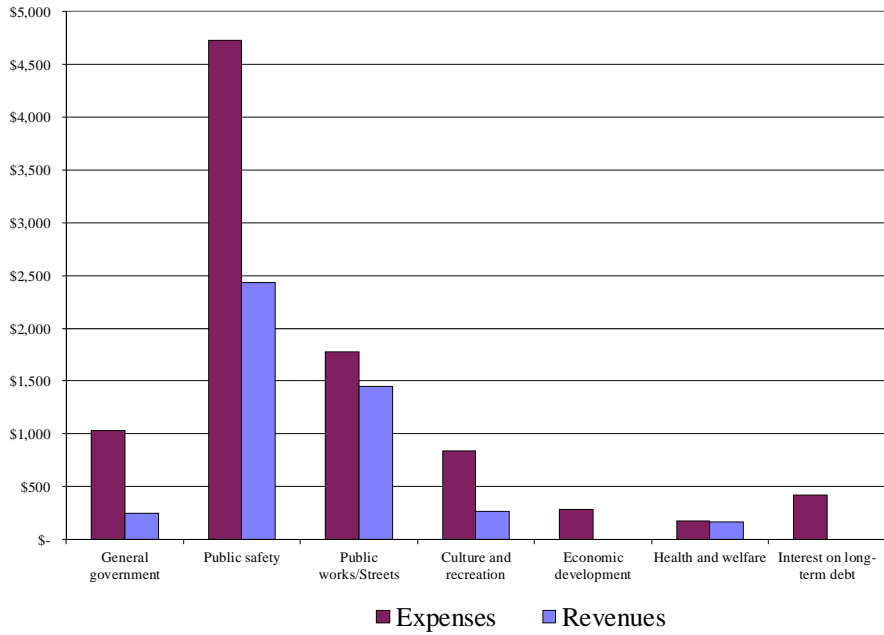
**City of Somerton
Changes in Net Position**

| | Governmental activities | | Business-type activities | |
|--|----------------------------|----------------------|-----------------------------|----------------------|
| | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 1,980,782 | \$ 1,253,785 | \$ 3,352,616 | \$ 3,302,075 |
| Operating grants and contributions | 1,751,945 | 1,857,861 | - | - |
| Capital grants and contributions | 824,428 | 100,844 | 645,416 | 1,727,748 |
| General revenues: | | | | |
| Taxes | 3,677,243 | 3,584,795 | - | - |
| State revenue sharing | 1,470,598 | 1,226,959 | - | - |
| Other revenue/(expense) | 18,550 | 144,626 | 1,130 | (36,862) |
| Total revenues | <u>9,723,546</u> | <u>8,168,870</u> | <u>3,999,162</u> | <u>4,992,961</u> |
| Expenses: | | | | |
| General government | 1,029,378 | 1,037,183 | - | - |
| Public safety | 4,726,696 | 4,177,834 | - | - |
| Public works/Streets | 1,776,755 | 1,487,541 | - | - |
| Culture and recreation | 842,621 | 681,096 | - | - |
| Economic development | 279,406 | 196,998 | - | - |
| Health and welfare | 176,147 | 197,037 | - | - |
| Interest on long-term debt | 421,377 | 398,679 | - | - |
| Water | - | - | 1,448,841 | 1,430,513 |
| Sewer | - | - | 2,203,049 | 2,060,445 |
| Sanitation | - | - | 732,893 | 743,670 |
| Total expenses | <u>9,252,380</u> | <u>8,176,368</u> | <u>4,384,783</u> | <u>4,234,628</u> |
| (Decrease) / Increase in net position before transfers | 471,166 | (7,498) | (385,621) | 758,333 |
| Transfers | 21,947 | 22,400 | (21,947) | (22,400) |
| (Decrease) / Increase in net position | 493,113 | 14,902 | (407,568) | 735,933 |
| Net position, beginning | 11,785,916 | 11,746,247 | 21,104,482 | 20,368,549 |
| Restatement/reclassifications | (237,729) | - | (194,043) | - |
| Prior period adjustment | (109,017) | 24,767 | 109,854 | - |
| Net position, ending | <u>\$ 11,932,283</u> | <u>\$ 11,785,916</u> | <u>\$ 20,612,725</u> | <u>\$ 21,104,482</u> |

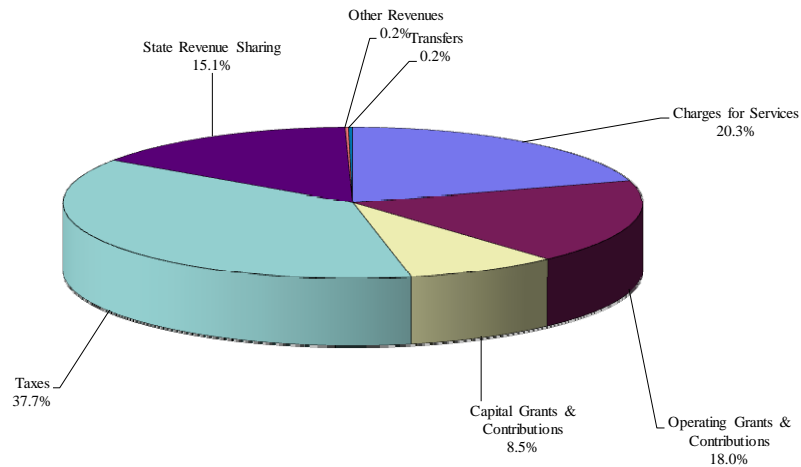
Total resources available during the year to finance governmental operations were \$21.5 million consisting of net position at July 1, 2012 of \$11.8 million, program revenues of \$4.6 million and general revenues of \$5.2 million. Total governmental activities during the year were \$9.2 million and restatements and prior period adjustments were \$346 thousand, thus governmental net position increased by \$146,367 to \$12.0 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Expenses and Program Revenues - Governmental Activities
(in Thousands)



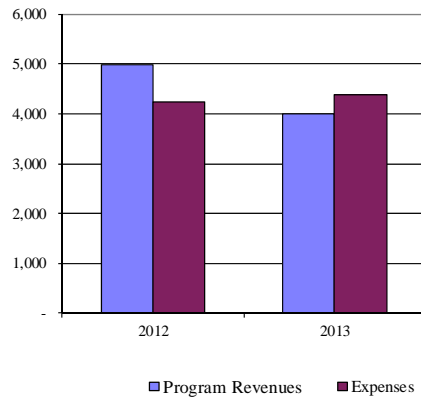
Revenue By Source - Governmental Activities



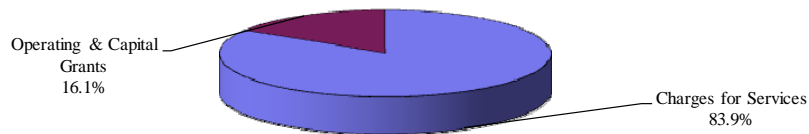
Business Type Activities

Net position of the business type activities at June 30, 2013, as reflected in the Statement of Net Position were \$20.6 million. The cost of providing all Proprietary (Business Type) activities this year was \$4.3 million. As shown in the Statement of Changes in Net Position, the amounts paid by users of the system were \$3.3 million and there was \$645 thousand subsidized by capital grants and contributions. Interest earnings were \$1,130. The net position decreased by \$407,568.

Expenses and Program Revenues - Business-type Activities
(in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Somerton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Somerton's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Somerton's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Somerton's governmental funds reported combined ending fund balances of \$ 2,944,153, a decrease of \$722,667 in comparison with the prior year. Approximately, 57% of this total amount, \$ 1,674,948 constitutes unassigned, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or committed to be used 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Somerton. At the end of the current fiscal year, unassigned fund balance in the general fund was \$ 1,674,948, while total fund balance is \$ 1,684,394. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 24.39% of total general fund expenditures, while total fund balance represents 24.53% of the same amount.

During the year, the City of Somerton's general fund balance increased by \$ 220,314.

The Capital Improvement Fund (CIP) fund has a total fund balance of \$ 704,200, all of which is restricted for road and street construction and improvements. The net decrease in the fund balance during the current year was \$943,447. The decrease in the fund balance resulted from construction on various road projects.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$ 817,263 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for public safety projects that did not occur. There were no budget amendments or supplemental appropriations made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2013, net capital assets of the government activities totaled \$19.2 million and the net capital assets of the business-type activities totaled \$27.7 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 7 to the financial statements.)

Debt

At year-end, the City had \$10,143,447 in governmental type debt, and \$ 10,894,856 in proprietary debt. The debt is a liability of the government and amounts to \$1,473 per capita (2010 census: 14,287). During the current fiscal year, the City's total debt decreased by \$318,476. (See note 8 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2013/2014, the City Council and management remained cautious as to the growth of revenues and expenditures primarily due to the economic down turn being forecasted. Overall General fund operating expenditures were budgeted conservatively.

This will be the sixth fiscal year that the City of Somerton will receive a "voter" approved property tax and keeping with the voter's desires these additional funds will be utilized in support of the GADA Loan debt service for city infrastructure, street improvements.

On May 21st, 2013, the City of Somerton electorate passed Proposition 404 extending the alternative expenditure limitation for an additional 4 years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Somerton, PO Box 638, 110 N. State Avenue, Somerton, AZ 85350-0638.

BASIC FINANCIAL STATEMENTS

CITY OF SOMERTON, ARIZONA
Statement of Net Position
June 30, 2013

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,783,756 | \$ 2,796,874 | \$ 4,580,630 |
| Receivables (net of allowance) | 956,612 | 423,983 | 1,380,595 |
| Prepaid items/Inventory | 6,925 | 644 | 7,569 |
| Temporarily restricted assets: | | | |
| Cash and cash equivalents | 1,101,200 | 961,944 | 2,063,144 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 807,012 | 415,399 | 1,222,411 |
| Buildings | 5,012,825 | 1,469 | 5,014,294 |
| Improvements | 1,439,708 | 2,211,799 | 3,651,507 |
| System improvements | - | 24,606,072 | 24,606,072 |
| Machinery and equipment | 653,206 | 100,606 | 753,812 |
| Vehicles | 461,708 | 250,582 | 712,290 |
| Infrastructure/Roads | 10,629,731 | - | 10,629,731 |
| Construction in progress | 267,569 | 146,937 | 414,506 |
| Total assets | <u>23,120,252</u> | <u>31,916,309</u> | <u>55,036,561</u> |
| Liabilities | | | |
| Accounts payable and other current liabilities | 876,568 | 313,858 | 1,190,426 |
| Interest payable | 167,954 | 94,870 | 262,824 |
| Noncurrent liabilities: | | | |
| Due within one year | 585,353 | 605,129 | 1,190,482 |
| Due in more than one year | 9,558,094 | 10,289,727 | 19,847,821 |
| Total liabilities | <u>11,187,969</u> | <u>11,303,584</u> | <u>22,491,553</u> |
| Net Position | | | |
| Net investment in capital assets | 9,577,465 | 16,937,710 | 26,515,175 |
| Restricted for: | | | |
| Highways and streets | 1,162,810 | - | 1,162,810 |
| Debt service | 7,386 | 781,426 | 788,812 |
| Capital projects and other | 75,868 | 622,423 | 698,291 |
| Unrestricted | 1,108,754 | 2,271,166 | 3,379,920 |
| Total net position | <u>\$ 11,932,283</u> | <u>\$ 20,612,725</u> | <u>\$ 32,545,008</u> |

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

CITY OF SOMERTON, ARIZONA
Statement of Activities
For the Year Ended June 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net position | | |
|---|---------------|----------------------|----------------------------------|--------------------------------|---|--------------------------|---------------|
| | | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 1,029,378 | \$ 227,730 | \$ 4,844 | \$ 13,593 | \$ (783,211) | \$ - | \$ (783,211) |
| Public safety | 4,726,696 | 1,472,856 | 632,126 | 330,134 | (2,291,580) | - | (2,291,580) |
| Public works/Streets | 1,776,755 | 23,296 | 951,585 | 471,209 | (330,665) | - | (330,665) |
| Culture and recreation | 842,621 | 256,900 | - | 9,492 | (576,229) | - | (576,229) |
| Economic development | 279,406 | - | - | - | (279,406) | - | (279,406) |
| Health and welfare | 176,147 | - | 163,390 | - | (12,757) | - | (12,757) |
| Interest on long-term debt | 421,377 | - | - | - | (421,377) | - | (421,377) |
| Total governmental activities | 9,252,380 | 1,980,782 | 1,751,945 | 824,428 | (4,695,225) | - | (4,695,225) |
| Business-type activities: | | | | | | | |
| Water | 1,448,841 | 1,001,304 | - | 298,396 | - | (149,141) | (149,141) |
| Sewer | 2,203,049 | 1,558,688 | - | 347,020 | - | (297,341) | (297,341) |
| Sanitation | 732,893 | 792,624 | - | - | - | 59,731 | 59,731 |
| Total business-type activities | 4,384,783 | 3,352,616 | - | 645,416 | - | (386,751) | (386,751) |
| Total primary government | \$ 13,637,163 | \$ 5,333,398 | \$ 1,751,945 | \$ 1,469,844 | | | |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| City sales tax | | | | | 1,378,727 | - | 1,378,727 |
| State sales tax | | | | | 1,169,429 | - | 1,169,429 |
| Property tax | | | | | 482,755 | - | 482,755 |
| Auto lieu tax | | | | | 458,780 | - | 458,780 |
| Franchise tax | | | | | 187,552 | - | 187,552 |
| State income taxes - revenue sharing (unrestricted) | | | | | 1,470,598 | - | 1,470,598 |
| Unrestricted investment earnings | | | | | 14,922 | 1,130 | 16,052 |
| Gain on the sale of capital assets | | | | | 3,628 | - | 3,628 |
| Transfers | | | | | 21,947 | (21,947) | - |
| Total general revenues & transfers | | | | | 5,188,338 | (20,817) | 5,167,521 |
| Change in net position | | | | | 493,113 | (407,568) | 85,545 |
| Net position - beginning | | | | | 11,785,916 | 21,104,482 | 32,890,398 |
| Restatements / reclassifications | | | | | (237,729) | (194,043) | (431,772) |
| Prior period adjustments | | | | | (109,017) | 109,854 | 837 |
| Net position - ending | | | | | \$ 11,932,283 | \$ 20,612,725 | \$ 32,545,008 |

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

CITY OF SOMERTON, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

| Assets | General | Capital Improvement | Non-major Funds | Total Governmental Funds |
|--|---------------------|------------------------|--------------------|--------------------------------|
| Cash and cash equivalents | \$ 1,345,606 | \$ - | \$ 438,150 | \$ 1,783,756 |
| Receivables: | | | | |
| Other | 12,239 | - | 26,786 | 39,025 |
| Intergovernmental | 648,658 | 59,062 | 209,867 | 917,587 |
| Due from other funds | 317,581 | - | - | 317,581 |
| Inventories | - | - | 5,738 | 5,738 |
| Prepaid items | 1,042 | 145 | - | 1,187 |
| Restricted cash and investments | - | 787,353 | 313,847 | 1,101,200 |
| Total assets | \$ 2,325,126 | \$ 846,560 | \$ 994,388 | \$ 4,166,074 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 426,960 | \$ 142,360 | \$ 93,476 | \$ 662,796 |
| Accrued liabilities | 212,274 | - | - | 212,274 |
| Customer deposits | 1,498 | - | - | 1,498 |
| Due to other funds | - | - | 317,581 | 317,581 |
| Interest payable | - | - | 27,772 | 27,772 |
| Total liabilities | 640,732 | 142,360 | 438,829 | 1,221,921 |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| General government | - | - | 2,043 | 2,043 |
| Public works/streets | - | 704,200 | 458,610 | 1,162,810 |
| Public safety | - | - | 64,379 | 64,379 |
| Parks & recreation | 9,446 | - | - | 9,446 |
| Committed to: | | | | |
| Health and welfare | - | - | 23,141 | 23,141 |
| Assigned to: | | | | |
| Debt service | - | - | 7,386 | 7,386 |
| Unassigned: | 1,674,948 | - | - | 1,674,948 |
| Total fund balances | 1,684,394 | 704,200 | 555,559 | 2,944,153 |
| Total Liabilities and fund balances | \$ 2,325,126 | \$ 846,560 | \$ 994,388 | \$ 4,166,074 |

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

CITY OF SOMERTON, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
For the Year Ended June 30, 2013

Total fund balances - governmental funds \$ 2,944,153

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | |
|-----------------------------|---------------------|------------|
| Governmental capital assets | \$ 29,735,413 | |
| Accumulated depreciation | <u>(10,463,654)</u> | |
| | | 19,271,759 |

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

| | | |
|-----------------------|------------------|---------------------|
| Notes payable | \$ (2,934,574) | |
| Bonds payable | (6,470,005) | |
| Add: Issuance premium | (218,062) | |
| Leases payable | (10,173) | |
| Interest Payable | (140,182) | |
| Compensated absences | <u>(510,633)</u> | |
| | | <u>(10,283,629)</u> |

| | |
|--|-----------------------------|
| Total net position - governmental activities | <u><u>\$ 11,932,283</u></u> |
|--|-----------------------------|

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

CITY OF SOMERTON, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

| REVENUES | <u>General</u> | <u>Capital Improvement</u> | <u>Non-major Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--------------------------------|----------------------------|-------------------------------------|
| Taxes | \$ 2,138,195 | \$ - | \$ - | \$ 2,138,195 |
| Licenses, permits and fees | 179,501 | - | - | 179,501 |
| Intergovernmental revenue | 3,806,034 | 512,244 | 1,322,305 | 5,640,583 |
| Charges for services | 1,541,070 | - | - | 1,541,070 |
| Fines and forfeitures | 117,713 | - | 4,844 | 122,557 |
| Interest | 14,922 | - | - | 14,922 |
| Other revenues | 32,063 | - | 54,655 | 86,718 |
| Total revenues | <u>7,829,498</u> | <u>512,244</u> | <u>1,381,804</u> | <u>9,723,546</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,247,275 | - | 73 | 1,247,348 |
| Public safety | 4,501,053 | - | 282,358 | 4,783,411 |
| Public works/streets | 129,525 | - | 819,400 | 948,925 |
| Culture and recreation | 710,980 | - | - | 710,980 |
| Economic development | 277,304 | - | - | 277,304 |
| Health and welfare | - | - | 140,779 | 140,779 |
| Capital outlay | - | 1,597,878 | - | 1,597,878 |
| Debt service | - | - | 761,535 | 761,535 |
| Total expenditures | <u>6,866,137</u> | <u>1,597,878</u> | <u>2,004,145</u> | <u>10,468,160</u> |
| Excess of revenues over (under) expenditures | <u>963,361</u> | <u>(1,085,634)</u> | <u>(622,341)</u> | <u>(744,614)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | (818,047) | - | (187,072) | (1,005,119) |
| Transfers in | 75,000 | 142,187 | 809,879 | 1,027,066 |
| Total other financing sources (uses) | <u>(743,047)</u> | <u>142,187</u> | <u>622,807</u> | <u>21,947</u> |
| Net change in fund balances | 220,314 | (943,447) | 466 | (722,667) |
| Fund balance, beginning of year | <u>1,464,080</u> | <u>1,647,647</u> | <u>555,093</u> | <u>3,666,820</u> |
| Fund balance, end of year | <u>\$ 1,684,394</u> | <u>\$ 704,200</u> | <u>\$ 555,559</u> | <u>\$ 2,944,153</u> |

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

CITY OF SOMERTON, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2013

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

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (722,667) |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p> | | |
| | | 937,102 |
| <p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| | | 362,907 |
| <p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> | | |
| | | (61,480) |
| <p>Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.</p> | | |
| | | (22,749) |
| Change in net position of governmental activities | \$ | 493,113 |

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

CITY OF SOMERTON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

| Assets | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|--|---------------------|----------------------|-------------------|----------------------|
| Current assets: | | | | |
| Cash | \$ 1,583,174 | \$ 963,733 | \$ 249,967 | \$ 2,796,874 |
| Receivables (net of allowance) | 155,512 | 171,693 | 96,778 | 423,983 |
| Prepaid items | - | 644 | - | 644 |
| Total current assets | <u>1,738,686</u> | <u>1,136,070</u> | <u>346,745</u> | <u>3,221,501</u> |
| Noncurrent assets: | | | | |
| Restricted cash and investments | 174,933 | 786,986 | 25 | 961,944 |
| Land | - | 415,399 | - | 415,399 |
| Buildings | 38,791 | - | - | 38,791 |
| Improvements other than buildings | 1,373,587 | 804,868 | 120,193 | 2,298,648 |
| Treatment facilities | 2,281,907 | 17,873,975 | - | 20,155,882 |
| Water distribution system | 8,877,776 | - | - | 8,877,776 |
| Sewer collection system | - | 7,828,171 | - | 7,828,171 |
| Machinery and equipment | 84,354 | 150,624 | 85,272 | 320,250 |
| Vehicles | 21,325 | 342,828 | 829,969 | 1,194,122 |
| Construction in progress | 23,080 | 123,857 | - | 146,937 |
| Accumulated depreciation | (6,398,596) | (6,385,915) | (758,601) | (13,543,112) |
| Total noncurrent assets | <u>6,477,157</u> | <u>21,940,793</u> | <u>276,858</u> | <u>28,694,808</u> |
| Total Assets | <u>8,215,843</u> | <u>23,076,863</u> | <u>623,603</u> | <u>31,916,309</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 30,885 | 83,312 | 17,060 | 131,257 |
| Accrued liabilities | 7,643 | - | - | 7,643 |
| Interest payable | 15,742 | 79,128 | - | 94,870 |
| Customer deposits | 174,933 | - | 25 | 174,958 |
| Compensated absences - current portion | 15,000 | 10,000 | 10,000 | 35,000 |
| Leases payable - current portion | - | - | 41,887 | 41,887 |
| Notes payable - current portion | 53,432 | 419,810 | - | 473,242 |
| Bonds payable - current portion | - | 55,000 | - | 55,000 |
| Total current liabilities | <u>297,635</u> | <u>647,250</u> | <u>68,972</u> | <u>1,013,857</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences | 36,491 | 16,428 | 11,783 | 64,702 |
| Notes payable, net of current portion | 1,143,526 | 8,297,468 | - | 9,440,994 |
| Bonds payable, net of current portion | - | 784,031 | - | 784,031 |
| Total noncurrent liabilities | <u>1,180,017</u> | <u>9,097,927</u> | <u>11,783</u> | <u>10,289,727</u> |
| Total liabilities | <u>1,477,652</u> | <u>9,745,177</u> | <u>80,755</u> | <u>11,303,584</u> |
| Net Position | | | | |
| Net investment in capital assets | 5,105,266 | 11,597,498 | 234,946 | 16,937,710 |
| Restricted for debt service | 23,312 | 758,114 | - | 781,426 |
| Restricted for capital outlay | 133,604 | 488,819 | - | 622,423 |
| Unrestricted | 1,476,009 | 487,255 | 307,902 | 2,271,166 |
| Total net position | <u>\$ 6,738,191</u> | <u>\$ 13,331,686</u> | <u>\$ 542,848</u> | <u>\$ 20,612,725</u> |

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

CITY OF SOMERTON, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

| Operating Revenues | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|---|---------------------|----------------------|-------------------|----------------------|
| Charges for services: | \$ 954,024 | \$ 1,552,319 | \$ 725,853 | \$ 3,232,196 |
| Other revenues | 47,280 | 6,369 | 66,771 | 120,420 |
| Total operating revenues | <u>1,001,304</u> | <u>1,558,688</u> | <u>792,624</u> | <u>3,352,616</u> |
| Operating Expenses | | | | |
| Salaries | 323,726 | 349,184 | 188,159 | 861,069 |
| Employee benefits | 96,107 | 112,977 | 77,054 | 286,138 |
| Service, supplies and other | 503,289 | 660,126 | 403,218 | 1,566,633 |
| Depreciation | 494,523 | 815,248 | 60,817 | 1,370,588 |
| Total operating expenses | <u>1,417,645</u> | <u>1,937,535</u> | <u>729,248</u> | <u>4,084,428</u> |
| Operating income (loss) | <u>(416,341)</u> | <u>(378,847)</u> | <u>63,376</u> | <u>(731,812)</u> |
| Non-operating Revenues (Expenses) | | | | |
| Investment earnings | 398 | 732 | - | 1,130 |
| Interest expense and fiscal charges | (31,196) | (265,514) | (3,645) | (300,355) |
| Grant revenues | 42,111 | - | - | 42,111 |
| Impact fees and connection fees | 256,285 | 347,020 | - | 603,305 |
| Total non-operating revenue (expense) | <u>267,598</u> | <u>82,238</u> | <u>(3,645)</u> | <u>346,191</u> |
| Income (Loss) before contributions and transfers | (148,743) | (296,609) | 59,731 | (385,621) |
| Transfers out | <u>(8,005)</u> | <u>(13,942)</u> | <u>-</u> | <u>(21,947)</u> |
| Total contributions and transfers | <u>(8,005)</u> | <u>(13,942)</u> | <u>-</u> | <u>(21,947)</u> |
| Change in net position | (156,748) | (310,551) | 59,731 | (407,568) |
| Total net position, beginning of year | 6,937,782 | 13,683,583 | 483,117 | 21,104,482 |
| Restatements / reclassifications | (42,843) | (151,200) | - | (194,043) |
| Prior period adjustments | <u>-</u> | <u>109,854</u> | <u>-</u> | <u>109,854</u> |
| Total net position, end of year | <u>\$ 6,738,191</u> | <u>\$ 13,331,686</u> | <u>\$ 542,848</u> | <u>\$ 20,612,725</u> |

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

CITY OF SOMERTON, ARIZONA
Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2013

| | Water | Sewer | Sanitation | Total |
|--|----------------------------|----------------------------|--------------------------|----------------------------|
| Cash Flows From Operating Activities: | | | | |
| Cash received from customers, service fees | \$ 934,031 | \$ 1,599,347 | \$ 711,326 | \$ 3,244,704 |
| Cash received from customers, other | 47,280 | 6,369 | 66,771 | 120,420 |
| Cash paid to suppliers | (498,036) | (611,414) | (401,168) | (1,510,618) |
| Cash paid to employees | (397,819) | (490,855) | (283,880) | (1,172,554) |
| Cash flows from operating activities | <u>85,456</u> | <u>503,447</u> | <u>93,049</u> | <u>681,952</u> |
| Cash Flows From Noncapital Financing Activities: | | | | |
| Transfers | (8,005) | (13,942) | - | (21,947) |
| Biosolids remediation | - | (288,586) | - | (288,586) |
| Cash flows from noncapital and related financing activities | <u>(8,005)</u> | <u>(302,528)</u> | <u>-</u> | <u>(310,533)</u> |
| Cash Flows From Capital and Related Financing Activities: | | | | |
| Purchase of capital assets | - | (679,466) | (6,992) | (686,458) |
| Principal paid on long term debt | (52,066) | (435,692) | (52,859) | (540,617) |
| Interest paid | (15,454) | (262,231) | (3,645) | (281,330) |
| Long term debt proceeds | - | 535,380 | - | 535,380 |
| Grant revenues | 42,111 | - | - | 42,111 |
| Receipt of clean water loan draws | 198,807 | - | - | 198,807 |
| Connection & impact fees | 256,285 | 347,019 | - | 603,304 |
| Cash flows from capital and related financing activities | <u>429,683</u> | <u>(494,990)</u> | <u>(63,496)</u> | <u>(128,803)</u> |
| Cash Flows From Investing Activities: | | | | |
| Investment earnings | 398 | 732 | - | 1,130 |
| Cash flows from investing activities | <u>398</u> | <u>732</u> | <u>-</u> | <u>1,130</u> |
| Net change in cash and cash equivalents | 507,532 | (293,339) | 29,553 | 243,746 |
| Cash and cash equivalents, including restricted cash, beginning of year | <u>1,250,575</u> | <u>2,044,058</u> | <u>220,439</u> | <u>3,515,072</u> |
| Cash and Cash Equivalents, including restricted cash, end of year | <u><u>\$ 1,758,107</u></u> | <u><u>\$ 1,750,719</u></u> | <u><u>\$ 249,992</u></u> | <u><u>\$ 3,758,818</u></u> |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | | | | |
| Net operating income/(loss) | \$ (416,341) | \$ (378,847) | \$ 63,376 | \$ (731,812) |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | | | |
| Depreciation/amortization | 494,523 | 815,248 | 60,817 | 1,370,588 |
| Changes in operating assets and liabilities: | | | | |
| (Increase)/Decrease in receivables | (19,993) | 47,028 | (14,527) | 12,508 |
| (Increase)/Decrease in prepaid items | - | 1,616 | - | 1,616 |
| Increase/(Decrease) in payables | 5,253 | 47,096 | 2,050 | 54,399 |
| Increase/(Decrease) in accrued liabilities & deposits | 22,014 | (28,694) | (18,667) | (25,347) |
| Net cash flows from operating activities | <u><u>\$ 85,456</u></u> | <u><u>\$ 503,447</u></u> | <u><u>\$ 93,049</u></u> | <u><u>\$ 681,952</u></u> |

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The City of Somerton, Arizona (government) is a municipal corporation governed by an elected mayor and five-member council (council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. There are no discretely presented component units and one blended component unit.

Blended component unit. The City of Somerton Municipal Property Corporation's (SMPC) board of directors consists of six members which are appointed by the Somerton City Council. The SMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the government in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Somerton Municipal Property Corporation's bonds. All related receivables and payables between the government and the SMPC have been eliminated. The SMPC has a June 30 year end and is reported within the governmental fund types.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

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

The government reports the following major enterprise funds:

The **water fund** accounts for the activities related to the government's water operations.

The **sewer fund** accounts for the activities related to the government's sewer operations.

The **sanitation fund** accounts for the activities related to the government's sanitation operations.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, state shared revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the accrual basis of accounting.

Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Investments

The government's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, obligations of the U. S. Government and other investments as allowed by Arizona State Statutes. Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Investment Pool (Pool). In accordance with state law, the Pool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the Pool qualifies as a 2a-7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Inventories for the proprietary funds consist principally of materials used in the repair of the distribution, collection and treatment systems.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---|----------------|
| Building and improvements | 10 to 40 years |
| Treatment facilities and improvements | 15 to 45 years |
| Machinery and equipment | 3 to 10 years |
| Vehicles | 5 to 7 years |
| Streets, sidewalks & other infrastructure | 15-40 years |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Yuma County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments on October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date. The County also levies various personal property taxes during the year. A lien against property assessed attaches on the first day of January preceding the assessment and levy.

Compensated absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements unless they have matured, for example, as a result of employee resignations and retirements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and sanitation fund are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue impact fees which are assessed to recover the impact that construction has on the government's established distribution system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New pronouncements

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the City implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 17).

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the government. The use of budgets and monitoring of equity status facilitate the government's compliance with legal requirements.

Budgets and budgetary accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental. All annual appropriations lapse at year end. The council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the government is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total government expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. State law requires that, prior to April 1, the Economic Estimates Commission provides the government with a final expenditure limit for the coming fiscal year.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 3. Stewardship, Compliance, and Accountability, Continued

5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the government adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager, subject to council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without council approval.
6. The government has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Debt Service and Capital Projects Funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The government is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the government to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The government complied with this law during the year.

No Supplementary budgetary appropriations were necessary during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the government.

Expenditures over appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports found in the required supplementary and supplementary information present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2013, if any.

Highway user revenue funds

Highway user revenue fund monies received by the government pursuant to title 28, chapter 18, article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized transportation purposes.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments

Deposits and investments of the government at June 30, 2013 consist of the following:

| | |
|-----------------------------------|----------------------------|
| Deposits: | |
| Cash on hand | \$ 2,361 |
| Cash in bank | 3,865,295 |
| Cash with paying agent | 306,856 |
| Investments: | |
| State Treasurer's Investment Pool | <u>2,469,262</u> |
| Total Deposits and Investments | <u><u>\$ 6,643,774</u></u> |

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

| | |
|---------------------------|----------------------------|
| Cash and cash equivalents | \$ 4,580,630 |
| Restricted cash | <u>2,063,144</u> |
| | <u><u>\$ 6,643,774</u></u> |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments, Continued

Deposits

Custodial credit risk

For deposits this is the risk that in the event of a bank failure, the government’s deposit may not be returned to it. The government does not have a formal policy for custodial credit risk. As of June 30, 2013, \$0 of the government’s bank balance of \$3,240,183 was exposed to custodial credit risk because it was either fully insured by FDIC insurance or collateralized by securities held by Wells Fargo Bank.

Investments

Investment Fund

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2013 the government had the following investments, ratings, and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Credit Rating (1)</u> | <u>Weighted Average Maturity (2)</u> |
|--|---------------------------|--------------------------|--------------------------------------|
| Arizona State Treasurer's Local Government Investment Pool 7 | \$2,469,262 | AA+ | 40 days |
| Total Fair Value | <u><u>\$2,469,262</u></u> | | |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments, Continued

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using the weighted average days to maturity.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The government's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). A.R.S. 35-323 requires that the government's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The government's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 5. Restricted Assets

Restricted assets consisted of the following at June 30, 2013:

| | |
|---|----------------------------|
| GADA 2006B Bond unspent proceeds | \$ 787,353 |
| Qualified Energy Conservation Bond (QECCB) unspent proceeds | 6,991 |
| Water fund customer deposit cash reserve | 174,933 |
| Series 2004 Revenue Bond debt service reserve | 96,578 |
| WIFA Wastewater Treatment Plant loan debt service reserve | 329,497 |
| WIFA Wastewater Treatment Plant loan repair and replacement fund | 193,009 |
| WIFA Wastewater Treatment Plant Expansion loan debt service reserve | 145,382 |
| USDA Wastewater Treatment Plant Expansion loan reserve fund | 22,520 |
| Sanitation fund customer deposit cash reserve | 25 |
| Cash with paying agent | 306,856 |
| Total | <u><u>\$ 2,063,144</u></u> |

Note 6. Receivables

Intergovernmental receivables consist principally of amounts due from the State of Arizona for various taxes, shared revenues, highway user revenues and amounts due from the Cocopah Indian Tribe. Other Accounts Receivable in the General Fund consists principally of ambulance billings receivable. Receivables in the proprietary fund are service billings receivable and are shown net of an allowance for doubtful accounts.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Capital Assets

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

| Governmental Activities: | Balance 6/30/2012 | Additions | Deletions | Balance 6/30/2013 |
|--|------------------------------|---------------------|-----------------------|------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 807,012 | \$ - | \$ - | \$ 807,012 |
| Construction in progress | 1,270,135 | 1,511,392 | (2,513,958) | 267,569 |
| Total capital assets, not being depreciated | <u>2,077,147</u> | <u>1,511,392</u> | <u>(2,513,958)</u> | <u>1,074,581</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | * 6,007,738 | 500,895 | - | 6,508,633 |
| Improvements other than buildings | 1,043,537 | 1,013,217 | - | 2,056,754 |
| Furniture and equipment | 2,409,995 | 381,522 | - | 2,791,517 |
| Vehicles | 2,918,726 | 168,528 | (331,044) | 2,756,210 |
| Infrastructure | 13,403,546 | 1,144,172 | - | 14,547,718 |
| Total capital assets, being depreciated | <u>25,783,542</u> | <u>3,208,334</u> | <u>(331,044)</u> | <u>28,660,832</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,338,233) | (160,859) | - | (1,499,092) |
| Improvements other than buildings | (550,632) | (66,414) | - | (617,046) |
| Furniture and equipment | (1,898,773) | (239,538) | - | (2,138,311) |
| Vehicles | (2,397,800) | (227,746) | 331,044 | (2,294,502) |
| Infrastructure | (3,231,577) | (686,410) | - | (3,917,987) |
| Total accumulated depreciation | <u>(9,417,015)</u> | <u>(1,380,967)</u> | <u>331,044</u> | <u>(10,466,938)</u> |
| Total capital assets, being depreciated, net | <u>16,366,527</u> | <u>1,827,367</u> | <u>-</u> | <u>18,193,894</u> |
| Governmental activities capital assets, net | <u>\$ 18,443,674</u> | <u>\$ 3,338,759</u> | <u>\$ (2,513,958)</u> | <u>\$ 19,268,475</u> |

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

| Governmental Activities: | |
|--|---------------------|
| General government | \$ 16,438 |
| Public safety | 498,564 |
| Public works/streets | 705,414 |
| Culture & recreation | 126,250 |
| Health and welfare | 34,301 |
| Total depreciation expense - governmental activities | <u>\$ 1,380,967</u> |

* Previous period's balance adjusted, see note 16.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Capital Assets, Continued

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

| Business Type Activities: | Balance 6/30/2012 | Additions | Deletions | Balance 6/30/2013 |
|--|------------------------------|---------------------|-----------------------|------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 415,399 | \$ - | \$ - | \$ 415,399 |
| Construction in progress | 405,092 | 546,714 | (804,868) | 146,938 |
| Total capital assets, not being depreciated | <u>820,491</u> | <u>546,714</u> | <u>(804,868)</u> | <u>562,337</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 38,791 | - | - | 38,791 |
| Improvements other than buildings | 113,201 | 2,185,447 | - | 2,298,648 |
| Treatment facilities | 21,502,759 | 26,710 | (1,373,587) | 20,155,882 |
| Water distribution system | 8,877,776 | - | - | 8,877,776 |
| Sewer collection system | 7,798,381 | 29,790 | - | 7,828,171 |
| Machinery and equipment | 243,998 | 76,252 | - | 320,250 |
| Vehicles | 1,438,467 | - | (244,345) | 1,194,122 |
| Total capital assets, being depreciated | <u>40,013,373</u> | <u>2,318,199</u> | <u>(1,617,932)</u> | <u>40,713,640</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (37,033) | (290) | - | (37,323) |
| Improvements other than buildings | (11,738) | (75,111) | - | (86,849) |
| Treatment facilities | (3,298,735) | (468,174) | - | (3,766,909) |
| Water distribution system | (4,030,492) | (388,614) | - | (4,419,106) |
| Sewer collection system | (3,733,191) | (336,551) | - | (4,069,742) |
| Machinery and equipment | (205,919) | (13,725) | - | (219,644) |
| Vehicles | (1,099,762) | (88,123) | 244,345 | (943,540) |
| Total accumulated depreciation | <u>(12,416,870)</u> | <u>(1,370,588)</u> | <u>244,345</u> | <u>(13,543,113)</u> |
| Total capital assets, being depreciated, net | <u>27,596,503</u> | <u>947,611</u> | <u>(1,373,587)</u> | <u>27,170,527</u> |
| Business-type activities capital assets, net | <u>\$ 28,416,994</u> | <u>\$ 1,494,325</u> | <u>\$ (2,178,455)</u> | <u>\$ 27,732,864</u> |

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

| Business-Type Activities: | |
|--|---------------------|
| Water | \$ 494,523 |
| Sewer | 815,248 |
| Sanitation | 60,817 |
| Total depreciation expense - governmental activities | <u>\$ 1,370,588</u> |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 8. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

| | Balance 6/30/2012 | Additions | Retirements | Balance 6/30/2013 | Current Portion |
|----------------------------------|----------------------|-------------------|-----------------------|----------------------|---------------------|
| Governmental Activities: | | | | | |
| Bonds payable | \$ 6,740,005 | \$ - | \$ (270,000) | \$ 6,470,005 | \$ 335,000 |
| Plus deferred amounts: | | | | | |
| Bond premiums | 234,215 | - | (16,153) | 218,062 | - |
| Total bonds payable | 6,974,220 | - | (286,153) | 6,688,067 | 335,000 |
| Loans payable | * 2,973,085 | - | (38,511) | 2,934,574 | 40,180 |
| Capital leases | 48,416 | - | (38,243) | 10,173 | 10,173 |
| Accrued compensated absences | 449,153 | 256,872 | (195,392) | 510,633 | 200,000 |
| Total Governmental Activities | <u>\$ 10,444,874</u> | <u>\$ 256,872</u> | <u>\$ (558,299)</u> | <u>\$ 10,143,447</u> | <u>\$ 585,353</u> |
| Business-Type Activities: | | | | | |
| Bonds payable | \$ 900,000 | \$ - | \$ (55,000) | \$ 845,000 | \$ 55,000 |
| Less deferred amounts: | | | | | |
| Bond discounts | (6,511) | - | 542 | (5,969) | - |
| Total bonds payable | 893,489 | - | (54,458) | 839,031 | 55,000 |
| Loans payable | 9,812,156 | 535,380 | (433,300) | 9,914,236 | 473,242 |
| Capital leases | 94,746 | - | (52,859) | 41,887 | 41,887 |
| Accrued compensated absences | 111,514 | 24,502 | (36,314) | 99,702 | 35,000 |
| Total Business-Type Activities | <u>\$ 10,911,905</u> | <u>\$ 559,882</u> | <u>\$ (576,931)</u> | <u>\$ 10,894,856</u> | <u>\$ 605,129</u> |
| Total Long-Term Liabilities | <u>\$ 21,356,779</u> | <u>\$ 816,754</u> | <u>\$ (1,135,230)</u> | <u>\$ 21,038,303</u> | <u>\$ 1,190,482</u> |

* Previous period's balance adjusted, see note 16.

Long term debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Governmental Activities | | Business-Type Activities | |
|------------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2014 | 375,180 | 402,073 | 528,242 | 269,381 |
| 2015 | 386,921 | 387,131 | 541,401 | 255,390 |
| 2016 | 618,738 | 366,794 | 559,939 | 240,990 |
| 2017 | 425,633 | 344,656 | 573,867 | 225,959 |
| 2018 | 437,611 | 327,776 | 593,196 | 210,493 |
| 2019-2023 | 2,480,851 | 1,322,955 | 3,245,831 | 797,546 |
| 2024-2028 | 2,579,858 | 691,266 | 2,098,612 | 402,227 |
| 2029-2033 | 618,980 | 370,385 | 896,239 | 245,497 |
| 2034-2038 | 511,805 | 263,275 | 432,986 | 179,265 |
| 2039-2043 | 632,744 | 142,336 | 487,526 | 124,725 |
| 2044-2048 | 336,258 | 17,230 | 548,939 | 63,313 |
| 2049-2052 | - | - | 252,458 | 6,449 |
| Totals | <u>\$ 9,404,579</u> | <u>\$ 4,635,877</u> | <u>\$ 10,759,236</u> | <u>\$ 3,021,235</u> |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 8. Long-Term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2013:

Loans Payable:

Governmental Activities:

| | |
|--|------------------|
| Public Safety Facility Rural Development Loan payable to USDA, due in monthly installments of \$12,918, beginning December 16, 2007, bearing interest at 4.25%, maturing October 2045. | \$ 2,719,574 |
| Miller, Miller and Stuart loan, due and payable on or before November 17, 2015 with interest at 4.5%. | <u>215,000</u> |
| Total Governmental Activities | <u>2,934,574</u> |

Business-Type Activities:

| | |
|---|-------------------|
| Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 3.278%, maturing July 1, 2023. | 3,082,528 |
| Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2%, maturing July 1, 2029. | 2,073,134 |
| Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.625%, maturing July 1, 2031. | 1,196,958 |
| Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.625%, maturing July 1, 2031. | 540,931 |
| Rural Development Authority loan due in monthly principal and interest installments of \$10,204, bearing interest at 2.375%, maturing July 15, 2050. | <u>3,020,685</u> |
| Total Business-Type Activities | <u>9,914,236</u> |
| Total Loans Payable | <u>12,848,810</u> |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 8. Long-Term Debt, Continued

Bonds Payable:

Governmental Activities:

Pledged Revenue Obligation, Qualified Energy Conservation Revenue Bonds, Series 2011, due in annual principal and semi-annual interest installments ranging from \$12,006 to \$75,080, bearing interest at 2.0% to 6.415%, maturing July 1, 2030 1,055,000

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2006B, due in annual principal and semi-annual interest installments ranging from \$13,000 to \$161,206.25, bearing interest at 4.0% to 5.0%, maturing August 1, 2026 5,415,005

Total Governmental Activities 6,470,005

Business-Type Activities:

Municipal Property Corporation Revenue Bonds, Series 2004, due in annual principal and semi-annual interest installments ranging from \$2,205 to \$96,578, bearing interest at 2.6% to 4.9%, maturing July 1, 2025 845,000

Leases Payable:

Leases payable in annual and semi-annual installments through September 2013, at interest from 3.0% to 6.1% 52,060

Accrued Vacation and Comp Time Payable 610,335

Bond Premiums and Discounts, net 212,093

Total Long-Term Debt 21,038,303

Less Current Portion:

Business-type Activities (605,129)

Governmental-type Activities (585,353)

Net Long-Term Debt \$ 19,847,821

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 9. Capital Leases Payable

The government has entered into two lease agreements, which are considered capital leases in accordance with Financial Accounting Standard Board ASC 840-30-25. The leases are shown in the governmental activities of the government-wide statements. The total amount of equipment capitalized under the leases is \$570,912. Amortization on capital leases is included in depreciation expense.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 3.0 % to 6.1 % under the capital leases, together with the present value of the net minimum lease payments:

| <u>Year Ending</u> <u>June 30</u> | |
|---|------------------|
| 2014 | <u>54,063</u> |
| Total remaining minimum lease payments | \$ 54,063 |
| Less amount representing interest | <u>(2,003)</u> |
| Present value of net remaining minimum lease payments | <u>\$ 52,060</u> |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2013, interfund receivables and payables that resulted from various interfund transactions were as follows:

| | Due from Other Funds | Due to Other Funds |
|---------------------------|-------------------------|-----------------------|
| General Fund | \$ 317,581 | \$ - |
| Debt Service Fund | - | (278,689) |
| Nonmajor funds: | | |
| Miscellaneous Grants Fund | - | (38,892) |
| Total | \$ 317,581 | \$ (317,581) |

Interfund balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the fiscal year ended June 30, 2013 are as follows:

| Transfer in: | Transfers out: | | | | | | | Total Transfers in |
|-----------------------------|----------------|------------------------|-----------------|---------------|----------|-----------|------------|-----------------------|
| | General | Capital Improvement | Non-major | | Water | Sewer | Sanitation | |
| | | | Highway User | Court Fund | | | | |
| General Fund | \$ - | \$ - | \$ - | \$ 75,000 | \$ - | \$ - | \$ - | \$ 75,000 |
| Capital Improvement | 136,250 | - | - | - | - | 5,937 | - | 142,187 |
| Nonmajor Governmental Funds | | | | | | | | |
| Highway user | 23,296 | - | - | - | - | - | - | 23,296 |
| Miscellaneous Grants | 32,530 | - | - | - | - | - | - | 32,530 |
| Local Transportation | 1,237 | - | - | - | - | - | - | 1,237 |
| Debt Service | 624,734 | - | 112,072 | - | 8,005 | 8,005 | - | 752,816 |
| Water | - | - | - | - | - | - | - | - |
| Sewer | - | - | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - | - | - |
| Total transfers out | \$ 818,047 | \$ - | \$ 112,072 | \$ 75,000 | \$ 8,005 | \$ 13,942 | \$ - | \$ 1,027,066 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan description - The government contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix AZ 85067-3910 or by calling (602) 240-2002 or (800) 621-3778. Also see www.azasrs.gov.

Funding policy - The Arizona State Legislature establishes and may amend active plan members' and the government's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the government was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 percent for health benefit supplement, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The government's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

| <u>Year Ended June 30,</u> | <u>Retirement Fund</u> | <u>Health Benefit Supplement Fund</u> | <u>Long-Term Disability Fund</u> |
|--------------------------------|----------------------------|---|--------------------------------------|
| 2011 | 161,285 | 10,561 | 4,475 |
| 2012 | 165,067 | 10,536 | 4,014 |
| 2013 | 222,043 | 14,081 | 5,199 |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

Arizona Corrections Officer Retirement Plan (ACORP)

Plan description - The government contributes to the Arizona Corrections Officer Retirement Plan, an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for correction officers and personnel in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Arizona Corrections Officer Retirement plan issues a publicly available financial report that includes financial statements and required supplementary information for ACORP. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding policy - Covered correction officers are required to contribute 7.96% of their annual salary to the ACORP. Covered non-dispatchers are required to contribute 8.14% of their annual salary to the ACORP. The government is required to contribute the remaining amounts necessary to fund the ACORP, as determined by the actuarial basis specified by statute. The current rate is 12.64% of covered compensation, consisting of 4.31% for normal cost, 7.07% for amortization of unfunded actuarial accrued liability, and 1.26% for health benefits.

Annual pension cost/OPEB cost - During the year ended June 30, 2013 the government's annual pension cost of \$21,865 and the annual OPEB cost of \$2,722 was equal to the government's required and actual contributions. Three year funding information is as follows:

| Plan | Year Ended June 30, | Annual Pension/ OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/ OPEB Obligation |
|------------------|------------------------|---------------------------------|---|------------------------------------|
| Pension | 2011 | 21,389 | 100% | - |
| | 2012 | 20,617 | 100% | - |
| | 2013 | 21,865 | 100% | - |
| Health Insurance | 2011 | 2,887 | 100% | - |
| | 2012 | 3,014 | 100% | * |
| | 2013 | 2,722 | 100% | * |

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2013 is as follows:

| | |
|---|-------------------|
| Actuarial accrued liability (AAL) | \$ 848,973 |
| Actuarial value of plan assets | 416,620 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 432,353</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 49.07% |
| Covered payroll (active plan members) | 170,798 |
| UAAL as a percentage of covered payroll | 253.1% |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

Public Safety Personnel Retirement System (PSPRS)

Plan description - The government contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board; known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding policy – for the current fiscal year, active PSPRS member employees were required to contribute 7.65 percent of their annual salary to the PSPRS. The government is required to contribute the remaining amounts necessary to fund the PSPRS, as determine by the actuarial basis specified by specified by statute. The current rate is 18.84% and 16.70% of annual covered payroll for police and fire fighters respectively. The health insurance premium portion of the contribution rate was actuarially set at 1.71% and 1.11% of annual covered payroll for police and fire fighters respectively.

Actuarial methods and assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The PSPRS contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.25 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.00 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 25 years for underfunded actuarial accrued liability and 20 years for excess.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

Annual pension/OPEB cost for police – During the year ended June 30, 2013, the government’s annual pension cost of \$143,149 and the annual OPEB cost of \$15,875 was equal to the government’s required and actual contributions for the Government’s police. Three year funding information is as follows:

| Plan | Year Ended June 30, | Annual Pension/ OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/ OPEB Obligation |
|------------------|------------------------|---------------------------------|---|------------------------------------|
| Pension | 2011 | 145,212 | 100% | - |
| | 2012 | 131,038 | 100% | - |
| | 2013 | 143,149 | 100% | - |
| Health Insurance | 2011 | 16,636 | 100% | - |
| | 2012 | 17,444 | 100% | - |
| | 2013 | 15,875 | 100% | - |

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2013 is as follows:

| | |
|---|-------------------|
| Actuarial accrued liability (AAL) | \$ 4,114,682 |
| Actuarial value of plan assets | 3,185,860 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 928,822</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 77.43% |
| Covered payroll (active plan members) | 901,334 |
| UAAL as a percentage of covered payroll | 103.0% |

Annual pension/OPEB cost for fire fighters – During the year ended June 30, 2013, the government’s annual pension cost of \$138,188 and the annual OPEB cost of \$10,593 was equal to the government’s required and actual contributions for the government’s fire fighters. Three year funding information is as follows:

| Plan | Year Ended June 30, | Annual Pension/ OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/ OPEB Obligation |
|------------------|------------------------|---------------------------------|---|------------------------------------|
| Pension | 2011 | 110,770 | 100% | - |
| | 2012 | 101,223 | 100% | - |
| | 2013 | 138,188 | 100% | - |
| Health Insurance | 2011 | 9,089 | 100% | - |
| | 2012 | 10,087 | 100% | - |
| | 2013 | 10,593 | 100% | - |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2013 is as follows:

| | |
|---|-------------------|
| Actuarial accrued liability (AAL) | \$ 3,058,246 |
| Actuarial value of plan assets | <u>2,414,481</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 643,765</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 78.95% |
| Covered payroll (active plan members) | 974,872 |
| UAAL as a percentage of covered payroll | 66.0% |

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedules of funding progress are presented as required supplementary information following the notes to the financial statement. These schedules provide multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 12. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The government's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the government is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. The Agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000 for general liability claims and \$100,000 for property claims for each insured event.

The Arizona Municipal Risk Retention Pool is structured such that member's premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The government purchases commercial insurance for employee benefits and for risks of loss for potential worker related accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 13. Contingent Liabilities and Commitments

The government is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of government management, based on the advice of the government Attorney with respect to such litigation, such matters will not have a material adverse effect on the government's financial position at June 30, 2013.

One of the claims that have been filed with the government is for \$5 million dollars. This claim has been turned over to the government's insurance provider and the outcome is uncertain.

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

| <u>Project</u> | <u>Estimated Cost</u> | <u>Construction in Progress</u> |
|---------------------------------|-----------------------|---------------------------------|
| City Streets (various projects) | \$ 991,000 | \$ 267,569 |

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 14. Related Party Transactions

In the normal course of business dealings in the Community, the government is engaged in related party transactions. Below is a schedule showing the related parties, the relationship, the types of goods or services purchased during the year and the total purchases for fiscal year 2013.

| Related Party | Relationship | Goods or Services | Total Purchases |
|----------------------|---------------------|--------------------------|------------------------|
| Yepez Auto Parts | City Council Member | Auto parts and supplies | \$7,593 |

Note 15. Biosolids Removal Liability

The government completed an expansion of its wastewater treatment plant during fiscal year 2011. As a result of the expansion, the government no longer uses the sewer ponds. The Arizona Department of Environmental Quality is requiring the government to remove the biosolids that have accumulated in the pond. The government will be removing the biosolids over a five year period at a total estimated cost of \$504,000. As of June 30, 2013, the government has completed the biosolids removal project. The total project expense was \$394,146, of which, \$288,586 was paid in fiscal year 2013.

Note 16. Prior Period Adjustments

During fiscal year 2013, the government determined that the biosolids removal project would not cost as much as the government had initially estimated. The biosolids removal liability was overstated in previous years and net position was understated. Accordingly, a prior period adjustment was recorded in the Sewer Fund to correct the beginning fund balance. The effect of this adjustment was to increase the beginning fund balance and decrease the biosolids removal liability.

During fiscal year 2013, the government determined that construction in progress recorded in prior fiscal years should have been expensed in the government-wide Statement of Net Position causing assets to be overstated and net position to be understated. Accordingly, a prior period adjustment was recorded on the government-wide Statement of Activities to correct beginning net position. The effect of this adjustment was to decrease the beginning net position and decrease construction in progress.

Subsequent to the fiscal year ended June 30, 2013 and before the issuance of these statements, the government discovered that capital assets purchased with long term debt obligations in a previous year were not properly recorded on the statement of net position. Accordingly, the beginning capital asset and long term debt obligation balances have been restated to include these items that were excluded from previous financial statements. The exclusion of these items from the statement of net position in the previous year had no effect on the change in net position in the statement of activities. The prior year's statement of revenues, expenditures, and changes in fund balance for governmental funds understated the debt proceeds and capital outlay balances in the amount of \$215,000. The overall effect on the change in fund balance was zero.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 17. Restatements and Reclassifications

As mentioned in Note 1 to the financial statements, the government implemented GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this statement require that bond issuance costs be expensed in the year they are incurred. Previously bond issuance costs had been treated as an asset and amortized over the life of the related debt. In order to implement GASB statement No. 65, bond issuance costs previously reported as assets had to be removed from the financial statements. This resulted in a restatement of beginning net position in the government's Water Fund, Sewer Fund, and on the government-wide Statement of Activities in the amount of \$42,843, \$151,200, and \$237,729, respectively. Assets of the Water Fund, Sewer Fund, and government-wide Statement of Net Position were reduced by the same respective amounts.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress
June 30, 2013

Arizona Correction Officer Retirement Plan (ACORP) - Dispatchers

An analysis of the progress of the Public Plan (ACORP) from June 30, 2008 through June 30, 2013, based on actuarial valuations is as follows:

| Valuation Date June 30, | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (a)/(b) Funded Ratio | (b)-(a) Unfunded AAL (UAAL) | [c] Annual Covered Payroll | [(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll |
|----------------------------|----------------------------------|--|-------------------------|--------------------------------|-------------------------------|--|
| 2008 | 230,998 | 505,688 | 45.68% | 274,690 | 301,852 | 91.0% |
| 2009* | 289,032 | 486,590 | 59.40% | 197,558 | 294,745 | 67.0% |
| 2010* | 354,654 | 512,004 | 69.27% | 157,350 | 268,078 | 58.7% |
| 2011* | 411,476 | 664,449 | 61.93% | 252,973 | 195,965 | 129.1% |
| 2012* | 404,239 | 762,879 | 52.99% | 358,640 | 169,726 | 211.3% |
| 2013* | 416,620 | 848,973 | 49.07% | 432,353 | 170,798 | 253.1% |

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

| Valuation Date June 30, | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b)-(a) Unfunded AAL (UAAL) | (a)/(b) Funded Ratio | (c) Annual Covered Payroll | [(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll |
|----------------------------|----------------------------------|--|--------------------------------|-------------------------|-------------------------------|--|
| 2008 | - | 27,838 | 27,838 | 0.0% | 301,852 | 9.2% |
| 2009 | - | 26,319 | 26,319 | 0.0% | 294,745 | 8.9% |
| 2010 | - | 26,691 | 26,691 | 0.0% | 268,078 | 10.0% |
| 2011 | - | 35,406 | 35,406 | 0.0% | 195,965 | 18.1% |
| 2012 | - | 39,141 | 39,141 | 0.0% | 169,726 | 23.1% |
| 2013 | - | 23,173 | 23,173 | 0.0% | 170,798 | 13.6% |

* For fiscal years prior to 2009 (which were prior to the implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2009, GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

Health insurance subsidy payments reported for fiscal year 2012: \$600

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress, continued
June 30, 2013

Public Safety Personnel Retirement System (PSPRS) – Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2008 through June 30, 2013, based on actuarial valuations is as follows:

| | (a) | (b) | (a)/(b) | (b)-(a) | [c] | [(b)-(a)/(c)] |
|-----------------------|----------------------------------|--|---------------------|----------------------------|-------------------------------|--|
| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Annual Covered Payroll | Unfunded AAL As a Percentage of Covered Payroll |
| 2008 | 1,657,343 | 2,433,481 | 68.11% | 776,138 | 1,037,512 | 74.8% |
| 2009* | 1,995,719 | 2,596,403 | 76.86% | 600,684 | 1,067,641 | 56.3% |
| 2010* | 2,332,904 | 2,872,571 | 81.21% | 539,667 | 944,119 | 57.2% |
| 2011* | 2,589,298 | 3,315,618 | 78.09% | 726,320 | 842,028 | 86.3% |
| 2012* | 2,995,614 | 3,917,658 | 76.46% | 922,044 | 921,077 | 100.1% |
| 2013* | 3,185,860 | 4,114,682 | 77.43% | 928,822 | 901,334 | 103.0% |

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

| | (a) | (b) | (b)-(a) | (a)/(b) | (c) | [(b)-(a)/(c)] |
|-----------------------|----------------------------------|--|----------------------------|---------------------|-------------------------------|--|
| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | Unfunded AAL As a Percentage of Covered Payroll |
| 2008 | - | 103,346 | 103,346 | 0.0% | 1,037,512 | 9.96% |
| 2009 | - | 110,426 | 110,426 | 0.0% | 1,067,641 | 10.34% |
| 2010 | - | 120,153 | 120,153 | 0.0% | 944,119 | 12.73% |
| 2011 | - | 150,482 | 150,482 | 0.0% | 842,028 | 17.87% |
| 2012 | - | 149,931 | 149,931 | 0.0% | 921,077 | 16.28% |
| 2013 | - | 165,037 | 165,037 | 0.0% | 901,334 | 18.31% |

* For fiscal years prior to 2009 (which were prior to the implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2009, GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

Health insurance subsidy payments reported for fiscal year 2013: \$1,800

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress, continued
June 30, 2013

Public Safety Personnel Retirement System (PSPRS) – Fire Fighters

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2008 through June 30, 2013, based on actuarial valuations is as follows:

| Valuation Date June 30, | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (a)/(b) Funded Ratio | (b)-(a) Unfunded AAL (UAAL) | [c] Annual Covered Payroll | [(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll |
|----------------------------|----------------------------------|--|-------------------------|--------------------------------|-------------------------------|--|
| 2008 | 1,285,369 | 1,590,032 | 80.84% | 304,663 | 849,603 | 35.9% |
| 2009* | 1,480,646 | 1,863,596 | 79.45% | 382,950 | 850,613 | 45.0% |
| 2010* | 1,653,520 | 1,951,822 | 84.72% | 298,302 | 801,981 | 37.2% |
| 2011* | 1,848,617 | 2,437,393 | 75.84% | 588,776 | 865,612 | 68.0% |
| 2012* | 2,195,992 | 2,809,342 | 78.17% | 613,350 | 899,976 | 68.2% |
| 2013* | 2,414,481 | 3,058,246 | 78.95% | 643,765 | 974,872 | 66.0% |

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

| Valuation Date June 30, | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b)-(a) Unfunded AAL (UAAL) | (a)/(b) Funded Ratio | (c) Annual Covered Payroll | [(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll |
|----------------------------|----------------------------------|--|--------------------------------|-------------------------|-------------------------------|--|
| 2008 | - | 55,267 | 55,267 | 0.0% | 849,603 | 6.51% |
| 2009 | - | 56,943 | 56,943 | 0.0% | 850,613 | 6.69% |
| 2010 | - | 65,090 | 65,090 | 0.0% | 801,981 | 8.12% |
| 2011 | - | 97,009 | 97,009 | 0.0% | 865,612 | 11.21% |
| 2012 | - | 99,416 | 99,416 | 0.0% | 899,976 | 11.05% |
| 2013 | - | 104,619 | 104,619 | 0.0% | 974,872 | 10.73% |

* For fiscal years prior to 2009 (which were prior to the implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. Beginning in fiscal year 2009, GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

Health insurance subsidy payments reported for fiscal year 2013: \$0

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund

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

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

CITY OF SOMERTON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|------------------------------------|------------------|------------------|------------------|-------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| City sales tax | \$ 1,250,000 | \$ 1,250,000 | \$ 1,378,727 | \$ 128,727 |
| Franchise fees | 120,000 | 120,000 | 187,552 | 67,552 |
| Property taxes | 475,400 | 475,400 | 475,069 | (331) |
| Special assessments | 111,400 | 111,400 | 96,847 | (14,553) |
| Total taxes | <u>1,956,800</u> | <u>1,956,800</u> | <u>2,138,195</u> | <u>181,395</u> |
| Licenses, Permits and Fees: | | | | |
| Parks development fees | 35,000 | 35,000 | 82,494 | 47,494 |
| Building permits | 40,000 | 40,000 | 72,157 | 32,157 |
| Business licenses | 20,000 | 20,000 | 24,850 | 4,850 |
| Total licenses, fees and permits | <u>95,000</u> | <u>95,000</u> | <u>179,501</u> | <u>84,501</u> |
| Intergovernmental: | | | | |
| State sales taxes | 1,194,700 | 1,194,700 | 1,169,429 | (25,271) |
| State revenue sharing | 1,459,300 | 1,459,300 | 1,470,598 | 11,298 |
| Auto lieu tax | 488,500 | 488,500 | 458,780 | (29,720) |
| Grants | 1,600,000 | 1,600,000 | 302,691 | (1,297,309) |
| Cocopah obligation | 404,500 | 404,500 | 404,536 | 36 |
| Total intergovernmental | <u>5,147,000</u> | <u>5,147,000</u> | <u>3,806,034</u> | <u>(1,340,966)</u> |
| Charges for Services: | | | | |
| Rent revenues | 12,000 | 12,000 | 10,139 | (1,861) |
| Ambulance fees | 774,400 | 774,400 | 1,348,837 | 574,437 |
| Reimbursements | 15,000 | 15,000 | 20,213 | 5,213 |
| Miscellaneous fees and charges | 64,400 | 64,400 | 161,881 | 97,481 |
| Total charges for services | <u>865,800</u> | <u>865,800</u> | <u>1,541,070</u> | <u>675,270</u> |
| Fines and Forfeitures: | | | | |
| Fines and forfeitures | 200,000 | 200,000 | 117,713 | (82,287) |
| Total fines and forfeitures | <u>200,000</u> | <u>200,000</u> | <u>117,713</u> | <u>(82,287)</u> |
| Interest | | | | |
| Investment earnings | - | - | 14,922 | 14,922 |
| Total interest | <u>-</u> | <u>-</u> | <u>14,922</u> | <u>14,922</u> |
| Other Revenues: | | | | |
| Donations | - | - | 9,492 | 9,492 |
| Miscellaneous | 35,200 | 35,200 | 22,571 | (12,629) |
| Total other revenues | <u>35,200</u> | <u>35,200</u> | <u>32,063</u> | <u>(3,137)</u> |
| TOTAL REVENUES | <u>8,299,800</u> | <u>8,299,800</u> | <u>7,829,498</u> | <u>(470,302)</u> |

(continued)

CITY OF SOMERTON, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| EXPENDITURES | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| General Government: | | | | |
| Mayor and council | 477,500 | 477,500 | 314,631 | 162,869 |
| Administration | 479,750 | 479,750 | 447,207 | 32,543 |
| Finance | 152,868 | 152,868 | 151,567 | 1,301 |
| City clerk | 25,227 | 25,227 | 18,988 | 6,239 |
| Court | 308,937 | 308,937 | 314,882 | (5,945) |
| Total general government | <u>1,444,282</u> | <u>1,444,282</u> | <u>1,247,275</u> | <u>197,007</u> |
| Public Safety: | | | | |
| Police | 2,854,965 | 2,854,965 | 2,078,964 | 776,001 |
| Fire and ambulance | 2,379,161 | 2,379,161 | 2,417,197 | (38,036) |
| Animal control | - | - | 4,892 | (4,892) |
| Total public safety | <u>5,234,126</u> | <u>5,234,126</u> | <u>4,501,053</u> | <u>733,073</u> |
| Public Works/Streets: | | | | |
| Assessment districts | 111,400 | 111,400 | 129,525 | (18,125) |
| Total public works/streets | <u>111,400</u> | <u>111,400</u> | <u>129,525</u> | <u>(18,125)</u> |
| Culture and Recreation: | | | | |
| Parks and recreation | 615,226 | 615,226 | 704,390 | (89,164) |
| Youth center | - | - | 6,590 | (6,590) |
| Total culture and recreation | <u>615,226</u> | <u>615,226</u> | <u>710,980</u> | <u>(95,754)</u> |
| Economic Development: | | | | |
| Community development | 278,366 | 278,366 | 277,304 | 1,062 |
| Total economic development | <u>278,366</u> | <u>278,366</u> | <u>277,304</u> | <u>1,062</u> |
| TOTAL EXPENDITURES | <u>7,683,400</u> | <u>7,683,400</u> | <u>6,866,137</u> | <u>817,263</u> |
| Excess of revenues over expenditures | <u>616,400</u> | <u>616,400</u> | <u>963,361</u> | <u>346,961</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | (616,400) | (616,400) | (818,047) | (201,647) |
| Transfers in | - | - | 75,000 | 75,000 |
| Total other financing sources (uses) | <u>(616,400)</u> | <u>(616,400)</u> | <u>(743,047)</u> | <u>(126,647)</u> |
| Net change in fund balance | - | - | 220,314 | 220,314 |
| Fund balance, beginning of year | <u>1,464,080</u> | <u>1,464,080</u> | <u>1,464,080</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,464,080</u> | <u>\$ 1,464,080</u> | <u>\$ 1,684,394</u> | <u>\$ 220,314</u> |

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Capital Project Funds

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

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

CITY OF SOMERTON, ARIZONA
CAPITAL IMPROVEMENT
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------------|--------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Intergovernmental revenue | \$ 4,706,129 | \$ 4,706,129 | \$ 512,244 | \$ (4,193,885) |
| Total revenue | <u>4,706,129</u> | <u>4,706,129</u> | <u>512,244</u> | <u>(4,193,885)</u> |
| EXPENDITURES: | | | | |
| Capital outlay | <u>5,848,857</u> | <u>5,848,857</u> | <u>1,597,878</u> | <u>4,250,979</u> |
| Total expenditures | <u>5,848,857</u> | <u>5,848,857</u> | <u>1,597,878</u> | <u>4,250,979</u> |
| Excess of revenue and other sources over (under) expenditures and other uses | <u>(1,142,728)</u> | <u>(1,142,728)</u> | <u>(1,085,634)</u> | <u>57,094</u> |
| Other Financing Sources (Uses): | | | | |
| Debt issued | - | - | - | - |
| Transfers in | - | - | <u>142,187</u> | <u>142,187</u> |
| Net change in fund balance | (1,142,728) | (1,142,728) | (943,447) | 199,281 |
| Fund balance, beginning of year | <u>1,647,647</u> | <u>1,647,647</u> | <u>1,647,647</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 504,919</u> | <u>\$ 504,919</u> | <u>\$ 704,200</u> | <u>\$ 199,281</u> |

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SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

Non-major Governmental Funds

Special Revenue Funds

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

- **Miscellaneous Grants Fund** – This fund is used to account for miscellaneous federal and state grants and other contributions that are restricted for specific use.
- **Local Transportation Assistance** – This fund is used to account for the government’s portion of the State lottery distributions that are restricted for use for highways and streets.
- **Highway User Revenue Special Revenue Fund** – This fund is used to account for revenue sources that are legally restricted for road construction and maintenance.
- **Court Fund** – This fund is used to account for the court related revenues that are restricted by State Statute.
- **Senior Nutrition Center** – This fund is to account for revenues and expenditures at the Somerton and San Luis Senior Centers.

Debt Service Funds

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

CITY OF SOMERTON, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

| | Special Revenue | | | | | Debt Service | Total |
|---|--------------------------|---------------------------------------|------------------------------|-------------------------|-------------------------------|--------------------------|--------------------------|
| | Miscellaneous Grants | Local Transportation Assistance | Highway User Revenue Fund | Court Fund | Senior Nutrition Center | Debt Service | |
| ASSETS | | | | | | | |
| Cash | \$ - | \$ - | \$ 376,894 | \$ 54,572 | \$ 6,684 | \$ - | \$ 438,150 |
| Accounts receivable | - | - | - | 26,786 | - | - | 26,786 |
| Due from other governments | 104,835 | - | 86,442 | - | 18,590 | - | 209,867 |
| Inventory | - | - | 5,738 | - | - | - | 5,738 |
| Restricted cash and investments | - | - | - | - | - | 313,847 | 313,847 |
| Total assets | <u>\$ 104,835</u> | <u>\$ -</u> | <u>\$ 469,074</u> | <u>\$ 81,358</u> | <u>\$ 25,274</u> | <u>\$ 313,847</u> | <u>\$ 994,388</u> |
| LIABILITIES AND FUND BALANCE | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 1,564 | \$ - | \$ 10,464 | \$ 79,315 | \$ 2,133 | \$ - | \$ 93,476 |
| Due to other funds | 38,892 | - | - | - | - | 278,689 | 317,581 |
| Interest payable | - | - | - | - | - | 27,772 | 27,772 |
| Total liabilities | <u>40,456</u> | <u>-</u> | <u>10,464</u> | <u>79,315</u> | <u>2,133</u> | <u>306,461</u> | <u>438,829</u> |
| Fund Balance: | | | | | | | |
| Restricted for: | | | | | | | |
| General government | - | - | - | 2,043 | - | - | 2,043 |
| Public safety | 64,379 | - | - | - | - | - | 64,379 |
| Public works/streets | - | - | 458,610 | - | - | - | 458,610 |
| Committed to: | | | | | | | |
| Health and welfare | - | - | - | - | 23,141 | - | 23,141 |
| Assigned to: | | | | | | | |
| Debt service | - | - | - | - | - | 7,386 | 7,386 |
| Total fund balance | <u>64,379</u> | <u>-</u> | <u>458,610</u> | <u>2,043</u> | <u>23,141</u> | <u>7,386</u> | <u>555,559</u> |
| Total liabilities and fund balance | <u>\$ 104,835</u> | <u>\$ -</u> | <u>\$ 469,074</u> | <u>\$ 81,358</u> | <u>\$ 25,274</u> | <u>\$ 313,847</u> | <u>\$ 994,388</u> |

CITY OF SOMERTON, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2013

| | Special Revenue | | | | Debt Service | | Total |
|---|-------------------------|---------------------------------------|------------------------------|-----------------|-------------------------------|------------------|-------------------|
| | Miscellaneous Grants | Local Transportation Assistance | Highway User Revenue Fund | Court Fund | Senior Nutrition Center | Debt Service | |
| REVENUES: | | | | | | | |
| Intergovernmental | \$ 227,590 | \$ - | \$ 951,585 | \$ - | \$ 143,130 | \$ - | \$ 1,322,305 |
| Fines and forfeitures | - | - | - | 4,844 | - | - | 4,844 |
| Other revenues | 34,395 | - | - | - | 20,260 | - | 54,655 |
| Total revenues | <u>261,985</u> | <u>-</u> | <u>951,585</u> | <u>4,844</u> | <u>163,390</u> | <u>-</u> | <u>1,381,804</u> |
| EXPENDITURES: | | | | | | | |
| General government | - | - | - | 73 | - | - | 73 |
| Public safety | 282,358 | - | - | - | - | - | 282,358 |
| Public works/streets | - | 7,761 | 811,639 | - | - | - | 819,400 |
| Health and welfare | - | - | - | - | 140,779 | - | 140,779 |
| Capital outlay | - | - | - | - | - | - | - |
| Debt Service | - | - | - | - | - | 761,535 | 761,535 |
| Total expenditures | <u>282,358</u> | <u>7,761</u> | <u>811,639</u> | <u>73</u> | <u>140,779</u> | <u>761,535</u> | <u>2,004,145</u> |
| Excess of revenues over (under) expenditures | <u>(20,373)</u> | <u>(7,761)</u> | <u>139,946</u> | <u>4,771</u> | <u>22,611</u> | <u>(761,535)</u> | <u>(622,341)</u> |
| Other Financing Sources (Uses): | | | | | | | |
| Transfers in | 32,530 | 1,237 | 23,296 | - | - | 752,816 | 809,879 |
| Transfers out | - | - | (112,072) | (75,000) | - | - | (187,072) |
| Total other financing sources (uses): | <u>32,530</u> | <u>1,237</u> | <u>(88,776)</u> | <u>(75,000)</u> | <u>-</u> | <u>752,816</u> | <u>622,807</u> |
| Net change in fund balances | 12,157 | (6,524) | 51,170 | (70,229) | 22,611 | (8,719) | 466 |
| Fund balance, beginning of year | <u>52,222</u> | <u>6,524</u> | <u>407,440</u> | <u>72,272</u> | <u>530</u> | <u>16,105</u> | <u>555,093</u> |
| Fund balance, end of year | <u>\$ 64,379</u> | <u>\$ -</u> | <u>\$ 458,610</u> | <u>\$ 2,043</u> | <u>\$ 23,141</u> | <u>\$ 7,386</u> | <u>\$ 555,559</u> |

CITY OF SOMERTON, ARIZONA
MISCELLANEOUS GRANTS
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|-------------------------|-------------------------|---|
| REVENUES: | | | |
| Intergovernmental revenue | \$ 550,000 | \$ 227,590 | \$ (322,410) |
| Other revenue | <u>50,000</u> | <u>34,395</u> | <u>(15,605)</u> |
| Total revenue | <u>600,000</u> | <u>261,985</u> | <u>(338,015)</u> |
| EXPENDITURES: | | | |
| Salaries | 600,000 | 190,127 | 409,873 |
| Employee benefits | - | 69,993 | (69,993) |
| Services, supplies, and other | <u>-</u> | <u>22,238</u> | <u>(22,238)</u> |
| Total expenditures | <u>600,000</u> | <u>282,358</u> | <u>317,642</u> |
| Excess of revenue and other sources over (under) expenditures and other uses | <u>-</u> | <u>(20,373)</u> | <u>(20,373)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | <u>-</u> | <u>32,530</u> | <u>32,530</u> |
| Net change in fund balance | - | 12,157 | 12,157 |
| Fund balance, beginning of year | <u>52,222</u> | <u>52,222</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 52,222</u></u> | <u><u>\$ 64,379</u></u> | <u><u>\$ 12,157</u></u> |

CITY OF SOMERTON, ARIZONA
LOCAL TRANSPORTATION ASSISTANCE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------------|---------|--|
| REVENUES: | | | |
| Intergovernmental revenue | \$ - | \$ - | \$ - |
| Total revenue | - | - | - |
| EXPENDITURES: | | | |
| Capital outlay | - | 7,761 | (7,761) |
| Total expenditures | - | 7,761 | (7,761) |
| Excess of revenue and other sources over (under) expenditures and other uses | - | (7,761) | (7,761) |
| Other Financing Sources (Uses): | | | |
| Transfers in | - | 1,237 | 1,237 |
| Net change in fund balance | - | (6,524) | (6,524) |
| Fund balance, beginning of year | 6,524 | 6,524 | - |
| Fund balance, end of year | \$ 6,524 | \$ - | \$ (6,524) |

CITY OF SOMERTON, ARIZONA
HIGHWAY USER REVENUE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|--|
| REVENUES: | | | |
| Intergovernmental revenue | \$ 978,700 | \$ 951,585 | \$ (27,115) |
| Total revenue | <u>978,700</u> | <u>951,585</u> | <u>(27,115)</u> |
| EXPENDITURES: | | | |
| Salaries | 357,000 | 329,528 | 27,472 |
| Employee benefits | 127,100 | 143,132 | (16,032) |
| Services, supplies, and other | 811,100 | 335,980 | 475,120 |
| Capital outlay | 27,500 | 2,999 | 24,501 |
| Total expenditures | <u>1,322,700</u> | <u>811,639</u> | <u>511,061</u> |
| Excess of revenue and other sources over (under) expenditures and other uses | <u>(344,000)</u> | <u>139,946</u> | <u>483,946</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | - | 23,296 | 23,296 |
| Transfers out | <u>(127,000)</u> | <u>(112,072)</u> | <u>14,928</u> |
| Total other financing sources (uses): | <u>(127,000)</u> | <u>(88,776)</u> | <u>38,224</u> |
| Net change in fund balance | (471,000) | 51,170 | 522,170 |
| Fund balance, beginning of year | <u>407,440</u> | <u>407,440</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ (63,560)</u> | <u>\$ 458,610</u> | <u>\$ 522,170</u> |

CITY OF SOMERTON, ARIZONA
COURT FUND
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------------|----------|--|
| REVENUES: | | | |
| Fines and forfeitures | \$ - | \$ 4,844 | \$ 4,844 |
| Total revenue | - | 4,844 | 4,844 |
| EXPENDITURES: | | | |
| Services, supplies, and other | - | 73 | (73) |
| Total expenditures | - | 73 | (73) |
| Excess of revenue and other sources over (under) expenditures and other uses | - | 4,771 | 4,771 |
| Other Financing Sources (Uses): | | | |
| Transfers out | - | (75,000) | (75,000) |
| Net change in fund balance | - | (70,229) | (70,229) |
| Fund balance, beginning of year | 72,272 | 72,272 | - |
| Fund balance, end of year | \$ 72,272 | \$ 2,043 | \$ (70,229) |

CITY OF SOMERTON, ARIZONA
SENIOR NUTRITION CENTER
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|-------------------------|------------------|---|
| REVENUES: | | | |
| Intergovernmental revenue | \$ 120,000 | \$ 143,130 | \$ 23,130 |
| Donations and other revenue | 20,000 | 20,260 | 260 |
| Total revenue | <u>140,000</u> | <u>163,390</u> | <u>23,390</u> |
| EXPENDITURES: | | | |
| Salaries | 72,700 | 67,403 | 5,297 |
| Employee benefits | 19,700 | 13,726 | 5,974 |
| Services, supplies, and other | 47,600 | 59,650 | (12,050) |
| Total expenditures | <u>140,000</u> | <u>140,779</u> | <u>(779)</u> |
| Net change in fund balance | - | 22,611 | 22,611 |
| Fund balance, beginning of year | <u>530</u> | <u>530</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 530</u> | <u>\$ 23,141</u> | <u>\$ 22,611</u> |

CITY OF SOMERTON, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------------|-----------|--|
| REVENUES: | | | |
| Intergovernmental revenue | \$ - | \$ - | \$ - |
| Total revenue | - | - | - |
| EXPENDITURES: | | | |
| Debt service - principal | 355,100 | 342,535 | 12,565 |
| Debt service - interest | 410,700 | 419,000 | (8,300) |
| Total expenditures | 765,800 | 761,535 | 4,265 |
| Excess of revenue and other sources over (under) expenditures and other uses | (765,800) | (761,535) | 4,265 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 765,800 | 752,816 | (12,984) |
| Total other financing sources (uses) | 765,800 | 752,816 | (12,984) |
| Net change in fund balance | - | (8,719) | (8,719) |
| Fund balance, beginning of year | 16,105 | 16,105 | - |
| Fund balance, end of year | \$ 16,105 | \$ 7,386 | \$ (8,719) |

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Capital assets: | | |
| Land | \$ 807,012 | \$ 807,012 |
| Buildings and Improvements | 6,508,633 | 5,792,738 |
| Improvements | 2,056,754 | 1,043,537 |
| Furniture and Equipment | 2,791,517 | 2,409,995 |
| Vehicles | 2,756,210 | 2,918,726 |
| Infrastructure/Streets | 14,547,718 | 13,403,546 |
| Construction in Progress | 267,569 | 1,270,135 |
| | <u>\$ 29,735,413</u> | <u>\$ 27,645,689</u> |
| Investment in capital assets by source: | | |
| Investment in property acquired by all sources excluding donations | \$ 26,668,963 | \$ 24,579,239 |
| Donations | 3,066,450 | 3,066,450 |
| | <u>\$ 29,735,413</u> | <u>\$ 27,645,689</u> |

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2013

| <u>Function and Activity</u> | <u>Land</u> | <u>Buildings</u> | <u>Improvements</u> | <u>Furniture and Equipment</u> | <u>Vehicles</u> | <u>Infrastructure/ Streets</u> | <u>Construction in Progress</u> | <u>Total</u> |
|------------------------------|-------------------|---------------------|---------------------|------------------------------------|---------------------|------------------------------------|-------------------------------------|----------------------|
| General Government | \$ 486,751 | \$ 827,474 | \$ - | \$ 203,333 | \$ 62,357 | \$ - | \$ 98,338 | \$ 1,678,253 |
| Highways and Streets | 6,000 | - | 23,974 | 419,048 | 534,235 | 14,547,718 | 169,231 | 15,700,206 |
| Public Safety | 3,010 | 3,845,216 | 784,387 | 1,829,754 | 2,102,479 | - | - | 8,564,846 |
| Culture and Recreation | 311,251 | 1,090,972 | 1,055,333 | 329,367 | 57,139 | - | - | 2,844,062 |
| Health and Welfare | - | 744,971 | 193,060 | 10,015 | - | - | - | 948,046 |
| Totals | <u>\$ 807,012</u> | <u>\$ 6,508,633</u> | <u>\$ 2,056,754</u> | <u>\$ 2,791,517</u> | <u>\$ 2,756,210</u> | <u>\$ 14,547,718</u> | <u>\$ 267,569</u> | <u>\$ 29,735,413</u> |

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended June 30, 2013

| <u>Function and Activity</u> | <u>Capital Assets July 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Capital Assets June 30, 2013</u> |
|------------------------------|--|---------------------|-----------------------|---|
| General Government | \$ 989,153 | \$ 814,233 | \$ (125,133) | \$ 1,678,253 |
| Highways and Streets | 14,838,246 | 1,313,403 | (451,443) | 15,700,206 |
| Public Safety | 8,260,202 | 1,291,093 | (986,449) | 8,564,846 |
| Culture and Recreation | 2,780,976 | 79,114 | (16,028) | 2,844,062 |
| Health and Welfare | 777,112 | 193,060 | (22,126) | 948,046 |
| Totals | <u>\$ 27,645,689</u> | <u>\$ 3,690,903</u> | <u>\$ (1,601,179)</u> | <u>\$ 29,735,413</u> |

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STATISTICAL SECTION

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

| Contents | Page |
|---|------|
| Financial Trends | 76 |
| <i>These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.</i> | |
| Revenue Capacity | 80 |
| <i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i> | |
| Debt Capacity | 81 |
| <i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information..... | 82 |
| <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i> | |
| Operating Information | 83 |
| <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i> | |

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

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>Fiscal Year</u> <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|---|----------------------|----------------------|----------------------|----------------------|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 2,911,426 | \$ 3,307,180 | \$ 6,041,813 | \$ 3,753,699 | \$ 12,389,422 | \$ 12,112,541 | \$ 11,650,832 | \$ 10,918,698 | \$ 10,247,414 | \$ 9,577,465 |
| Restricted | 426,308 | 440,988 | 574,205 | 5,695,519 | 4,182,485 | 3,916,870 | 3,337,963 | 2,918,051 | 2,209,887 | 1,246,064 |
| Unrestricted | 511,174 | 846,187 | 1,080,679 | 611,045 | (3,273,849) | (3,162,059) | (2,676,083) | (2,090,502) | (671,385) | 1,108,754 |
| Total governmental activities net position | <u>\$ 3,848,908</u> | <u>\$ 4,594,355</u> | <u>\$ 7,696,697</u> | <u>\$ 10,060,263</u> | <u>\$ 13,298,058</u> | <u>\$ 12,867,352</u> | <u>\$ 12,312,712</u> | <u>\$ 11,746,247</u> | <u>\$ 11,785,916</u> | <u>\$ 11,932,283</u> |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ 9,221,637 | \$ 10,398,058 | \$ 12,290,638 | \$ 14,139,276 | \$ 16,615,217 | \$ 16,377,954 | \$ 17,252,324 | \$ 17,250,584 | \$ 17,616,602 | \$ 16,937,710 |
| Restricted | 1,001,016 | 2,596,692 | 3,633,367 | 2,407,919 | 2,454,964 | 2,711,986 | 2,089,614 | 1,987,219 | 2,323,027 | 1,403,849 |
| Unrestricted | 1,394,900 | 1,348,094 | 129,743 | 947,387 | 970,899 | 570,584 | 232,729 | 1,130,746 | 1,164,853 | 2,271,166 |
| Total business-type activities net position | <u>\$ 11,617,553</u> | <u>\$ 14,342,844</u> | <u>\$ 16,053,748</u> | <u>\$ 17,494,582</u> | <u>\$ 20,041,080</u> | <u>\$ 19,660,524</u> | <u>\$ 19,574,667</u> | <u>\$ 20,368,549</u> | <u>\$ 21,104,482</u> | <u>\$ 20,612,725</u> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 12,133,063 | \$ 13,705,238 | \$ 18,332,451 | \$ 17,892,975 | \$ 29,004,639 | \$ 28,490,495 | \$ 28,903,156 | \$ 28,169,282 | \$ 27,864,016 | \$ 26,515,175 |
| Restricted | 1,427,324 | 3,037,680 | 4,207,572 | 8,103,438 | 6,637,449 | 6,628,856 | 5,427,577 | 4,905,270 | 4,532,914 | 2,649,913 |
| Unrestricted | 1,906,074 | 2,194,281 | 1,210,422 | 1,558,432 | (2,302,950) | (2,591,475) | (2,443,354) | (959,756) | 493,468 | 3,379,920 |
| Total primary government net position | <u>\$ 15,466,461</u> | <u>\$ 18,937,199</u> | <u>\$ 23,750,445</u> | <u>\$ 27,554,845</u> | <u>\$ 33,339,138</u> | <u>\$ 32,527,876</u> | <u>\$ 31,887,379</u> | <u>\$ 32,114,796</u> | <u>\$ 32,890,398</u> | <u>\$ 32,545,008</u> |

Notes: The government began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

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

| | Fiscal Year | | | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 740,411 | \$ 834,892 | \$ 975,809 | \$ 837,403 | \$ 948,716 | \$ 1,028,049 | \$ 706,034 | \$ 869,252 | \$ 1,037,183 | \$ 1,029,378 |
| Public safety | 2,254,694 | 2,315,962 | 2,670,218 | 3,272,603 | 4,151,463 | 3,968,062 | 3,786,409 | 3,881,916 | 4,177,834 | 4,726,696 |
| Public works/Streets | 887,584 | 1,046,882 | 747,154 | 1,053,982 | 1,188,207 | 1,422,319 | 1,585,303 | 1,483,084 | 1,487,541 | 1,776,755 |
| Culture and recreation | 513,372 | 548,894 | 609,037 | 689,110 | 790,428 | 719,824 | 627,497 | 633,493 | 681,096 | 842,621 |
| Economic development | 180,277 | 221,647 | 217,111 | 276,780 | 317,203 | 259,336 | 202,788 | 164,123 | 196,998 | 279,406 |
| Health and welfare | - | - | - | - | - | - | 205,878 | 207,466 | 197,037 | 176,147 |
| Interest on long-term debt | 45,578 | 27,324 | 54,156 | 338,300 | 642,710 | 452,399 | 423,057 | 403,368 | 398,679 | 421,377 |
| Total governmental activities expenses | <u>4,621,916</u> | <u>4,995,601</u> | <u>5,273,485</u> | <u>6,468,508</u> | <u>8,038,727</u> | <u>7,849,989</u> | <u>7,536,966</u> | <u>7,642,702</u> | <u>8,176,368</u> | <u>9,252,380</u> |
| Business-type activities: | | | | | | | | | | |
| Water/Sewer/Sanitation | 1,871,168 | 2,068,728 | 2,416,658 | 3,104,966 | 3,734,023 | 3,712,264 | 3,796,260 | 4,383,876 | 4,234,628 | 4,384,783 |
| Total business-type activities expenses | <u>1,871,168</u> | <u>2,068,728</u> | <u>2,416,658</u> | <u>3,104,966</u> | <u>3,734,023</u> | <u>3,712,264</u> | <u>3,796,260</u> | <u>4,383,876</u> | <u>4,234,628</u> | <u>4,384,783</u> |
| Total primary government expenses | <u>\$ 6,493,084</u> | <u>\$ 7,064,329</u> | <u>\$ 7,690,143</u> | <u>\$ 9,573,474</u> | <u>\$ 11,772,750</u> | <u>\$ 11,562,253</u> | <u>\$ 11,333,226</u> | <u>\$ 12,026,578</u> | <u>\$ 12,410,996</u> | <u>\$ 13,637,163</u> |
| Program Revenues (see Schedule 3) | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 469,162 | \$ 567,522 | \$ 1,024,445 | \$ 807,144 | \$ 832,033 | \$ 825,918 | \$ 870,346 | \$ 765,279 | \$ 189,960 | \$ 227,730 |
| Public safety | 186,170 | 280,607 | 1,600 | 114,436 | 113,924 | 111,685 | 119,355 | 75,935 | 891,207 | 1,472,856 |
| Public works/Streets | 15,304 | 15,059 | 22,580 | 37,545 | 39,392 | 35,709 | 27,574 | 13,137 | 16,954 | 23,296 |
| Culture and recreation | 36,687 | 131,921 | 116,608 | 80,365 | 87,052 | 122,436 | 130,494 | 125,844 | 155,664 | 256,900 |
| Operating grants & contributions | 1,167,977 | 1,361,237 | 1,326,193 | 1,383,842 | 1,420,474 | 1,391,142 | 1,626,008 | 1,664,109 | 1,857,861 | 1,751,945 |
| Capital grants & contributions | 889,119 | 659,287 | 2,560,925 | 2,470,948 | 4,011,389 | 745,256 | 241,353 | 301,340 | 100,844 | 824,428 |
| Total governmental activities program revenues | <u>2,764,419</u> | <u>3,015,633</u> | <u>5,052,351</u> | <u>4,894,280</u> | <u>6,504,264</u> | <u>3,232,146</u> | <u>3,015,130</u> | <u>2,945,644</u> | <u>3,212,490</u> | <u>4,557,155</u> |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water/Sewer/Sanitation | 1,369,978 | 1,547,227 | 1,862,329 | 2,166,715 | 2,456,189 | 2,634,280 | 2,874,870 | 3,151,823 | 3,302,075 | 3,352,616 |
| Operating grants & contributions | - | - | - | - | - | - | - | - | - | - |
| Capital grants & contributions | 1,546,898 | 3,355,122 | 2,258,755 | 2,361,831 | 3,823,575 | 716,835 | 873,091 | 2,075,134 | 1,727,748 | 645,416 |
| Total business-type activities program revenues | <u>2,916,876</u> | <u>4,902,349</u> | <u>4,121,084</u> | <u>4,528,546</u> | <u>6,279,764</u> | <u>3,351,115</u> | <u>3,747,961</u> | <u>5,226,957</u> | <u>5,029,823</u> | <u>3,998,032</u> |
| Total primary government program revenues | <u>\$ 5,681,295</u> | <u>\$ 7,917,982</u> | <u>\$ 9,173,435</u> | <u>\$ 9,422,826</u> | <u>\$ 12,784,028</u> | <u>\$ 6,583,261</u> | <u>\$ 6,763,091</u> | <u>\$ 8,172,601</u> | <u>\$ 8,242,313</u> | <u>\$ 8,555,187</u> |
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental activities | \$ (1,857,497) | \$ (1,979,968) | \$ (221,134) | \$ (1,574,228) | \$ (1,534,463) | \$ (4,617,843) | \$ (4,521,836) | \$ (4,697,058) | \$ (4,963,878) | \$ (4,695,225) |
| Business-type activities | 1,045,708 | 2,833,621 | 1,704,426 | 1,423,580 | 2,545,741 | (361,149) | (48,299) | 843,081 | 795,195 | (386,751) |
| Total primary governmental net (expense) revenue | <u>\$ (811,789)</u> | <u>\$ 853,653</u> | <u>\$ 1,483,292</u> | <u>\$ (150,648)</u> | <u>\$ 1,011,278</u> | <u>\$ (4,978,992)</u> | <u>\$ (4,570,135)</u> | <u>\$ (3,853,977)</u> | <u>\$ (4,168,683)</u> | <u>\$ (5,081,976)</u> |
| General Revenues & Other Changes in Net Position | | | | | | | | | | |
| Government activities: | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| City sales tax | \$ 740,625 | \$ 861,786 | \$ 1,204,866 | \$ 990,228 | \$ 1,363,911 | \$ 993,655 | \$ 1,084,017 | \$ 1,353,720 | \$ 1,350,657 | \$ 1,378,727 |
| State sales tax | 611,290 | 673,125 | 787,111 | 926,710 | 896,064 | 775,741 | 715,508 | 775,953 | 1,116,391 | 1,169,429 |
| Property Tax | - | - | - | 266,572 | 294,443 | 359,745 | 387,379 | 461,169 | 445,863 | 482,755 |
| Auto lieu tax | 266,865 | 291,049 | 329,963 | 381,884 | 385,030 | 376,184 | 360,552 | 360,782 | 496,042 | 458,780 |
| Franchise tax | 79,409 | 82,043 | 97,353 | 111,534 | 124,183 | 129,840 | 138,113 | 153,146 | 175,842 | 187,552 |
| State income taxes - revenue sharing | 656,232 | 655,608 | 769,603 | 1,109,012 | 1,358,975 | 1,418,553 | 1,233,011 | 970,402 | 1,226,959 | 1,470,598 |
| Unrestricted grants & contributions | - | - | - | - | - | - | - | - | - | - |
| Investment earnings | 29,643 | 41,332 | 90,990 | 242,623 | 317,133 | 68,776 | 8,732 | 4,171 | (21,853) | 14,922 |
| Miscellaneous | 139,831 | 41 | - | 17,107 | - | - | 187 | 1,050 | 166,479 | 3,628 |
| Transfers | 258,480 | 120,431 | 43,591 | 44,815 | 59,519 | 38,509 | 39,697 | 50,200 | 22,400 | 21,947 |
| Total governmental activities | <u>2,782,375</u> | <u>2,725,415</u> | <u>3,323,477</u> | <u>4,090,485</u> | <u>4,799,258</u> | <u>4,161,003</u> | <u>3,967,196</u> | <u>4,130,593</u> | <u>4,978,780</u> | <u>5,188,338</u> |
| Business-type activities | | | | | | | | | | |
| Investment earnings | 2,478 | 12,101 | 50,069 | 62,069 | 60,276 | 19,102 | 2,139 | 1,001 | (36,862) | 1,130 |
| Transfers | (258,480) | (120,431) | (43,591) | (44,815) | (59,519) | (38,509) | (39,697) | (50,200) | (22,400) | (21,947) |
| Total business-type activities | <u>(256,002)</u> | <u>(108,330)</u> | <u>6,478</u> | <u>17,254</u> | <u>757</u> | <u>(19,407)</u> | <u>(37,558)</u> | <u>(49,199)</u> | <u>(59,262)</u> | <u>(20,817)</u> |
| Total primary government | <u>\$ 2,526,373</u> | <u>\$ 2,617,085</u> | <u>\$ 3,329,955</u> | <u>\$ 4,107,739</u> | <u>\$ 4,800,015</u> | <u>\$ 4,141,596</u> | <u>\$ 3,929,638</u> | <u>\$ 4,081,394</u> | <u>\$ 4,919,518</u> | <u>\$ 5,167,521</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental activities | \$ 924,878 | \$ 745,447 | \$ 3,102,343 | \$ 2,516,257 | \$ 3,264,795 | \$ (456,840) | \$ (554,640) | \$ (566,465) | \$ 14,902 | \$ 493,113 |
| Business-type activities | 789,706 | 2,725,291 | 1,710,904 | 1,440,834 | 2,546,498 | (380,556) | (85,857) | 793,882 | 735,933 | (407,568) |
| Total primary government | <u>\$ 1,714,584</u> | <u>\$ 3,470,738</u> | <u>\$ 4,813,247</u> | <u>\$ 3,957,091</u> | <u>\$ 5,811,293</u> | <u>\$ (837,396)</u> | <u>\$ (640,497)</u> | <u>\$ 227,417</u> | <u>\$ 750,833</u> | <u>\$ 85,545</u> |

Notes: The government began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

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

| | Fiscal Year | | | | | | | | | |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| General Fund | | | | | | | | | | |
| Reserved/restricted | \$ 19,311 | \$ 26,938 | \$ 111,553 | \$ 27,301 | \$ 40,119 | \$ 56,093 | \$ 67,861 | \$ 50,839 | \$ 23,782 | \$ 9,446 |
| Unreserved/unassigned | 441,133 | 786,356 | 843,755 | 825,945 | 843,929 | 754,467 | 742,725 | 872,052 | 1,440,298 | 1,674,948 |
| Total General Fund | <u>\$ 460,444</u> | <u>\$ 813,294</u> | <u>\$ 955,308</u> | <u>\$ 853,246</u> | <u>\$ 884,048</u> | <u>\$ 810,560</u> | <u>\$ 810,586</u> | <u>\$ 922,891</u> | <u>\$ 1,464,080</u> | <u>\$ 1,684,394</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved/restricted | \$ 234,325 | \$ 217,225 | \$ 574,205 | \$ 5,668,218 | \$ 4,142,366 | \$ 3,860,777 | \$ 3,270,102 | \$ 2,849,746 | \$ 2,186,105 | \$ 1,229,232 |
| Committed/Unreserved/unassigned, reported in: | | | | | | | | | | |
| Court trust fund | 58,168 | 85,470 | 125,371 | 112,337 | 112,874 | - | - | - | - | - |
| Special Revenue Funds | - | (45,317) | | | | | | 3,400 | 530 | 23,141 |
| HURF Funds | 47,921 | 223,763 | - | - | - | - | - | - | - | - |
| Capital projects funds | 86,752 | (673) | - | - | - | - | - | - | - | - |
| Debt service funds | 25,765 | 18,209 | - | - | - | - | - | 14,066 | 16,105 | 7,386 |
| Total all other governmental funds | <u>\$ 405,010</u> | <u>\$ 320,231</u> | <u>\$ 699,576</u> | <u>\$ 5,780,555</u> | <u>\$ 4,255,240</u> | <u>\$ 3,860,777</u> | <u>\$ 3,270,102</u> | <u>\$ 2,867,212</u> | <u>\$ 2,202,740</u> | <u>\$ 1,259,759</u> |

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

| | Fiscal year | | | | | | | | | |
|--|-------------------|-------------------|-------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Revenues | | | | | | | | | | |
| Taxes | \$ 835,338 | \$ 958,891 | \$ 1,324,797 | \$ 1,399,838 | \$ 1,817,705 | \$ 1,553,469 | \$ 1,688,244 | \$ 2,047,664 | \$ 2,049,387 | \$ 2,138,195 |
| Licenses, fees and permits | 123,966 | 251,152 | 175,402 | 317,462 | 291,082 | 217,338 | 202,274 | 99,655 | 123,082 | 179,501 |
| Fines & penalties | 282,047 | 322,766 | 487,817 | 150,715 | 191,685 | 264,677 | 212,247 | 174,358 | 149,624 | 5,640,733 |
| Charges for services | 262,557 | 395,048 | 418,224 | 497,833 | 544,879 | 514,474 | 589,546 | 576,898 | 871,727 | 1,541,070 |
| Intergovernmental | 2,800,391 | 3,318,804 | 4,024,265 | 5,039,275 | 4,652,964 | 4,671,884 | 4,130,675 | 4,032,548 | 4,753,429 | 122,557 |
| Investment earnings | 29,643 | 41,332 | 90,990 | 242,623 | 317,133 | 68,776 | 8,732 | 4,171 | (21,853) | 14,922 |
| Other revenues | 380,025 | 56,763 | 14,536 | 4,852 | 85,655 | 64,022 | 113,424 | 90,743 | 93,200 | 86,568 |
| Total Revenues | 4,713,967 | 5,344,756 | 6,536,031 | 7,652,598 | 7,901,103 | 7,354,640 | 6,945,142 | 7,026,037 | 8,018,596 | 9,723,546 |
| Expenditures | | | | | | | | | | |
| General government | 718,921 | 834,744 | 952,715 | 856,974 | 921,684 | 1,002,452 | 904,944 | 907,507 | 1,076,490 | 1,247,348 |
| Public safety | 2,162,270 | 2,361,759 | 2,666,681 | 4,113,857 | 3,597,894 | 3,593,928 | 3,539,546 | 3,342,806 | 3,728,370 | 4,783,411 |
| Public works/Streets | 516,880 | 607,255 | 568,263 | 718,380 | 890,229 | 834,019 | 719,021 | 705,140 | 746,065 | 948,925 |
| Culture and recreation | 418,403 | 449,728 | 534,918 | 618,793 | 711,013 | 585,880 | 496,174 | 503,956 | 585,288 | 710,980 |
| Economic development | 180,775 | 206,812 | 209,453 | 292,976 | 316,264 | 257,958 | 202,010 | 162,180 | 196,502 | 277,304 |
| Health and welfare | - | - | - | - | - | - | 184,474 | 180,476 | 180,651 | 140,779 |
| Capital Outlay | 253,112 | 544,907 | 3,405,155 | 4,113,493 | 2,046,283 | 737,222 | 647,454 | 716,962 | 2,075,097 | 1,597,878 |
| Debt Service | | | | | | | | | | |
| Interest | - | 27,324 | 30,759 | 324,548 | 297,612 | 459,093 | 444,137 | 414,173 | 402,816 | 419,000 |
| Principal | 544,567 | 179,765 | 309,048 | 159,531 | 768,951 | 476,682 | 437,728 | 433,622 | 403,041 | 342,535 |
| Total expenditures | 4,794,928 | 5,212,294 | 8,676,992 | 11,198,552 | 9,549,930 | 7,947,234 | 7,575,488 | 7,366,822 | 9,394,320 | 10,468,160 |
| Excess of revenues over (under) expenditures | (80,961) | 132,462 | (2,140,961) | (3,545,954) | (1,648,827) | (592,594) | (630,346) | (340,785) | (1,375,724) | (744,614) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Sale of assets | - | 1,641 | - | 20,898 | - | - | - | - | 150,274 | - |
| Loans/LPA | - | - | 2,440,283 | 8,459,158 | 94,795 | 60,000 | - | - | 1,055,000 | - |
| Transfers in | 629,764 | 439,418 | 731,077 | 1,552,517 | 1,233,129 | 1,133,844 | 1,019,686 | 967,118 | 934,328 | 1,027,066 |
| Transfers out | (371,284) | (318,987) | (687,486) | (1,507,702) | (1,173,610) | (1,095,335) | (979,989) | (916,918) | (911,928) | (1,005,119) |
| Total other financing sources (uses) | 258,480 | 122,072 | 2,483,874 | 8,524,871 | 154,314 | 98,509 | 39,697 | 50,200 | 1,227,674 | 21,947 |
| Net change in fund balances | \$ 177,519 | \$ 254,534 | \$ 342,913 | \$ 4,978,917 | \$ (1,494,513) | \$ (494,085) | \$ (590,649) | \$ (290,585) | \$ (148,050) | \$ (722,667) |
| Debt service as a percentage of noncapital expenditures | 13.6% | 9.6% | 3.3% | 9.5% | 9.6% | 51.1% | 15.0% | 14.6% | 12.4% | 9.4% |

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

| | Fiscal Years | | | | | | | | | |
|-------------------------------|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Mining | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2 | \$ 2,112 | \$ 1,051 | \$ 1,307 | \$ 84 |
| Construction | 219,417 | 215,805 | 453,421 | 387,297 | 467,329 | 596,427 | 196,957 | 210,325 | 213,043 | 142,716 |
| Manufacturing | 1,626 | 19,296 | 33,685 | 15,683 | 20,567 | 16,006 | 16,869 | 15,135 | 13,052 | 1,789 |
| Transportation/Warehousing | | 139 | | 26 | 18 | 38 | 18 | 4 | 72 | |
| Communications/Utilities | 56,862 | 70,871 | 84,958 | 87,043 | 118,451 | 112,937 | 103,891 | 152,783 | 207,877 | 206,169 |
| Wholesale Trade | 8,600 | 154,473 | 171,515 | 196,126 | 203,219 | 205,751 | 211,423 | 203,058 | 149,935 | |
| Retail Trade | 335,813 | 187,561 | 231,919 | 277,031 | 279,801 | 265,964 | 280,082 | 329,971 | 549,476 | 858,639 |
| Restaurants & Bars | 8,668 | 8,796 | 7,656 | 33,535 | 60,757 | 75,190 | 70,262 | 75,681 | 95,214 | 114,680 |
| Insurance/Real Estate/Finance | 18,866 | 33,418 | 38,345 | 58,908 | 46,946 | 61,419 | 68,935 | 66,289 | 71,534 | 48,151 |
| Hotels/Lodging/Accommodation | 3,058 | 2,626 | 2,531 | 2,764 | 3,360 | 3,534 | 481 | 486 | 407 | |
| Arts/Entertainment | | 6,489 | | 4,978 | 366 | 4,929 | 6,820 | 7,953 | 7,521 | |
| Services | 40,388 | 12,688 | 11,093 | 15,586 | 13,276 | 11,915 | 13,746 | 15,231 | 35,517 | |
| All Others Not Specified | 3,380 | 22,293 | 68,762 | 103,346 | 10,985 | 9,792 | 22,609 | 6,048 | 8,764 | 6,498 |
| Total | \$ 696,678 | \$ 734,455 | \$ 1,103,885 | \$ 1,182,323 | \$ 1,225,075 | \$ 1,363,904 | \$ 994,205 | \$ 1,084,015 | \$ 1,353,720 | \$ 1,378,726 |
| City direct sales tax rate | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 3.30% | 3.30% | 3.30% |

Source: Arizona Department of Revenue

**City of Somerton, Arizona
 Legal Debt Margin Information,
 Last Ten Fiscal Years**

Legal Debt Margin Calculation for Fiscal Year 2013

| | |
|---|---------------------|
| Assessed Value | \$ 37,973,141 |
| Debt Limit (20% of assessed value) | 7,594,628 |
| Debt applicable to limit: | |
| General obligation bonds | - |
| Less: Amount set aside for repayment of general obligation debt | <u>-</u> |
| Total net debt applicable to limit | <u>-</u> |
| Legal debt margin | <u>\$ 7,594,628</u> |

| | Fiscal Year | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Debt limit | \$ 3,511,481 | \$ 3,122,102 | \$ 3,944,723 | \$ 4,478,150 | \$ 6,427,105 | \$ 6,725,509 | \$ 7,118,271 | \$ 7,052,090 | \$ 7,105,022 | \$ 7,594,628 |
| Total net debt applicable to limit | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Legal debt margin | <u>\$ 3,511,481</u> | <u>\$ 3,122,102</u> | <u>\$ 3,944,723</u> | <u>\$ 4,478,150</u> | <u>\$ 6,427,105</u> | <u>\$ 6,725,509</u> | <u>\$ 7,118,271</u> | <u>\$ 7,052,090</u> | <u>\$ 7,105,022</u> | <u>\$ 7,594,628</u> |
| Total net debt applicable to limit as a percentage of debt limit. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

** Information is not available.

City of Somerton, Arizona
Full-time-Equivalent City Government Employees by Function/Program,
Last Ten Fiscal Years

| <u>Function/Program</u> | <u>Full-time-Equivalent Employees as of June 30</u> | | | | | | | | | |
|-------------------------|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| General government | | | | | | | | | | |
| Management services | 2 | 2 | 3 | 4 | 3 | 3 | 2 | 2 | 2 | 3 |
| Finance | 3 | 3 | 5 | 5 | 8 | 7 | 5 | 5 | 5 | 5 |
| Planning | 3 | 3 | 5 | 5 | 5 | 3 | 3 | 3 | 2 | 1 |
| Building | 1 | 1 | 1 | 2 | 4 | 4 | 4 | 2 | 2 | 1 |
| Court | 9 | 10 | 3 | 4 | 3 | 3 | 3 | 5 | 4 | 5 |
| Public safety | | | | | | | | | | |
| Police | 21 | 25 | 26 | 30 | 33 | 35 | 30 | 29 | 27 | 30 |
| Fire | 22 | 22 | 24 | 20 | 23 | 26 | 26 | 19 | 19 | 19 |
| Public works/Streets | | | | | | | | | | |
| Other | 9 | 10 | 9 | 11 | 15 | 12 | 14 | 11 | 11 | 13 |
| Culture and recreation | 19 | 17 | 18 | 17 | 14 | 16 | 16 | 16 | 16 | 16 |
| Water/Sewer/Sanitation | 11 | 14 | 17 | 22 | 22 | 18 | 20 | 16 | 19 | 19 |
| Total | 100 | 107 | 111 | 120 | 130 | 127 | 123 | 108 | 107 | 112 |

Source: City of Somerton Payroll Reports

Notes: A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total labor hours by 2,088.

**City of Somerton, Arizona
Operating Indicators by Function/Program,
Last Ten Fiscal Years**

| <u>Function/Program</u> | Fiscal Year | | | | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| General government | | | | | | | | | | |
| Building permits issued | 214 | 290 | 284 | 203 | 179 | 97 | 121 | 44 | 43 | 43 |
| Police | | | | | | | | | | |
| Physical arrests | 420 | 605 | 797 | 600 | 535 | 536 | 425 | 407 | 286 | 230 |
| Traffic violations | 1,864 | 2,825 | 3,945 | 2,851 | 3,220 | 3,958 | 2,442 | 2,448 | 1,400 | 1,440 |
| Fire | | | | | | | | | | |
| Emergency responses | 1,544 | 1,592 | 1,592 | 1,433 | 1,467 | 1,627 | 1,671 | 1,664 | 1,658 | 3,965 |
| Fires extinguished | 42 | 30 | 30 | 89 | 55 | 57 | 56 | 34 | 43 | 65 |
| Inspections | 367 | 391 | 391 | 71 | 127 | 199 | 338 | 276 | 198 | 243 |
| Water | | | | | | | | | | |
| New connections | 2,041 | 2,278 | 2,381 | 2,561 | 2,700 | 2,900 | 3,000 | 2,933 | 3,092 | 3,148 |
| Water main breaks | - | - | - | - | - | - | - | - | 2 | 2 |
| Average daily consumption | 1,110,000 | 1,250,000 | 1,250,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,100,000 | 1,400,000 | 1,400,000 |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 600,000 | 600,000 | 600,000 | 600,000 | 705,000 | 792,612 | 792,612 | 800,000 | 598,000 | 727,000 |

Source: City records

* July 1, 2012 through June 30, 2013

**City of Somerton, Arizona
Capital Asset Statistics by Function/Program,
Last Ten Fiscal Years**

| <u>Function/Program</u> | <u>Fiscal Year</u> | | | | | | | | | |
|--|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 12 | 9 | 12 | 15 | 17 | 16 | 16 | 16 | 16 | 19 |
| Fire Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Refuse collection | | | | | | | | | | |
| Collection trucks | 4 | 5 | 7 | 5 | 5 | 6 | 6 | 6 | 6 | 6 |
| Other public works | | | | | | | | | | |
| Streets (miles) | 32 | 32 | 32 | 37 | 41 | 44 | 44 | 44 | 44 | 44 |
| Streetlights | 424 | 480 | 480 | 534 | 601 | 601 | 601 | 601 | 601 | 706 |
| Traffic signals | 1 | 1 | 2 | 2 | 3 | 4 | 4 | 4 | 4 | 4 |
| Parks and recreation | | | | | | | | | | |
| Acreage | 33 | 33 | 33 | 38 | 38 | 38 | 38 | 38 | 38 | 38 |
| Community centers | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Water | | | | | | | | | | |
| Water mains (miles) | 30 | 32 | 32 | 37 | 42 | 42 | 42 | 42 | 42 | 46 |
| Fire hydrants | 287 | 321 | 321 | 363 | 406 | 410 | 410 | 410 | 410 | 397 |
| Storage capacity (thousands of gallons) | - | 2,900,000 | 2,900,000 | 2,900,000 | 2,250,000 | 2,250,000 | 2,250,000 | 2,250,000 | 2,250,000 | 2,250,000 |
| Wastewater | | | | | | | | | | |
| Sanitary sewers (miles) | 29 | 32 | 34 | 41 | 46 | 46 | 46 | 46 | 46 | 46 |
| Storm sewers (miles) | - | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Treatment capacity (thousands of gallons) | 800,000 | 800,000 | 800,000 | 800,000 | 800,000 | 800,000 | 800,000 | 1,600,000 | 1,600,000 | 1,600,000 |
| Transit-minibuses | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: City Records

COMPLIANCE SECTION

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MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA

KENNETH A. HINTON, CPA
MORRIS J. PEACOCK, CPA
PHILLIP S. PEINE, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Mayor and
City Council
Somerton, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Somerton, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Somerton, Arizona's basic financial statements and have issued our report thereon dated October 12, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies.

07-1. Year End Accounting
11-3. Grant Reimbursement Requests

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the City in a separate letter dated October 12, 2013.

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
October 12, 2013

MEMBERS:

CHAD B. ATKINSON, CPA
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MARK E. TICHENOR, CPA

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
City Council
Somerton, Arizona

We have audited the basic financial statements of the City of Somerton; Arizona for the year ended June 30, 2013, and have issued our report thereon dated October 12, 2013. Our audit also included test work on the City of Somerton's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Somerton is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The City of Somerton has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Somerton pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The City of Somerton complied, in all material respects, with the requirements identified above for the year ended June 30, 2013.



HintonBurdick, PLLC
October 12, 2013