

CITY OF SOMERTON, ARIZONA



FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

WITH REPORT OF

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SOMERTON, ARIZONA

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FINANCIAL SECTION

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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 major and 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 major and 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 major and 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 January 26, 2015, 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
January 26, 2015

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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, 2014. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$31.7 million at the close of the fiscal year.
- Total net position decreased by \$819,898 in fiscal year 2014.
- Governmental expenses exceeded taxes and other governmental revenues by \$40,146.
- Business-type expenses exceeded total business-type revenues by \$779,752.
- Total revenues from all sources were \$13.5 million.
- The total cost of all City programs were \$14.3 million.
- The General Fund reported excess expenditures and transfers over revenues of \$409,429.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,250,628 or 17.3% 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 \$31.7 million as of June 30, 2014 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	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 3,530,908	\$ 3,848,493	\$ 4,149,229	\$ 4,183,445
Capital assets	19,098,434	19,271,759	26,512,093	27,732,864
Total assets	<u>22,629,342</u>	<u>23,120,252</u>	<u>30,661,322</u>	<u>31,916,309</u>
Long-term liabilities outstanding	9,433,225	10,143,447	10,300,669	10,894,856
Other liabilities	1,303,980	1,044,522	527,680	408,728
Total liabilities	<u>10,737,205</u>	<u>11,187,969</u>	<u>10,828,349</u>	<u>11,303,584</u>
Net position:				
Net investment in capital assets	9,277,492	9,577,465	16,293,897	16,937,710
Restricted	777,792	1,246,064	1,485,242	1,403,849
Unrestricted	1,836,853	1,108,754	2,053,834	2,271,166
Total net position	<u>\$ 11,892,137</u>	<u>\$ 11,932,283</u>	<u>\$ 19,832,973</u>	<u>\$ 20,612,725</u>

Governmental Activities

The cost of all Governmental activities this year was \$9,575,686, an increase of \$323,306 over last fiscal year. This is primarily due to an increase in general government and public safety. As shown on the Statement of Changes in Net Position on the following page, \$2,158,187 of this cost was paid for by those who directly benefited from the programs; \$1,902,951 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 \$4,061,138. General taxes and investment earnings totaled \$5,458,402.

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.

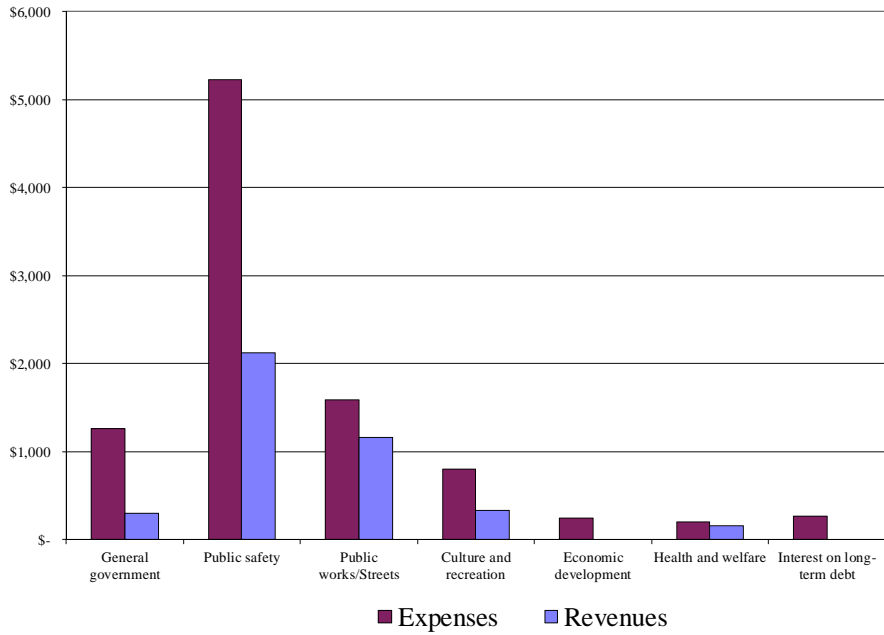
**City of Somerton
Changes in Net Position**

	Governmental activities		Business-type activities	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Revenues:				
Program revenues:				
Charges for services	\$ 2,158,187	\$ 1,980,782	\$ 3,432,789	\$ 3,352,616
Operating grants and contributions	1,747,867	1,751,945	-	-
Capital grants and contributions	155,084	824,428	539,360	645,416
General revenues:				
Taxes	3,843,787	3,677,243	-	-
State revenue sharing	1,603,767	1,470,598	-	-
Other revenue/(expense)	10,848	18,550	1,535	1,130
Total revenues	<u>9,519,540</u>	<u>9,723,546</u>	<u>3,973,684</u>	<u>3,999,162</u>
Expenses:				
General government	1,258,932	1,029,378	-	-
Public safety	5,225,347	4,726,696	-	-
Public works/Streets	1,587,665	1,776,755	-	-
Culture and recreation	795,215	842,621	-	-
Economic development	246,595	279,406	-	-
Health and welfare	193,620	176,147	-	-
Interest on long-term debt	268,312	421,377	-	-
Water	-	-	1,694,204	1,448,841
Sewer	-	-	2,277,664	2,203,049
Sanitation	-	-	765,568	732,893
Total expenses	<u>9,575,686</u>	<u>9,252,380</u>	<u>4,737,436</u>	<u>4,384,783</u>
(Decrease) / Increase in net position before transfers	(56,146)	471,166	(763,752)	(385,621)
Transfers	<u>16,000</u>	<u>21,947</u>	<u>(16,000)</u>	<u>(21,947)</u>
(Decrease) / Increase in net position	(40,146)	493,113	(779,752)	(407,568)
Net position, beginning	11,932,283	11,785,916	20,612,725	21,104,482
Restatement/reclassifications	-	(237,729)	-	(194,043)
Prior period adjustment	-	(109,017)	-	109,854
Net position, ending	<u>\$ 11,892,137</u>	<u>\$ 11,932,283</u>	<u>\$ 19,832,973</u>	<u>\$ 20,612,725</u>

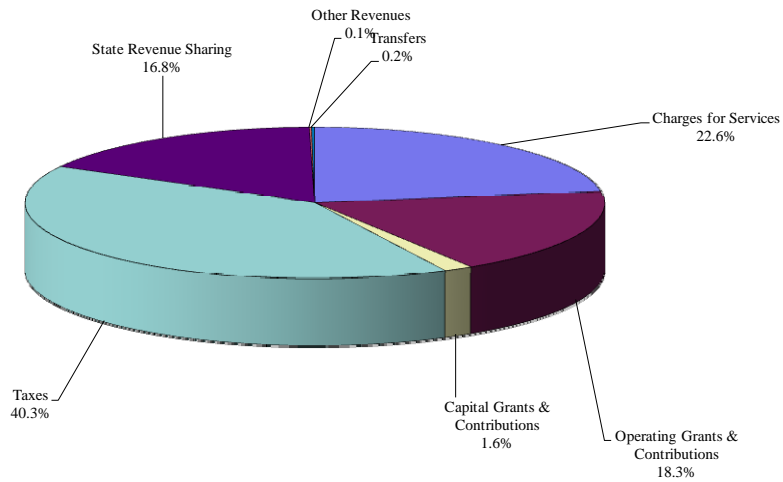
Total resources available during the year to finance governmental operations were \$21.5 million consisting of net position at July 1, 2013 of \$11.9 million, program revenues of \$4.1 million and general revenues of \$5.5 million. Total governmental activities during the year were \$9.6 million, thus governmental net position decreased by \$40,146 to \$11.9 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)



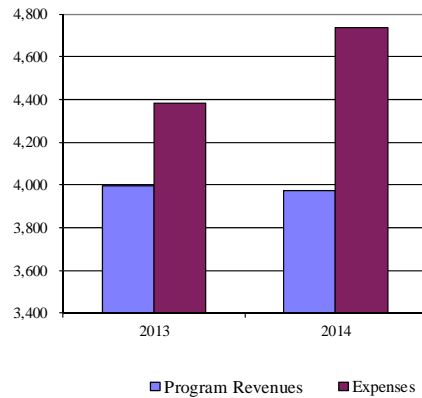
Revenue By Source - Governmental Activities



Business Type Activities

Net position of the business type activities at June 30, 2014, as reflected in the Statement of Net Position were \$19.8 million. The cost of providing all Proprietary (Business Type) activities this year was \$4.7 million. As shown in the Statement of Changes in Net Position, the amounts paid by users of the system were \$3.4 million and there was \$539 thousand subsidized by capital grants and contributions. Interest earnings were \$1,535. The net position decreased by \$779,752.

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 \$2,048,305, a decrease of \$895,848 in comparison with the prior year. Approximately, 61% of this total amount, \$1,250,483 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 \$1,250,628, while total fund balance is \$1,274,965. 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 17.3% of total general fund expenditures, while total fund balance represents 17.6% of the same amount.

During the year, the City of Somerton's general fund balance decreased by \$409,429.

The Highway User Revenue Fund (HURF) has a total fund balance of \$628,304. The net increase in the fund balance during the current year was \$169,694. The increase in the fund balance resulted from a decrease in expenditures.

The Capital Improvement Fund (CIP) has a total fund balance of \$0. The net decrease in the fund balance during the current year was \$704,200. 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 \$1,181,089 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 2014, net capital assets of the government activities totaled \$19.1 million and the net capital assets of the business-type activities totaled \$26.5 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 \$9,433,225 in governmental type debt, and \$10,300,669 in proprietary debt. The debt is a liability of the government and amounts to \$1,381 per capita (2010 census: 14,287). During the current fiscal year, the City's total debt decreased by \$1,304,409. (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 2014/2015, 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 seventh 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, 2014

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,917,430	\$ 2,739,277	\$ 4,656,707
Receivables (net of allowance)	1,320,990	429,048	1,750,038
Notes receivable	55,000	-	55,000
Prepaid items/Inventory	7,241	644	7,885
Temporarily restricted assets:			
Cash and cash equivalents	230,247	980,260	1,210,507
Capital assets (net of accumulated depreciation):			
Land	949,417	415,399	1,364,816
Buildings	4,827,098	1,162	4,828,260
Improvements	1,327,802	2,093,806	3,421,608
System improvements	-	23,462,405	23,462,405
Machinery and equipment	489,621	137,421	627,042
Vehicles	499,476	180,773	680,249
Infrastructure/Roads	10,516,744	-	10,516,744
Construction in progress	488,276	221,127	709,403
Total assets	<u>22,629,342</u>	<u>30,661,322</u>	<u>53,290,664</u>
Liabilities			
Accounts payable and other current liabilities	1,186,154	440,098	1,626,252
Interest payable	117,826	87,582	205,408
Noncurrent liabilities:			
Due within one year	570,509	581,401	1,151,910
Due in more than one year	8,862,716	9,719,268	18,581,984
Total liabilities	<u>10,737,205</u>	<u>10,828,349</u>	<u>21,565,554</u>
Net Position			
Net investment in capital assets	9,277,492	16,293,897	25,571,389
Restricted for:			
Highways and streets	628,304	-	628,304
Debt service	50,169	855,623	905,792
Capital projects and other	99,319	629,619	728,938
Unrestricted	1,836,853	2,053,834	3,890,687
Total net position	<u>\$ 11,892,137</u>	<u>\$ 19,832,973</u>	<u>\$ 31,725,110</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, 2014

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	\$ 1,258,932	\$ 288,205	\$ 5,042	\$ -	\$ (965,685)	\$ -	\$ (965,685)
Public safety	5,225,347	1,474,487	598,163	52,604	(3,100,093)	-	(3,100,093)
Public works/Streets	1,587,665	77,197	988,923	88,755	(432,790)	-	(432,790)
Culture and recreation	795,215	318,298	-	13,725	(463,192)	-	(463,192)
Economic development	246,595	-	-	-	(246,595)	-	(246,595)
Health and welfare	193,620	-	155,739	-	(37,881)	-	(37,881)
Interest on long-term debt	268,312	-	-	-	(268,312)	-	(268,312)
Total governmental activities	<u>9,575,686</u>	<u>2,158,187</u>	<u>1,747,867</u>	<u>155,084</u>	<u>(5,514,548)</u>	<u>-</u>	<u>(5,514,548)</u>
Business-type activities:							
Water	1,694,204	1,047,929	-	248,437	-	(397,838)	(397,838)
Sewer	2,277,664	1,593,251	-	290,923	-	(393,490)	(393,490)
Sanitation	765,568	791,609	-	-	-	26,041	26,041
Total business-type activities	<u>4,737,436</u>	<u>3,432,789</u>	<u>-</u>	<u>539,360</u>	<u>-</u>	<u>(765,287)</u>	<u>(765,287)</u>
Total primary government	<u>\$ 14,313,122</u>	<u>\$ 5,590,976</u>	<u>\$ 1,747,867</u>	<u>\$ 694,444</u>			
General Revenues:							
Taxes:							
City sales tax					1,511,036	-	1,511,036
State sales tax					1,243,580	-	1,243,580
Property tax					498,480	-	498,480
Auto lieu tax					490,479	-	490,479
Franchise tax					100,212	-	100,212
State income taxes - revenue sharing (unrestricted)					1,603,767	-	1,603,767
Unrestricted investment earnings					10,848	1,535	12,383
Transfers					16,000	(16,000)	-
Total general revenues & transfers					<u>5,474,402</u>	<u>(14,465)</u>	<u>5,459,937</u>
Change in net position					(40,146)	(779,752)	(819,898)
Net position - beginning					11,932,283	20,612,725	32,545,008
Net position - ending					<u>\$ 11,892,137</u>	<u>\$ 19,832,973</u>	<u>\$ 31,725,110</u>

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

CITY OF SOMERTON, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2014

Assets	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,190,154	\$ 636,804	\$ -	\$ 90,472	\$ 1,917,430
Receivables:					
Other	13,172	-	-	26,786	39,958
Ambulance	241,449	-	-	-	241,449
Intergovernmental	877,302	90,449	-	71,832	1,039,583
Due from other funds	6,820	-	-	-	6,820
Inventories	-	5,929	-	-	5,929
Prepaid items	1,167	-	145	-	1,312
Restricted cash and investments	-	-	173,258	56,989	230,247
	<u>\$ 2,330,064</u>	<u>\$ 733,182</u>	<u>\$ 173,403</u>	<u>\$ 246,079</u>	<u>\$ 3,482,728</u>
Liabilities, Deferred Inflows, and Fund Balances					
Liabilities:					
Accounts payable	\$ 581,283	\$ 93,340	\$ 173,403	\$ 88,162	\$ 936,188
Accrued wages and benefits	122,642	11,538	-	6,061	140,241
Accrued liabilities	108,303	-	-	-	108,303
Customer deposits	1,422	-	-	-	1,422
Due to other funds	-	-	-	6,820	6,820
	<u>813,650</u>	<u>104,878</u>	<u>173,403</u>	<u>101,043</u>	<u>1,192,974</u>
Deferred Inflows of Resources:					
Unavailable revenue - ambulance	241,449	-	-	-	241,449
	<u>241,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,449</u>
Fund Balances:					
Nonspendable:					
Prepays	1,167	-	145	-	1,312
Restricted for:					
General government	-	-	-	6,964	6,964
Public works/streets	-	628,304	-	-	628,304
Public safety	-	-	-	69,185	69,185
Parks & recreation	23,170	-	-	-	23,170
Committed to:					
Health and welfare	-	-	-	18,718	18,718
Assigned to:					
Debt service	-	-	-	50,169	50,169
Unassigned:	1,250,628	-	(145)	-	1,250,483
	<u>1,274,965</u>	<u>628,304</u>	<u>-</u>	<u>145,036</u>	<u>2,048,305</u>
Total Liabilities, deferred inflows, and fund balances	<u>\$ 2,330,064</u>	<u>\$ 733,182</u>	<u>\$ 173,403</u>	<u>\$ 246,079</u>	<u>\$ 3,482,728</u>

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, 2014

Total fund balances - governmental funds		\$ 2,048,305
Amounts reported for governmental activities in the statement of net assets are different because:		
Some notes receivable are not available in the current period and therefore are not reported in the funds.		55,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	\$ 30,975,085	
Accumulated depreciation	<u>(11,876,651)</u>	19,098,434
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.		241,449
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Notes payable	\$ (2,679,366)	
Bonds payable	(6,135,005)	
Add: Issuance premium	(201,909)	
Leases payable	(29,228)	
Interest Payable	(117,826)	
Compensated absences	<u>(387,717)</u>	<u>(9,551,051)</u>
Total net position - governmental activities		<u><u>\$ 11,892,137</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, 2014

REVENUES	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Capital Improvement</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,233,944	\$ -	\$ -	\$ -	\$ 2,233,944
Licenses, permits and fees	157,670	-	-	-	157,670
Intergovernmental revenue	3,801,883	988,923	88,755	327,526	5,207,087
Charges for services	1,392,879	-	-	-	1,392,879
Fines and forfeitures	138,218	-	-	5,041	143,259
Interest	10,848	-	-	-	10,848
Other revenues	31,705	-	-	45,449	77,154
Total revenues	<u>7,767,147</u>	<u>988,923</u>	<u>88,755</u>	<u>378,016</u>	<u>9,222,841</u>
EXPENDITURES					
Current:					
General government	1,438,896	-	-	120	1,439,016
Public safety	4,602,807	-	-	245,601	4,848,408
Public works/streets	104,472	726,229	-	-	830,701
Culture and recreation	835,346	-	-	-	835,346
Economic development	250,282	-	-	-	250,282
Health and welfare	-	-	-	160,162	160,162
Capital outlay	-	-	1,079,932	-	1,079,932
Debt service	-	-	-	722,217	722,217
Total expenditures	<u>7,231,803</u>	<u>726,229</u>	<u>1,079,932</u>	<u>1,128,100</u>	<u>10,166,064</u>
Excess of revenues over (under) expenditures	<u>535,344</u>	<u>262,694</u>	<u>(991,177)</u>	<u>(750,084)</u>	<u>(943,223)</u>
Other Financing Sources (Uses):					
Lease proceeds	31,375	-	-	-	31,375
Transfers out	(976,148)	(113,000)	-	-	(1,089,148)
Transfers in	-	20,000	286,977	798,171	1,105,148
Total other financing sources (uses)	<u>(944,773)</u>	<u>(93,000)</u>	<u>286,977</u>	<u>798,171</u>	<u>47,375</u>
Net change in fund balances	(409,429)	169,694	(704,200)	48,087	(895,848)
Fund balance, beginning of year	<u>1,684,394</u>	<u>458,610</u>	<u>704,200</u>	<u>96,949</u>	<u>2,944,153</u>
Fund balance, end of year	<u>\$ 1,274,965</u>	<u>\$ 628,304</u>	<u>\$ -</u>	<u>\$ 145,036</u>	<u>\$ 2,048,305</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, 2014

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

Net change in fund balances - total governmental funds	\$	(895,848)
Notes receivable do not provide current financial resources in the funds, but are reported as receivables in the statement of net position.		55,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		241,449
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.		
Capital outlay	\$ 1,239,672	
Depreciation expense	<u>(1,412,997)</u>	(173,325)
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.		587,306
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.		122,916
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.		22,356
Change in net position of governmental activities	<u>\$</u>	<u>(40,146)</u>

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

CITY OF SOMERTON, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

Assets	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Current assets:				
Cash	\$ 1,655,535	\$ 787,057	\$ 296,685	\$ 2,739,277
Receivables (net of allowance)	170,241	176,393	82,414	429,048
Prepaid items	-	644	-	644
Total current assets	<u>1,825,776</u>	<u>964,094</u>	<u>379,099</u>	<u>3,168,969</u>
Noncurrent assets:				
Restricted cash and investments	192,217	788,018	25	980,260
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	18,010,330	-	20,292,237
Water distribution system	8,877,776	-	-	8,877,776
Sewer collection system	-	7,828,171	-	7,828,171
Machinery and equipment	102,868	194,179	85,272	382,319
Vehicles	21,325	342,828	829,969	1,194,122
Construction in progress	97,270	123,857	-	221,127
Accumulated depreciation	(6,917,953)	(7,318,179)	(800,365)	(15,036,497)
Total noncurrent assets	<u>6,067,788</u>	<u>21,189,471</u>	<u>235,094</u>	<u>27,492,353</u>
Total Assets	<u>7,893,564</u>	<u>22,153,565</u>	<u>614,193</u>	<u>30,661,322</u>
Liabilities				
Current liabilities:				
Accounts payable	143,862	39,614	18,366	201,842
Accrued wages and benefits	14,322	15,771	9,213	39,306
Accrued liabilities	6,708	-	-	6,708
Interest payable	15,040	72,542	-	87,582
Customer deposits	192,217	-	25	192,242
Compensated absences - current portion	15,000	15,000	10,000	40,000
Notes payable - current portion	54,835	431,566	-	486,401
Bonds payable - current portion	-	55,000	-	55,000
Total current liabilities	<u>441,984</u>	<u>629,493</u>	<u>37,604</u>	<u>1,109,081</u>
Noncurrent liabilities:				
Compensated absences	30,034	4,739	7,700	42,473
Notes payable, net of current portion	1,088,691	7,858,530	-	8,947,221
Bonds payable, net of current portion	-	729,574	-	729,574
Total noncurrent liabilities	<u>1,118,725</u>	<u>8,592,843</u>	<u>7,700</u>	<u>9,719,268</u>
Total liabilities	<u>1,560,709</u>	<u>9,222,336</u>	<u>45,304</u>	<u>10,828,349</u>
Net Position				
Net investment in capital assets	4,732,045	11,326,783	235,069	16,293,897
Restricted for debt service	40,796	814,827	-	855,623
Restricted for capital outlay	223,718	405,901	-	629,619
Unrestricted	1,336,296	383,718	333,820	2,053,834
Total net position	<u>\$ 6,332,855</u>	<u>\$ 12,931,229</u>	<u>\$ 568,889</u>	<u>\$ 19,832,973</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, 2014

Operating Revenues	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Charges for services:	\$ 979,191	\$ 1,587,997	\$ 742,386	\$ 3,309,574
Other revenues	68,738	5,254	49,223	123,215
Total operating revenues	<u>1,047,929</u>	<u>1,593,251</u>	<u>791,609</u>	<u>3,432,789</u>
Operating Expenses				
Salaries	372,591	422,537	234,092	1,029,220
Employee benefits	119,932	141,166	99,006	360,104
Service, supplies and other	652,243	529,064	389,096	1,570,403
Depreciation	519,357	932,263	41,763	1,493,383
Total operating expenses	<u>1,664,123</u>	<u>2,025,030</u>	<u>763,957</u>	<u>4,453,110</u>
Operating income (loss)	<u>(616,194)</u>	<u>(431,779)</u>	<u>27,652</u>	<u>(1,020,321)</u>
Non-operating Revenues (Expenses)				
Investment earnings	502	1,033	-	1,535
Interest expense and fiscal charges	(30,081)	(252,634)	(1,611)	(284,326)
Grant revenues	29,003	8,937	-	37,940
Impact fees and connection fees	219,434	281,986	-	501,420
Total non-operating revenue (expense)	<u>218,858</u>	<u>39,322</u>	<u>(1,611)</u>	<u>256,569</u>
Income (Loss) before contributions and transfers	(397,336)	(392,457)	26,041	(763,752)
Transfers out	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Total contributions and transfers	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Change in net position	(405,336)	(400,457)	26,041	(779,752)
Total net position, beginning of year	<u>6,738,191</u>	<u>13,331,686</u>	<u>542,848</u>	<u>20,612,725</u>
Total net position, end of year	<u>\$ 6,332,855</u>	<u>\$ 12,931,229</u>	<u>\$ 568,889</u>	<u>\$ 19,832,973</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, 2014

	Water	Sewer	Sanitation	Total
Cash Flows From Operating Activities:				
Cash received from customers, service fees	\$ 964,462	\$ 1,583,297	\$ 756,750	\$ 3,304,509
Cash received from customers, other	68,738	5,254	49,223	123,215
Cash paid to suppliers	(539,266)	(572,762)	(387,790)	(1,499,818)
Cash paid to employees	(468,309)	(554,620)	(327,967)	(1,350,896)
Cash flows from operating activities	<u>25,625</u>	<u>461,169</u>	<u>90,216</u>	<u>577,010</u>
Cash Flows From Noncapital Financing Activities:				
Transfers	(8,000)	(8,000)	-	(16,000)
Cash flows from noncapital and related financing activities	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(16,000)</u>
Cash Flows From Capital and Related Financing Activities:				
Purchase of capital assets	(92,704)	(179,910)	-	(272,614)
Principal paid on long term debt	(53,432)	(481,639)	(41,887)	(576,958)
Interest paid	(30,783)	(259,220)	(1,611)	(291,614)
Grant revenues	29,003	8,937	-	37,940
Connection & impact fees	219,434	281,986	-	501,420
Cash flows from capital and related financing activities	<u>71,518</u>	<u>(629,846)</u>	<u>(43,498)</u>	<u>(601,826)</u>
Cash Flows From Investing Activities:				
Investment earnings	502	1,033	-	1,535
Cash flows from investing activities	<u>502</u>	<u>1,033</u>	<u>-</u>	<u>1,535</u>
Net change in cash and cash equivalents	89,645	(175,644)	46,718	(39,281)
Cash and cash equivalents, including restricted cash, beginning of year	<u>1,758,107</u>	<u>1,750,719</u>	<u>249,992</u>	<u>3,758,818</u>
Cash and Cash Equivalents, including restricted cash, end of year	<u><u>\$ 1,847,752</u></u>	<u><u>\$ 1,575,075</u></u>	<u><u>\$ 296,710</u></u>	<u><u>\$ 3,719,537</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:				
Net operating income/(loss)	\$ (616,194)	\$ (431,779)	\$ 27,652	\$ (1,020,321)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation/amortization	519,357	932,263	41,763	1,493,383
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(14,729)	(4,700)	14,364	(5,065)
(Increase)/Decrease in prepaid items	-	-	-	-
Increase/(Decrease) in payables	112,977	(43,698)	1,306	70,585
Increase/(Decrease) in accrued liabilities & deposits	24,214	9,083	5,131	38,428
Net cash flows from operating activities	<u><u>\$ 25,625</u></u>	<u><u>\$ 461,169</u></u>	<u><u>\$ 90,216</u></u>	<u><u>\$ 577,010</u></u>

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

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014

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 **highway user revenue special revenue fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.

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, 2014

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, 2014

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, 2014

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. The government has one type of item, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue - ambulance*, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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.

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, 2014

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.

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 17.

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 19.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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.
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 budget adjustments were made during the year.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 3. Stewardship, Compliance, and Accountability, Continued

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, 2014, 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.

Note 4. Deposits and Investments

Deposits and investments of the government at June 30, 2014 consist of the following:

Deposits:	
Cash on hand	\$ 2,161
Cash in bank	3,413,432
Cash with paying agent	50,000
Investments:	
State Treasurer's Investment Pool	<u>2,401,621</u>
Total Deposits and Investments	<u><u>\$ 5,867,214</u></u>

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

Cash and cash equivalents	\$ 4,656,707
Restricted cash	1,210,507
	<u><u>\$ 5,867,214</u></u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014, \$0 of the government’s bank balance of \$2,640,112 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, 2014 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	\$2,401,621	AA+	40 days
Total Fair Value	<u><u>\$2,401,621</u></u>		

(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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 4. Deposits and Investments, Continued

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.

Note 5. Restricted Assets

Restricted assets consisted of the following at June 30, 2014:

GADA 2006B Bond unspent proceeds	\$ 173,258
Qualified Energy Conservation Bond (QECB) unspent proceeds	6,989
Water fund customer deposit cash reserve	192,217
Series 2004 Revenue Bond debt service reserve	96,578
WIFA Wastewater Treatment Plant loan debt service reserve	330,071
WIFA Wastewater Treatment Plant loan repair and replacment fund	193,382
WIFA Wastewater Treatment Plant Expansion loan debt service reserve	145,456
USDA Wastewater Treatment Plant Expansion loan reserve fund	22,531
Sanitation fund customer deposit cash reserve	25
Cash with paying agent	50,000
Total	<u>\$ 1,210,507</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, 2014

Note 7. Capital Assets

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

Governmental Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 807,012	\$ 142,405	\$ -	\$ 949,417
Construction in progress	267,569	834,860	(614,153)	488,276
Total capital assets, not being depreciated	<u>1,074,581</u>	<u>977,265</u>	<u>(614,153)</u>	<u>1,437,693</u>
Capital assets, being depreciated:				
Buildings	6,508,633	-	-	6,508,633
Improvements other than buildings	2,056,754	8,500	-	2,065,254
Furniture and equipment	2,791,517	24,868	-	2,816,385
Vehicles	2,756,210	229,039	-	2,985,249
Infrastructure	14,547,718	614,153	-	15,161,871
Total capital assets, being depreciated	<u>28,660,832</u>	<u>876,560</u>	<u>-</u>	<u>29,537,392</u>
Less accumulated depreciation for:				
Buildings	(1,499,092)	(182,443)	-	(1,681,535)
Improvements other than buildings	(617,046)	(120,406)	-	(737,452)
Furniture and equipment	(2,138,311)	(188,453)	-	(2,326,764)
Vehicles	(2,294,502)	(191,271)	-	(2,485,773)
Infrastructure	(3,917,987)	(727,140)	-	(4,645,127)
Total accumulated depreciation	<u>(10,466,938)</u>	<u>(1,409,713)</u>	<u>-</u>	<u>(11,876,651)</u>
Total capital assets, being depreciated, net	<u>18,193,894</u>	<u>(533,153)</u>	<u>-</u>	<u>17,660,741</u>
Governmental activities capital assets, net	<u>\$ 19,268,475</u>	<u>\$ 444,112</u>	<u>\$ (614,153)</u>	<u>\$ 19,098,434</u>

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

Governmental Activities:	
General government	\$ 27,944
Public safety	444,946
Public works/streets	769,006
Culture & recreation	131,901
Health and welfare	35,916
Total depreciation expense - governmental activities	<u>\$ 1,409,713</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets not being depreciated:				
Land	\$ 415,399	\$ -	\$ -	\$ 415,399
Construction in progress	146,938	74,189	-	221,127
Total capital assets, not being depreciated	<u>562,337</u>	<u>74,189</u>	<u>-</u>	<u>636,526</u>
Capital assets being depreciated:				
Buildings	38,791	-	-	38,791
Improvements other than buildings	2,298,648	-	-	2,298,648
Treatment facilities	20,155,882	136,355	-	20,292,237
Water distribution system	8,877,776	-	-	8,877,776
Sewer collection system	7,828,171	-	-	7,828,171
Machinery and equipment	320,250	62,069	-	382,319
Vehicles	1,194,122	-	-	1,194,122
Total capital assets, being depreciated	<u>40,713,640</u>	<u>198,424</u>	<u>-</u>	<u>40,912,064</u>
Less accumulated depreciation for:				
Buildings	(37,323)	(306)	-	(37,629)
Improvements other than buildings	(86,849)	(117,993)	-	(204,842)
Treatment facilities	(3,766,909)	(509,076)	-	(4,275,985)
Water distribution system	(4,419,106)	(410,587)	-	(4,829,693)
Sewer collection system	(4,069,742)	(360,359)	-	(4,430,101)
Machinery and equipment	(219,644)	(25,254)	-	(244,898)
Vehicles	(943,540)	(69,809)	-	(1,013,349)
Total accumulated depreciation	<u>(13,543,113)</u>	<u>(1,493,384)</u>	<u>-</u>	<u>(15,036,497)</u>
Total capital assets, being depreciated, net	<u>27,170,527</u>	<u>(1,294,960)</u>	<u>-</u>	<u>25,875,567</u>
Business-type activities capital assets, net	<u>\$ 27,732,864</u>	<u>\$ (1,220,771)</u>	<u>\$ -</u>	<u>\$ 26,512,093</u>

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

Business-Type Activities:	
Water	\$ 519,357
Sewer	932,263
Sanitation	41,764
Total depreciation expense - governmental activities	<u>\$ 1,493,384</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 8. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

	Balance 6/30/2013	Additions	Retirements	Balance 6/30/2014	Current Portion
Governmental Activities:					
Bonds payable	\$ 6,470,005	\$ -	\$ (335,000)	\$ 6,135,005	\$ 345,000
Plus deferred amounts:					
Bond premiums	218,062	-	(16,153)	201,909	-
Total bonds payable	<u>6,688,067</u>	<u>-</u>	<u>(351,153)</u>	<u>6,336,914</u>	<u>345,000</u>
Loans payable	* 2,934,574	-	(255,208)	2,679,366	41,921
Capital leases	10,173	31,375	(12,320)	29,228	8,588
Accrued compensated absences	510,633	134,080	(256,996)	387,717	175,000
Total Governmental Activities	<u>\$ 10,143,447</u>	<u>\$ 165,455</u>	<u>\$ (875,677)</u>	<u>\$ 9,433,225</u>	<u>\$ 570,509</u>
Business-Type Activities:					
Bonds payable	\$ 845,000	\$ -	\$ (55,000)	\$ 790,000	\$ 55,000
Less deferred amounts:					
Bond discounts	(5,969)	-	543	(5,426)	-
Total bonds payable	<u>839,031</u>	<u>-</u>	<u>(54,457)</u>	<u>784,574</u>	<u>55,000</u>
Loans payable	9,914,236	-	(480,614)	9,433,622	486,401
Capital leases	41,887	-	(41,887)	-	-
Accrued compensated absences	99,702	22,246	(39,475)	82,473	40,000
Total Business-Type Activities	<u>\$ 10,894,856</u>	<u>\$ 22,246</u>	<u>\$ (616,433)</u>	<u>\$ 10,300,669</u>	<u>\$ 581,401</u>
Total Long-Term Liabilities	<u>\$ 21,038,303</u>	<u>\$ 187,701</u>	<u>\$ (1,492,110)</u>	<u>\$ 19,733,894</u>	<u>\$ 1,151,910</u>

Long term debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	386,921	387,131	541,401	255,390
2016	403,738	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	454,674	308,768	612,938	194,362
2020-2024	2,597,589	1,206,635	3,276,561	707,333
2025-2029	2,149,370	583,035	1,739,230	355,858
2030-2034	571,921	347,319	687,235	227,630
2035-2039	533,985	241,095	443,383	168,868
2040-2044	660,166	114,914	499,232	113,019
2045-2049	192,763	5,681	562,120	50,132
2050-2052	-	-	134,522	1,820
Totals	<u>\$ 8,814,371</u>	<u>\$ 4,233,804</u>	<u>\$ 10,223,624</u>	<u>\$ 2,751,854</u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 8. Long-Term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2014:

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. \$ 2,679,366

Total Governmental Activities 2,679,366

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. 2,845,599

Water Infrastructure Finance Authority of Arizona loan,
due in semi-annual variable principal and interest installments,
bearing interest at 2%, maturing July 1, 2029. 1,969,539

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. 1,143,526

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. 505,739

Rural Development Authority loan due in monthly
principal and interest installments of \$10,204, bearing
interest at 2.375%, maturing July 15, 2050. 2,969,219

Total Business-Type Activities 9,433,622

Total Loans Payable 12,112,988

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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 1,005,000

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 5,130,005

Total Governmental Activities 6,135,005

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 790,000

Leases Payable:

Lease payable in quarterly installments through March 2018, bearing interest at 4.95% 29,228

Accrued Vacation and Comp Time Payable 470,190

Bond Premiums and Discounts, net 196,483

Total Long-Term Debt 19,733,894

Less Current Portion:

Business-type Activities (581,401)

Governmental-type Activities (570,509)

Net Long-Term Debt \$ 18,581,984

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, 2014

Note 9. Capital Leases Payable

The government has entered into a lease agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board ASC 840-30-25. The lease is shown in the governmental activities of the government-wide statements. The total amount of equipment capitalized under the lease is \$28,521. Amortization on the capital lease is included in depreciation expense.

The following is an annual schedule of future minimum lease payments with an interest rate of 4.95% under the capital lease, together with the present value of the net minimum lease payments:

<u>Year Ending June 30</u>	
2015	8,588
2016	8,588
2017	8,588
2018	<u>6,440</u>
Total remaining minimum lease payments	\$ 32,204
Less amount representing interest	<u>(2,976)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 29,228</u></u>

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2014, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 6,820	\$ -
Nonmajor funds:		
Debt Service Fund	-	(6,820)
Total	\$ 6,820	\$ (6,820)

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, 2014 are as follows:

Transfers out:					
Transfer in:	General	Highway User	Water	Sewer	Total Transfers in
Capital Improvement	286,977	-	-	-	286,977
Highway user	20,000	-	-	-	20,000
Nonmajor Governmental Funds					
Miscellaneous Grants	33,171	-	-	-	33,171
Debt Service	636,000	113,000	8,000	8,000	765,000
Total transfers out	\$ 976,148	\$ 113,000	\$ 8,000	\$ 8,000	\$ 1,105,148

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, 2014

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 11.54 percent (11.3 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the government was required to contribute 11.54 percent (10.7 percent for retirement, 0.6 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>
2012	165,067	10,536	4,014
2013	222,043	14,081	5,199
2014	250,823	14,065	5,626

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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 20.31% of covered compensation, consisting of 7.32% for normal cost, 11.46% for amortization of unfunded actuarial accrued liability, and 1.53% for health benefits.

Annual pension cost/OPEB cost - During the year ended June 30, 2014 the government's annual pension cost of \$32,279 and the annual OPEB cost of \$2,863 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	2012	20,617	100%	-
	2013	21,865	100%	-
	2014	32,279	100%	-
Health Insurance	2012	3,014	100%	-
	2013	2,722	100%	-
	2014	2,863	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$ 992,948
Actuarial value of plan assets	434,412
Unfunded actuarial accrued liability (UAAL)	<u>\$ 558,536</u>
Funded ratio (actuarial value of plan assets/AAL)	43.75%
Covered payroll (active plan members)	170,002
UAAL as a percentage of covered payroll	328.5%

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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 determined by the actuarial basis specified by statute. The current rate is 18.96% and 17.93% of annual covered payroll for police and fire fighters respectively. The health insurance premium portion of the contribution rate was actuarially set at 1.38% and 1.05% 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, 2014 were established by the June 30, 2012 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.00 to 9.00 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, 2012, was 24 years for underfunded actuarial accrued liability and 20 years for excess.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 11. Retirement and Pension Plans, Continued

Annual pension/OPEB cost for police – During the year ended June 30, 2014, the government’s annual pension cost of \$164,509 and the annual OPEB cost of \$14,014 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	2012	131,038	100%	-
	2013	143,149	100%	-
	2014	164,509	100%	-
Health Insurance	2012	17,444	100%	-
	2013	15,875	100%	-
	2014	14,014	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$ 4,701,639
Actuarial value of plan assets	3,287,220
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,414,419</u>
Funded ratio (actuarial value of plan assets/AAL)	69.92%
Covered payroll (active plan members)	904,993
UAAL as a percentage of covered payroll	156.3%

Annual pension/OPEB cost for fire fighters – During the year ended June 30, 2014, the government’s annual pension cost of \$157,069 and the annual OPEB cost of \$10,418 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	2012	101,223	100%	-
	2013	138,188	100%	-
	2014	157,069	100%	-
Health Insurance	2012	10,087	100%	-
	2013	10,593	100%	-
	2014	10,418	100%	-

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 11. Retirement and Pension Plans, Continued

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$ 3,677,702
Actuarial value of plan assets	2,581,802
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,095,900</u>
Funded ratio (actuarial value of plan assets/AAL)	70.20%
Covered payroll (active plan members)	925,129
UAAL as a percentage of covered payroll	118.5%

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.

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.

CITY OF SOMERTON, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014.

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)	\$1,884,000	\$ 267,569

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 2014.

Related Party	Relationship	Goods or Services	Total Purchases
Yepez Auto Parts	City Council Member	Auto parts and supplies	\$5,250

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress
June 30, 2014

Arizona Correction Officer Retirement Plan (ACORP) - Dispatchers

An analysis of the progress of the Public Plan (ACORP) from June 30, 2009 through June 30, 2014, 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
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%
2014	434,412	992,948	43.75%	558,536	170,002	328.5%

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
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%
2014	14,268	26,289	12,021	54.3%	170,002	7.1%

Health insurance subsidy payments reported for fiscal year 2014: \$0

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress, continued
June 30, 2014

Public Safety Personnel Retirement System (PSPRS) – Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2009 through June 30, 2014, 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
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%
2014	3,287,220	4,701,639	69.92%	1,414,419	904,993	156.3%

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
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%
2014	174,253	178,127	3,874	97.8%	904,993	0.43%

Health insurance subsidy payments reported for fiscal year 2014: \$1,800

CITY OF SOMERTON, ARIZONA
Schedule of Funding Progress, continued
June 30, 2014

Public Safety Personnel Retirement System (PSPRS) – Fire Fighters

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2009 through June 30, 2014, 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
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%
2014	2,581,802	3,677,702	70.20%	1,095,900	925,129	118.5%

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
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%
2014	115,613	111,323	(4,290)	103.9%	925,129	0.00%

Health insurance subsidy payments reported for fiscal year 2014: \$600

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.

Special Revenue Funds

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

- **Highway User Revenue Special Revenue Fund** – This fund is used to account for revenue sources that are legally restricted for road construction and maintenance.

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
City sales tax	\$ 1,488,461	\$ 1,488,461	\$ 1,511,036	\$ 22,575
Franchise fees	195,000	195,000	100,212	(94,788)
Property taxes	495,310	495,310	491,693	(3,617)
Special assessments	124,190	124,190	131,003	6,813
Total taxes	<u>2,302,961</u>	<u>2,302,961</u>	<u>2,233,944</u>	<u>(69,017)</u>
Licenses, Permits and Fees:				
Parks development fees	65,000	65,000	80,026	15,026
Building permits	50,000	50,000	54,867	4,867
Business licenses	25,000	25,000	22,777	(2,223)
Total licenses, fees and permits	<u>140,000</u>	<u>140,000</u>	<u>157,670</u>	<u>17,670</u>
Intergovernmental:				
State sales taxes	1,234,505	1,234,505	1,243,580	9,075
State revenue sharing	1,593,928	1,593,928	1,603,767	9,839
Auto lieu tax	496,339	496,339	490,479	(5,860)
Grants	1,600,000	1,600,000	59,521	(1,540,479)
Cocopah obligation	404,500	404,500	404,536	36
Total intergovernmental	<u>5,329,272</u>	<u>5,329,272</u>	<u>3,801,883</u>	<u>(1,527,389)</u>
Charges for Services:				
Rent revenues	12,000	12,000	13,550	1,550
Ambulance fees	892,059	892,059	1,124,625	232,566
Reimbursements	15,000	15,000	39,327	24,327
Miscellaneous fees and charges	127,600	127,600	215,377	87,777
Total charges for services	<u>1,046,659</u>	<u>1,046,659</u>	<u>1,392,879</u>	<u>346,220</u>
Fines and Forfeitures:				
Fines and forfeitures	150,000	150,000	138,218	(11,782)
Total fines and forfeitures	<u>150,000</u>	<u>150,000</u>	<u>138,218</u>	<u>(11,782)</u>
Interest				
Investment earnings	-	-	10,848	10,848
Total interest	<u>-</u>	<u>-</u>	<u>10,848</u>	<u>10,848</u>
Other Revenues:				
Donations	-	-	13,725	13,725
Miscellaneous	20,000	20,000	17,980	(2,020)
Total other revenues	<u>20,000</u>	<u>20,000</u>	<u>31,705</u>	<u>11,705</u>
TOTAL REVENUES	<u>8,988,892</u>	<u>8,988,892</u>	<u>7,767,147</u>	<u>(1,221,745)</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, 2014

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	420,740	420,740	408,828	11,912
Administration	527,267	527,267	484,256	43,011
Finance	165,711	165,711	171,431	(5,720)
City clerk	20,576	20,576	20,257	319
Court	331,443	331,443	354,124	(22,681)
Total general government	<u>1,465,737</u>	<u>1,465,737</u>	<u>1,438,896</u>	<u>26,841</u>
Public Safety:				
Police	2,805,892	2,805,892	2,072,376	733,516
Fire and ambulance	2,782,118	2,782,118	2,414,563	367,555
Animal control	128,056	128,056	115,868	12,188
Total public safety	<u>5,716,066</u>	<u>5,716,066</u>	<u>4,602,807</u>	<u>1,113,259</u>
Public Works/Streets:				
Assessment districts	124,190	124,190	104,472	19,718
Total public works/streets	<u>124,190</u>	<u>124,190</u>	<u>104,472</u>	<u>19,718</u>
Culture and Recreation:				
Parks and recreation	776,225	776,225	732,859	43,366
Youth center	79,268	79,268	102,487	(23,219)
Total culture and recreation	<u>855,493</u>	<u>855,493</u>	<u>835,346</u>	<u>20,147</u>
Economic Development:				
Community development	165,078	165,078	160,442	4,636
Economic development	86,328	86,328	89,840	(3,512)
Total economic development	<u>251,406</u>	<u>251,406</u>	<u>250,282</u>	<u>1,124</u>
TOTAL EXPENDITURES	<u>8,412,892</u>	<u>8,412,892</u>	<u>7,231,803</u>	<u>1,181,089</u>
Excess of revenues over expenditures	<u>576,000</u>	<u>576,000</u>	<u>535,344</u>	<u>(40,656)</u>
Other Financing Sources (Uses):				
Lease proceeds	-	-	31,375	31,375
Sale of assets	-	-	-	-
Transfers out	(636,000)	(636,000)	(976,148)	(340,148)
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>(636,000)</u>	<u>(636,000)</u>	<u>(944,773)</u>	<u>(308,773)</u>
Net change in fund balance	(60,000)	(60,000)	(409,429)	(349,429)
Fund balance, beginning of year	<u>1,684,394</u>	<u>1,684,394</u>	<u>1,684,394</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,624,394</u>	<u>\$ 1,624,394</u>	<u>\$ 1,274,965</u>	<u>\$ (349,429)</u>

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 982,000	\$ 982,000	\$ 988,923	\$ 6,923
Total revenue	<u>\$ 982,000</u>	<u>982,000</u>	<u>988,923</u>	<u>6,923</u>
EXPENDITURES:				
Salaries	270,499	270,499	270,422	77
Employee benefits	128,327	128,327	140,853	(12,526)
Services, supplies, and other	787,603	787,603	314,368	473,235
Capital outlay	<u>2,571</u>	<u>2,571</u>	<u>586</u>	<u>1,985</u>
Total expenditures	<u>1,189,000</u>	<u>1,189,000</u>	<u>726,229</u>	<u>462,771</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(207,000)</u>	<u>(207,000)</u>	<u>262,694</u>	<u>469,694</u>
Other Financing Sources (Uses):				
Transfers in	-	-	20,000	20,000
Transfers out	<u>(113,000)</u>	<u>(113,000)</u>	<u>(113,000)</u>	<u>-</u>
Total other financing sources (uses):	<u>(113,000)</u>	<u>(113,000)</u>	<u>(93,000)</u>	<u>20,000</u>
Net change in fund balance	(320,000)	(320,000)	169,694	489,694
Fund balance, beginning of year	<u>458,610</u>	<u>458,610</u>	<u>458,610</u>	<u>-</u>
Fund balance, end of year	<u>\$ 138,610</u>	<u>\$ 138,610</u>	<u>\$ 628,304</u>	<u>\$ 489,694</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.

- **Capital Improvement Capital Projects Fund** – This 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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 15,339,000	\$ 15,339,000	\$ 88,755	\$ (15,250,245)
Total revenue	<u>15,339,000</u>	<u>15,339,000</u>	<u>88,755</u>	<u>(15,250,245)</u>
EXPENDITURES:				
Capital outlay	<u>15,339,000</u>	<u>15,339,000</u>	<u>1,079,932</u>	<u>14,259,068</u>
Total expenditures	<u>15,339,000</u>	<u>15,339,000</u>	<u>1,079,932</u>	<u>14,259,068</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>-</u>	<u>-</u>	<u>(991,177)</u>	<u>(991,177)</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>286,977</u>	<u>286,977</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(704,200)</u>	<u>(704,200)</u>
Fund balance, beginning of year	<u>704,200</u>	<u>704,200</u>	<u>704,200</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 704,200</u></u>	<u><u>\$ 704,200</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (704,200)</u></u>

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.
- **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, 2014

	Special Revenue			Debt Service	Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
ASSETS					
Cash	\$ 28,421	\$ 52,943	\$ 9,108	\$ -	\$ 90,472
Accounts receivable	-	26,786	-	-	26,786
Due from other governments	50,032	-	21,800	-	71,832
Restricted cash and investments	-	-	-	56,989	56,989
Total assets	<u>\$ 78,453</u>	<u>\$ 79,729</u>	<u>\$ 30,908</u>	<u>\$ 56,989</u>	<u>\$ 246,079</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 5,185	\$ 72,765	\$ 10,212	\$ -	\$ 88,162
Accrued wages and benefits	4,083	-	1,978	-	6,061
Due to other funds	-	-	-	6,820	6,820
Total liabilities	<u>9,268</u>	<u>72,765</u>	<u>12,190</u>	<u>6,820</u>	<u>101,043</u>
Fund Balance:					
Restricted for:					
General government	-	6,964	-	-	6,964
Public safety	69,185	-	-	-	69,185
Committed to:					
Health and welfare	-	-	18,718	-	18,718
Assigned to:					
Debt service	-	-	-	50,169	50,169
Total fund balance	<u>69,185</u>	<u>6,964</u>	<u>18,718</u>	<u>50,169</u>	<u>145,036</u>
Total liabilities and fund balance	<u>\$ 78,453</u>	<u>\$ 79,729</u>	<u>\$ 30,908</u>	<u>\$ 56,989</u>	<u>\$ 246,079</u>

CITY OF SOMERTON, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2014

	Special Revenue			Debt Service	Total
	Miscellaneous Grants	Court Fund	Senior Nutrition Center	Debt Service	
REVENUES:					
Intergovernmental	\$ 193,627	\$ -	\$ 133,899	\$ -	\$ 327,526
Fines and forfeitures	-	5,041	-	-	5,041
Other revenues	23,609	-	21,840	-	45,449
Total revenues	<u>217,236</u>	<u>5,041</u>	<u>155,739</u>	<u>-</u>	<u>378,016</u>
EXPENDITURES:					
General government	-	120	-	-	120
Public safety	245,601	-	-	-	245,601
Health and welfare	-	-	160,162	-	160,162
Debt Service	-	-	-	722,217	722,217
Total expenditures	<u>245,601</u>	<u>120</u>	<u>160,162</u>	<u>722,217</u>	<u>1,128,100</u>
Excess of revenues over (under) expenditures	<u>(28,365)</u>	<u>4,921</u>	<u>(4,423)</u>	<u>(722,217)</u>	<u>(750,084)</u>
Other Financing Sources (Uses):					
Transfers in	<u>33,171</u>	<u>-</u>	<u>-</u>	<u>765,000</u>	<u>798,171</u>
Total other financing sources (uses):	<u>33,171</u>	<u>-</u>	<u>-</u>	<u>765,000</u>	<u>798,171</u>
Net change in fund balances	4,806	4,921	(4,423)	42,783	48,087
Fund balance, beginning of year	<u>64,379</u>	<u>2,043</u>	<u>23,141</u>	<u>7,386</u>	<u>96,949</u>
Fund balance, end of year	<u>\$ 69,185</u>	<u>\$ 6,964</u>	<u>\$ 18,718</u>	<u>\$ 50,169</u>	<u>\$ 145,036</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, 2014

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental revenue	\$ 550,000	\$ 193,627	\$ (356,373)
Other revenue	50,000	23,609	(26,391)
Total revenue	<u>600,000</u>	<u>217,236</u>	<u>(382,764)</u>
EXPENDITURES:			
Salaries	585,000	146,233	438,767
Employee benefits	-	64,790	(64,790)
Services, supplies, and other	15,000	18,025	(3,025)
Capital outlay	-	16,553	(16,553)
Total expenditures	<u>600,000</u>	<u>245,601</u>	<u>354,399</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>-</u>	<u>(28,365)</u>	<u>(28,365)</u>
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>33,171</u>	<u>33,171</u>
Net change in fund balance	-	4,806	4,806
Fund balance, beginning of year	<u>64,379</u>	<u>64,379</u>	<u>-</u>
Fund balance, end of year	<u>\$ 64,379</u>	<u>\$ 69,185</u>	<u>\$ 4,806</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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Fines and forfeitures	\$ 5,360	\$ 5,041	\$ (319)
Total revenue	<u>5,360</u>	<u>5,041</u>	<u>(319)</u>
EXPENDITURES:			
Services, supplies, and other	<u>5,360</u>	<u>120</u>	<u>5,240</u>
Total expenditures	<u>5,360</u>	<u>120</u>	<u>5,240</u>
Net change in fund balance	-	4,921	4,921
Fund balance, beginning of year	<u>2,043</u>	<u>2,043</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,043</u></u>	<u><u>\$ 6,964</u></u>	<u><u>\$ 4,921</u></u>

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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Intergovernmental revenue	\$ 120,000	\$ 133,899	\$ 13,899
Donations and other revenue	20,000	21,840	1,840
Total revenue	<u>140,000</u>	<u>155,739</u>	<u>15,739</u>
EXPENDITURES:			
Salaries	72,744	90,291	(17,547)
Employee benefits	17,556	20,002	(2,446)
Services, supplies, and other	49,700	49,869	(169)
Total expenditures	<u>140,000</u>	<u>160,162</u>	<u>(20,162)</u>
Net change in fund balance	-	(4,423)	(4,423)
Fund balance, beginning of year	<u>23,141</u>	<u>23,141</u>	<u>-</u>
Fund balance, end of year	<u>\$ 23,141</u>	<u>\$ 18,718</u>	<u>\$ (4,423)</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, 2014

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental revenue	\$ -	\$ -	\$ -
Total revenue	-	-	-
EXPENDITURES:			
Debt service - principal	375,000	385,341	(10,341)
Debt service - interest	390,000	336,876	53,124
Total expenditures	765,000	722,217	42,783
Excess of revenue and other sources over (under) expenditures and other uses	(765,000)	(722,217)	42,783
Other Financing Sources (Uses):			
Transfers in	765,000	765,000	-
Total other financing sources (uses)	765,000	765,000	-
Net change in fund balance	-	42,783	42,783
Fund balance, beginning of year	7,386	7,386	-
Fund balance, end of year	\$ 7,386	\$ 50,169	\$ 42,783

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**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, 2014 and 2013

	2014	2013
Capital assets:		
Land	\$ 949,417	\$ 807,012
Buildings and Improvements	6,508,633	6,508,633
Improvements	2,065,254	2,056,754
Furniture and Equipment	2,816,385	2,791,517
Vehicles	2,985,249	2,756,210
Infrastructure/Streets	15,161,871	14,547,718
Construction in Progress	488,276	267,569
	\$ 30,975,085	\$ 29,735,413
 Investment in capital assets by source:		
Investment in property acquired by all sources excluding donations	\$ 27,908,635	\$ 26,668,963
Donations	3,066,450	3,066,450
	\$ 30,975,085	\$ 29,735,413

CITY OF SOMERTON, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2014

<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	\$ 629,155	\$ 827,474	\$ -	\$ 213,689	\$ 90,879	\$ -	\$ 188,443	\$ 1,949,640
Highways and Streets	6,000	-	23,974	419,048	534,235	14,976,373	299,833	16,259,463
Public Safety	3,010	3,845,216	784,387	1,829,754	2,286,778	-	-	8,749,145
Culture and Recreation	311,252	1,090,972	1,063,833	343,879	73,357	185,498	-	3,068,791
Health and Welfare	-	744,971	193,060	10,015	-	-	-	948,046
Totals	<u>\$ 949,417</u>	<u>\$ 6,508,633</u>	<u>\$ 2,065,254</u>	<u>\$ 2,816,385</u>	<u>\$ 2,985,249</u>	<u>\$ 15,161,871</u>	<u>\$ 488,276</u>	<u>\$ 30,975,085</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, 2014

<u>Function and Activity</u>	<u>Capital Assets July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Capital Assets June 30, 2014</u>
General Government	\$ 1,678,253	\$ 271,387	\$ -	\$ 1,949,640
Highways and Streets	15,700,206	559,257	-	16,259,463
Public Safety	8,564,846	184,299	-	8,749,145
Culture and Recreation	2,844,062	224,729	-	3,068,791
Health and Welfare	948,046	-	-	948,046
Totals	<u>\$ 29,735,413</u>	<u>\$ 1,239,672</u>	<u>\$ -</u>	<u>\$ 30,975,085</u>

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	70
<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	74
<i>These schedules contain information to help the reader assess the government’s most significant local revenues source, the sales tax.</i>	
Debt Capacity	75
<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.....	76
<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	77
<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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Fiscal Year</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental activities												
Net investment in capital assets	\$ 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	\$ 9,277,492	\$ 9,277,492	\$ 9,277,492
Restricted	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	777,792	777,792	777,792
Unrestricted	846,187	1,080,679	611,045	(3,273,849)	(3,162,059)	(2,676,083)	(2,090,502)	(671,385)	1,108,754	1,836,853	1,836,853	1,836,853
Total governmental activities net position	<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>	<u>\$ 11,892,137</u>	<u>\$ 11,892,137</u>	<u>\$ 11,892,137</u>
Business-type activities												
Net investment in capital assets	\$ 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	\$ 16,293,897	\$ 16,293,897	\$ 16,293,897
Restricted	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	1,485,242	1,485,242	1,485,242
Unrestricted	1,348,094	129,743	947,387	970,899	570,584	232,729	1,130,746	1,164,853	2,271,166	2,053,834	2,053,834	2,053,834
Total business-type activities net position	<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>	<u>\$ 19,832,973</u>	<u>\$ 19,832,973</u>	<u>\$ 19,832,973</u>
Primary government												
Net investment in capital assets	\$ 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	\$ 25,571,389	\$ 25,571,389	\$ 25,571,389
Restricted	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	2,263,034	2,263,034	2,263,034
Unrestricted	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	3,890,687	3,890,687	3,890,687
Total primary government net position	<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>	<u>\$ 31,725,110</u>	<u>\$ 31,725,110</u>	<u>\$ 31,725,110</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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 834,892	\$ 975,809	\$ 837,403	\$ 948,716	\$ 1,028,049	\$ 706,034	\$ 869,252	\$ 1,037,183	\$ 1,029,378	\$ 1,258,932
Public safety	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	5,225,347
Public works/Streets	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	1,587,665
Culture and recreation	548,894	609,037	689,110	790,428	719,824	627,497	633,493	681,096	842,621	795,215
Economic development	221,647	217,111	276,780	317,203	259,336	202,788	164,123	196,998	279,406	246,595
Health and welfare	-	-	-	-	-	205,878	207,466	197,037	176,147	193,620
Interest on long-term debt	27,324	54,156	338,630	642,710	452,399	423,057	403,368	398,679	421,377	268,312
Total governmental activities expenses	<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>	<u>9,575,686</u>
Business-type activities:										
Water/Sewer/Sanitation	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	4,737,436
Total business-type activities expenses	<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>	<u>4,737,436</u>
Total primary government expenses	<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>	<u>\$ 14,313,122</u>
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General government	\$ 567,522	\$ 1,024,445	\$ 807,144	\$ 832,033	\$ 825,918	\$ 870,346	\$ 765,279	\$ 189,960	\$ 227,730	\$ 288,205
Public safety	280,607	1,600	114,436	113,924	111,685	119,355	75,935	891,207	1,472,856	1,474,487
Public works/Streets	15,059	22,580	37,545	39,392	35,709	27,574	13,137	16,954	23,296	77,197
Culture and recreation	131,921	116,608	80,365	87,052	122,436	130,494	125,844	155,664	256,900	318,298
Operating grants & contributions	1,361,237	1,326,193	1,383,842	1,420,474	1,391,142	1,626,094	1,664,109	1,857,861	1,751,945	1,747,867
Capital grants & contributions	659,287	2,560,925	2,470,948	4,011,389	745,256	241,353	301,340	100,844	824,428	155,084
Total governmental activities program revenues	<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>	<u>4,061,138</u>
Business-type activities:										
Charges for services:										
Water/Sewer/Sanitation	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	3,432,789
Operating grants & contributions	-	-	-	-	-	-	-	-	-	-
Capital grants & contributions	3,355,122	2,258,755	2,361,831	3,823,575	716,835	873,091	2,075,134	1,727,748	645,416	539,360
Total business-type activities program revenues	<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>	<u>3,972,149</u>
Total primary government program revenues	<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>	<u>\$ 8,033,287</u>
Net (Expense)/Revenue										
Governmental activities	\$ (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)	\$ (5,514,548)
Business-type activities	2,833,621	1,704,426	1,423,580	2,545,741	(361,149)	(48,299)	843,081	795,195	(386,751)	(765,287)
Total primary governmental net (expense) revenue	<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>	<u>\$ (6,279,835)</u>
General Revenues & Other Changes in Net Position										
Government activities:										
Taxes										
City sales tax	\$ 861,786	\$ 1,204,866	\$ 990,228	\$ 1,363,911	\$ 993,655	\$ 1,084,017	\$ 1,353,720	\$ 1,350,657	\$ 1,378,727	\$ 1,511,036
State sales tax	673,125	787,111	926,710	896,064	775,741	715,508	775,953	1,116,391	1,169,429	1,243,580
Property Tax	-	-	266,572	294,443	359,745	387,379	461,169	445,863	482,755	498,480
Auto lieu tax	291,049	329,963	381,884	385,030	376,184	360,552	360,782	496,042	458,780	490,479
Franchise tax	82,043	97,353	111,534	124,183	129,840	138,113	153,146	175,842	187,552	100,212
State income taxes - revenue sharing	655,608	769,603	1,109,012	1,358,975	1,418,553	1,233,011	970,402	1,226,959	1,470,598	1,603,767
Unrestricted grants & contributions	-	-	-	-	-	-	-	-	-	-
Investment earnings	41,332	90,990	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848
Miscellaneous	41	-	17,107	-	187	1,050	166,479	3,628	-	-
Transfers	120,431	43,591	44,815	59,519	38,509	39,697	50,200	22,400	21,947	16,000
Total governmental activities	<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>	<u>5,474,402</u>
Business-type activities										
Investment earnings	12,101	50,069	62,069	60,276	19,102	2,139	1,001	(36,862)	1,130	1,535
Transfers	(120,431)	(43,591)	(44,815)	(59,519)	(38,509)	(39,697)	(50,200)	(22,400)	(21,947)	(16,000)
Total business-type activities	<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>	<u>(14,465)</u>
Total primary government	<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>	<u>\$ 5,459,937</u>
Change in Net Position										
Governmental activities	\$ 745,447	\$ 3,102,343	\$ 2,516,257	\$ 3,264,795	\$ (456,840)	\$ (554,640)	\$ (566,465)	\$ 14,902	\$ 493,113	\$ (40,146)
Business-type activities	2,725,291	1,710,904	1,440,834	2,546,498	(380,550)	(85,857)	793,882	735,933	(407,508)	(779,752)
Total primary government	<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>\$ 750,835</u>	<u>\$ 85,545</u>	<u>\$ (819,898)</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>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>	<u>2014</u>
General Fund										
Reserved/restricted	\$ 26,938	\$ 111,553	\$ 27,301	\$ 40,119	\$ 56,093	\$ 67,861	\$ 50,839	\$ 23,782	\$ 9,446	\$ 23,170
Unreserved/unassigned	786,356	843,755	825,945	843,929	754,467	742,725	872,052	1,440,298	1,674,948	1,251,795
Total General Fund	<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>	<u>\$ 1,274,965</u>
All Other Governmental Funds										
Reserved/restricted	\$ 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	\$ 704,453
Committed/Unreserved/unassigned, reported in:										
Court trust fund	85,470	125,371	112,337	112,874	-	-	-	-	-	-
Special Revenue Funds	(45,317)						3,400	530	23,141	18,718
HURF Funds	223,763	-	-	-	-	-	-	-	-	-
Capital projects funds	(673)	-	-	-	-	-	-	-	-	-
Debt service funds	18,209	-	-	-	-	-	14,066	16,105	7,386	50,169
Total all other governmental funds	<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>	<u>\$ 773,340</u>

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

	Fiscal year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	\$ 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	\$ 2,233,944
Licenses, fees and permits	251,152	175,402	317,462	291,082	217,338	202,274	99,655	123,082	179,501	157,670
Fines & penalties	322,766	487,817	150,715	191,685	264,677	212,247	174,358	149,624	122,557	143,259
Charges for services	395,048	418,224	497,833	544,879	514,474	589,546	576,898	871,727	1,541,070	1,392,879
Intergovernmental	3,318,804	4,024,265	5,039,275	4,652,964	4,671,884	4,130,675	4,032,548	4,753,429	5,640,583	5,207,087
Investment earnings	41,332	90,990	242,623	317,133	68,776	8,732	4,171	(21,853)	14,922	10,848
Other revenues	56,763	14,536	4,852	85,655	64,022	113,424	90,743	93,200	86,718	77,154
Total Revenues	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	9,222,841
Expenditures										
General government	834,744	952,715	856,974	921,684	1,002,452	904,944	907,507	1,076,490	1,247,348	1,439,016
Public safety	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	4,848,408
Public works/Streets	607,255	568,263	718,380	890,229	834,019	719,021	705,140	746,065	948,925	830,701
Culture and recreation	449,728	534,918	618,793	711,013	585,880	496,174	503,956	585,288	710,980	835,346
Economic development	206,812	209,453	292,976	316,264	257,958	202,010	162,180	196,502	277,304	250,282
Health and welfare	-	-	-	-	-	184,474	180,476	180,651	140,779	160,162
Capital Outlay	544,907	3,405,155	4,113,493	2,046,283	737,222	647,454	716,962	2,075,097	1,597,878	1,079,932
Debt Service										
Interest	27,324	30,759	324,548	297,612	459,093	444,137	414,173	402,816	419,000	336,876
Principal	179,765	309,048	159,531	768,951	476,682	437,728	433,622	403,041	342,535	385,341
Total expenditures	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	10,166,064
Excess of revenues over (under) expenditures	132,462	(2,140,961)	(3,545,954)	(1,648,827)	(592,594)	(630,346)	(340,785)	(1,375,724)	(744,614)	(943,223)
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	-	31,375
Transfers in	439,418	731,077	1,552,517	1,233,129	1,133,844	1,019,686	967,118	934,328	1,027,066	1,105,148
Transfers out	(318,987)	(687,486)	(1,507,702)	(1,173,610)	(1,095,335)	(979,989)	(916,918)	(911,928)	(1,005,119)	(1,089,148)
Total other financing sources (uses)	122,072	2,483,874	8,524,871	154,314	98,509	39,697	50,200	1,227,674	21,947	47,375
Net change in fund balances	\$ 254,534	\$ 342,913	\$ 4,978,917	\$ (1,494,513)	\$ (494,085)	\$ (590,649)	\$ (290,585)	\$ (148,050)	\$ (722,667)	\$ (895,848)
Debt service as a percentage of noncapital expenditures	9.6%	3.3%	9.5%	9.6%	51.1%	15.0%	14.6%	12.4%	9.4%	8.6%

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

	Fiscal Years									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Mining	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 2,112	\$ 1,051	\$ 1,307	\$ 84	\$ -
Construction	215,805	453,421	387,297	467,329	596,427	196,957	210,325	213,043	142,716	153,907
Manufacturing	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	70,871	84,958	87,043	118,451	112,937	103,891	152,783	207,877	206,169	264,346
Wholesale Trade	154,473	171,515	196,126	203,219	205,751	211,423	203,058	149,935	-	-
Retail Trade	187,561	231,919	277,031	279,801	265,964	280,082	329,971	549,476	858,639	860,963
Restaurants & Bars	8,796	7,656	33,535	60,757	75,190	70,262	75,681	95,214	114,680	112,303
Insurance/Real Estate/Finance	33,418	38,345	58,908	46,946	61,419	68,935	66,289	71,534	48,151	48,604
Hotels/Lodging/Accommodation	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	-	1
Services	12,688	11,093	15,586	13,276	11,915	13,746	15,231	35,517	-	4,464
All Others Not Specified	22,293	68,762	103,346	10,985	9,792	22,609	6,048	8,764	6,498	14,487
Total	\$ 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	\$ 1,459,075
City direct sales tax rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	3.30%	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 2014

Assessed Value	\$ 30,423,786
Debt Limit (20% of assessed value)	6,084,757
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal debt margin	<u>\$ 6,084,757</u>

	Fiscal Year									
	<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>	<u>2014</u>
Debt limit	\$ 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	\$ 6,084,757
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<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>	<u>\$ 6,084,757</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%

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>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>	<u>2014</u>
General government										
Management services	2	3	4	3	3	2	2	2	3	2
Finance	3	5	5	8	7	5	5	5	5	5
Planning	3	5	5	5	3	3	3	2	1	4
Building	1	1	2	4	4	4	2	2	1	1
Court	10	3	4	3	3	3	5	4	5	5
Public safety										
Police	25	26	30	33	35	30	29	27	30	30
Fire	22	24	20	23	26	26	19	19	19	19
Public works/Streets										
Other	10	9	11	15	12	14	11	11	13	14
Culture and recreation	17	18	17	14	16	16	16	16	16	10
Water/Sewer/Sanitation	14	17	22	22	18	20	16	19	19	17
Total	107	111	120	130	127	123	108	107	112	107

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>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>	<u>2014</u>
General government										
Building permits issued	290	284	203	179	97	121	44	43	43	69
Police										
Physical arrests	605	797	600	535	536	425	407	286	230	272
Traffic violations	2,825	3,945	2,851	3,220	3,958	2,442	2,448	1,400	1,440	1,525
Fire										
Emergency responses	1,592	1,592	1,433	1,467	1,627	1,671	1,664	1,658	3,965	4,618
Fires extinguished	30	30	89	55	57	56	34	43	65	49
Inspections	391	391	71	127	199	338	276	198	243	280
Water										
New connections	2,278	2,381	2,561	2,700	2,900	3,000	2,933	3,092	3,148	3,079
Water main breaks	-	-	-	-	-	-	-	2	2	2
Average daily consumption	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	1,400,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	600,000	600,000	600,000	705,000	792,612	792,612	800,000	598,000	727,000	1,021,000

Source: City records

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

<u>Function/Program</u>	<u>Fiscal Year</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>	<u>2014</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	9	12	15	17	16	16	16	16	19	22
Fire Stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks	5	7	5	5	6	6	6	6	6	5
Other public works										
Streets (miles)	32	32	37	41	44	44	44	44	44	44
Streetlights	480	480	534	601	601	601	601	601	706	732
Traffic signals	1	2	2	3	4	4	4	4	4	4
Parks and recreation										
Acreage	33	33	38	38	38	38	38	38	38	38
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	32	32	37	42	42	42	42	42	46	46
Fire hydrants	321	321	363	406	410	410	410	410	397	410
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	2,250,000
Wastewater										
Sanitary sewers (miles)	32	34	41	46	46	46	46	46	46	46
Storm sewers (miles)	4	4	5	5	5	5	5	5	5	5
Treatment capacity (thousands of gallons)	800,000	800,000	800,000	800,000	800,000	800,000	1,600,000	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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**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, 2014, 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 January 26, 2015.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses.

14-1 Controls over Ambulance Billing
07-1 Year End Accounting

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies.

14-2 Cash Drawers and Check Cashing

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*.

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

January 26, 2015

**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, 2014, and have issued our report thereon dated January 26, 2015. 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, 2014.



HintonBurdick, PLLC
January 26, 2015