



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ST. JOHNS, ARIZONA

Table of Contents

Financial Section:	<u>Page</u>
Independent Auditors’ Report on Financial Statements.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Net Position - Proprietary Funds.....	18
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds.....	19
Statement of Cash Flows - Proprietary Funds.....	20
Notes to Financial Statements.....	21
Required Supplementary Information – Public Safety Retirement System.....	44
Required Supplementary Information – Budgetary Comparison Schedules.....	45
Nonmajor Combining and Individual Fund Financial Statements.....	49
Other Communications from Independent Auditors:	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters.....	57
Report on State Legal Compliance.....	59

This page intentionally left blank

**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
City Council
St. Johns, Arizona

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 St. Johns, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of St. Johns' management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of St. Johns as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the City of St. Johns' 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, public safety retirement system information on page 44 and the budgetary comparison information on pages 46 through 48 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 supplementary information in accordance with auditing standard generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Johns, Arizona's basic financial statements as a whole. The combining and individual nonmajor fund financial statements and 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 of the City of St. Johns, Arizona. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



HintonBurdick, PLLC
December 18, 2012

**CITY OF ST. JOHNS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

As management of the City of St. Johns (City), 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, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net position increased by \$1,035,212 which resulted in total assets in excess of total liabilities (net position) of \$16.6 million at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenditures and transfers by \$547,227.
- Total business-type revenues and transfers exceeded total business-type expenses by \$487,985.
- Total revenues from all sources were \$5.5 million and the total cost of all City programs was \$4.4 million.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$108,994 or 5% of total General Fund expenditures, including 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 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, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, State Revenue Sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers to cover 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 over \$16.5 million as of June 30, 2012 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer, buildings and EMS operations in enterprise funds which are shown as Business Activities.

CITY OF ST. JOHNS, ARIZONA Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 1,373,255	\$ 585,093	\$ 2,549,874	\$ 2,408,634	\$ 3,923,129	\$ 2,993,727
Capital assets	8,343,974	8,862,760	8,189,660	6,904,481	16,533,634	15,767,241
Total assets	<u>9,717,229</u>	<u>9,447,853</u>	<u>10,739,534</u>	<u>9,313,115</u>	<u>20,456,763</u>	<u>18,760,968</u>
Long-term liabilities outstanding	72,244	136,266	3,490,805	2,268,673	3,563,049	2,404,939
Other liabilities	152,418	315,173	177,902	512,674	330,320	827,847
Total liabilities	<u>224,662</u>	<u>451,439</u>	<u>3,668,707</u>	<u>2,781,347</u>	<u>3,893,369</u>	<u>3,232,786</u>
Net position:						
Invested in capital assets, net of related debt	8,339,135	8,820,092	4,747,657	4,662,030	13,086,792	13,482,122
Restricted	831,178	794,476	368,020	340,854	1,199,198	1,135,330
Unrestricted	322,254	(618,154)	1,955,150	1,528,884	2,277,404	910,730
Total net position	<u>\$ 9,492,567</u>	<u>\$ 8,996,414</u>	<u>\$ 7,070,827</u>	<u>\$ 6,531,768</u>	<u>\$ 16,563,394</u>	<u>\$ 15,528,182</u>

Governmental Activities

The cost of all Governmental activities this year was \$2.9 million. As shown on the statement of Changes in Net Position on the following page, \$486,908 of this cost was paid for by those who directly benefited from the programs, \$748,275 was subsidized by grants and contributions received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1.24 million. General Taxes, State Revenue Sharing and investment earnings totaled \$1.51 million.

The City's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Health & Welfare. Each program's revenues and expenses are presented below.

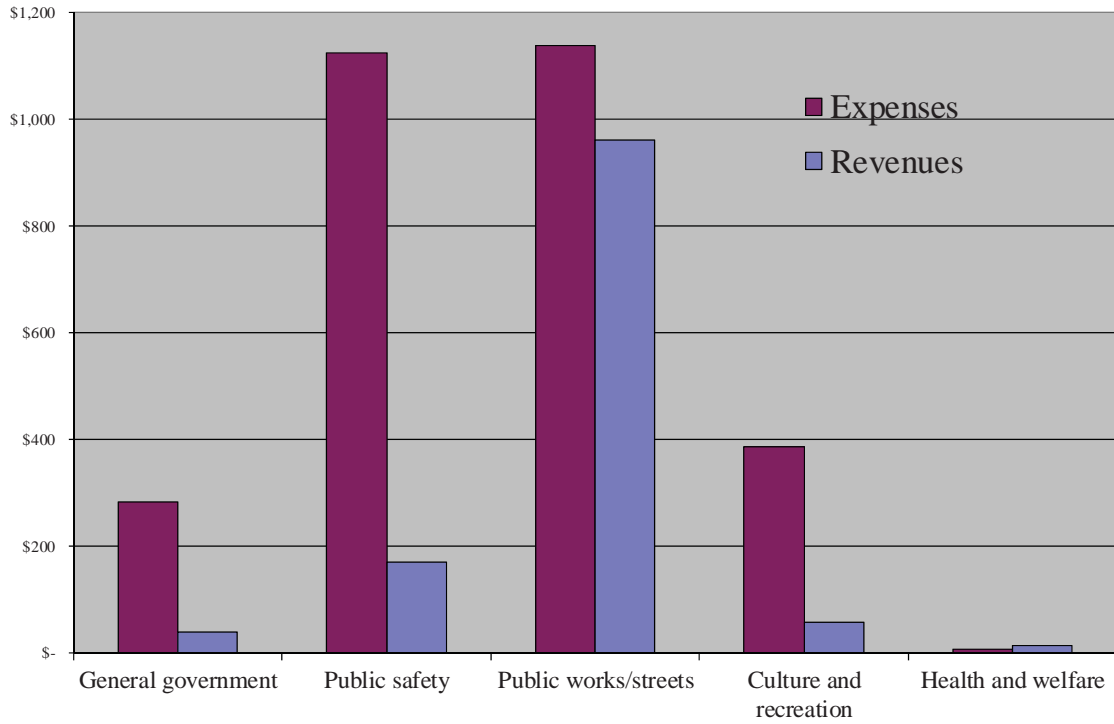
CITY OF ST. JOHNS, ARIZONA
Changes in Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 486,908	\$ 434,584	\$ 1,569,364	\$ 1,536,864	\$ 2,056,272	\$ 1,971,448
Operating grants and contributions	735,822	1,269,018	159,826	100,000	895,648	1,369,018
Capital grants and contributions	12,453	2,107,614	969,744	606,896	982,197	2,714,510
General revenues:						
Taxes	1,225,703	1,100,857	-	-	1,225,703	1,100,857
State revenue sharing	293,715	376,191	-	-	293,715	376,191
Other revenue/(expense)	1,603	1,354	8,844	1,918	10,447	3,272
Total revenues	<u>2,756,204</u>	<u>5,289,618</u>	<u>2,707,778</u>	<u>2,245,678</u>	<u>5,463,982</u>	<u>7,535,296</u>
Expenses:						
General government	281,873	322,656	-	-	281,873	322,656
Public safety	1,123,909	1,036,382	-	-	1,123,909	1,036,382
Public works/Streets	1,137,845	1,163,125	-	-	1,137,845	1,163,125
Culture and recreation	386,944	502,054	-	-	386,944	502,054
Health and welfare	5,641	72,852	-	-	5,641	72,852
Water	-	-	648,311	612,597	648,311	612,597
Sewer	-	-	305,849	299,011	305,849	299,011
City Buildings	-	-	48,750	47,056	48,750	47,056
EMS	-	-	489,648	527,610	489,648	527,610
Total expenses	<u>2,936,212</u>	<u>3,097,069</u>	<u>1,492,558</u>	<u>1,486,274</u>	<u>4,428,770</u>	<u>4,583,343</u>
Increase (Decrease) in net position						
before transfers	(180,008)	2,192,549	1,215,220	759,404	1,035,212	2,951,953
Transfers	<u>727,235</u>	<u>-</u>	<u>(727,235)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in net position	547,227	2,192,549	487,985	759,404	1,035,212	2,951,953
Net position, beginning	8,996,414	6,803,865	6,531,768	5,772,364	15,528,182	12,576,229
Prior period adjustment	(51,074)	-	51,074	-	-	-
Net position, ending	<u>\$ 9,492,567</u>	<u>\$ 8,996,414</u>	<u>\$ 7,070,827</u>	<u>\$ 6,531,768</u>	<u>\$ 16,563,394</u>	<u>\$ 15,528,182</u>

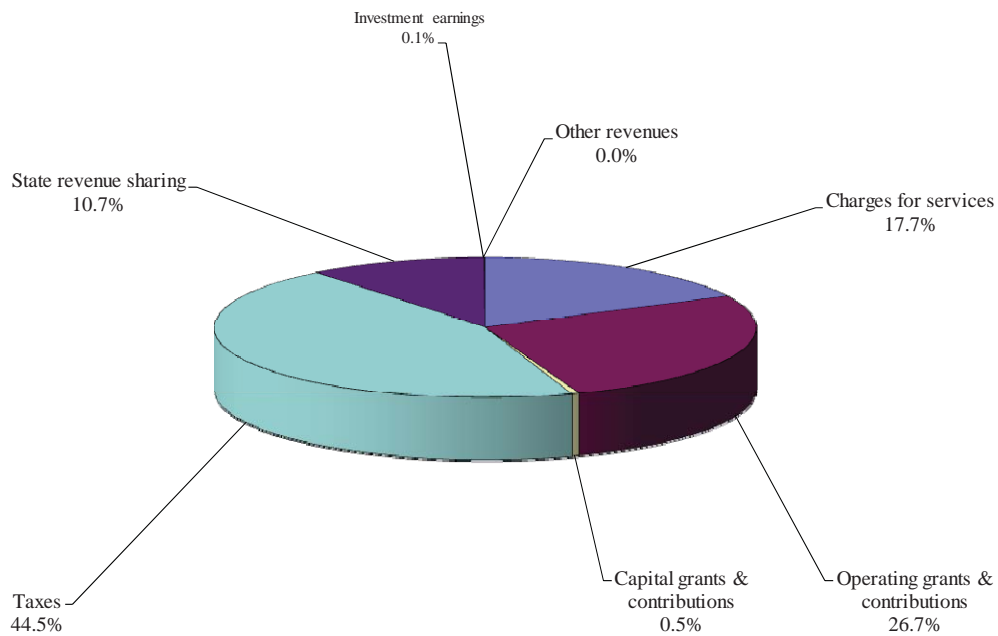
Total resources available during the year to finance governmental operations were \$11.75 million consisting of Net Position at July 1, 2011 of \$9 million, program revenues of \$1.24 million, General Revenues of \$1.51 million, and transfers of \$727,235. Total Governmental Activities expenses during the year were \$2.9 million; thus Governmental Net Position was increased by \$547,227 from operations resulting in net position of \$9.49 million. As reflected above, there were decreases in all activities other than an \$87,527 increase in public safety. Overall, governmental activities remained relatively consistent as compared to the prior year.

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

Expenses and Program Revenues - Governmental Activities (in Thousands)



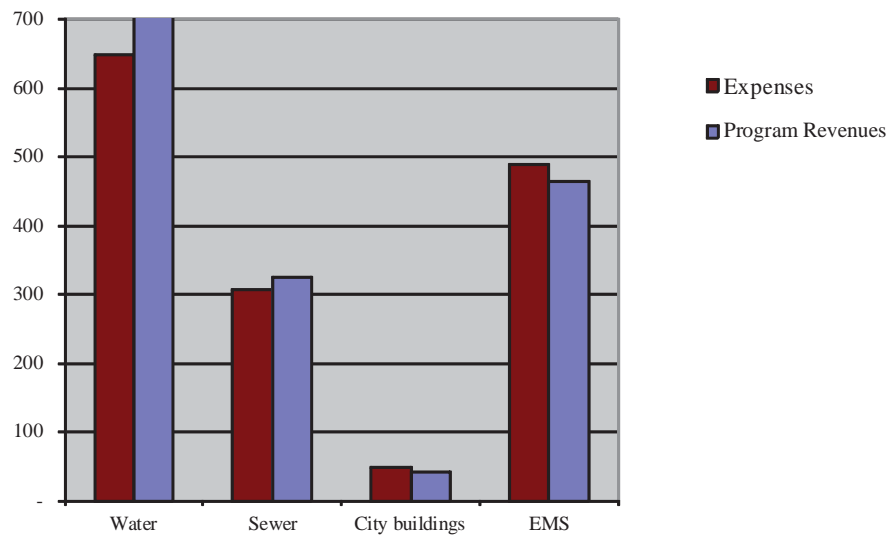
Revenue By Source - Governmental Activities



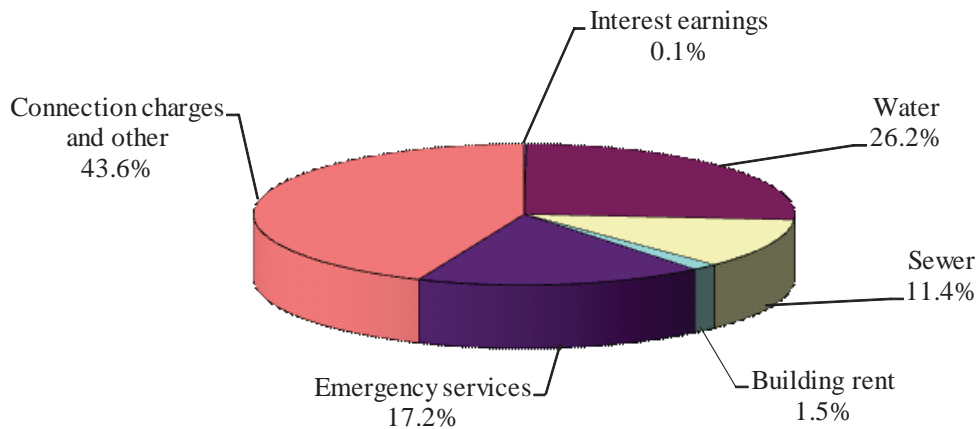
Business Type Activities

Net Position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position were \$7.07 million. The cost of providing all Proprietary (Business Type) activities this year was \$1.49 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$1.58 million, transfer of funds out were \$727,235, and there was \$1.1 million subsidized by capital and operating grants and contributions. Investment earnings and other interest revenues were \$8,844. The Net Position increased by \$487,985.

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 St. Johns uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the City of St. Johns' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of St. Johns' 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 St. Johns' governmental funds reported combined ending fund balances of \$1,220,837, an increase of \$950,917 in comparison with the prior year. The city has \$103,173 constituting unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned because it has already been allocated 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 St. Johns. At the end of the current fiscal year, unassigned fund balance in the General fund was \$108,994, and total fund balance is \$310,755. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance and unassigned fund balance represents 15.17 % of total General fund expenditures excluding transfers. During the year, the City of St. Johns' General fund balance increased by \$747,514. Key factors in this increase are as follows:

- Activity and resources reported in the wild lands fund and airpark funds in prior years are now included as part of the general fund.
- Revenues increased by \$480,461 or 30.4% from the prior year.
- Departmental expenditures increased by \$526,741 or 34.6% from the prior year.
- There were transfers in the current year of \$727,235 from other funds to the general fund to resolve outstanding due to amounts reported in the airpark fund in prior years.

The Highway User Revenue Fund has a total fund balance of \$789,349, all of which is restricted for road construction and maintenance. The net increase in the fund balance during the current year was \$250,614. Revenues were significantly less than estimated for budgeting purposes.

The nonmajor governmental funds have a total fund balance of \$120,733, the majority of which is restricted and assigned for Abatement funds, LTAF, Grants, and the Cemetery.

Proprietary funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the Water, Sewer, Building and EMS fund were \$7,070,827 consisting of \$4,747,657 in net investment in capital assets, \$368,020 in restricted and \$1,955,150 in unrestricted net position.

Budgetary Highlights

The General Fund's revenues of \$2,062,308 were less than budgeted revenues of \$2,128,671 by \$66,363. The most significant variance in revenues is \$62,614 for state land reimbursement revenues that were budgeted but not received. The General Fund's expenditures of \$2,048,946 were less than budgeted expenditures of \$2,373,479 by \$324,533. General government and public

safety actual expenditures were less than budgeted expenditures. Actual expenses were less than budget by approximately \$100,000 for both the general fund contingency budget and the fire department budget.

The Special Revenue fund budget variances for revenues and expenditures were the result of budgeted projects and grants that did not occur or were not funded during the fiscal year.

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, system improvements, park facilities and roads. At the end of fiscal year 2012, net capital assets of the government activities totaled \$8.34 million and the net capital assets of the business-type activities totaled \$8.19 million. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$72,244 in governmental type debt, and \$3,490,805 in proprietary debt. The debt is a liability of the government and amounts to \$969.54 per capita. During the current fiscal year, the City's total debt increased by \$1,158,110. Compensated absences decreased by \$12,844 and other retirements were \$189,870. WIFA loan amounts of \$632,081 were added in fiscal year 2012 as well as a Rural Development loan of \$721,775. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2012/2013, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2011/2012.

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, City of St. Johns, Post Office Box 455, St. Johns, Arizona 85936.

BASIC FINANCIAL STATEMENTS

CITY OF ST. JOHNS, ARIZONA
Statement of Net Position
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 207,640	\$ 965,117	\$ 1,172,757
Receivables (net of allowance)	211,874	1,135,470	1,347,344
Inventory	118,497	36,154	154,651
Temporarily restricted assets:			
Cash and cash equivalents	835,244	368,020	1,203,264
Capital assets (net of accumulated depreciation):			
Land	241,725	37,984	279,709
Land improvements	5,992,538	-	5,992,538
Buildings	442,717	642,226	1,084,943
Distribution systems	-	6,974,166	6,974,166
Infrastructure/roads	1,324,945	-	1,324,945
Furniture, equipment and vehicles	342,049	344,887	686,936
Construction in progress	-	190,397	190,397
Deferred issuance costs (net of accumulated amortization)	-	45,113	45,113
Total assets	<u>9,717,229</u>	<u>10,739,534</u>	<u>20,456,763</u>
Liabilities			
Accounts payable and other current liabilities	152,418	138,474	290,892
Interest payable	-	39,428	39,428
Noncurrent liabilities:			
Due within one year	29,790	232,746	262,536
Due in more than one year	42,454	3,258,059	3,300,513
Total liabilities	<u>224,662</u>	<u>3,668,707</u>	<u>3,893,369</u>
Net position			
Net investment in capital assets	8,339,135	4,747,657	13,086,792
Restricted for:			
Debt service	-	60,831	60,831
Public works/streets	831,124	-	831,124
Other purposes	54	307,189	307,243
Unrestricted	322,254	1,955,150	2,277,404
Total net position	<u>\$ 9,492,567</u>	<u>\$ 7,070,827</u>	<u>\$ 16,563,394</u>

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

CITY OF ST. JOHNS, ARIZONA
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 281,873	\$ 37,434	\$ -	\$ -	\$ (244,439)	\$ -	\$ (244,439)
Public safety	1,123,909	11,222	157,516	-	(955,171)	-	(955,171)
Public works/streets	1,137,845	386,685	573,634	-	(177,526)	-	(177,526)
Culture and recreation	386,944	51,567	4,672	-	(330,705)	-	(330,705)
Health and welfare	5,641	-	-	12,453	6,812	-	6,812
Total governmental activities	<u>2,936,212</u>	<u>486,908</u>	<u>735,822</u>	<u>12,453</u>	<u>(1,701,029)</u>	<u>-</u>	<u>(1,701,029)</u>
Business-type activities:							
Water	648,311	740,146	-	969,744	-	1,061,579	1,061,579
Sewer	305,849	324,065	-	-	-	18,216	18,216
City buildings	48,750	41,344	9,826	-	-	2,420	2,420
EMS	489,648	463,809	150,000	-	-	124,161	124,161
Total business-type activities	<u>1,492,558</u>	<u>1,569,364</u>	<u>159,826</u>	<u>969,744</u>	<u>-</u>	<u>1,206,376</u>	<u>1,206,376</u>
Total primary government	<u>\$ 4,428,770</u>	<u>\$ 2,056,272</u>	<u>\$ 895,648</u>	<u>\$ 982,197</u>			
General revenues:							
Taxes:							
City sales tax					767,591	-	767,591
State sales tax					271,928	-	271,928
Auto lieu tax					186,184	-	186,184
Urban revenue sharing					293,715	-	293,715
Unrestricted investment earnings					1,603	2,909	4,512
Gain (loss) on sale of assets					-	5,935	5,935
Transfers					727,235	(727,235)	-
Total general revenues and transfers					<u>2,248,256</u>	<u>(718,391)</u>	<u>1,529,865</u>
Change in net position					547,227	487,985	1,035,212
Net position - beginning					8,996,414	6,531,768	15,528,182
Prior period adjustment					(51,074)	51,074	-
Net position - ending					<u>\$ 9,492,567</u>	<u>\$ 7,070,827</u>	<u>\$ 16,563,394</u>

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

CITY OF ST. JOHNS, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

Assets	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 207,640	\$ -	\$ -	\$ 207,640
Receivables:				
Other	7,766	-	4,912	12,678
Intergovernmental	114,650	57,483	27,063	199,196
Due from other funds	27,955	-	-	27,955
Inventory	69,593	48,904	-	118,497
Restricted cash and investments	<u>-</u>	<u>698,264</u>	<u>136,980</u>	<u>835,244</u>
Total assets	<u>\$ 427,604</u>	<u>\$ 804,651</u>	<u>\$ 168,955</u>	<u>\$ 1,401,210</u>
 Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 47,651	\$ 6,541	\$ 18,242	\$ 72,434
Accrued wages and benefits	38,396	8,761	2,025	49,182
Customer deposits	5,677	-	-	5,677
Other current liabilities	25,125	-	-	25,125
Due to other funds	<u>-</u>	<u>-</u>	<u>27,955</u>	<u>27,955</u>
Total liabilities	<u>116,849</u>	<u>15,302</u>	<u>48,222</u>	<u>180,373</u>
Fund balances:				
Nonspendable				
Inventory	69,593	48,904	-	118,497
Fund principal	-	-	30,000	30,000
Restricted for				
Public works/streets	-	740,445	90,679	831,124
Health and welfare	-	-	5,875	5,875
Committed to				
Public safety	132,168	-	-	132,168
Unassigned	<u>108,994</u>	<u>-</u>	<u>(5,821)</u>	<u>103,173</u>
Total fund balances	<u>310,755</u>	<u>789,349</u>	<u>120,733</u>	<u>1,220,837</u>
Total liabilities and fund balances	<u>\$ 427,604</u>	<u>\$ 804,651</u>	<u>\$ 168,955</u>	<u>\$ 1,401,210</u>

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

CITY OF ST. JOHNS, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2012

Total fund balances (deficits) governmental funds \$ 1,220,837

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

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

Governmental capital assets	13,124,580	
Accumulated depreciation	<u>(4,780,606)</u>	
		8,343,974

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

Loan payable	(4,839)	
Compensated absences	<u>(67,405)</u>	
		(72,244)

Net position of governmental activities	<u><u>\$ 9,492,567</u></u>
---	----------------------------

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

CITY OF ST. JOHNS, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2012

Revenues	General	Highway Users Revenue Fund	Nonmajor Governmental Funds	Totals (Memorandum Only)
Taxes	\$ 767,591	\$ -	\$ -	\$ 767,591
Licenses, permits and fees	10,777	-	-	10,777
Intergovernmental revenue	809,910	559,334	102,058	1,471,302
Charges for services	427,054	-	-	427,054
Fines and forfeitures	13,466	-	-	13,466
Interest	1,275	328	-	1,603
Other revenues	32,235	14,301	17,875	64,411
Total revenues	<u>2,062,308</u>	<u>573,963</u>	<u>119,933</u>	<u>2,756,204</u>
Expenditures				
Current:				
General government	255,110	-	132	255,242
Public safety	952,931	-	96,808	1,049,739
Public works/streets	501,673	320,849	-	822,522
Culture and recreation	339,232	-	6,728	345,960
Health and welfare	-	-	5,701	5,701
Capital outlay	-	2,500	6,752	9,252
Total expenditures	<u>2,048,946</u>	<u>323,349</u>	<u>116,121</u>	<u>2,488,416</u>
Excess of revenues				
Over (under) expenditures	<u>13,362</u>	<u>250,614</u>	<u>3,812</u>	<u>267,788</u>
Other financing sources (uses):				
Debt issues	6,968	-	-	6,968
Transfers in	727,235	-	51	727,286
Transfers out	(51)	-	-	(51)
Total other financing sources (uses)	<u>734,152</u>	<u>-</u>	<u>51</u>	<u>734,203</u>
Net change in fund balances	747,514	250,614	3,863	1,001,991
Fund balances (deficit), as adjusted beginning of year	(439,118)	592,168	116,870	269,920
Prior period adjustment	<u>2,359</u>	<u>(53,433)</u>	<u>-</u>	<u>(51,074)</u>
Fund balances, end of year	<u>\$ 310,755</u>	<u>\$ 789,349</u>	<u>\$ 120,733</u>	<u>\$ 1,220,837</u>

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

CITY OF ST. JOHNS, 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, 2012

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

Net change in fund balances - total governmental funds		\$ 1,001,991
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	25,529	
Depreciation expense	<u>(469,188)</u>	(443,659)
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.</p>		
		(75,127)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		44,797
<p>Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net position.</p>		
		(6,968)
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		26,193
Change in net position of governmental activities		\$ 547,227

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

CITY OF ST. JOHNS, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

	Water	Sewer	City Buildings	EMS	Totals
Assets					
Current assets:					
Cash	\$ 71,706	\$ 115,758	\$ 454,916	\$ 322,737	\$ 965,117
Receivables (net of allowance)	120,977	26,019	-	-	146,996
Due from other governments	938,833	2,315	9,826	37,500	988,474
Inventory	29,271	6,883	-	-	36,154
Total current assets	<u>1,160,787</u>	<u>150,975</u>	<u>464,742</u>	<u>360,237</u>	<u>2,136,741</u>
Noncurrent assets:					
Restricted cash and investments	169,447	198,573	-	-	368,020
Land	7,674	30,310	-	-	37,984
Buildings and improvements	139,939	48,237	542,874	127,302	858,352
Collection and distribution systems	8,120,220	1,373,660	-	-	9,493,880
Furniture, equipment and vehicles	139,629	100,725	-	651,704	892,058
Construction in progress	95,566	-	94,831	-	190,397
Deferred issuance costs	45,113	-	-	-	45,113
Accumulated depreciation	<u>(2,070,138)</u>	<u>(643,468)</u>	<u>(169,613)</u>	<u>(399,792)</u>	<u>(3,283,011)</u>
Total noncurrent assets	<u>6,647,450</u>	<u>1,108,037</u>	<u>468,092</u>	<u>379,214</u>	<u>8,602,793</u>
Total assets	<u>7,808,237</u>	<u>1,259,012</u>	<u>932,834</u>	<u>739,451</u>	<u>10,739,534</u>
Liabilities					
Current liabilities:					
Accounts payable	53,844	5,046	328	4,697	63,915
Accrued liabilities	-	5,909	205	24,785	30,899
Customer deposits	43,660	-	-	-	43,660
Accrued interest payable	39,428	-	-	-	39,428
Current portion of long-term debt	217,751	6,004	222	8,769	232,746
Total current liabilities	<u>354,683</u>	<u>16,959</u>	<u>755</u>	<u>38,251</u>	<u>410,648</u>
Noncurrent liabilities (net of current portion):					
Compensated absences	6,565	6,003	221	8,768	21,557
Loans and contract payable	3,100,095	-	-	-	3,100,095
Revenue bonds payable	136,407	-	-	-	136,407
Total noncurrent liabilities	<u>3,243,067</u>	<u>6,003</u>	<u>221</u>	<u>8,768</u>	<u>3,258,059</u>
Total liabilities	<u>3,597,750</u>	<u>22,962</u>	<u>976</u>	<u>47,019</u>	<u>3,668,707</u>
Net position					
Net investment in capital assets	2,990,887	909,464	468,092	379,214	4,747,657
Restricted	169,447	198,573	-	-	368,020
Unrestricted	<u>1,050,153</u>	<u>128,013</u>	<u>463,766</u>	<u>313,218</u>	<u>1,955,150</u>
Total net position	<u>\$ 4,210,487</u>	<u>\$ 1,236,050</u>	<u>\$ 931,858</u>	<u>\$ 692,432</u>	<u>\$ 7,070,827</u>

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

CITY OF ST. JOHNS, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2012

	Water	Sewer	City Buildings	EMS	Totals
Operating revenues					
Charges for services	\$ 706,923	\$ 307,575	\$ -	\$ 463,809	\$ 1,478,307
Rent and other revenues	24,308	14,640	41,344	-	80,292
Total operating revenues	<u>731,231</u>	<u>322,215</u>	<u>41,344</u>	<u>463,809</u>	<u>1,558,599</u>
Operating expenses					
Salaries	147,929	119,510	4,528	203,111	475,078
Employee benefits	67,885	55,471	1,973	67,673	193,002
Service, supplies and other	212,459	84,714	21,521	161,764	480,458
Depreciation	140,044	46,154	20,728	57,100	264,026
Total operating expenses	<u>568,317</u>	<u>305,849</u>	<u>48,750</u>	<u>489,648</u>	<u>1,412,564</u>
Operating income (loss)	<u>162,914</u>	<u>16,366</u>	<u>(7,406)</u>	<u>(25,839)</u>	<u>146,035</u>
Non-operating revenues (expenses)					
Interest income	346	535	1,422	606	2,909
Interest expense and fiscal charges	(79,994)	-	-	-	(79,994)
Gain (loss) on sale of capital assets	(2,575)	(1,775)	(3,314)	13,599	5,935
Grant revenue	969,744	-	9,826	150,000	1,129,570
Connection fees	8,915	1,850	-	-	10,765
Total non-operating revenue (expense)	<u>896,436</u>	<u>610</u>	<u>7,934</u>	<u>164,205</u>	<u>1,069,185</u>
Income (loss) before contributions and transfers	1,059,350	16,976	528	138,366	1,215,220
Contributions and transfers:					
Transfers Out	<u>(396,585)</u>	<u>(330,650)</u>	<u>-</u>	<u>-</u>	<u>(727,235)</u>
Change in net position	662,765	(313,674)	528	138,366	487,985
Total net position, beginning of year	3,510,577	1,535,795	931,330	554,066	6,531,768
Prior period adjustment	37,145	13,929	-	-	51,074
Total net position, end of year	<u>\$ 4,210,487</u>	<u>\$ 1,236,050</u>	<u>\$ 931,858</u>	<u>\$ 692,432</u>	<u>\$ 7,070,827</u>

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

CITY OF ST. JOHNS, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Water	Sewer	City Buildings	EMS	Totals
Cash flows from operating activities:					
Cash received from customers, service fees	\$ 824,367	\$ 342,091	\$ -	\$ 451,309	\$ 1,617,767
Cash received from customers, other	24,308	14,640	41,344	-	80,292
Cash paid to suppliers	(519,555)	(110,660)	(21,489)	(163,071)	(814,775)
Cash paid to employees	(214,136)	(159,857)	(5,854)	(267,318)	(647,165)
Net cash flows from operating activities	<u>114,984</u>	<u>86,214</u>	<u>14,001</u>	<u>20,920</u>	<u>236,119</u>
Cash flows from noncapital financing activities:					
Proceeds/payments (to)/from other funds	396,585	322,881	-	-	719,466
Transfers (to)/from other funds	(396,585)	(330,650)	-	-	(727,235)
Operating grants	-	-	-	150,000	150,000
Net cash flows from noncapital financing activities	<u>-</u>	<u>(7,769)</u>	<u>-</u>	<u>150,000</u>	<u>142,231</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(1,413,834)	(10,877)	(9,826)	(108,731)	(1,543,268)
Deferred costs paid	(31,104)	-	-	-	(31,104)
Principal paid on notes, leases and bonds	(145,073)	-	-	-	(145,073)
Proceeds from debt	1,353,856	-	-	-	1,353,856
Interest paid	(61,237)	-	-	-	(61,237)
Capital grants	30,911	-	-	-	30,911
Connection and impact fees	8,915	1,850	-	-	10,765
Net cash flows from capital and related financing activities	<u>(257,566)</u>	<u>(9,027)</u>	<u>(9,826)</u>	<u>(108,731)</u>	<u>(385,150)</u>
Cash flows from investing activities:					
Interest on investments	346	534	1,422	605	2,907
Net cash flows from investing activities	<u>346</u>	<u>534</u>	<u>1,422</u>	<u>605</u>	<u>2,907</u>
Net change in cash and cash equivalents	(142,236)	69,952	5,597	62,794	(3,893)
Cash and cash equivalents, including restricted cash, beginning of year	383,389	244,379	449,319	259,943	1,337,030
Cash and cash equivalents, including restricted cash, end of year	<u>\$ 241,153</u>	<u>\$ 314,331</u>	<u>\$ 454,916</u>	<u>\$ 322,737</u>	<u>\$ 1,333,137</u>
Reconciliation of operating income to net cash provided by operating activities:					
Net operating income (loss)	\$ 162,914	\$ 16,366	\$ (7,406)	\$ (25,839)	\$ 146,035
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:					
Depreciation/amortization	143,160	46,154	20,728	57,100	267,142
Changes in operating assets and liabilities:					
(Increase)/decrease in receivables	137,134	34,516	-	(12,500)	159,150
(Increase)/decrease in inventory	(11,179)	1,222	-	-	(9,957)
Increase/(decrease) in payables	(318,723)	(27,168)	32	(1,307)	(347,166)
Increase/(decrease) in accrued liabilities	1,678	15,124	647	3,466	20,915
Net cash flows from operating activities	<u>\$ 114,984</u>	<u>\$ 86,214</u>	<u>\$ 14,001</u>	<u>\$ 20,920</u>	<u>\$ 236,119</u>
Supplemental schedule of non-cash financing and investing activities:					
Capital asset contribution to governmental activities	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000

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

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies

General

The accounting policies of the City of St. Johns, Arizona (the City) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The government is a municipal corporation governed by an appointed mayor and vice-mayor and an elected five-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. However, the City has no component units and thus, there are no component units presented in these financial statements. The financial statements include all funds and account groups that account for activities over which the City's elected mayor and council exercise primary financial management and oversight responsibility.

The City of St. Johns Municipal Property Corporation's (SJMP) board of directors consists of not less than three members which are appointed by the St. Johns City Council. The SJMP, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the purpose of assisting the City in obtaining financing for various projects of the City. All related receivables and payables between the City and the SJMP have been eliminated. The SJMP has a June 30 year end and is reported within the water fund financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

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 City 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.

Property taxes, sales taxes, state shared revenues, intergovernmental grants and aid, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **Highway User Special Revenue Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

The City reports the following major proprietary funds:

The **Water Fund** accounts for the activities related to the City's water storage and distribution system.

The **Sewer Fund** accounts for the activities related to the City's sewer collection and treatment operations.

The **Building Fund** accounts for costs to construct and maintain the City's buildings and the rent income associated with the buildings.

The **EMS Fund** accounts for the activities related to the City's emergency medical services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are for rent charges between various functions and the Building fund and charges between the City's Water, Sewer, Highway User Revenue Fund and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 proprietary funds are charges to customers for sales and services.

Operating expenses for the proprietary 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 non-operating revenues and expenses.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Deposits and Investments

The City's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from" other funds. All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories

The costs of governmental fund-type inventories are normally recorded as expenditures when purchased rather than when consumed. However, the Highway User Revenue fund and the Airport fund maintain and record inventories for street supplies and fuel respectively and are recorded at the lower of cost or market using the first-in/first-out method. Inventories for business type activities consist of materials and supplies for the water and sewer system and are recorded at the lower of cost or market using the first-in/first-out method.

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 of two years or more. 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.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	5 - 50 years
Improvements other than buildings	5 - 50 years
Machinery and equipment	2 - 20 years
Vehicles	5 years
Streets and sidewalks	10 - 50 years

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation 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. 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.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Net Position and Fund Equity

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When both committed, assigned, or unassigned resources are available for use, it is the City's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

Equity is classified in the government-wide financial statements and in the proprietary fund financial statements as net position and is displayed in three components as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position is net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position is all other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the City Council. A resolution, ordinance or vote by the City Council is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose in accordance with the City's budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

Encumbrances

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 City.

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 assets. These differences primarily result from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 15.

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

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 3. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

The City 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 City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain public comment.
3. Prior to the third Monday in August, the expenditure limitation for the City 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 City 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. The City follows a voter-approved alternative expenditure limitation that was adopted on February 12, 2009.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager, subject to City 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 City Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Cities and Towns. This law does not permit the City 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 City complied with this law during the year.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 3. Stewardship, Compliance, and Accountability, Continued

No Supplementary budgetary appropriations were made during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2012, if any.

Taxes

The City does not currently have any primary or secondary real property tax levies.

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 4. Deposits and Investments

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

Cash and cash equivalents	\$ 1,172,757
Restricted cash and cash equivalents	<u>1,203,264</u>
Total	<u><u>\$ 2,376,021</u></u>

Restricted cash consists of the following at June 30, 2012:

Highway User Revenue funds	\$ 698,264
Grants and other	112,802
Cemetery perpetual care	24,179
WIFA debt service reserve	60,831
Customer deposits	43,407
Rural Development general reserve	65,209
Repairs and replacement extension	<u>198,573</u>
Total restricted cash and investments	<u><u>\$ 1,203,265</u></u>

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 City does not have a formal policy for custodial credit risk. At June 30, 2012 cash on hand was \$958 and the carrying amount of the City's deposits was \$742,654. As of June 30, 2012, \$0 of the City's bank balance of \$761,715 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

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.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 4. Deposits and Investments, Continued

As of June 30, 2012 the government had the following cash, investments and maturities:

	<u>Fair Value</u>	<u>Quality Rating</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	958	N/A	N/A
Cash in bank	742,654	N/A	N/A
Investments:			
Local Government Investment Pool 5	<u>\$ 1,632,409</u>	(1)	26 days
Total cash and investments	<u><u>\$ 2,376,021</u></u>		

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable. The City's investment in the State Treasurer's Investment Pool #5 was rated AAAF/S1+ from Standard and Poo's.
- (2) Interest Rate Risk is estimated using the weighted average days to maturity.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City'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) which requires that the City'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 City's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 5. Capital Assets

During the fiscal year ending June 30, 2012 the City changed its capitalization threshold policy from \$500 to \$5,000. As part of the change the City reviewed its capital assets list and removed or disposed of any capital asset that was substantially or fully depreciated with a historical cost under the \$5,000 threshold limit. The majority of disposals in the fiscal year ending June 30, 2012 were these capital assets.

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

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 235,523	\$ 9,027	\$ (2,825)	\$ 241,725
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>235,523</u>	<u>9,027</u>	<u>(2,825)</u>	<u>241,725</u>
Capital assets, being depreciated:				
Improvements other than buildings	8,341,948	-	(35,933)	8,306,015
Buildings and improvements	849,350	-	(18,822)	830,528
Furniture, equipment & vehicles	2,498,605	16,502	(469,217)	2,045,890
Infrastructure - roads	1,700,422	-	-	1,700,422
Total capital assets, being depreciated	<u>13,390,325</u>	<u>16,502</u>	<u>(523,972)</u>	<u>12,882,855</u>
Less accumulated depreciation for:				
Improvements other than buildings	(2,133,367)	(208,186)	28,076	(2,313,477)
Buildings and improvements	(356,340)	(45,860)	14,389	(387,811)
Furniture, equipment & vehicles	(1,967,771)	(145,275)	409,205	(1,703,841)
Infrastructure - roads	(305,610)	(69,867)	-	(375,477)
Total accumulated depreciation	<u>(4,763,088)</u>	<u>(469,188)</u>	<u>451,670</u>	<u>(4,780,606)</u>
Total capital assets, being depreciated, net	<u>8,627,237</u>	<u>(452,686)</u>	<u>(72,302)</u>	<u>8,102,249</u>
Governmental activities capital assets, net	<u>\$ 8,862,760</u>	<u>\$ (443,659)</u>	<u>\$ (75,127)</u>	<u>\$ 8,343,974</u>

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

Governmental Activities:	
General government	\$ 31,470
Public safety	76,433
Public works/streets	301,728
Culture & recreation	59,557
Total depreciation expense - governmental activities	<u>\$ 469,188</u>

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 5. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated:				
Land and water rights	\$ 37,984	\$ -	\$ -	\$ 37,984
Construction in progress	2,089,568	1,399,330	(3,298,501)	190,397
Total capital assets, not being depreciated	<u>2,127,552</u>	<u>1,399,330</u>	<u>(3,298,501)</u>	<u>228,381</u>
Capital assets being depreciated:				
Water system	4,797,390	3,322,830	-	8,120,220
Sewer system	1,367,355	10,877	(4,572)	1,373,660
Buildings and improvements	883,451	-	(25,099)	858,352
Furniture, equipment & vehicles	1,056,837	130,731	(295,510)	892,058
Total capital assets, being depreciated	<u>8,105,033</u>	<u>3,464,438</u>	<u>(325,181)</u>	<u>11,244,290</u>
Less accumulated depreciation for:				
Water system	(1,809,144)	(121,665)	-	(1,930,809)
Sewer system	(555,638)	(36,065)	2,798	(588,905)
Buildings and improvements	(193,044)	(43,603)	20,521	(216,126)
Furniture, equipment & vehicles	(770,278)	(62,693)	285,800	(547,171)
Total accumulated depreciation	<u>(3,328,104)</u>	<u>(264,026)</u>	<u>309,119</u>	<u>(3,283,011)</u>
Total capital assets, being depreciated, net	<u>4,776,929</u>	<u>3,200,412</u>	<u>(16,062)</u>	<u>7,961,279</u>
Business-type activities capital assets, net	<u>\$ 6,904,481</u>	<u>\$ 4,599,742</u>	<u>\$ (3,314,563)</u>	<u>\$ 8,189,660</u>

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

Business-Type Activities:	
Water	\$ 140,044
Sewer	46,154
Buildings	20,728
EMS	57,100
Total depreciation expense - business-type activities	<u>\$ 264,026</u>

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations during the year:

Governmental activities:	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
General obligation:					
Airport fuel system loan	\$ -	\$ 6,968	\$ (2,129)	\$ 4,839	\$ 2,323
Vehicle/swimming pool equip lease	42,668	-	(42,668)	-	-
Total general obligation	42,668	6,968	(44,797)	4,839	2,323
Other:					
Compensated absences	93,598	31,101	(57,294)	67,405	27,467
Governmental activity Long-term liabilities	<u>\$ 136,266</u>	<u>\$ 38,069</u>	<u>\$ (102,091)</u>	<u>\$ 72,244</u>	<u>\$ 29,790</u>
Business-type activities:					
Revenue bonds:					
Water development revenue bonds	\$ 142,458	\$ -	\$ (2,050)	\$ 140,408	\$ 4,001
Other:					
WIFA loans payable	2,096,446	632,081	(143,023)	2,585,504	147,272
Rural development loan	-	721,775	-	721,775	59,912
Compensated absences	29,769	57,329	(43,980)	43,118	21,561
Business-type activity Long-term liabilities	<u>\$ 2,268,673</u>	<u>\$ 1,411,185</u>	<u>\$ (189,053)</u>	<u>\$ 3,490,805</u>	<u>\$ 232,746</u>

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2012:

Loan Payable:

Ascent aviation group, Inc. loan, issued 9/1/12, bearing no interest, due in monthly principal payments of \$193.55, maturing July 2015.	\$ 4,839
--	----------

Water Infrastructure Finance Authority loan, issued 2001 converted to term loan, July 1, 2003, bearing interest at 3.3% due in semi-annual principal and interest installments, maturing July, 2021.	903,297
--	---------

Water Infrastructure Finance Authority loan, issued 5/21/11 bearing interest at 2.604%, due in semiannual principal and interest installments, maturing July, 2030.	1,682,207
---	-----------

Rural Development loan, issued 9/14/11 bearing interest at 3.25%, due in monthly principal and interest installments, maturing August, 2051.	721,775
--	---------

Revenue Bonds:

Water Development Revenue Bonds, issued 2003 due in semiannual principal and interest installments, bearing interest at 4.625%, maturing July 1, 2042.	<u>140,408</u>
--	----------------

Total loans and bonds payable	3,452,526
-------------------------------	-----------

Less current portion	<u>(213,508)</u>
----------------------	------------------

Total loans and bonds net of current portion	<u><u>\$ 3,239,018</u></u>
--	----------------------------

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt, Continued

Revenue Bonds and Loan debt service maturities are as follows for the governmental activities as of June 30, 2012:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 2,323	\$ -	\$ 2,323
2014	2,323	-	2,323
2015	193	-	193
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
2023-2027	-	-	-
2028-2032	-	-	-
2033-2037	-	-	-
2038-2042	-	-	-
2043-2047	-	-	-
Total	\$ 4,839	\$ -	\$ 4,839

Revenue Bonds and Loan debt service maturities are as follows for the business-type activities as of June 30, 2012:

Year Ended June 30,	Business-Type Activities		
	Principal	Interest	Total
2013	\$ 211,185	\$ 110,729	\$ 321,914
2014	229,715	110,590	340,305
2015	236,665	103,379	340,044
2016	243,833	95,951	339,784
2017	251,224	88,299	339,523
2018-2022	1,275,482	302,958	1,578,440
2023-2027	493,788	105,397	599,185
2028-2032	445,408	36,287	481,695
2033-2037	20,005	9,027	29,032
2038-2042	20,005	4,276	24,281
2043-2047	20,377	285	20,662
Total	\$ 3,447,687	\$ 967,178	\$ 4,414,865

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 7. Capital Leases

The City has entered into lease agreements which are considered to be capital leases in accordance with generally accepted accounting principles. The leases are for the purchase of Firefighting SCBA equipment, vehicles and pool equipment. The leases have interest rates of 12%, 3.40% and 3.84% respectively. The final payments on the leases, totaling \$44,163, were made in the fiscal year ending June 30, 2012. The City has no other lease agreements as of June 30, 2012.

Note 8. Interfund Receivables, Payables and Transfers

As of June 30, 2012, interfund receivables and payables were as follows:

Due To	Due From	
	Non-major Funds	Total
General Fund	\$ 27,955	\$ 27,955
	\$ 27,955	\$ 27,955

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. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances. The Council has not determined any terms for repayment for the above interfund balances; however, it is expected that they will be repaid over the next few fiscal years.

Transfers In	Transfers Out			
	General Fund	Water Fund	Sewer Fund	Total
General Fund	\$ -	\$ 396,585	\$ 330,650	\$ 727,235
Non Major Governmental	51	-	-	51
	\$ 51	\$ 396,585	\$ 330,650	\$ 727,286

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 certain funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Retirement and Pension Plans

Defined Contribution Pension Plan

The City provides retirement benefits to its full-time employees through a defined contribution pension plan known as the St. Johns Employees Plan which was administered by California Pensions, Inc. into fiscal year 2009.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contribution to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by the plan, all full-time employees of the City could participate in the pension plan.

During fiscal year 2009 the city terminated its defined contribution plan and moved to the Arizona State Retirement System for retirement benefits for its employees.

Arizona State Retirement System (ASRS)

Plan Description – The City contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are 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 ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Retirement and Pension Plans, Continued

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	\$ 92,936	\$ 7,355	\$ 4,457
2011	84,363	5,524	2,341
2012	82,584	5,271	2,008

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City 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 PSPRS 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, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 10.07 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.12 percent of covered payroll

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, 2012 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.50 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 25 years for unfunded actuarial accrued liability and 20 years for excess.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Retirement and Pension Plans, Continued

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.

Annual Pension/OPEB Cost – During the year ended June 30, 2012, the City’s annual pension cost of \$47,514 and the annual OPEB cost of \$3,489 was equal to the City’s required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2010	51,904	100%	\$ -
	2011	46,365	100%	-
	2012	47,514	100%	-
Health Insurance	2010	5,673	100%	-
	2011	4,650	100%	-
	2012	3,489	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 997,199
Actuarial value of plan assets	<u>1,001,728</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (4,529)</u>
Funded ratio (actuarial value of plan assets/AAL)	100.5%
Covered payroll (active plan members)	\$ 301,428
UAAL as a percentage of covered payroll	-1.5%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 10. Segment Information – Enterprise Funds

The City maintains two enterprise funds which provide water and sewer utility services to its citizens, one enterprise fund which accounts for the costs to construct and maintain the City's buildings, and one enterprise fund which provides emergency medical services (EMS) to its citizens. Since these utility funds are major funds, detailed or segment information for the funds are provided in the basic financial statements.

Note 11. Risk Management

The City 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 City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$3,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member 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 City is insured by Municipal Workers Compensation for potential worker related accidents.

Note 12. Commitments and Contingencies

The City is involved in various matters of litigation. Any pending or threatened litigation is not measurable and cannot be estimated as of the date of the financial statements. It is the opinion of City officials that none of these cases would have a material effect on the City's financial condition.

CITY OF ST. JOHNS, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 13. Accounting Change

In financial statements issued in prior years, certain activities and the related assets, liabilities, and fund balance were reported in the Wild Land and Airport Special revenue funds. The City council reviewed these activities and decided they are not required to be reported as special revenue funds and would no longer be separately reported as such. Consequently, these activities and related assets, liabilities, and fund balance are included as part of the General Fund.

Summary of beginning balances:	
General Fund	\$ 308,008
Wildland Fund	138,248
Airport Fund	<u>(885,374)</u>
General Fund beginning balance as adjusted	<u><u>\$ (439,118)</u></u>

Note 14. Prior Period Adjustment

During the fiscal year ended June 30, 2012 management received additional information that affected the allocations among funds of amounts due from the state of Arizona related to a property improvement project completed in the fiscal year ended June 30, 2011. A prior period adjustment was recorded to adjust the allocated receivables. The net effect of the adjustment was to increase receivables and fund balance by \$2,359, \$37,145, and \$13,929 in the General Fund, Water Fund, and Sewer Fund respectively while decreasing receivables and fund balance by \$53,433 in the HURF fund.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. JOHNS, ARIZONA
Public Safety Personnel Retirement System
Schedule of Funding Progress
June 30, 2012

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSRS) from June 30, 2007 through June 30, 2012, based on actuarial valuations follows:

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Liability (AAL)	(a)/(b) Percent Funded	(b)-(a) Unfunded AAL	[c] Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2007	\$ 538,651	\$ 546,225	98.6%	\$ 7,574	\$ 360,244	2.1%
2008	700,286	693,348	101.0%	(6,938)	373,933	-1.9%
2009*	777,251	705,214	110.2%	(72,037)	485,022	0.0%
2010*	980,684	898,337	109.2%	(82,347)	455,048	0.0%
2011*	977,058	921,718	106.0%	(55,340)	369,987	0.0%
2012*	1,001,728	997,199	100.5%	(4,529)	301,428	0.0%

Post-retirement health insurance subsidy measurement under GASB 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
2007	\$ -	\$ 24,670	\$ 24,670	0.00%	\$ 360,244	6.85%
2008	-	12,696	12,696	0.00%	373,933	3.40%
2009*	-	12,765	12,765	0.00%	485,022	2.63%
2010*	-	21,521	21,521	0.00%	455,048	4.73%
2011*	-	24,400	24,400	0.00%	369,987	6.59%
2012*	-	23,442	23,442	0.00%	301,428	7.78%

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

CITY OF ST. JOHNS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
MAJOR GOVERNMENTAL FUNDS:

General Fund – Detail Budget-and-Actual

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 Fund** (Streets) – This fund is used to account for the City’s share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

CITY OF ST. JOHNS, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

REVENUES:	Budget		Actual	Variance with Final Budget
	Original	Final		
Taxes:				
City Sales Tax	\$ 710,000	\$ 769,141	\$ 767,591	\$ (1,550)
Total Taxes	<u>710,000</u>	<u>769,141</u>	<u>767,591</u>	<u>(1,550)</u>
Licenses, Permits and Fees:				
Building Permits	4,200	4,200	9,937	5,737
Business and Other Licenses	244	244	840	596
Total Licenses, Fees and Permits	<u>4,444</u>	<u>4,444</u>	<u>10,777</u>	<u>6,333</u>
Intergovernmental:				
State Sales Taxes	263,284	263,284	271,928	8,644
State Revenue Sharing	293,727	293,727	293,715	(12)
Auto Lieu Tax	189,337	189,337	186,184	(3,153)
State Land Reimbursement	110,000	110,000	47,386	(62,614)
Other Grants	17,000	17,000	10,697	(6,303)
Total Intergovernmental	<u>873,348</u>	<u>873,348</u>	<u>809,910</u>	<u>(63,438)</u>
Charges for Services:				
Administrative Fees	280	280	181	(99)
Cemetery Fees	5,204	5,204	9,431	4,227
Park, Swimming Pool and Recreation Fees	36,079	36,079	36,958	879
Animal Control	2,451	2,451	6,478	4,027
Airport Fuel Sales	391,739	391,739	374,006	(17,733)
Total Charges for Services	<u>435,753</u>	<u>435,753</u>	<u>427,054</u>	<u>(8,699)</u>
Fines and Forfeitures:				
Fines and Forfeitures	19,776	19,776	13,466	(6,310)
Total Fines and Forfeitures	<u>19,776</u>	<u>19,776</u>	<u>13,466</u>	<u>(6,310)</u>
Interest				
Interest Income	350	350	1,275	925
Total Interest	<u>350</u>	<u>350</u>	<u>1,275</u>	<u>925</u>
Other Revenues:				
Rents	11,800	11,800	20,022	8,222
Miscellaneous	14,059	14,059	12,213	(1,846)
Total Other Revenues	<u>25,859</u>	<u>25,859</u>	<u>32,235</u>	<u>6,376</u>
TOTAL REVENUES	<u>2,069,530</u>	<u>2,128,671</u>	<u>2,062,308</u>	<u>(66,363)</u>

(continued)

CITY OF ST. JOHNS, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012 (Continued)

EXPENDITURES	Budget		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Council	18,850	18,850	13,336	5,514
Administration	172,312	185,032	159,081	25,951
Magistrate	77,081	77,081	82,181	(5,100)
Contingency	108,544	108,544	512	108,032
Total General Government	<u>376,787</u>	<u>389,507</u>	<u>255,110</u>	<u>134,397</u>
Public safety:				
Law Enforcement	632,754	632,754	623,977	8,777
Fire	393,673	392,673	291,561	101,112
Animal Control	36,946	36,946	37,393	(447)
Total Public Safety	<u>1,063,373</u>	<u>1,062,373</u>	<u>952,931</u>	<u>109,442</u>
Public Works/Streets:				
Planning and Zoning	34,241	34,241	32,591	1,650
Mosquito Control	7,531	7,531	4,446	3,085
Airport	504,965	504,965	453,702	51,263
Cemetery	9,264	11,230	10,934	296
Total Public Works/Streets	<u>556,001</u>	<u>557,967</u>	<u>501,673</u>	<u>56,294</u>
Culture and Recreation:				
Contributions	30,100	40,600	36,847	3,753
Parks and Recreation, Activity Center and Fairgrounds	178,753	199,353	168,240	31,113
Swimming Pool	96,107	100,084	111,004	(10,920)
Little League	4,293	12,098	12,827	(729)
Equestrian	9,924	11,497	10,314	1,183
Total Culture and Recreation	<u>319,177</u>	<u>363,632</u>	<u>339,232</u>	<u>24,400</u>
TOTAL EXPENDITURES	<u>2,315,338</u>	<u>2,373,479</u>	<u>2,048,946</u>	<u>324,533</u>
Excess of Revenues Over (Under) Expenditures	<u>(245,808)</u>	<u>(244,808)</u>	<u>13,362</u>	<u>259,170</u>
Other Financing Sources (Uses):				
Debt Issuance	-	-	6,968	6,968
Transfers In	738,435	738,435	727,235	(11,200)
Transfers Out	(20,000)	(20,052)	(51)	20,001
Total Other Financing Sources (Uses)	<u>718,435</u>	<u>718,383</u>	<u>734,152</u>	<u>15,769</u>
Net Change in Fund Balance	472,627	473,575	747,514	274,939
Fund Balance (deficit), Beginning of Year	(439,118)	(439,118)	(439,118)	-
Prior Period Adjustment	-	-	2,359	2,359
Fund Balance, End of Year	<u>\$ 33,509</u>	<u>\$ 34,457</u>	<u>\$ 310,755</u>	<u>\$ 274,939</u>

CITY OF ST. JOHNS, 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, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental Revenue:				
Highway User Revenues	\$ 555,508	\$ 555,508	\$ 559,334	\$ 3,826
Grants and Contributions	1,321,427	1,321,427	-	(1,321,427)
Total Intergovernmental	<u>1,876,935</u>	<u>1,876,935</u>	<u>559,334</u>	<u>(1,317,601)</u>
Other Revenue:				
Interest Income	100	100	328	228
Miscellaneous	300	300	14,301	14,001
Total Revenue	<u>1,877,335</u>	<u>1,877,335</u>	<u>573,963</u>	<u>(1,303,372)</u>
EXPENDITURES:				
Public Works:				
Salaries	173,840	173,840	128,956	44,884
Employee Benefits	95,948	95,948	70,454	25,494
Services, Supplies, and Other	1,276,020	1,276,020	121,439	1,154,581
Capital Outlay	211,000	211,000	2,500	208,500
Total Expenditures	<u>1,756,808</u>	<u>1,756,808</u>	<u>323,349</u>	<u>1,433,459</u>
Excess of Revenues Over (Under) Expenditures	120,527	120,527	250,614	130,087
Fund Balance, Beginning of Year	592,168	592,168	592,168	-
Prior Period Adjustment	-	-	(53,433)	(53,433)
Fund Balance, End of Year	<u>\$ 712,695</u>	<u>\$ 712,695</u>	<u>\$ 789,349</u>	<u>\$ 76,654</u>

**CITY OF ST. JOHNS, ARIZONA
Combining and Individual Fund
Financial Statements**

NONMAJOR 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.

- **Grants Fund** – This fund is used to account for various federal and state grants and other contributions that are restricted for a specific use.
- **Abatement Fund** – This fund is used to account for the collection of abatement fees which are restricted for costs incurred under Section 802 for necessary work or repair or demolition of dangerous buildings.
- **Local Transportation Assistance Fund (LTAF)** – This fund is used to account for the City’s share of lottery proceeds which are restricted for transportation costs and the maintaining, repairing, and upgrading of streets.

Permanent Fund

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government’s programs.

- **Perpetual Care Permanent Fund** – This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

CITY OF ST. JOHNS, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Fund			Permanent Fund	Total
	Grants	Abatement	LTAF	Cemetery	
ASSETS					
Cash	\$ 27,034	\$ -	\$ 85,767	\$ 24,179	\$ 136,980
Accounts Receivable	-	4,912	-	-	4,912
Due From Other Governments	27,063	-	-	-	27,063
Total Assets	<u>\$ 54,097</u>	<u>\$ 4,912</u>	<u>\$ 85,767</u>	<u>\$ 24,179</u>	<u>\$ 168,955</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	\$ 18,242	\$ -	\$ -	\$ -	\$ 18,242
Accrued Wages and Benefits	2,025	-	-	-	2,025
Due to Other Funds	27,955	-	-	-	27,955
Total Liabilities	<u>48,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,222</u>
Fund Balance:					
Nonspendable					
Fund principal	-	-	-	30,000	30,000
Restricted for					
Public Works/Streets	-	4,912	85,767	-	90,679
Health and Welfare	5,875	-	-	-	5,875
Unassigned	-	-	-	(5,821)	(5,821)
Total Fund Balances	<u>5,875</u>	<u>4,912</u>	<u>85,767</u>	<u>24,179</u>	<u>120,733</u>
Total Liabilities and Fund Balances	<u>\$ 54,097</u>	<u>\$ 4,912</u>	<u>\$ 85,767</u>	<u>\$ 24,179</u>	<u>\$ 168,955</u>

CITY OF ST. JOHNS, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

REVENUES:	Special Revenue Fund			Permanent Fund	Total
	Grants	Abatement	LTAF	Cemetery	
Intergovernmental Revenue	\$ 102,058	\$ -	\$ -	\$ -	\$ 102,058
Donations and Other	14,501	-	-	3,374	17,875
Total Revenues	116,559	-	-	3,374	119,933
 EXPENDITURES:					
Current:					
General Government	-	-	-	132	132
Public Safety	96,808	-	-	-	96,808
Culture and Recreation	6,728	-	-	-	6,728
Health and Welfare	5,701	-	-	-	5,701
Capital Outlay	6,752	-	-	-	6,752
Total Expenditures	115,989	-	-	132	116,121
Excess of Revenues Over (Under) Expenditures	570	-	-	3,242	3,812
Other Financing Sources (Uses):					
Transfers In	-	51	-	-	51
Total Other Financing Sources (Uses):	-	51	-	-	51
Net Change in Fund Balances	570	51	-	3,242	3,863
Fund Balances, Beginning of Year	5,305	4,861	85,767	20,937	116,870
Fund Balances, End of Year	\$ 5,875	\$ 4,912	\$ 85,767	\$ 24,179	\$ 120,733

CITY OF ST. JOHNS, ARIZONA
GRANTS SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental Revenue:				
Federal, State and Other Grants	\$ 3,391,296	\$ 2,449,808	\$ 102,058	\$ (2,347,750)
Other Revenue:				
Donations and Other	410,300	410,300	14,501	(395,799)
Total Revenue	<u>3,801,596</u>	<u>2,860,108</u>	<u>116,559</u>	<u>(2,743,549)</u>
EXPENDITURES:				
Current:				
Public Safety	201,440	201,440	96,808	104,632
Public Works	540,000	540,000	-	540,000
Culture and Recreation	2,847,475	1,905,987	6,728	1,899,259
Health and Welfare	189,528	189,528	5,701	183,827
Capital Outlay	43,153	43,153	6,752	36,401
Total Expenditures	<u>3,821,596</u>	<u>2,880,108</u>	<u>115,989</u>	<u>2,764,119</u>
Excess of Revenues Over (Under) Expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>570</u>	<u>20,570</u>
Other Financing Sources (Uses):				
Transfers In	20,000	20,000	-	(20,000)
Total Other Financing Sources (Uses):	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
Net Change in Fund Balance	-	-	570	570
Fund Balance, Beginning of Year	<u>5,305</u>	<u>5,305</u>	<u>5,305</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,305</u>	<u>\$ 5,305</u>	<u>\$ 5,875</u>	<u>\$ 570</u>

CITY OF ST. JOHNS, ARIZONA
ABATEMENT SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Abatement Fees	\$ -	\$ -	\$ -	\$ -
Donations and Other	-	-	-	-
Total Revenue	-	-	-	-
EXPENDITURES:				
Public Works	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses): Transfers In	-	-	51	51
Other Financing Sources (Uses):	-	-	51	51
Net Change in Fund Balance	-	-	51	51
Fund Balance, Beginning of Year	4,861	4,861	4,861	-
Fund Balance, End of Year	\$ 4,861	\$ 4,861	\$ 4,912	\$ 51

CITY OF ST. JOHNS, ARIZONA
LTAIF SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Donations and Other	-	-	-	-
Total Revenue	-	-	-	-
EXPENDITURES:				
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses):	-	-	-	-
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	85,767	85,767	85,767	-
Fund Balance, End of Year	\$ 85,767	\$ 85,767	\$ 85,767	\$ -

CITY OF ST. JOHNS, ARIZONA
CEMETERY FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Cemetery Perpetual Care Fees	\$ 500	\$ 500	\$ 3,374	\$ 2,874
Total Revenue	500	500	3,374	2,874
EXPENDITURES:				
Capital Outlay	10,500	10,500	132	10,368
Total Expenditures	10,500	10,500	132	10,368
Excess of Revenues Over (Under) Expenditures	(10,000)	(10,000)	3,242	13,242
Fund Balance, Beginning of Year	20,937	20,937	20,937	-
Fund Balance, End of Year	<u>\$ 10,937</u>	<u>\$ 10,937</u>	<u>\$ 24,179</u>	<u>\$ 13,242</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS



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

The Honorable Mayor and
City Council
City of St. Johns, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Johns, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the City of St. Johns, Arizona's basic financial statements and have issued our report thereon dated December 18, 2012. 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.

Internal Control over Financial Reporting

Management of the City of St. Johns, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of St. Johns, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Johns, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of St. Johns, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in our findings and recommendations letter dated December 18, 2012, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 following deficiencies described in our findings and recommendations letter dated December 18, 2012 to be material weaknesses.

10-1. Reconciliations and 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 our findings and recommendations letter dated December 18, 2012 to be significant deficiencies.

10-3. Accounts Receivable Procedures

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the City in our findings and recommendations letter dated December 18, 2012.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified part parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
December 18, 2012

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

The Honorable Mayor and
City Council
City of St. Johns, Arizona

We have audited the basic financial statements of the City of St. Johns, Arizona for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012. Our audit also included test work on the City of St. Johns' 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 St. Johns 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 St. Johns 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 St. Johns 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 St. Johns complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.



HintonBurdick, PLLC
December 18, 2012

This page intentionally left blank