

CITY OF WILLCOX, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WILLCOX, ARIZONA

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CITY OF WILLCOX, ARIZONA

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**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
City Council
City of Willcox, 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 Willcox, 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 Willcox, Arizona's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Willcox, Arizona 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 November 9, 2012, on our consideration of the City of Willcox, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 11, the Public Safety Personnel Retirement System information on page 48 and the budgetary comparison information on pages 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Willcox's basic financial statements. The combining and individual fund and other 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 Willcox. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



HintonBurdick, PLLC
November 9, 2012

CITY OF WILLCOX, ARIZONA
Management's Discussion and Analysis
June 30, 2012

As management of the City of Willcox (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 assets (all funds Governmental and Business type) increased by \$587,285. Total Liabilities decreased by \$473,618 which resulted in total assets in excess of total liabilities (net position) increasing by \$1,060,904 at the close of the fiscal year 2012. Total net position (equity) was \$15,812,558 at June 30, 2012.
- Capital outlays for Governmental Activities exceeded depreciation expense in the current year by \$67,618. The City incurred capital expenses for the addition of a Solarium Room at the Library; continuing energy-efficiency improvements at the historic Community Center that was originally constructed in 1936; construction of a Skate Park; and continuing improvements to construct a walking path on Fort Grant Road.
- Total business-type revenues exceeded total business-type expenses by \$529,300.
- Total Governmental Revenues exceeded Governmental Expenses by \$531,604.
- The General Fund reported expenses in excess of revenues (including transfers) of \$152,623 (reduction in General Fund Balance).
- Actual General Fund resources received were \$30,454 (1.0%) greater than the final Budget.
- Actual General Fund expenditures, including other financing sources, were \$757,142 (18%) less than the final Budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.7 million or 49% of total General Fund FY 12 expenditures, (approximately 6 months of reserves), excluding transfers.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall City's 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 to net position. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's tax base or condition of the City's roads to accurately assess the overall health of the City.

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

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, highways and streets, public works, culture and recreation, community development and interest on long-term debt. Property taxes, sales tax, 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 all or most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental 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.

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, donations for a specific purpose and others. These fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

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 \$15.8 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, gas, and refuse operations in enterprise funds which are shown as Business Activities.

City of Willcox, 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	\$ 2,718,383	\$ 2,900,261	\$ 3,891,748	\$ 3,349,890	\$ 6,610,131	6,250,151
Capital assets	10,169,483	9,933,740	4,774,931	4,783,369	14,944,414	14,717,109
Total assets	<u>12,887,866</u>	<u>12,834,001</u>	<u>8,666,679</u>	<u>8,133,259</u>	<u>21,554,545</u>	<u>20,967,260</u>
Long-term liabilities outstanding	2,981,030	3,340,717	1,745,507	1,694,635	4,726,537	5,035,352
Other liabilities	771,769	889,820	243,681	290,433	1,015,450	1,180,253
Total liabilities	<u>3,752,799</u>	<u>4,230,537</u>	<u>1,989,188</u>	<u>1,985,068</u>	<u>5,741,987</u>	<u>6,215,605</u>
Net assets:						
Invested in capital assets, net of related debt	6,877,149	6,151,098	2,962,533	3,025,159	9,839,682	9,176,257
Restricted	466,553	370,962	-	-	466,553	370,962
Unrestricted	1,791,365	2,081,404	3,714,958	3,123,032	5,506,323	5,204,436
Total net position	<u>\$ 9,135,067</u>	<u>\$ 8,603,464</u>	<u>\$ 6,677,491</u>	<u>\$ 6,148,191</u>	<u>\$ 15,812,558</u>	<u>\$ 14,751,655</u>

Governmental Activities

The cost of all Governmental activities this year was \$5.0 million. As shown on the statement of Changes in Net Position on the following page, \$224,219 of this cost was paid for by those who directly benefited from the programs and \$1,121,559 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$3.5 million.

The City's Governmental activities include General Government, Public Safety, Library, Highways and Streets, Culture & Recreation, Grants, Community Development and Public Works. The business-type activities include the Gas Utility, Water Utility, Sewer Utility and Refuse program. Each program's revenues and expenses are presented below.

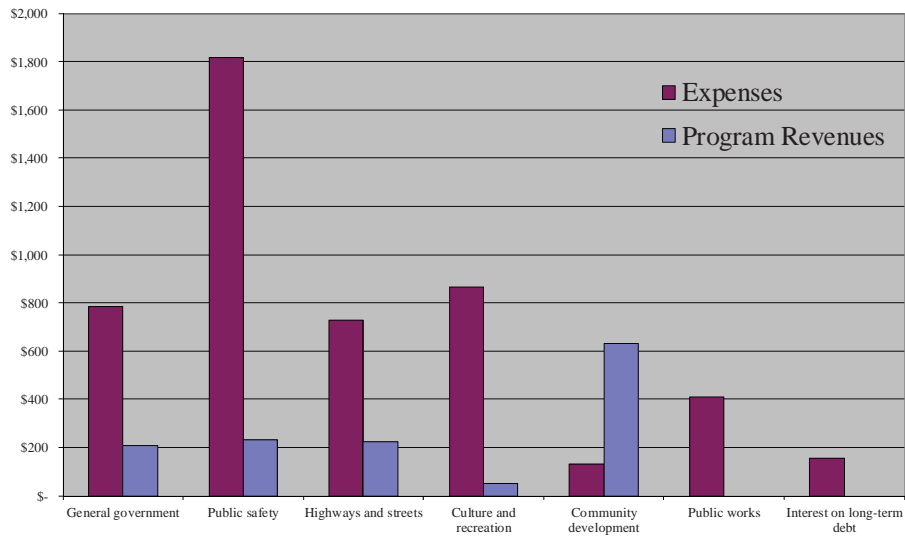
City of Willcox, Arizona
Changes in Net Position

	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	\$ 224,219	\$ 101,192	\$ 2,963,076	\$ 2,946,554	\$ 3,187,295	\$ 3,047,746
Operating grants and contributions	399,920	475,676	-	-	399,920	475,676
Capital grants and contributions	721,639	55,523	10,155	12,449	731,794	67,972
General revenues:						
Sales taxes	2,439,087	2,561,583	-	-	2,439,087	2,561,583
Other taxes	668,553	754,452	-	-	668,553	754,452
State revenue sharing	317,094	378,138	-	-	317,094	378,138
Assessments	79,433	78,439	-	-	79,433	78,439
Other	32,250	24,284	44,907	28,230	77,157	52,514
Total revenues	<u>4,882,195</u>	<u>4,429,287</u>	<u>3,018,138</u>	<u>2,987,233</u>	<u>7,900,333</u>	<u>7,416,520</u>
Expenses:						
General government	782,916	768,369	-	-	782,916	768,369
Public safety	1,816,093	1,888,994	-	-	1,816,093	1,888,994
Highways and streets	727,818	852,285	-	-	727,818	852,285
Culture and recreation	865,971	902,214	-	-	865,971	902,214
Community development	131,778	-	-	-	131,778	-
Public works	407,917	389,890	-	-	407,917	389,890
Interest on long-term debt	156,536	166,902	-	-	156,536	166,902
Gas	-	-	507,543	702,225	507,543	702,225
Water	-	-	482,074	556,336	482,074	556,336
Sewer	-	-	467,105	508,533	467,105	508,533
Refuse	-	-	493,678	479,158	493,678	479,158
Total expenses	<u>4,889,029</u>	<u>4,968,654</u>	<u>1,950,400</u>	<u>2,246,252</u>	<u>6,839,429</u>	<u>7,214,906</u>
(Decrease)/Increase in net assets before transfers	(6,834)	(539,367)	1,067,738	740,981	1,060,904	201,614
Transfers	538,438	463,243	(538,438)	(463,243)	-	-
Net position, beginning	8,603,463	8,679,588	6,148,191	5,870,453	14,751,654	14,550,041
Net position, ending	<u>\$ 9,135,067</u>	<u>\$ 8,603,464</u>	<u>\$ 6,677,491</u>	<u>\$ 6,148,191</u>	<u>\$ 15,812,558</u>	<u>\$ 14,751,655</u>

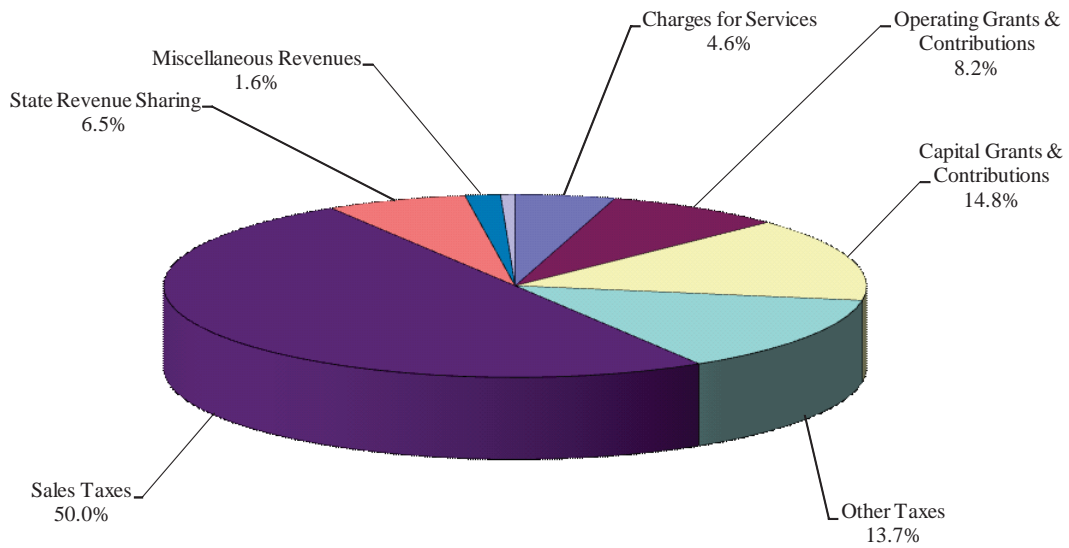
Total governmental resources available during the year to finance governmental operations were \$14 million, consisting of Net position at July 1, 2011 of \$8.6 million, Program revenues of \$1,345,778, Transfers of \$538,438, and General revenues of \$3.5 million, less total Governmental Activities expenses during the year of \$4.9 million; thus Governmental Net Position was increased by \$531,604 to \$9.1 million.

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)



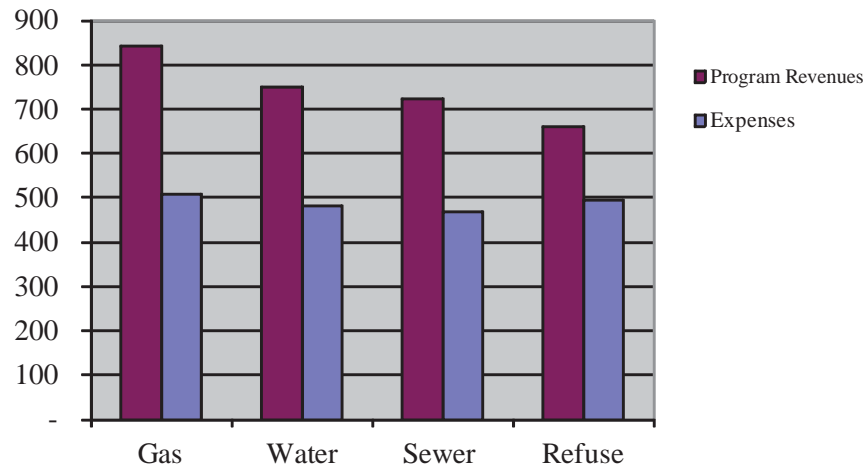
Revenue By Source - Governmental Activities



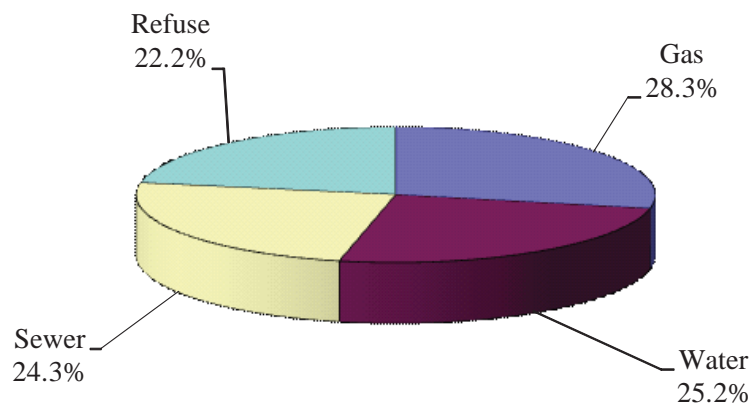
Business Type Activities

Net position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position was \$6.67 million. As shown in the statement of Changes in Net Position, the total net position at July 1, 2011 was \$6.1 million. Amounts paid by users of the system were \$2.96 million, capital grants and contributions were \$10,155 and interest earnings totaled \$44,907. The cost of providing all Proprietary (Business Type) activities this year was \$1.95 million. Transfers to governmental activities were \$538,438 and interest expense and fiscal charges were \$67,587. Net position increased by \$529,300.

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



Revenue By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental funds

The focus of the City's governmental fund financial statements (16-19) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the non-major funds are combined into a single column. Combining statements for the non-major funds are reported on pages 56 and 57.

For fiscal year ended June 30, 2012, the governmental funds reflect a combined fund balance of \$2,394,874. Of this, \$29,723 is designated for prepaid expenses, and \$634,318 is reserved because it is not available for expenditure or is legally segregated for a specific future use. The remaining \$1,730,833 is classified as "Unassigned". This balance may serve as a useful indicator of a government's net resources available for spending.

The General Fund is the principal operating fund of the City and accounts for many functions of the government, including public safety, library, parks and recreation, community development and general administrative services. Fiscal year 2012 general fund revenues totaled \$2,892,703. Expenditures, before other financing sources and uses, totaled \$3,556,976. City sales tax revenue came in about 7% below projections. State sales tax revenues were \$9,332 or about 3% greater than State estimates, and Auto lieu taxes were \$6,886 or about 4% less than state estimates. Overall intergovernmental income was as anticipated in the budget. Room occupancy tax revenues of \$152,774 were about 18% more than projections and revenues have remained steady. Franchise fee income was about \$31,285 less than the amount budgeted and about \$77,110 less than the prior year. The reduction in Franchise Tax revenue is permanent, and that change has been reflected in future budgets. Building permits exceeded budgeted revenues by \$97,927, and fines and forfeitures revenue came in at \$2,314 over budget. Miscellaneous revenues were \$14,676 more than the amount budgeted.

The Highway User Revenue Fund is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments; the funds are required to be used for transportation purposes. The City deposits 1%, or 1/3 of the City enacted 3% Sales tax, to this fund. FY12 City Sales Tax Revenues in this fund totaled \$715,171 or about 7% less than budgeted. HURF revenues from the State as well as interest income were slightly below projections, and overall fund revenue was \$940,238 or about 7% under budget. The Fund expenses totaled \$820,333, or about 24% less than the amounts budgeted. The fund transferred \$17,719 to the Grants Fund to be used for the City's match on the Fort Grant Improvement Project. Net revenues were \$119,905 greater than expenditures, and the HURF fund balance at the close of FY 12 is \$334,140. Long term projections show the payoff of fixed cost leases and bond payments which should make this fund balanced by 2014.

The Grants Special Revenue Fund accounts for the administration of federal and state grants. Grants Fund revenues totaled \$594,115, transfers in of \$17,719 were added for grant matching requirements. Expenses totaled \$611,834 for a net use of funds of \$-0- and an ending fund balance of \$-0-.

Non-major governmental funds of the City include the Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund. The non-major funds are combined for presentation in the financial statements. The Special Revenues Fund consists of money donated to the City for specific purposes. Revenues totaled \$47,191, transfers in (matching amounts for grants) totaled \$20,988, and expenses totaled \$77,838 for a net use of funds of \$9,659 and an ending fund balance of \$88,647. The Capital Projects Fund revenues totaled \$86,126 and expenses totaled \$87,301 for a net use of fund balance of \$1,175 and an ending fund balance of \$43,766. The Debt Service Fund revenues totaled \$151,822,

transfers in totaled \$5,800, and expenses totaled \$155,313 net increase in fund balance of \$2,309 to an ending balance of \$167,765.

Proprietary Funds

The proprietary fund financial statements are prepared on the same accounting basis and measurement focus as the government-wide financial statements, but provide additional detail since each major enterprise fund is shown directly on the fund statements.

Net position of the Proprietary Funds was \$6,677,491 as of June 30, 2012. Operating revenues totaled \$2,963,076, while operating expenses totaled \$1,882,813, for an operating income of \$1,080,263. This income is reflective of a surplus in revenue for all the proprietary funds, Gas, Water, Sewer and Refuse.

General Fund Budgetary Highlights

Actual revenues as shown on Page 50 were \$30,454 more than budgeted revenues. Revenues included City Sales Tax revenues of \$1,430,343 or \$106,272 less than those budgeted. Budgeted miscellaneous revenues included fund balance appropriations of \$903,932 of which \$152,623 was used. Expenditures, including transfers, were less than the General Fund appropriations at year-end by \$787,596. This difference was due to conservative spending. A budget amendment was made during the year to transfer budgeted amounts to different accounts or departments within the City to reflect the City's actual needs and to prevent budget overruns. Total expenditures were not increased as a result of the amendment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2012, net capital assets of the government activities totaled \$10.1 million, and the net capital assets of the business-type activities totaled \$4.77 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. See note 7 to the financial statements.

Debt

At year-end, the City had \$3.4 million in governmental type debt, and \$1.8 million in proprietary debt. The debt is a liability of the government and amounts to \$1,398 per capita. During the current fiscal year, the City's total debt decreased by \$315,548, which consisted of retirements of \$534,970, additions of \$128,214, and a net increase of \$91,208 for the allowance for accrued compensated absences. See note 8 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

For the 2012-2013 fiscal year city budget, the City has projected a 7% increase in general operating revenues and operating expenditures from the fiscal year 2011-2012 budgeted amounts. Due to rate adjustments and anticipated demand for utility services, the budgeted utility fund operating revenues are about 9% more than actual operations for fiscal year 2011-2012. Gas operating revenues are estimated to increase in fiscal year 2013 due to anticipated higher costs for the purchase of natural gas to meet customer demands. Water and sewer revenues are anticipated to increase by about 8%, and refuse revenues will remain static. There is an emphasis on infrastructure improvements which continues into 2013. In fiscal year 2012-2013 new and/or improved facilities for community programs, library, parks, and streets are proposed in the capital expenditure program for approximately \$872,261 to be financed by grants and fund appropriations. Also, \$12 million is budgeted for capital improvements in the Sewer Fund for the construction of a wastewater treatment plant to be financed by grants and bonds.

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 Patrick McCourt, City Manager, or Ruth Graham, Finance Director, City of Willcox, 101 South Railroad Avenue, Suite B, Willcox, AZ 85643. Phone: (520) 384-4271, email: pmccourt@willcoxcity.org or rgraham@willcoxcity.org.

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BASIC FINANCIAL STATEMENTS

CITY OF WILLCOX, ARIZONA
Statement of Net Position
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,753,527	\$ 3,315,159	\$ 5,068,686
Receivables (net of allowance)	311,203	265,648	576,851
Inventory	-	97,297	97,297
Internal balances	23,481	(23,481)	-
Prepays	29,723	-	29,723
Deferred charges	-	27,087	27,087
Temporarily restricted assets:			
Cash and cash equivalents	600,449	210,038	810,487
Capital assets (net of accumulated depreciation):			
Land and improvements	1,238,102	184,425	1,422,527
Buildings and improvements	3,647,259	-	3,647,259
System and other improvements	-	4,151,363	4,151,363
Furniture, equipment and vehicles	696,186	181,841	878,027
Infrastructure	3,858,809	-	3,858,809
Construction in progress	729,127	257,302	986,429
Total Assets	<u>12,887,866</u>	<u>8,666,679</u>	<u>21,554,545</u>
Liabilities			
Accounts payable and other current liabilities	301,932	117,709	419,641
Deferred revenue	21,577	-	21,577
Customer deposits	-	48,741	48,741
Interest payable	1,011	-	1,011
Noncurrent liabilities:			
Due within one year	447,249	77,231	524,480
Due in more than one year	2,981,030	1,745,507	4,726,537
Total Liabilities	<u>3,752,799</u>	<u>1,989,188</u>	<u>5,741,987</u>
Net Position			
Net investment in capital assets	6,877,149	2,962,533	9,839,682
Restricted for:			
Streets and other	422,787	-	422,787
Capital projects	43,766	-	43,766
Unrestricted	1,791,365	3,714,958	5,506,323
Total Net Position	<u>\$ 9,135,067</u>	<u>\$ 6,677,491</u>	<u>\$ 15,812,558</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 782,916	\$ 31,354	\$ 8,124	\$ 170,000	\$ (573,438)	\$ -	\$ (573,438)
Public safety	1,816,093	167,083	64,346	-	(1,584,664)	-	(1,584,664)
Highways and streets	727,818	-	224,061	-	(503,757)	-	(503,757)
Culture and recreation	865,971	25,782	8,389	15,243	(816,557)	-	(816,557)
Community development	131,778	-	95,000	536,396	499,618	-	499,618
Public works	407,917	-	-	-	(407,917)	-	(407,917)
Interest on long-term debt	156,536	-	-	-	(156,536)	-	(156,536)
Total governmental activities	4,889,029	224,219	399,920	721,639	(3,543,251)	-	(3,543,251)
Business-type activities:							
Gas	507,543	833,545	-	7,605	-	333,607	333,607
Water	482,074	746,354	-	2,550	-	266,830	266,830
Sewer	467,105	723,246	-	-	-	256,141	256,141
Refuse	493,678	659,931	-	-	-	166,253	166,253
Total business-type activities	1,950,400	2,963,076	-	10,155	-	1,022,831	1,022,831
Total primary government	\$ 6,839,429	\$ 3,187,295	\$ 399,920	\$ 731,794	(3,543,251)	1,022,831	(2,520,420)
General Revenues:							
Property taxes levied for general purposes					221,867	-	221,867
Sales taxes					2,439,087	-	2,439,087
Other taxes					446,686	-	446,686
State revenue sharing					317,094	-	317,094
Miscellaneous revenues					79,433	-	79,433
Unrestricted investment earnings					32,250	44,907	77,157
Transfers					538,438	(538,438)	-
Total general revenues & transfers					4,074,855	(493,531)	3,581,324
Change in net position					531,604	529,300	1,060,904
Net position - beginning					8,603,463	6,148,191	14,751,654
Net position - ending					\$ 9,135,067	\$ 6,677,491	\$ 15,812,558

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

CITY OF WILLCOX, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

ASSETS	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,753,527	\$ -	\$ -	\$ -	\$ 1,753,527
Receivables:					
Property taxes	9,053	-	-	17,171	26,224
Other	38,056	-	-	-	38,056
Intergovernmental	66,384	28,813	122,092	29,634	246,923
Due from other funds	74,627	-	-	-	74,627
Prepays	29,723	-	-	-	29,723
Restricted cash and investments	-	327,256	-	273,193	600,449
Total Assets	<u>\$ 1,971,370</u>	<u>\$ 356,069</u>	<u>\$ 122,092</u>	<u>\$ 319,998</u>	<u>\$ 2,769,529</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 152,358	\$ 18,912	\$ 70,946	\$ 5,803	\$ 248,019
Accrued liabilities	50,896	3,017	-	-	53,913
Due to other funds	-	-	51,146	-	51,146
Deferred revenue	7,560	-	-	14,017	21,577
Total Liabilities	<u>210,814</u>	<u>21,929</u>	<u>122,092</u>	<u>19,820</u>	<u>374,655</u>
Fund Balances:					
Nonspendable:					
Prepays	29,723	-	-	-	29,723
Restricted for:					
Roads and highways	-	334,140	-	-	334,140
Debt service	-	-	-	167,765	167,765
Other purposes	-	-	-	88,647	88,647
Capital projects	-	-	-	43,766	43,766
Unassigned	1,730,833	-	-	-	1,730,833
Total Fund Balances	<u>1,760,556</u>	<u>334,140</u>	<u>-</u>	<u>300,178</u>	<u>2,394,874</u>
Total Liabilities and Fund Balances	<u>\$ 1,971,370</u>	<u>\$ 356,069</u>	<u>\$ 122,092</u>	<u>\$ 319,998</u>	<u>\$ 2,769,529</u>

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

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

Total governmental fund balances		\$ 2,394,874
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	\$ 15,064,013	
Accumulated Depreciation	<u>(4,894,530)</u>	10,169,483
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (3,216,000)	
Capital leases	(76,334)	
Compensated absences	(135,945)	
Accrued interest	<u>(1,011)</u>	<u>(3,429,290)</u>
Total net position of governmental activities		<u><u>\$ 9,135,067</u></u>

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

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

REVENUES	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 1,778,546	\$ 715,171	\$ -	\$ 151,822	\$ 2,645,539
Licenses, permits and fees	187,858	-	-	-	187,858
Intergovernmental revenue	778,208	223,764	499,115	113,798	1,614,885
Charges for services	20,291	-	-	-	20,291
Fines and forfeitures	15,266	-	-	-	15,266
Interest	31,016	1,007	-	227	32,250
Other revenues	81,518	296	95,000	19,292	196,106
Total Revenues	<u>2,892,703</u>	<u>940,238</u>	<u>594,115</u>	<u>285,139</u>	<u>4,712,195</u>
EXPENDITURES					
Current:					
General Government	650,524	-	-	-	650,524
Public Safety	1,702,312	-	-	-	1,702,312
Community Development	-	-	131,463	-	131,463
Culture and Recreation	798,415	-	-	-	798,415
Streets and Highways	-	498,618	-	-	498,618
Public Works	405,725	-	-	-	405,725
Capital Outlay	-	10,032	480,371	165,139	655,542
Debt Service:					
Principal	-	200,000	-	110,000	310,000
Interest	-	111,683	-	45,313	156,996
Total Expenditures	<u>3,556,976</u>	<u>820,333</u>	<u>611,834</u>	<u>320,452</u>	<u>5,309,595</u>
Excess of Revenues Over (Under) Expenditures	<u>(664,273)</u>	<u>119,905</u>	<u>(17,719)</u>	<u>(35,313)</u>	<u>(597,400)</u>
Other Financing Sources (Uses):					
Transfers out	(20,988)	(17,719)	-	-	(38,707)
Transfers in	532,638	-	17,719	26,788	577,145
Total Other Financing Sources (Uses)	<u>511,650</u>	<u>(17,719)</u>	<u>17,719</u>	<u>26,788</u>	<u>538,438</u>
Net change in fund balances	<u>(152,623)</u>	<u>102,186</u>	<u>-</u>	<u>(8,525)</u>	<u>(58,962)</u>
Fund Balances, Beginning of Year	<u>1,913,179</u>	<u>231,954</u>	<u>-</u>	<u>308,703</u>	<u>2,453,836</u>
Fund Balances, End of Year	<u>\$ 1,760,556</u>	<u>\$ 334,140</u>	<u>\$ -</u>	<u>\$ 300,178</u>	<u>\$ 2,394,874</u>

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

CITY OF WILLCOX, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For 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		\$ (58,962)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital Outlay	\$ 593,369	
Depreciation Expense	<u>(525,751)</u>	67,618
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.</p>		
		168,125
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is recorded as an expenditure, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		364,391
<p>Accrued interest for long-term debt is not reported as an expenditure for the current period in the funds while it is recorded in the statement of activities.</p>		
		460
<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>		
		<u>(10,028)</u>
Change in net position of governmental activities		<u><u>\$ 531,604</u></u>

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

CITY OF WILLCOX, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

Assets	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Current Assets:					
Cash	\$ 986,232	\$ 1,485,039	\$ 842,888	\$ 1,000	\$ 3,315,159
Receivables (net of allowance)	44,329	88,880	71,279	61,160	265,648
Prepays	-	-	-	-	-
Deferred charges	-	-	27,087	-	27,087
Inventory	53,282	41,495	2,520	-	97,297
Restricted cash	31,958	48,489	119,736	9,855	210,038
Total Current Assets	<u>1,115,801</u>	<u>1,663,903</u>	<u>1,063,510</u>	<u>72,015</u>	<u>3,915,229</u>
Noncurrent Assets:					
Land and improvements	28,030	131,900	24,495	-	184,425
Buildings and improvements	16,000	-	5,800	-	21,800
System and other improvements	1,435,398	4,893,006	3,975,064	-	10,303,468
Machinery and equipment	128,908	106,833	125,981	-	361,722
Vehicles	90,675	109,114	56,856	-	256,645
Construction in progress	4,649	4,649	248,004	-	257,302
Accumulated depreciation	(958,638)	(2,876,451)	(2,775,342)	-	(6,610,431)
Total Noncurrent Assets	<u>745,022</u>	<u>2,369,051</u>	<u>1,660,858</u>	<u>-</u>	<u>4,774,931</u>
Total Assets	<u>1,860,823</u>	<u>4,032,954</u>	<u>2,724,368</u>	<u>72,015</u>	<u>8,690,160</u>
Liabilities					
Current Liabilities:					
Accounts payable	29,116	25,744	11,772	39,699	106,331
Accrued liabilities	1,657	3,365	6,356	-	11,378
Customer deposits	31,958	6,928	-	9,855	48,741
Due to other funds	-	-	-	23,481	23,481
Current portion - compensated absences	6,270	4,070	660	-	11,000
Current portion - long-term debt	-	23,000	43,231	-	66,231
Total Current Liabilities	<u>69,001</u>	<u>63,107</u>	<u>62,019</u>	<u>73,035</u>	<u>267,162</u>
Long-Term Debt (net of current portion):					
Notes payable	-	-	230,371	-	230,371
Revenue bonds payable	-	839,000	675,644	-	1,514,644
Compensated absences	263	191	38	-	492
Total Long-Term Debt	<u>263</u>	<u>839,191</u>	<u>906,053</u>	<u>-</u>	<u>1,745,507</u>
Total Liabilities	<u>69,264</u>	<u>902,298</u>	<u>968,072</u>	<u>73,035</u>	<u>2,012,669</u>
Net Position					
Net investment in capital assets	744,759	1,506,860	710,914	-	2,962,533
Restricted	-	-	-	-	-
Unrestricted (deficit)	1,046,800	1,623,796	1,045,382	(1,020)	3,714,958
Total Net position (deficit)	<u>\$ 1,791,559</u>	<u>\$ 3,130,656</u>	<u>\$ 1,756,296</u>	<u>\$ (1,020)</u>	<u>\$ 6,677,491</u>

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

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

Operating Revenues:	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Charges for services	\$ 800,551	\$ 732,610	\$ 717,333	\$ 654,547	\$ 2,905,041
Other revenues	32,994	13,744	5,913	5,384	58,035
Total Operating Revenues	833,545	746,354	723,246	659,931	2,963,076
Operating Expenses:					
Salaries, wages and benefits	47,148	166,604	168,045	-	381,797
Office expenses and travel	2,754	139	-	-	2,893
Repairs and maintenance	5,511	10,845	15,305	-	31,661
Utilities	3,143	52,630	-	-	55,773
Contract services	21,463	4,734	-	493,678	519,875
Miscellaneous	3,671	1,918	2,083	-	7,672
Gas purchases	345,228	-	-	-	345,228
Service, supplies and other	38,588	49,860	156,987	-	245,435
Depreciation/amortization	40,037	158,879	93,563	-	292,479
Total Operating Expenses	507,543	445,609	435,983	493,678	1,882,813
Operating Income	326,002	300,745	287,263	166,253	1,080,263
Non-operating Revenues (Expenses):					
Interest income	14,736	18,803	11,368	-	44,907
Interest expense and fiscal charges	-	(36,465)	(31,122)	-	(67,587)
Connection and impact fees	7,605	2,550	-	-	10,155
Total Non-Operating Revenue (Expense)	22,341	(15,112)	(19,754)	-	(12,525)
Net Income before contributions and transfers	348,343	285,633	267,509	166,253	1,067,738
Transfers out	(190,735)	(132,343)	(115,228)	(100,132)	(538,438)
Net Income	157,608	153,290	152,281	66,121	529,300
Total net position (deficit), beginning of year	1,633,951	2,977,366	1,604,015	(67,141)	6,148,191
Total net position (deficit), end of year	\$ 1,791,559	\$ 3,130,656	\$ 1,756,296	\$ (1,020)	\$ 6,677,491

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

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

	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 832,483	\$ 745,633	\$ 720,610	\$ 642,720	\$ 2,941,446
Cash received from customers, other	32,994	13,744	5,913	5,384	58,035
Cash paid to suppliers	(443,560)	(119,197)	(204,665)	(486,050)	(1,253,472)
Cash paid to employees	(51,393)	(171,824)	(184,031)	-	(407,248)
Net cash flows from operating activities	<u>370,524</u>	<u>468,356</u>	<u>337,827</u>	<u>162,054</u>	<u>1,338,761</u>
Cash Flows From Noncapital Financing Activities:					
Operating transfers in	-	-	-	-	-
Proceeds/Payments from/(to) other funds	-	-	-	(54,786)	(54,786)
Transfers out	(190,735)	(132,343)	(115,228)	(100,132)	(538,438)
Net cash flows from noncapital financing activities	<u>(190,735)</u>	<u>(132,343)</u>	<u>(115,228)</u>	<u>(154,918)</u>	<u>(593,224)</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(153,124)	(96,690)	(34,227)	-	(284,041)
Principal paid on long-term debt	-	(22,000)	(41,576)	-	(63,576)
Debt issues	-	-	116,612	-	116,612
Interest paid	-	(36,467)	(31,123)	-	(67,590)
Connection & impact fees	7,605	2,550	-	-	10,155
Net cash flows from capital and related financing activities	<u>(145,519)</u>	<u>(152,607)</u>	<u>9,686</u>	<u>-</u>	<u>(288,440)</u>
Cash Flows From Investing Activities:					
Interest on investments	14,737	18,803	11,368	-	44,908
Net cash flows from investing activities	<u>14,737</u>	<u>18,803</u>	<u>11,368</u>	<u>-</u>	<u>44,908</u>
Net change in Cash and Cash Equivalents	49,007	202,209	243,653	7,136	502,005
Cash and Cash Equivalents, Beginning of Year	969,183	1,331,319	718,971	3,719	3,023,192
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,018,190</u></u>	<u><u>\$ 1,533,528</u></u>	<u><u>\$ 962,624</u></u>	<u><u>\$ 10,855</u></u>	<u><u>\$ 3,525,197</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Net Operating Income	\$ 326,002	\$ 300,745	\$ 287,263	\$ 166,253	\$ 1,080,263
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation/amortization	40,037	158,879	93,563	-	292,479
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables/deferred charges	31,932	13,023	3,277	(11,827)	36,405
(Increase)/Decrease in prepaids/inventory	(17,025)	(13,605)	9,160	-	(21,470)
Increase/(Decrease) in accounts payable	(6,177)	14,534	(39,450)	1,491	(29,602)
Increase/(Decrease) in accrued liabilities	(4,245)	(5,220)	(15,986)	6,137	(19,314)
Net cash flows from operating activities	<u><u>\$ 370,524</u></u>	<u><u>\$ 468,356</u></u>	<u><u>\$ 337,827</u></u>	<u><u>\$ 162,054</u></u>	<u><u>\$ 1,338,761</u></u>

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

CITY OF WILLCOX, ARIZONA
Statement of Fiduciary Net Position
Court Agency Fund and Pension Trust Fund
June 30, 2012

	Magistrate Court Agency Fund	Volunteer Firefighters' Relief and Pension
ASSETS		
Cash and cash equivalents	\$ 1,407	\$ 224,009
Accounts receivable	-	4,032
Total Assets and Other Debits	1,407	228,041
LIABILITIES		
Accrued liabilities	1,407	-
Total liabilities	1,407	-
NET POSITION		
Held in trust for pension benefits and other purposes	\$ -	\$ 228,041

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

CITY OF WILLCOX, ARIZONA
Statement of Changes in Fiduciary Net Position
Pension Trust Fund
For the Year Ended June 30, 2012

	<u>Volunteer Firefighters' Relief and Pension</u>
ADDITIONS:	
Contributions:	
Employer	\$ 1,027
State fire tax	4,032
Plan member	<u>1,027</u>
Total Contributions	<u>6,086</u>
Investment Income:	
Interest earnings	<u>3,908</u>
Net Investment Income (Loss)	<u>3,908</u>
Total Additions	<u>9,994</u>
DEDUCTIONS:	
Benefits	<u>2,540</u>
Total Deductions	<u>2,540</u>
Net Increase (Decrease)	7,454
Net Position Held in Trust for Pension Benefits	
Beginning of Year	<u>220,587</u>
End of Year	<u><u>\$ 228,041</u></u>

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

The accompanying financial statements include all activities of the City of Willcox, Arizona (the City). The financial statements of the City conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The more significant of the City's accounting policies are described below.

Reporting entity

The City is a municipal corporation governed by an elected seven member council which appoints the mayor and vice-mayor. 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. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. 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 following is a brief review of the component unit included in defining the City's reporting entity. There are no discretely presented component units and one blended component unit.

Blended Component Unit included within the reporting entity:

The **Willcox Municipal Property Corporation (MPC)**, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects for the City. The MPC has been included (blended) as part of the reporting entity within the Highway User Special Revenue fund in this financial report. All related receivables and payables between the City and the MPC have been eliminated. Separate financial statements for this blended component unit are not prepared and thus, are not available.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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.

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 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 uses of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as expenditures. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures 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, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

The **Highway User Revenue Special Revenue 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.

The **Grants Special Revenue Fund** is used to account for federal and state grants and other contributions that are restricted for a specific use.

The City reports the following major proprietary funds:

The **Gas Fund** accounts for the provision of natural gas to the residents of the City.

The **Water Fund** accounts for the provision of water services to the residents of the City.

The **Sewer Fund** accounts for the provision of sewer services to the residents of the City.

The **Refuse Fund** accounts for the provision of waste disposal services to the residents of the City.

Additionally, the City reports the following fund types:

The **Magistrate Court Agency Fund** accounts for assets held in a custodial or trustee capacity for the court.

The **Pension Trust Fund** accounts for the activities of the Public Safety Employees Retirement System, which accumulates resources for pension benefit payments to qualified public safety employees.

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

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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.

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 enterprise funds are charges to customers for sales and services.

Operating expenses for the enterprise 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.

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.

Taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities consist principally of materials used in the repair of the distribution, collection and treatment systems.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

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

Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

Buildings and improvements	15-30 years
Vehicles	5-7 years
Furniture and Equipment	3-10 years
Water, sewer and gas systems	20-33 years
Infrastructure – Streets	20-30 years

Compensated Absences

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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.

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 assets are 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 assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 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.

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 employed by the City throughout the year; however, all encumbrances and/or appropriations lapse at fiscal year-end.

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

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

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the City Council. There was an amendment made to the original appropriations during the current fiscal year.

Budgetary Process: State law requires that on or before the third Monday in July of each fiscal year, the City council must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption, however, they may be decreased. Actually, with the adoption of the tentative budget, the council has set its maximum "limits" for expenditure, but these limits may be reduced upon final adoption.

The expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the State imposed expenditure limitation, a separate uniform expenditure report must be filed with the State each year. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. The City complied with this law during the current fiscal year.

For management purposes, the City adopts a budget by function and activity for each individual fund. The adopted budget can be amended as long as the total budgeted expenditures of all funds does not increase. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level in the General Fund and at the individual fund level for the Special Revenue, Debt Service and Capital Projects 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 Council approval.

Final Budget Adoption: State law specifies that exactly seven days prior to the day the property tax levy is adopted, the City council must adopt the final budget for the fiscal year. The date in State law for adoption of the tax levy is on or before the third Monday in August. The adopted budget then becomes the amount proposed for expenditure in the upcoming fiscal year. The adoption of the final budget may take place through a simple motion approved by the council.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The Statement 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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 3. Stewardship, Compliance and Accountability (Continued)

Deficit Fund Equity

The Refuse Fund had a deficit in fund balance of \$1,020 as of June 30, 2012 which decreased from the \$67,141 June 30, 2011 deficit. City management will continue to closely monitor this fund to ensure the deficit continues to decrease until it is eliminated.

NOTE 4. Deposits and Investments

A reconciliation to the government-wide statement of net position as follows:

Cash and cash equivalents	\$ 5,068,686
Restricted cash and cash equivalents	810,487
Trust and agency fund cash	225,416
Total cash and equivalents	<u>\$ 6,104,589</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. As of June 30, 2012, cash on hand was \$990 and the carrying amount of the City's deposits was \$1,131,168. As of June 30, 2012, \$0 of the City's bank balance of \$1,228,413 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Investment Fund

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer. The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 4. Deposits and Investments (Continued)

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

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

	<u>Fair Value</u>	<u>Quality Rating</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	\$ 990	N/A	N/A
Cash in bank	501,581	N/A	N/A
Investments:			
State Treasurer's Investment Pool	5,092,167	(1)	.93 years
Money market funds	<u>509,851</u>	N/A	N/A
Total cash and investments	<u><u>\$6,104,589</u></u>		

- (1) Ratings are provided where applicable to indicate associated credit risk. The City's investment in the State Treasurer's Investment Pool #700 was rated AA+ from Standard and Poor's.
(2) Interest rate risk is estimated using the weighted average days to maturity, when applicable.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 5. Restricted Assets

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. A summary of the City's investments and investment ratings is provided in the schedule on the previous page.

Restricted assets at June 30, 2012 consisted of the following cash reserves:

Restricted Cash

Streets and Other	327,256
Nonmajor Funds	273,193
Gas Fund - Customer Deposits	31,958
Water Fund - Debt Reserves and Customer Deposits	48,489
Sewer Fund - Debt Reserves and Customer Deposits	119,736
Refuse Fund - Customer Deposits	<u>9,855</u>
Subtotal	810,487
Magistrate Court Agency Fund	1,407
Volunteer Firefighters Relief and Pension Fund	<u>224,009</u>
Total Restricted Cash	<u><u>\$ 1,035,903</u></u>

NOTE 6. Property Taxes Receivable

Property taxes receivable in the amount of \$26,224 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Deferred revenue of \$21,577 represents that portion of the property taxes receivable that have not been collected within 60 days after year end. Consequently, this amount has not been included in current year revenues.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 7. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2012 was as follows:

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 1,238,102	\$ -	\$ -	\$ 1,238,102
Construction in progress	175,012	554,115	-	729,127
Total capital assets not being depreciated	<u>1,413,114</u>	<u>554,115</u>	<u>-</u>	<u>1,967,229</u>
Capital assets, being depreciated:				
Buildings and Improvements	5,455,583	170,000	-	5,625,583
Infrastructure	4,831,093	32,912	-	4,864,005
Furniture, Equipment, Vehicles	2,591,427	30,060	(14,291)	2,607,196
Total capital assets being depreciated	<u>12,878,103</u>	<u>232,972</u>	<u>(14,291)</u>	<u>13,096,784</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,817,438)	(160,886)	-	(1,978,324)
Infrastructure	(818,781)	(186,415)	-	(1,005,196)
Furniture, Equipment, Vehicles	(1,721,258)	(178,450)	(11,302)	(1,911,010)
Total accumulated depreciation	<u>(4,357,477)</u>	<u>(525,751)</u>	<u>(11,302)</u>	<u>(4,894,530)</u>
Total capital assets being depreciated, net	<u>8,520,626</u>	<u>(292,779)</u>	<u>(25,593)</u>	<u>8,202,254</u>
Governmental activities capital assets, net	<u>\$ 9,933,740</u>	<u>\$ 261,336</u>	<u>\$ (25,593)</u>	<u>\$ 10,169,483</u>

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

Governmental Activities:	
General government	\$ 123,052
Public safety	107,829
Highways and streets	228,006
Culture and recreation	65,644
Public works	1,220
Total depreciation expense - governmental activities	<u>\$ 525,751</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2012 was as follows:

Business Type Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 184,425	\$ -	\$ -	\$ 184,425
Construction in progress	243,355	13,947	-	257,302
Total capital assets not being depreciated	<u>427,780</u>	<u>13,947</u>	<u>-</u>	<u>441,727</u>
Capital assets, being depreciated:				
Buildings and Improvements	21,800	-	-	21,800
System and Other Improvements	10,186,532	172,139	(55,203)	10,303,468
Furniture, Equipment, Vehicles	544,400	98,681	(24,714)	618,367
Total capital assets being depreciated	<u>10,752,732</u>	<u>270,820</u>	<u>(79,917)</u>	<u>10,943,635</u>
Less accumulated depreciation for:				
Buildings and Improvements	(21,800)	-	-	(21,800)
System and Other Improvements	(5,951,831)	(255,477)	55,203	(6,152,105)
Furniture, Equipment, Vehicles	(423,512)	(37,002)	23,988	(436,526)
Total accumulated depreciation	<u>(6,397,143)</u>	<u>(292,479)</u>	<u>79,191</u>	<u>(6,610,431)</u>
Total capital assets being depreciated, net	<u>4,355,589</u>	<u>(21,659)</u>	<u>(726)</u>	<u>4,333,204</u>
Business type activities capital assets, net	<u>\$ 4,783,369</u>	<u>\$ (7,712)</u>	<u>\$ (726)</u>	<u>\$ 4,774,931</u>

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

Business-Type Activities:	
Gas	\$ 40,037
Water	158,879
Sewer	<u>93,563</u>
Total depreciation expense - business-type activities	<u>\$ 292,479</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012.

Governmental activities:	Balance 6/30/2011	Additions/ Adjustments	Retirements	Balance 6/30/2012	Current Portion
General Obligation:					
Capital Leases	\$ 130,725	\$ 2,944	\$ (57,335)	\$ 76,334	\$ 42,249
Water Improvement Bonds, Project of 1974	16,000	-	(5,000)	11,000	5,000
Total General Obligation	<u>146,725</u>	<u>2,944</u>	<u>(62,335)</u>	<u>87,334</u>	<u>47,249</u>
Revenue Obligation:					
Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006	2,445,000	-	(200,000)	2,245,000	210,000
GADA Revenue Bonds, Series 2003A	780,000	-	(95,000)	685,000	105,000
Series 2007	285,000	-	(10,000)	275,000	10,000
Total Revenue Obligation	<u>3,510,000</u>	<u>-</u>	<u>(305,000)</u>	<u>3,205,000</u>	<u>325,000</u>
Accrued Compensated Absences	<u>125,917</u>	<u>91,208</u>	<u>(81,180)</u>	<u>135,945</u>	<u>75,000</u>
Total Governmental Activity Long-term Liabilities	<u>\$ 3,782,642</u>	<u>\$ 94,152</u>	<u>\$ (448,515)</u>	<u>\$ 3,428,279</u>	<u>\$ 447,249</u>
Business-type Activities:					
Revenue Obligation:					
Water Revenue Bonds, USDA/RD Series 2005	\$ 884,000	\$ -	(22,000)	\$ 862,000	\$ 23,000
Sewer Revenue Bonds, Rural Utilities 2001 A	462,451	-	(24,428)	438,023	25,526
Rural Utilities Bonds 2001 B	298,000	-	(17,148)	280,852	17,705
Water Infrastructure Finance Authority Series 2010	113,759	116,612	-	230,371	-
Total Revenue Obligation	<u>1,758,210</u>	<u>116,612</u>	<u>(63,576)</u>	<u>1,811,246</u>	<u>66,231</u>
Accrued Compensated Absences	<u>25,713</u>	<u>8,658</u>	<u>(22,879)</u>	<u>11,492</u>	<u>11,000</u>
Total Business-type Activity Long-term Liabilities	<u>\$ 1,783,923</u>	<u>\$ 125,270</u>	<u>\$ (86,455)</u>	<u>\$ 1,822,738</u>	<u>\$ 77,231</u>
Total Long-term Debt	<u>\$ 5,566,565</u>	<u>\$ 219,422</u>	<u>\$ (534,970)</u>	<u>\$ 5,251,017</u>	<u>\$ 524,480</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Long-Term Debt (Continued)

Bonds payable consist of the following at June 30, 2012:

General Obligation:

5% Water Improvement Bonds, Project of 1974, payable in semi-annual installments of principal and interest through 2014.	\$ 11,000
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Revenue Obligation - Governmental:

Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006, due in semiannual principal and interest installments, bearing interest at 3.85% to 4.625%, maturing in July 1, 2021	2,245,000
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Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2003A, due in semiannual principal and interest installments, bearing interest at 4.0% to 4.375%, maturing in August 1, 2017	685,000
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Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2007 due in semiannual principal and interest installments, bearing interest at 4.0% to 5.0%, maturing in August 1, 2027	275,000
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Revenue Obligation - Business-type:

United States Department of Agriculture 4.125% Water Revenue Bonds, Series 2005, payable in semi-annual installments of principal and interest, maturing July 1, 2035.	862,000
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United States Department of Agriculture 4.5% Sewer Revenue Bonds, Rural Utilities 2001 A Bonds, payable in semi-annual installments of principal and interest, maturing July 1, 2025.	438,023
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United States Department of Agriculture 3.25% Rural Utilities 2001 A Bonds, payable in semi-annual installments of principal and interest, maturing July 1, 2025.	280,852
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Water Infrastructure Finance Authority of Arizona, 2010 Sewer Revenue Bonds, payable in semi-annual installments of interest and a balloon payment for principal at maturity, maturing July 1, 2013. The City anticipates rolling this loan into a USDA loan to build and/or improve the current wastewater facility	230,371
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Total Bonds Payable	\$ 5,027,246
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CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 8. Long-Term Debt (Continued)

Debt service requirements for bonds payable are as follows:

Fiscal Period Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 330,000	\$ 141,284	\$ 66,230	\$ 68,037
2014	351,000	126,784	299,326	63,543
2015	350,000	111,805	71,750	58,938
2016	365,000	96,691	74,618	56,041
2017	380,000	79,376	77,562	53,024
2018-2022	1,315,000	244,060	438,877	215,272
2023-2027	100,000	22,244	388,883	121,588
2028-2032	25,000	2,141	231,000	62,946
2033-2036	-	-	163,000	13,654
Total	\$ 3,216,000	\$ 824,385	\$ 1,811,246	\$ 713,043

The City has entered into four lease agreements which are considered capital leases in accordance with Generally Accepted Accounting Principles. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the fiscal years ending June 30:

Fiscal Period Ending June 30	Governmental Leases
2013	\$ 46,798
2014	34,905
2015	816
2016	816
2017	208
Total remaining lease payments	83,543
Less amount representing interest	(7,209)
Present value of net remaining minimum lease payments	<u>\$ 76,334</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 9. Interfund Transactions and Balances

The composition of interfund receivables and payables balances as of June 30, 2012 follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 74,627	\$ -
Grants Fund	-	51,146
Refuse Fund	-	23,481
Total	\$ 74,627	\$ 74,627

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 statement as Internal balances.

As of June 30, 2012 interfund transfers are as follows:

	Transfers In:			Total
	General Fund	Grants Fund	Non major Funds	
Transfers Out:				
General Fund	\$ -	\$ -	\$ 20,988	\$ 20,988
Gas Fund	190,735	-	-	190,735
Water Fund	126,543	-	5,800	132,343
Sewer Fund	115,228	-	-	115,228
Refuse Fund	100,132	-	-	100,132
Highway User Fund	-	17,719	-	17,719
Total transfers out	\$ 532,638	\$ 17,719	\$ 26,788	\$ 577,145

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement and Pension Plans

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 (10.50 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.

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	\$ 138,710	\$ 10,977	\$ 6,653
2011	143,006	9,364	3,968
2012	141,244	9,016	3,435

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement and Pension Plans (Continued)

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 22.06 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 1.73 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) 8.5 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, 2010, was 26 years for unfunded actuarial accrued liability and 20 years for excess.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement and Pension Plans (Continued)

Annual Pension/OPEB Cost – During the year ended June 30, 2012, the City’s annual pension cost of \$123,419 and the annual OPEB cost of \$10,502 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	\$ 101,455	100%	-
	2011	117,953	100%	-
	2012	123,419	100%	-
Health Insurance	2010	\$ 6,603	100%	-
	2011	9,690	100%	-
	2012	10,502	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2011 (latest actuarial date available) is as follows:

Actuarial accrued liability (AAL)	\$ 3,373,450
Actuarial value of plan assets	1,948,263
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,425,187</u>
Funded ratio (actuarial value of plan assets/AAL)	57.75%
Covered payroll (active plan members)	\$ 468,478
UAAL as a percentage of covered payroll	304.2%

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. This historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Firefighters’ Relief and Pension Fund

The Firefighters’ Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City’s volunteer firefighters. There are twenty current members of the plan. Financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement and Pension Plans (Continued)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Under the plan provisions, the volunteer firefighters voluntarily make contributions to the plan which is equally matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2012, the City's contributions amounted to \$1,027, and the firefighters' contributions amounted to \$1,027; and the State's contributions totaled \$4,062.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters. The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal years or as of the close of the fiscal year.

NOTE 11. Risk Management

The City is exposed to various risks of loss to torts; theft of, and 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 \$2,000,000 per occurrence on claims made basis. The agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$600,000 for general liability claims and \$100,000 for property claims for each insured event. The Arizona Municipal Risk Retention Pool is structured such that members' 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 authority to assess its members' additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations. The City is insured by AMRRP for workers compensation insurance for potential job-related accidents. There were no significant reductions in insurance coverage from the previous year and the amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2012

NOTE 12. Closure and Postclosure Care Costs

The City contracts with Cochise County for landfill services at the County landfill site. The City's landfill site was closed in 1993 in accordance with required procedures. The City continues to monitor the site and performs annual inspections at a minimal cost; thus, there are no liabilities for landfill closure and postclosure care costs reported in the financial statements.

NOTE 13. Contingencies

The City is involved with various matters of litigation from year to year. It is the opinion of City officials that these cases will either be handled by the City's insurance coverage or that they will not have a material effect on the City's financial condition.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City does not anticipate any such amounts.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLCOX, ARIZONA
Schedule of Funding Progress
June 30, 2012

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2007 through June 30, 2011, based on actuarial valuations follows:

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued 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	1,373,221	2,433,358	56.43%	1,060,137	482,350	219.8%
2008	1,568,725	2,505,824	62.60%	937,099	545,678	171.7%
2009 *	1,755,045	2,779,782	63.14%	1,024,737	547,566	187.1%
2010 *	1,872,510	2,993,257	62.56%	1,120,747	545,431	205.5%
2011 *	1,948,263	3,373,450	57.75%	1,425,187	468,478	304.2%
2012 *	**	**	**	**	**	**

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

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2007	-	44,436	44,436	0.0%	482,350	9.21%
2008	-	48,594	48,594	0.0%	545,678	8.91%
2009 *	-	67,596	67,596	0.0%	547,566	12.34%
2010 *	-	78,946	78,946	0.0%	545,431	14.47%
2011 *	-	78,554	78,554	0.0%	468,478	16.77%
2012 *	**	**	**	**	**	**

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

** Information for fiscal year 2012 is not yet available.

CITY OF WILLCOX, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR 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 – Detail Budget and Actual

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.
- **Grants Fund** – is used to account for federal and state grants and other contributions that are restricted for a specific use.

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds.

CITY OF WILLCOX, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property tax	\$ 74,454	\$ 74,454	\$ 69,714	\$ (4,740)
City sales tax	1,536,615	1,536,615	1,430,343	(106,272)
Room occupancy tax	130,000	130,000	152,774	22,774
Franchise taxes	157,000	157,000	125,715	(31,285)
Total Taxes	<u>1,898,069</u>	<u>1,898,069</u>	<u>1,778,546</u>	<u>(119,523)</u>
Licenses, Permits and Fees:				
Liquor licenses	3,000	3,000	2,196	(804)
Business licenses	5,000	5,000	9,572	4,572
Refuse hauler licenses	16,000	16,000	16,771	771
Dog licenses	100	100	25	(75)
Cemetery fees	15,000	15,000	21,367	6,367
Building permits	40,000	40,000	137,927	97,927
Total Licenses, Permits and Fees	<u>79,100</u>	<u>79,100</u>	<u>187,858</u>	<u>108,758</u>
Intergovernmental:				
State revenue sharing	317,357	317,357	317,933	576
Auto lieu taxes	173,588	173,588	166,702	(6,886)
State sales taxes	284,241	284,241	293,573	9,332
Total Intergovernmental	<u>775,186</u>	<u>775,186</u>	<u>778,208</u>	<u>3,022</u>
Charges for Services:				
Rents	7,100	7,100	8,405	1,305
Swimming pool fees	13,000	13,000	11,886	(1,114)
Total Charges for Services	<u>20,100</u>	<u>20,100</u>	<u>20,291</u>	<u>191</u>
Fines and Forfeitures:				
Fines & forfeitures	12,952	12,952	15,266	2,314
Total Fines and Forfeitures	<u>12,952</u>	<u>12,952</u>	<u>15,266</u>	<u>2,314</u>
Interest	<u>10,000</u>	<u>10,000</u>	<u>31,016</u>	<u>21,016</u>
Other Revenues:				
Miscellaneous	66,842	66,842	81,518	14,676
Total Other Revenues	<u>66,842</u>	<u>66,842</u>	<u>81,518</u>	<u>14,676</u>
TOTAL REVENUES	<u>2,862,249</u>	<u>2,862,249</u>	<u>2,892,703</u>	<u>30,454</u>

(continued)

CITY OF WILLCOX, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For Year Ended June 30, 2012 (Continued)

EXPENDITURES:	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General Government:				
Mayor & Council	\$ 31,316	\$ 31,316	\$ 30,031	\$ 1,285
General & Administrative	377,309	377,309	323,093	54,216
Finance	347,825	347,825	297,400	50,425
Total General Government	756,450	756,450	650,524	105,926
Public Safety:				
Public Safety Administration	313,325	313,325	294,238	19,087
Communications	291,003	291,003	239,984	51,019
Police	827,852	827,852	685,898	141,954
Magistrate	197,586	197,586	191,860	5,726
Fire	97,887	97,887	56,943	40,944
Animal Control	94,396	94,396	77,222	17,174
Building Inspection	161,514	161,514	156,167	5,347
Total Public Safety	1,983,563	1,983,563	1,702,312	281,251
Culture and Recreation:				
Library	283,107	283,107	221,938	61,169
Parks & Recreation	459,458	459,458	335,671	123,787
Swimming Pool	134,761	134,761	115,835	18,926
Community Programs	137,128	137,128	124,971	12,157
Total Culture and Recreation	1,014,454	1,014,454	798,415	216,039
Public Works				
Public Works Administration	190,078	190,078	155,740	34,338
Cemetery	65,924	65,924	40,022	25,902
Central Garage	107,320	107,320	99,349	7,971
Buildings & Grounds	196,329	196,329	110,614	85,715
Total Public Works	559,651	559,651	405,725	153,926
TOTAL EXPENDITURES	4,314,118	4,314,118	3,556,976	757,142
Excess of Revenues Over (Under) Expenditures	(1,451,869)	(1,451,869)	(664,273)	787,596
Other Financing Sources (Uses):				
Transfer from Gas fund	190,735	190,735	190,735	-
Transfer from Water fund	126,543	126,543	126,543	-
Transfer from Sewer fund	115,228	115,228	115,228	-
Transfer from Refuse fund	100,132	100,132	100,132	-
Transfer to capital project and grant funds	(20,500)	(120,500)	(20,988)	99,512
Total Other Financing Sources (Uses)	512,138	412,138	511,650	99,512
Net change in fund balance	(939,731)	(1,039,731)	(152,623)	887,108
Fund Balance, Beginning of Year	1,913,179	1,913,179	1,913,179	-
Fund Balance, End of Year	\$ 973,448	\$ 873,448	\$ 1,760,556	\$ 887,108

CITY OF WILLCOX, ARIZONA
Highway User Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 768,308	\$ 768,308	\$ 715,171	\$ (53,137)
Intergovernmental Revenue:	239,091	239,091	223,764	(15,327)
Interest	300	300	1,007	707
Other revenues	-	-	296	296
Total Revenues	<u>1,007,699</u>	<u>1,007,699</u>	<u>940,238</u>	<u>(67,461)</u>
EXPENDITURES:				
Streets and Highways:				
Salaries & wages	209,795	209,795	153,143	56,652
Benefits	111,894	111,894	64,434	47,460
Service, supplies and other	398,204	398,204	281,041	117,163
Capital outlay	54,000	54,000	10,032	43,968
Debt Service:				
Principal	200,000	200,000	200,000	-
Interest	110,683	110,683	111,683	(1,000)
Total Expenditures	<u>1,084,576</u>	<u>1,084,576</u>	<u>820,333</u>	<u>264,243</u>
Excess of Revenues Over (Under) Expenditures	<u>(76,877)</u>	<u>(76,877)</u>	<u>119,905</u>	<u>196,782</u>
Other Financing sources / (Uses):				
Transfers out	<u>(90,026)</u>	<u>(90,026)</u>	<u>(17,719)</u>	<u>72,307</u>
Total Other Financing Sources / (Uses)	<u>(90,026)</u>	<u>(90,026)</u>	<u>(17,719)</u>	<u>72,307</u>
Net change in fund balance	(166,903)	(166,903)	102,186	269,089
Fund Balance, Beginning of Year	<u>231,954</u>	<u>231,954</u>	<u>231,954</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 65,051</u>	<u>\$ 65,051</u>	<u>\$ 334,140</u>	<u>\$ 269,089</u>

CITY OF WILLCOX, ARIZONA
Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 1,819,711	\$ 1,816,811	\$ 499,115	\$ (1,317,696)
Other revenues	95,000	95,000	95,000	-
Total Revenues	<u>1,914,711</u>	<u>1,911,811</u>	<u>594,115</u>	<u>(1,317,696)</u>
EXPENDITURES:				
Public Safety	701,099	698,199	-	698,199
Community Development	277,373	277,373	131,463	145,910
Capital Outlay	909,699	909,699	480,371	429,328
Total Expenditures	<u>1,888,171</u>	<u>1,885,271</u>	<u>611,834</u>	<u>1,273,437</u>
Excess of Revenues Over (Under) Expenditures	<u>26,540</u>	<u>26,540</u>	<u>(17,719)</u>	<u>(44,259)</u>
Other Financing Sources:				
Transfers out	(117,700)	(117,700)	-	117,700
Transfers in	91,160	91,160	17,719	(73,441)
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**CITY OF WILLCOX, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS**

COMBINING STATEMENTS AND BUDGET AND ACTUAL

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

- The **Special Revenue Fund** is used to account for federal and state grants and other contributions that are not cost-reimbursement type grants but are restricted for specific use.

CAPITAL PROJECTS FUNDS

The **Capital Projects Fund** is used to account for various grants and other contributions and transfers that are restricted, committed or assigned for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

DEBT SERVICE FUND

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

CITY OF WILLCOX, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

ASSETS	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Non-major Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Receivables:				
Property taxes	-	-	17,171	17,171
Intergovernmental	24,028	5,606	-	29,634
Restricted cash and investments	<u>70,422</u>	<u>38,160</u>	<u>164,611</u>	<u>273,193</u>
Total Assets	<u>\$ 94,450</u>	<u>\$ 43,766</u>	<u>\$ 181,782</u>	<u>\$ 319,998</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,803	\$ -	\$ -	\$ 5,803
Deferred revenue	<u>-</u>	<u>-</u>	<u>14,017</u>	<u>14,017</u>
Total Liabilities	<u>5,803</u>	<u>-</u>	<u>14,017</u>	<u>19,820</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	167,765	167,765
Other purposes	88,647	-	-	88,647
Capital projects	<u>-</u>	<u>43,766</u>	<u>-</u>	<u>43,766</u>
Total Fund Balances	<u>88,647</u>	<u>43,766</u>	<u>167,765</u>	<u>300,178</u>
Total Liabilities and Fund Balances	<u>\$ 94,450</u>	<u>\$ 43,766</u>	<u>\$ 181,782</u>	<u>\$ 319,998</u>

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

REVENUES	Special Revenue	Capital Projects	Debt Service	Total Non-major Funds
Taxes	\$ -	\$ -	\$ 151,822	\$ 151,822
Intergovernmental revenue	27,883	85,915	-	113,798
Interest	16	211	-	227
Other revenues	19,292	-	-	19,292
Total Revenues	47,191	86,126	151,822	285,139
EXPENDITURES				
General Government	-	-	-	-
Capital Outlay	77,838	87,301	-	165,139
Debt Service:				-
Principal	-	-	110,000	110,000
Interest	-	-	45,313	45,313
Total Expenditures	77,838	87,301	155,313	320,452
Excess of Revenues Over (Under) Expenditures	(30,647)	(1,175)	(3,491)	(35,313)
Other Financing Sources:				
Transfers in	20,988	-	5,800	26,788
Total Other Financing Sources	20,988	-	5,800	26,788
Net change in fund balances	(9,659)	(1,175)	2,309	(8,525)
Fund Balances, Beginning of Year	98,306	44,941	165,456	308,703
Fund Balances, End of Year	<u>\$ 88,647</u>	<u>\$ 43,766</u>	<u>\$ 167,765</u>	<u>\$ 300,178</u>

CITY OF WILLCOX, ARIZONA
Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 27,883	\$ (12,117)
Interest	120	120	16	(104)
Contributions and other	27,620	27,620	19,292	(8,328)
Total Revenues	67,740	67,740	47,191	(20,549)
EXPENDITURES:				
Capital outlay	190,588	193,488	77,838	115,650
Total Expenditures	190,588	193,488	77,838	115,650
Excess of Revenues Over (Under) Expenditures	(122,848)	(125,748)	(30,647)	95,101
Other Financing Sources (Uses): Transfers in	17,600	20,500	20,988	488
Net change in fund balance	(105,248)	(105,248)	(9,659)	95,589
Fund Balance, Beginning of Year	98,306	98,306	98,306	-
Fund Balance, End of Year	\$ (6,942)	\$ (6,942)	\$ 88,647	\$ 95,589

CITY OF WILLCOX, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 117,700	\$ 117,700	\$ 85,915	\$ (31,785)
Interest	-	-	211	211
Total Revenues	<u>117,700</u>	<u>117,700</u>	<u>86,126</u>	<u>(31,574)</u>
EXPENDITURES:				
Capital outlay	<u>162,700</u>	<u>162,700</u>	<u>87,301</u>	<u>75,399</u>
Total Expenditures	<u>162,700</u>	<u>162,700</u>	<u>87,301</u>	<u>75,399</u>
Excess of Revenues Over (Under) Expenditures	<u>(45,000)</u>	<u>(45,000)</u>	<u>(1,175)</u>	<u>43,825</u>
Fund Balance, Beginning of Year	<u>44,941</u>	<u>44,941</u>	<u>44,941</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (59)</u>	<u>\$ (59)</u>	<u>\$ 43,766</u>	<u>\$ 43,825</u>

CITY OF WILLCOX, ARIZONA
Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 151,094	\$ 151,094	\$ 151,822	\$ 728
Total Revenues	<u>151,094</u>	<u>151,094</u>	<u>151,822</u>	<u>728</u>
EXPENDITURES:				
Debt Service:				
Principal	111,891	111,891	110,000	1,891
Interest	<u>44,903</u>	<u>44,903</u>	<u>45,313</u>	<u>(410)</u>
Total Expenditures	<u>156,794</u>	<u>156,794</u>	<u>155,313</u>	<u>1,481</u>
Excess of Revenues Over (Under) Expenditures	<u>(5,700)</u>	<u>(5,700)</u>	<u>(3,491)</u>	<u>2,209</u>
Other Financing Sources:				
Transfer in	<u>5,700</u>	<u>5,700</u>	<u>5,800</u>	<u>100</u>
Net change in fund balance	-	-	2,309	2,309
Fund Balance, Beginning of Year	<u>165,456</u>	<u>165,456</u>	<u>165,456</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 165,456</u></u>	<u><u>\$ 165,456</u></u>	<u><u>\$ 167,765</u></u>	<u><u>\$ 2,309</u></u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

The Honorable Mayor and
City Council
City of Willcox, 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 City of Willcox, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the City of Willcox, Arizona's basic financial statements and have issued our report thereon dated November 9, 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 Willcox is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Willcox, 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Willcox, Arizona'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 matters that we reported to management of the City in the schedule of findings and recommendations dated November 9, 2012.

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



HintonBurdick, PLLC
November 9, 2012

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

The Honorable Mayor and
City Council
Willcox, Arizona

We have audited the basic financial statements of the City of Willcox, Arizona for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. Our audit also included test work on the City of Willcox' 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 Willcox 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 Willcox 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 Willcox 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 being 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 Willcox complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.



HintonBurdick, PLLC
November 9, 2012

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