

CITY OF WILLCOX, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WILLCOX, ARIZONA

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Independent Auditors' Report

The Honorable Mayor and
City Council
City of Willcox, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willcox, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willcox, Arizona, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2017, 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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Willcox Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC

St. George, Utah

January 30, 2017

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CITY OF WILLCOX, ARIZONA
Management's Discussion and Analysis
June 30, 2016

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, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets plus deferred outflows (all activities Governmental and Business type) decreased by \$463,543. Total liabilities plus deferred inflows decreased by \$467,945 which resulted in total assets plus deferred outflows in excess of total liabilities and deferred inflows (net position) increasing by \$4,402 at the close of the fiscal year 2016. Total net position (equity) was \$11,222,367 at June 30, 2016.
- Depreciation expense for Governmental Activities exceeded capital outlays in the current year by \$369,740. The City incurred capital expenses to purchase vehicles and other equipment and to further improve the distributions systems for the City operated utilities.
- Total business-type revenues exceeded total business-type expenses by \$617,424 (before transfers out of \$563,540).
- Total Governmental Expenses exceeded Governmental Revenues by \$514,058 (before net transfers of \$563,540).
- The General Fund reported revenues in excess of expenditures (including transfers and the sale of capital assets) of \$158,858 (increase in General Fund Balance).
- Actual General Fund resources received were \$13,207 (.4%) more than the final Budget.
- Actual General Fund expenditures, excluding other financing uses, were \$142,221 (3.7%) less than the final budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.55 million or 42% of total General Fund fiscal year 2016 expenditures, excluding transfers.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall 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 \$11.22 million as of June 30, 2016 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-type activities.

City of Willcox, Arizona Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Current and other assets	\$ 2,481,874	\$ 2,302,098	\$ 3,583,156	\$ 3,632,699	\$ 6,065,030	5,934,797
Capital assets	9,139,960	9,512,800	5,132,549	5,165,712	14,272,509	14,678,512
Total assets	<u>11,621,834</u>	<u>11,814,898</u>	<u>8,715,705</u>	<u>8,798,411</u>	<u>20,337,539</u>	<u>20,613,309</u>
Deferred outflows of resources	888,233	1,049,103	64,171	91,074	952,404	1,140,177
Long-term liabilities outstanding	7,228,206	7,083,011	1,807,179	1,863,723	9,035,385	8,946,734
Other liabilities	429,949	709,110	248,057	316,422	678,006	1,025,532
Total liabilities	<u>7,658,155</u>	<u>7,792,121</u>	<u>2,055,236</u>	<u>2,180,145</u>	<u>9,713,391</u>	<u>9,972,266</u>
Deferred inflows of resources	295,300	465,786	58,885	97,469	354,185	563,255
Net position:						
Invested in capital assets, net of related debt	7,294,764	7,326,885	3,833,234	3,791,778	11,127,998	11,118,663
Restricted	677,938	613,845	232,704	173,016	910,642	786,861
Unrestricted	<u>(3,416,090)</u>	<u>(3,334,636)</u>	<u>2,599,817</u>	<u>2,647,077</u>	<u>(816,273)</u>	<u>(687,559)</u>
Total net position	<u>\$ 4,556,612</u>	<u>\$ 4,606,094</u>	<u>\$ 6,665,755</u>	<u>\$ 6,611,871</u>	<u>\$ 11,222,367</u>	<u>\$ 11,217,965</u>

Governmental Activities

The cost of all Governmental activities this year was \$5.43 million. As shown on the statement of Changes in Net Position on the following page, \$395,867 of this cost was paid for by those who directly benefited from the programs and \$565,227 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$3.85 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.

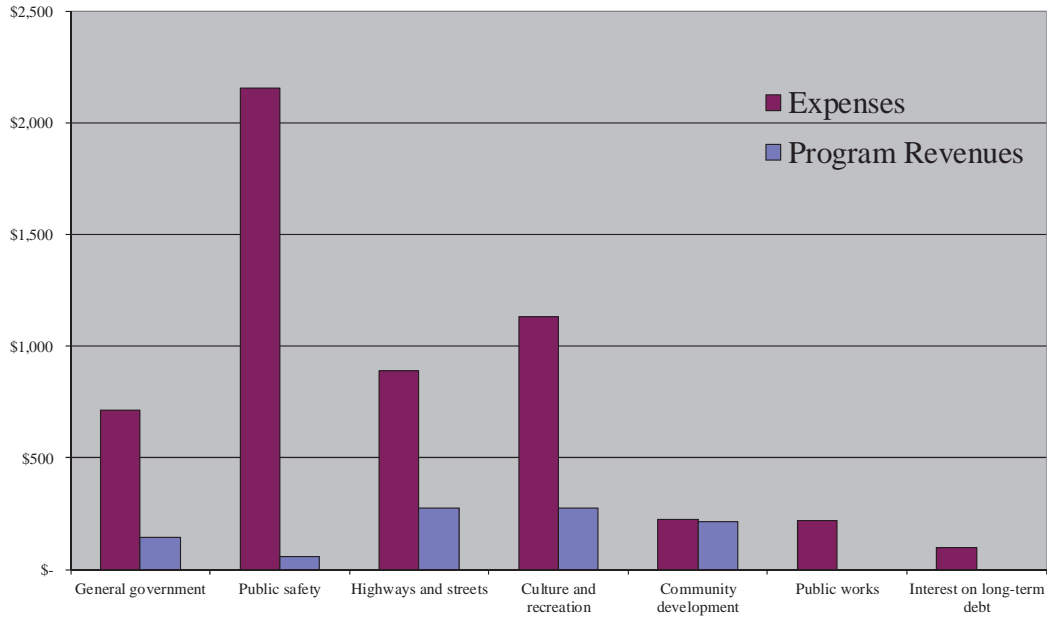
City of Willcox, Arizona
Changes in Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Revenues:						
Program revenues:						
Charges for services	\$ 395,867	\$ 410,788	\$ 2,737,979	\$ 2,798,762	\$ 3,133,846	\$ 3,209,550
Operating grants and contributions	335,906	321,207	-	-	335,906	321,207
Capital grants and contributions	229,321	56,416	-	62,058	229,321	118,474
General revenues:						
Sales taxes	2,526,932	2,379,618	-	-	2,526,932	2,379,618
Other taxes	680,428	671,905	-	-	680,428	671,905
State revenue sharing	452,342	454,808	-	-	452,342	454,808
Assessments	161,291	139,552	-	-	161,291	139,552
Other	35,676	28,294	55,311	24,871	90,987	53,165
Total revenues	<u>4,817,763</u>	<u>4,462,588</u>	<u>2,793,290</u>	<u>2,885,691</u>	<u>7,611,053</u>	<u>7,348,279</u>
Expenses:						
General government	712,084	717,594	-	-	712,084	717,594
Public safety	2,157,169	2,284,516	-	-	2,157,169	2,284,516
Highways and streets	889,667	778,794	-	-	889,667	778,794
Culture and recreation	1,130,479	1,071,234	-	-	1,130,479	1,071,234
Community development	226,136	11,006	-	-	226,136	11,006
Public works	218,715	477,446	-	-	218,715	477,446
Interest on long-term debt	96,535	116,250	-	-	96,535	116,250
Gas	-	-	505,291	590,912	505,291	590,912
Water	-	-	618,591	595,811	618,591	595,811
Sewer	-	-	570,074	588,077	570,074	588,077
Refuse	-	-	481,910	483,488	481,910	483,488
Total expenses	<u>5,430,785</u>	<u>5,456,840</u>	<u>2,175,866</u>	<u>2,258,288</u>	<u>7,606,651</u>	<u>7,715,128</u>
(Decrease)/Increase in net assets before transfers	(613,022)	(994,252)	617,424	627,403	4,402	(366,849)
Transfers	563,540	566,831	(563,540)	(566,831)	-	-
Net position, beginning	4,606,094	9,278,000	6,611,871	7,102,193	11,217,965	16,380,193
Restatement adjustment	-	(4,244,485)	-	(550,894)	-	(4,795,379)
Net position, ending	<u>\$ 4,556,612</u>	<u>\$ 4,606,094</u>	<u>\$ 6,665,755</u>	<u>\$ 6,611,871</u>	<u>\$ 11,222,367</u>	<u>\$ 11,217,965</u>

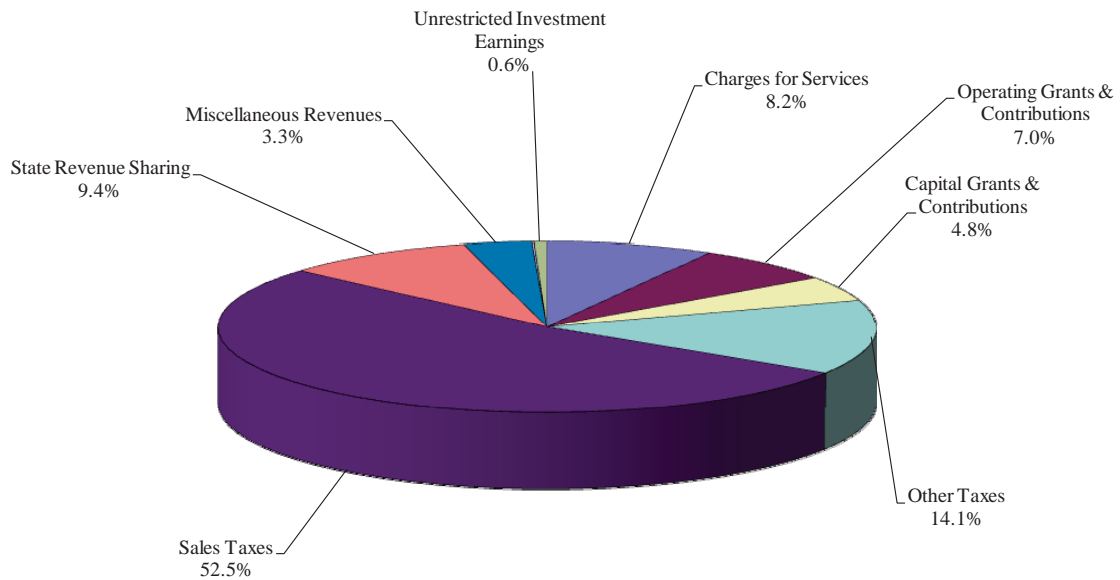
Total governmental resources available during the year to finance governmental operations were \$9.99 million, consisting of net position at July 1, 2015 of \$4.61 million, Program revenues of \$961,094, transfers of \$563,540, and general revenues of \$3.85 million. Total governmental activities expenses during the year of \$5.43 million; thus governmental net position decreased by \$49,482 to \$4.56 million at June 30, 2016.

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)



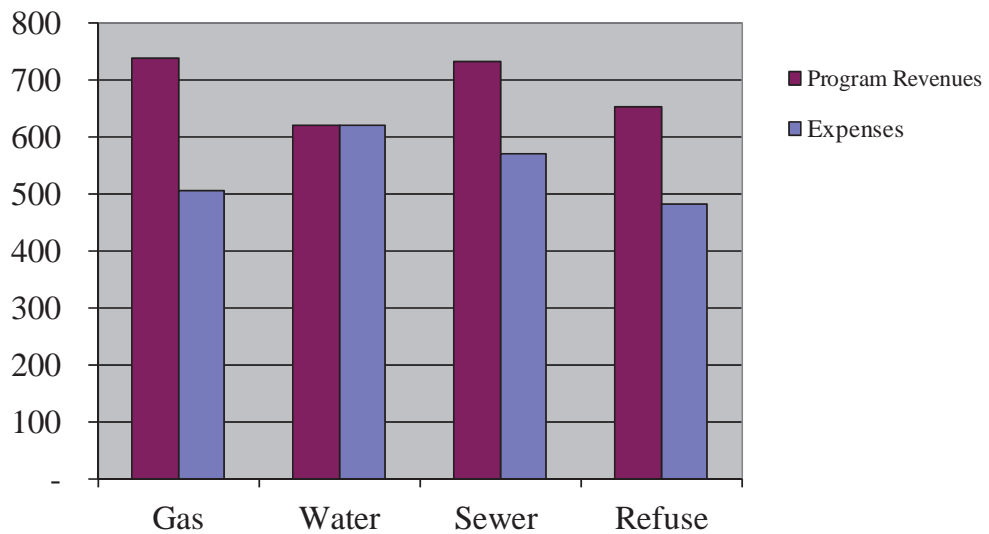
Revenue By Source - Governmental Activities



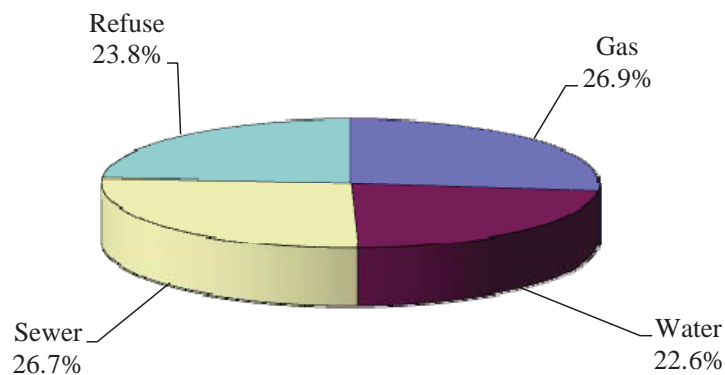
Business Type Activities

Net position of the business-type activities at June 30, 2016, as reflected in the Statement of Net Position was \$6.6 million. As shown in the statement of Changes in Net Position, the total net position at July 1, 2015 was \$6.61 million. Amounts paid by users of the system were \$2.72 million, connection fees were \$14,251 and interest earnings totaled \$55,311. The cost of providing all proprietary (business-type) activities this year was \$2.2 million. Transfers to governmental activities were \$563,540, interest expense and fiscal charges were \$56,040.

**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 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 74 and 75.

For fiscal year ended June 30, 2016, the governmental funds reflect a combined fund balance of \$2,223,917. Of this, \$677,938 is reserved because it is not available for expenditure or is legally segregated for a specific future use. The remaining \$1,545,979 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 2016 general fund revenues totaled \$3,347,515. Expenditures, before other financing sources and uses, totaled \$3,755,527. City sales tax revenues came in about .15% less than projections. State sales tax revenues came in 1.52% less than estimates. Auto lieu taxes were \$5,492 or about 3.25% more than estimates. Overall intergovernmental income was \$384 more than anticipated in the budget. Room occupancy tax revenues of \$142,680 were about 2.41% less than projections and revenues have remained steady. Franchise fee income was \$5,047 or about 2.2% less than the amount budgeted.

The Highway User Revenue Fund (HURF) 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%, 1/3 of the City enacted 3% Transaction Privilege Tax (sales tax), to this fund. Fiscal year 2016 city sales tax revenues in this fund totaled \$725,056, about \$10,000 more than amount budgeted. HURF revenues from the State and interest income were near projections, and overall fund revenue was \$1,004,435. The fund expenses totaled \$2,306,823 or about 133.5% more than projections. This was due to the refinancing of bonds not having been budgeted. If this item were excluded, expenditures would be under budget. Net change in fund balance was \$77,612. The HURF fund balance at the close of fiscal year 2016 was \$376,713.

Non-major governmental funds of the City include the Special Revenue Fund, Grants Special Revenue Fund, Capital Projects Fund, and Debt Service Fund. The non-major funds are combined for presentation in the financial statements. The Grants Special Revenue Fund accounts for the administration of federal and state grants. Grants Fund revenues totaled \$268,627, expenses totaled \$268,627 for a net change of zero and an ending fund balance of zero. The Special Revenues Fund consists of money donated to the City for specific purposes. Revenues totaled \$31,145, transfers in (matching amounts for grants) totaled \$5,059, and expenses totaled \$51,475 for a net use of funds of \$15,271 and an ending fund balance of \$55,001. Debt Service fund revenues totaled \$155,273. Property tax revenues were \$155,273, and expenses totaled \$153,535 for a net increase to fund balance of \$1,738 and an ending fund balance of \$172,631.

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 \$6,665,755 as of June 30, 2016. Operating revenues totaled \$2,723,728, while operating expenses totaled \$2,119,826, for operating income of \$603,902.

General Fund Budgetary Highlights

Actual revenues as shown on Page 70 were \$13,207 more than budgeted revenues. Revenues included City Sales Tax revenues of \$1,449,084 or \$2,170 less than those budgeted. Expenditures were less than the General Fund appropriations at year-end by \$142,221. The budget was not amended during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2016, net capital assets of the government activities totaled \$9.14 million, and the net capital assets of the business-type activities totaled \$5.13 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. See note 7 to the financial statements.

Obligations

At year-end, the City had \$7.5 million in governmental type obligations, and \$1.9 million in proprietary obligations. During the current fiscal year, the City's total obligations decreased by \$143,426. See note 8 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

For the 2016-2017 fiscal year city budget, the City has projected a .7% increase in general operating revenues and operating expenditures from the fiscal year 2015-2016 budgeted amounts. The budgeted utility fund operating revenues are about 8.5% less than actual operations for fiscal year 2015-2016. Gas operating revenues are estimated to decrease in fiscal year 2017 due to an increase of vacant homes within city limits. Water revenues are anticipated to decrease by about .45% in a planned use of fund balance. Sewer revenues are projected to decrease by about 18.7% as fund balance is less and refuse revenues are projected to increase by about .3%.

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 Ted Soltis, City Manager, tsoltis@willcoxcity.org, or Crystal Hadfield, Finance Director, chadfield@willcoxcity.org, City of Willcox, 101 South Railroad Avenue, Suite B, Willcox, AZ 85643. Phone: (520) 384-4271; website: www.cityofwillcox.org.

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BASIC FINANCIAL STATEMENTS

CITY OF WILLCOX, ARIZONA
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,016,996	\$ 2,973,118	\$ 4,990,114
Receivables (net of allowance)	434,777	250,278	685,055
Inventory	-	127,056	127,056
Prepays	30,101	-	30,101
Temporarily restricted assets:			
Cash and cash equivalents	-	232,704	232,704
Capital assets (net of accumulated depreciation):			
Land and improvements	1,230,981	151,578	1,382,559
Buildings and improvements	3,549,794	-	3,549,794
System and other improvements	-	3,651,721	3,651,721
Furniture, equipment and vehicles	675,046	226,366	901,412
Infrastructure	3,684,139	-	3,684,139
Construction in progress	-	1,102,884	1,102,884
Total Assets	<u>11,621,834</u>	<u>8,715,705</u>	<u>20,337,539</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>888,233</u>	<u>64,171</u>	<u>952,404</u>
Liabilities			
Accounts payable and other current liabilities	219,753	104,109	323,862
Customer deposits	-	62,386	62,386
Noncurrent liabilities:			
Due within one year	210,196	81,562	291,758
Due in more than one year	<u>7,228,206</u>	<u>1,807,179</u>	<u>9,035,385</u>
Total Liabilities	<u>7,658,155</u>	<u>2,055,236</u>	<u>9,713,391</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>295,300</u>	<u>58,885</u>	<u>354,185</u>
Total deferred inflows of resources	<u>295,300</u>	<u>58,885</u>	<u>354,185</u>
Net Position			
Net investment in capital assets	7,294,764	3,833,234	11,127,998
Nonspendable:			
Prepays	30,100	-	30,100
Restricted for:			
Debt service	172,631	232,704	405,335
Streets and other	431,714	-	431,714
Capital projects	43,493	-	43,493
Unrestricted	<u>(3,416,090)</u>	<u>2,599,817</u>	<u>(816,273)</u>
Total Net Position	<u>\$ 4,556,612</u>	<u>\$ 6,665,755</u>	<u>\$ 11,222,367</u>

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

CITY OF WILCOX, ARIZONA
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 712,084	\$ 131,007	\$ 10,383	\$ -	\$ (570,694)	\$ -	\$ -	\$ (570,694)
Public safety	2,157,169	42,011	14,548	-	(2,100,610)	-	-	(2,100,610)
Highways and streets	889,667	-	273,609	-	(616,058)	-	-	(616,058)
Culture and recreation	1,130,479	222,849	37,366	14,721	(855,543)	-	-	(855,543)
Community development	226,136	-	-	214,600	(11,536)	-	-	(11,536)
Public works	218,715	-	-	-	(218,715)	-	-	(218,715)
Interest on long-term debt	96,535	-	-	-	(96,535)	-	-	(96,535)
Total governmental activities	5,430,785	395,867	335,906	229,321	(4,469,691)	-	-	(4,469,691)
Business-type activities:								
Gas	505,291	736,198	-	-	-	230,907	-	230,907
Water	618,591	619,196	-	-	-	605	-	605
Sewer	570,074	731,487	-	-	-	161,413	-	161,413
Refuse	481,910	651,098	-	-	-	169,188	-	169,188
Total business-type activities	2,175,866	2,737,979	-	-	-	562,113	-	562,113
Total primary government	\$ 7,606,651	\$ 3,133,846	\$ 335,906	\$ 229,321	(4,469,691)	562,113	-	(3,907,578)
General Revenues:								
Property taxes levied for general purposes					234,256	-	-	234,256
Sales taxes					2,526,932	-	-	2,526,932
Other taxes					446,172	-	-	446,172
State revenue sharing					452,342	-	-	452,342
Miscellaneous revenues					161,291	-	-	161,291
Gain on sale of assets					5,289	-	-	5,289
Unrestricted investment earnings/(loss)					30,387	55,311	-	85,698
Transfers					563,540	(563,540)	-	-
Total general revenues & transfers					4,420,209	(508,229)	-	3,911,980
Change in net position					(49,482)	53,884	-	4,402
Net position - beginning					4,606,094	6,611,871	-	11,217,965
Net position - ending					\$ 4,556,612	\$ 6,665,755	\$ -	\$ 11,222,367

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

CITY OF WILLCOX, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	General	Highway User Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,416,596	\$ 335,652	\$ 264,748	\$ 2,016,996
Receivables:				
Property taxes	13,655	-	26,890	40,545
Other	136,045	-	6,686	142,731
Intergovernmental	1,615	59,906	189,979	251,500
Due from other funds	164,265	-	-	164,265
Prepays	30,100	-	-	30,100
Total Assets	<u>\$ 1,762,276</u>	<u>\$ 395,558</u>	<u>\$ 488,303</u>	<u>\$ 2,646,137</u>
Liabilities				
Accounts payable	\$ 97,664	\$ 13,072	\$ 28,364	\$ 139,100
Accrued liabilities	74,878	5,773	-	80,651
Due to other funds	-	-	164,265	164,265
Total Liabilities	<u>172,542</u>	<u>18,845</u>	<u>192,629</u>	<u>384,016</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	13,655	-	24,549	38,204
Total deferred inflows of resources	<u>13,655</u>	<u>-</u>	<u>24,549</u>	<u>38,204</u>
Fund Balances				
Nonspendable:				
Prepays	30,100	-	-	30,100
Restricted for:				
Roads and highways	-	376,713	-	376,713
Debt service	-	-	172,631	172,631
Other purposes	-	-	55,001	55,001
Capital projects	-	-	43,493	43,493
Unassigned	1,545,979	-	-	1,545,979
Total Fund Balances	<u>1,576,079</u>	<u>376,713</u>	<u>271,125</u>	<u>2,223,917</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,762,276</u>	<u>\$ 395,558</u>	<u>\$ 488,303</u>	<u>\$ 2,646,137</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, 2016

Total governmental fund balances		\$ 2,223,917
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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	\$ 16,052,558	
Accumulated Depreciation	(6,912,598)	
		9,139,960

Other assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

38,205

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

Bonds payable	\$ (1,845,000)	
Capital leases	(196)	
Net pension liability	(5,440,915)	
Compensated absences	(152,292)	
		(7,438,403)

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

Deferred outflows	\$ 888,233	
Deferred inflows	(295,300)	
		592,933

Total net position of governmental activities		\$ <u><u>4,556,612</u></u>
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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, 2016

REVENUES	General	Highway User Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Taxes	\$ 1,889,342	\$ 725,056	\$ 155,273	\$ 2,769,671
Licenses, permits and fees	60,550	-	-	60,550
Intergovernmental revenue	981,340	273,609	268,627	1,523,576
Charges for services	324,595	-	-	324,595
Fines and forfeitures	15,405	-	-	15,405
Interest	24,602	5,770	13	30,385
Other revenues	51,681	-	31,145	82,826
Total Revenues	3,347,515	1,004,435	455,058	4,807,008
EXPENDITURES				
Current:				
General Government	586,917	-	-	586,917
Public Safety	1,905,029	-	-	1,905,029
Community Development	-	-	10,161	10,161
Culture and Recreation	1,051,915	-	7,551	1,059,466
Streets and Highways	-	616,972	-	616,972
Public Works	211,666	-	-	211,666
Capital Outlay	-	26,851	302,390	329,241
Debt Service:				
Principal	-	1,590,000	130,000	1,720,000
Interest	-	73,000	23,535	96,535
Total Expenditures	3,755,527	2,306,823	473,637	6,535,987
Excess of Revenues Over (Under) Expenditures	(408,012)	(1,302,388)	(18,579)	(1,728,979)
Other Financing Sources (Uses):				
Proceeds from debt	-	1,380,000	-	1,380,000
Sale of general capital assets	8,389	-	-	8,389
Transfers out	(5,059)	-	-	(5,059)
Transfers in	563,540	-	5,059	568,599
Total Other Financing Sources (Uses)	566,870	1,380,000	5,059	1,951,929
Net change in fund balances	158,858	77,612	(13,520)	222,950
Fund Balances, Beginning of Year	1,417,221	299,101	284,645	2,000,967
Fund Balances, End of Year	<u>\$ 1,576,079</u>	<u>\$ 376,713</u>	<u>\$ 271,125</u>	<u>\$ 2,223,917</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, 2016

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

Net change in fund balances - total governmental funds	\$	222,950
<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 expense exceeded capital outlays in the current period.</p>		
Capital Outlay	\$	202,588
Depreciation Expense		<u>(572,328)</u>
		(369,740)
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.		5,465
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.		(3,100)
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.		1,720,719
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net position.		(1,380,000)
<p>Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.</p>		
Pension contributions	\$	401,974
Pension expense		<u>(625,018)</u>
		(223,044)
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.		<u>(22,732)</u>
Change in net position of governmental activities	\$	<u><u>(49,482)</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, 2016

Assets	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Current Assets:					
Cash	\$ 897,520	\$ 1,392,485	\$ 454,741	\$ 228,372	\$ 2,973,118
Receivables (net of allowance)	42,486	76,599	75,362	55,831	250,278
Inventory	55,484	65,278	6,294	-	127,056
Restricted cash	33,240	65,310	119,556	14,598	232,704
Total Current Assets	<u>1,028,730</u>	<u>1,599,672</u>	<u>655,953</u>	<u>298,801</u>	<u>3,583,156</u>
Noncurrent Assets:					
Land and improvements	-	131,900	19,678	-	151,578
Buildings and improvements	16,000	-	5,800	-	21,800
System and other improvements	1,773,388	5,046,228	3,979,017	-	10,798,633
Machinery and equipment	145,150	168,630	198,678	-	512,458
Vehicles	71,018	83,147	98,465	-	252,630
Construction in progress	3,996	3,260	1,095,628	-	1,102,884
Accumulated depreciation	(1,112,159)	(3,455,245)	(3,140,030)	-	(7,707,434)
Total Noncurrent Assets	<u>897,393</u>	<u>1,977,920</u>	<u>2,257,236</u>	<u>-</u>	<u>5,132,549</u>
Total Assets	<u>1,926,123</u>	<u>3,577,592</u>	<u>2,913,189</u>	<u>298,801</u>	<u>8,715,705</u>
Deferred Outflows of Resources					
Deferred outflows related to pensions	<u>18,011</u>	<u>24,230</u>	<u>21,930</u>	<u>-</u>	<u>64,171</u>
Liabilities					
Current Liabilities:					
Accounts payable	12,406	24,020	10,291	40,198	86,915
Accrued liabilities	3,451	3,726	10,017	-	17,194
Customer deposits	34,917	5,397	-	22,072	62,386
Current portion - compensated absences	572	2,380	1,048	-	4,000
Current portion - long-term debt	-	27,000	50,562	-	77,562
Total Current Liabilities	<u>51,346</u>	<u>62,523</u>	<u>71,918</u>	<u>62,270</u>	<u>248,057</u>
Long-Term Debt (net of current portion):					
Revenue bonds payable	-	737,000	484,753	-	1,221,753
Net pension liability	158,900	213,772	193,481	-	566,153
Compensated absences	2,754	11,470	5,049	-	19,273
Total Long-Term Debt	<u>161,654</u>	<u>962,242</u>	<u>683,283</u>	<u>-</u>	<u>1,807,179</u>
Total Liabilities	<u>213,000</u>	<u>1,024,765</u>	<u>755,201</u>	<u>62,270</u>	<u>2,055,236</u>
Deferred Inflows of Resources					
Deferred inflows related to pensions	<u>16,527</u>	<u>22,234</u>	<u>20,124</u>	<u>-</u>	<u>58,885</u>
Net Position					
Net investment in capital assets	897,393	1,213,920	1,721,921	-	3,833,234
Restricted	33,240	65,310	119,556	14,598	232,704
Unrestricted	783,974	1,275,593	318,317	221,933	2,599,817
Total net position	<u>\$ 1,714,607</u>	<u>\$ 2,554,823</u>	<u>\$ 2,159,794</u>	<u>\$ 236,531</u>	<u>\$ 6,665,755</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, 2016

Operating Revenues:	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Charges for services	\$ 697,103	\$ 608,613	\$ 724,581	\$ 645,872	\$ 2,676,169
Other revenues	31,646	5,153	5,534	5,226	47,559
Total Operating Revenues	728,749	613,766	730,115	651,098	2,723,728
Operating Expenses:					
Salaries, wages and benefits	123,897	234,550	197,219	-	555,666
Office expenses and travel	5,558	1,827	-	-	7,385
Repairs and maintenance	5,479	7,024	12,804	-	25,307
Utilities	2,086	49,064	-	-	51,150
Contract services	9,074	13,029	-	481,910	504,013
Licenses and permits	34,930	30,181	36,289	-	101,400
Miscellaneous	3,238	2,213	-	-	5,451
Gas purchases	208,442	-	-	-	208,442
Service, supplies and other	56,456	74,583	203,560	-	334,599
Depreciation/amortization	56,131	173,532	96,750	-	326,413
Total Operating Expenses	505,291	586,003	546,622	481,910	2,119,826
Operating Income	223,458	27,763	183,493	169,188	603,902
Non-operating Revenues (Expenses):					
Investment income/(loss)	14,267	22,445	18,599	-	55,311
Interest expense and fiscal charges	-	(32,588)	(23,452)	-	(56,040)
Connection fees	7,449	5,430	1,372	-	14,251
Total Non-Operating Revenue (Expense)	21,716	(4,713)	(3,481)	-	13,522
Net Income before contributions and transfers	245,174	23,050	180,012	169,188	617,424
Capital grants	-	-	-	-	-
Transfers out	(175,565)	(128,521)	(148,118)	(111,336)	(563,540)
Net Income/(loss)	69,609	(105,471)	31,894	57,852	53,884
Total net position (deficit), beginning of year	1,644,998	2,660,294	2,127,900	178,679	6,611,871
Total net position, end of year	\$ 1,714,607	\$ 2,554,823	\$ 2,159,794	\$ 236,531	\$ 6,665,755

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, 2016

	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 709,031	\$ 611,310	\$ 723,001	\$ 645,063	\$ 2,688,405
Cash received from customers, other	31,646	5,153	5,534	5,226	47,559
Cash paid to suppliers	(326,547)	(177,589)	(278,963)	(480,802)	(1,263,901)
Cash paid to employees	(134,674)	(212,154)	(202,144)	-	(548,972)
Net cash flows from operating activities	<u>279,456</u>	<u>226,720</u>	<u>247,428</u>	<u>169,487</u>	<u>923,091</u>
Cash Flows From Noncapital Financing Activities:					
Operating transfers in	-	-	-	-	-
Proceeds/Payments from/(to) other funds	-	-	-	-	-
Transfers out	(175,565)	(128,521)	(148,118)	(111,336)	(563,540)
Net cash flows from noncapital financing activities	<u>(175,565)</u>	<u>(128,521)</u>	<u>(148,118)</u>	<u>(111,336)</u>	<u>(563,540)</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(139,062)	(100,777)	(53,411)	-	(293,250)
Principal paid on long-term debt	-	(26,000)	(48,619)	-	(74,619)
Interest paid	-	(32,590)	(23,452)	-	(56,042)
Connection & impact fees	7,449	5,430	1,372	-	14,251
Net cash flows from capital and related financing activities	<u>(131,613)</u>	<u>(153,937)</u>	<u>(124,110)</u>	<u>-</u>	<u>(409,660)</u>
Cash Flows From Investing Activities:					
Investment income/(loss)	14,267	22,445	18,599	-	55,311
Net cash flows from investing activities	<u>14,267</u>	<u>22,445</u>	<u>18,599</u>	<u>-</u>	<u>55,311</u>
Net change in Cash and Cash Equivalents	(13,455)	(33,293)	(6,201)	58,151	5,202
Cash and Cash Equivalents, Beginning of Year	944,215	1,491,088	580,498	184,819	3,200,620
Cash and Cash Equivalents, End of Year	<u>\$ 930,760</u>	<u>\$ 1,457,795</u>	<u>\$ 574,297</u>	<u>\$ 242,970</u>	<u>\$ 3,205,822</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Net Operating Income	\$ 223,458	\$ 27,763	\$ 183,493	\$ 169,188	\$ 603,902
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation/amortization	56,131	173,532	96,750	-	326,413
Pension expense	(2,644)	26,660	12,702	-	36,718
Employer pension contributions	(9,071)	(12,206)	(18,349)	-	(39,626)
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables/deferred charges	11,928	2,697	(1,580)	(809)	12,236
(Increase)/Decrease in prepaids/inventory	19,316	20,579	2,616	-	42,511
Increase/(Decrease) in accounts payable	(20,600)	(20,247)	(28,926)	(590)	(70,363)
Increase/(Decrease) in accrued liabilities	938	7,942	722	1,698	11,300
Net cash flows from operating activities	<u>\$ 279,456</u>	<u>\$ 226,720</u>	<u>\$ 247,428</u>	<u>\$ 169,487</u>	<u>\$ 923,091</u>
Supplemental Schedule of Non-cash Financing and Investing Activities:					
Capital asset contributions	\$ -	\$ -	\$ -	\$ -	\$ -

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, 2016

	<u>Magistrate Court Agency Fund</u>	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS		
Cash and cash equivalents	\$ 2,639	\$ 261,277
Accounts receivable	<u>-</u>	<u>422</u>
Total assets and other debits	<u>2,639</u>	<u>261,699</u>
LIABILITIES		
Accrued liabilities	<u>2,639</u>	<u>-</u>
Total liabilities	<u>2,639</u>	<u>-</u>
NET POSITION		
Held in trust for pension benefits and other purposes	<u><u>\$ -</u></u>	<u><u>\$ 261,699</u></u>

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
June 30, 2016

	<u>Volunteer Firefighters' Relief and Pension</u>
Additions:	
Contributions:	
Employer	\$ 1,102
State fire tax	4,948
Plan members	1,102
Total Contributions	<u>7,152</u>
Investment Income:	
Interest earnings	<u>4,042</u>
Net Investment Income (Loss)	<u>4,042</u>
Total Additions	<u>11,194</u>
Deductions:	
Total Deductions	<u>3,393</u>
Net Increase (Decrease)	7,801
Net Position Held in Trust for Pension Benefits	
Beginning of Year	<u>253,898</u>
End of Year	<u><u>\$ 261,699</u></u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting entity

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

Blended component unit

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 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.

Basis of presentation – government-wide financial statements

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

Basis of presentation – fund financial statements

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

The government reports the following major governmental funds:

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

The **Highway User 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 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 Volunteer Firefighters' Pension Fund, which accumulates resources for pension benefit payments to qualified volunteer firefighters.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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

Measurement focus and basis of accounting

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

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

The proprietary and pension trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and cash equivalents

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.

Investments

The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's investment pool, obligations of the U.S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

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 and are valued at cost using the first-in/first out method. The cost of such inventories is recorded as expense when consumed rather than when purchased.

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 10 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Pension related items reported on the government-wide and proprietary fund financial statements. See footnote 10 for more information. Another item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from only one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position of the Arizona State Retirement System (ASRS) and the Arizona Public Safety Personnel Retirement System (PSPRS), and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position flow assumption

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

Fund balance flow assumptions

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

Fund balance policies

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Revenues and expenditures/expenses

Program revenues

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

Property taxes

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

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

Compensated Absences

The government's policy permits employees to accumulate earned but unused vacation and sick benefits, which are eligible for payment upon separation from government service. 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, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the gas fund, water fund, sewer fund, and refuse fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 19.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 21.

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.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 3. Stewardship, Compliance and Accountability (Continued)

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 on or before fourteen 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, 2016, if any.

NOTE 4. Deposits and Investments

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

Cash and cash equivalents	\$ 4,990,114
Restricted cash and cash equivalents	232,704
Trust and agency fund cash	263,916
Total cash and equivalents	<u>\$ 5,486,734</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, 2016, cash on hand was \$1,705 and the carrying amount of the City's bank deposits was \$1,077,859. As of June 30, 2016, \$103,157 of the City's bank balance of \$5,708,691 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 4. Deposits and Investments (Continued)

Investments

Investment Fund

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

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

As of June 30, 2016 the government had the following investments and maturities:

	Fair Value	Quality Rating	Weighted Average Maturity (2)
Deposits:			
Cash on hand	\$ 1,705	N/A	N/A
Cash in bank	446,205	N/A	N/A
Investments:			
State Treasurer's Investment Pool	4,527,679	(1)	2.18 years
Money market funds	511,145	N/A	N/A
Total cash and investments	\$ 5,486,734		

(1) Ratings are provided where applicable to indicate associated credit risk. The City's investment in the State Treasurer's Investment Pool #700 and #5 were rated AAAF/S1+ and AA+ by Standard and Poor's.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 4. Deposits and Investments (Continued)

Interest rate risk

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

Credit risk

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

NOTE 5. Restricted Assets

Restricted assets at June 30, 2016 consisted of the following cash reserves:

Restricted Cash

Gas Fund - Customer Deposits	\$ 33,240
Water Fund - Debt Reserves and Customer Deposits	\$ 65,310
Sewer Fund - Debt Reserves and Customer Deposits	119,556
Refuse Fund - Customer Deposits	<u>14,598</u>
Total Restricted Cash	<u><u>\$ 232,704</u></u>

NOTE 6. Property Taxes Receivable

Property taxes receivable in the amount of \$40,545 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Unavailable revenue of \$38,204 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, 2016

NOTE 7. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2016 was as follows:

Governmental Activities:	Balance 6/30/2015	Additions	Deletions	Interfund Transfers	Balance 6/30/2016
Capital assets, not being depreciated:					
Land	\$ 1,230,981		\$ -	\$ -	\$ 1,230,981
Construction in progress	-			-	-
Total capital assets not being depreciated	<u>1,230,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,230,981</u>
Capital assets, being depreciated:					
Buildings and Improvements	6,223,818	26,055		-	6,249,873
Infrastructure	5,482,619	13,427		-	5,496,046
Furniture, Equipment, Vehicles	<u>2,964,977</u>	<u>163,106</u>	<u>(75,364)</u>	<u>22,939</u>	<u>3,075,658</u>
Total capital assets being depreciated	<u>14,671,414</u>	<u>202,588</u>	<u>(75,364)</u>	<u>22,939</u>	<u>14,821,577</u>
Less accumulated depreciation for:					
Buildings and Improvements	(2,514,645)	(185,434)	-	-	(2,700,079)
Infrastructure	(1,608,645)	(203,262)		-	(1,811,907)
Furniture, Equipment, Vehicles	<u>(2,266,305)</u>	<u>(183,632)</u>	<u>72,264</u>	<u>(22,939)</u>	<u>(2,400,612)</u>
Total accumulated depreciation	<u>(6,389,595)</u>	<u>(572,328)</u>	<u>72,264</u>	<u>(22,939)</u>	<u>(6,912,598)</u>
Total capital assets being depreciated, net	<u>8,281,819</u>	<u>(369,740)</u>	<u>(3,100)</u>	<u>-</u>	<u>7,908,979</u>
Governmental activities capital assets, net	<u>\$ 9,512,800</u>	<u>\$ (369,740)</u>	<u>\$ (3,100)</u>	<u>\$ -</u>	<u>\$ 9,139,960</u>

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

Governmental Activities:	
General government	\$ 142,859
Public safety	73,566
Highways and streets	256,211
Culture and recreation	97,507
Public works	<u>2,185</u>
Total depreciation expense - governmental activities	<u>\$ 572,328</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2016 was as follows:

Business Type Activities:	Balance 6/30/2015	Additions	Deletions	Interfund Transfers	Balance 6/30/2016
Capital assets, not being depreciated:					
Land	\$ 151,578	\$ -	\$ -	\$ -	\$ 151,578
Construction in progress	1,115,455	7,256	(19,826)	-	1,102,885
Total capital assets not being depreciated	<u>1,267,033</u>	<u>7,256</u>	<u>(19,826)</u>	<u>-</u>	<u>1,254,463</u>
Capital assets, being depreciated:					
Buildings and Improvements	21,800	-	-	-	21,800
System and Other Improvements	10,587,417	211,216	-	-	10,798,633
Furniture, Equipment, Vehicles	738,259	94,604	(44,837)	(22,939)	765,087
Total capital assets being depreciated	<u>11,347,476</u>	<u>305,820</u>	<u>(44,837)</u>	<u>(22,939)</u>	<u>11,585,520</u>
Less accumulated depreciation for:					
Buildings and Improvements	(21,800)	-	-	-	(21,800)
System and Other Improvements	(6,876,346)	(270,566)	-	-	(7,146,912)
Furniture, Equipment, Vehicles	(550,652)	(55,846)	44,837	22,939	(538,722)
Total accumulated depreciation	<u>(7,448,798)</u>	<u>(326,412)</u>	<u>44,837</u>	<u>22,939</u>	<u>(7,707,434)</u>
Total capital assets being depreciated, net	<u>3,898,678</u>	<u>(20,592)</u>	<u>-</u>	<u>-</u>	<u>3,878,086</u>
Business type activities capital assets, net	<u>\$ 5,165,711</u>	<u>\$ (13,336)</u>	<u>\$ (19,826)</u>	<u>\$ -</u>	<u>\$ 5,132,549</u>

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

Business-Type Activities:	
Gas	\$ 56,130
Water	173,532
Sewer	96,750
Total depreciation expense - business-type activities	<u>\$ 326,412</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 8. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2016.

Governmental activities:	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016	Current Portion
General Obligation:					
Capital Leases	\$ 915	\$ -	\$ (719)	\$ 196	\$ 196
Total General Obligation	915	-	(719)	196	196
Revenue Obligation:					
Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006	1,590,000	-	(1,590,000)	-	-
2016 Refinancing Agreement	-	1,380,000	-	1,380,000	-
GADA Revenue Bonds, Series 2003A	360,000	-	(115,000)	245,000	120,000
Series 2007	235,000	-	(15,000)	220,000	15,000
Total Revenue Obligation	2,185,000	1,380,000	(1,720,000)	1,845,000	135,000
Other Obligations					
Net Pension Liability	5,208,255	232,660	-	5,440,915	-
Accrued Compensated Absences	129,559	85,000	(62,268)	152,291	75,000
Total Other Obligations	5,337,814	317,660	(62,268)	5,593,206	75,000
Total Governmental Activity Long-term Liabilities	<u>\$ 7,523,729</u>	<u>\$ 1,697,660</u>	<u>\$ (1,782,987)</u>	<u>\$ 7,438,402</u>	<u>\$ 210,196</u>
Business-type Activities:					
Revenue Obligation:					
Water Revenue Bonds, USDA/RD Series 2005	\$ 790,000	\$ -	(26,000)	\$ 764,000	\$ 27,000
Sewer Revenue Bonds, Rural Utilities 2001 A	357,944	-	(29,130)	328,814	30,441
Rural Utilities Bonds 2001 B	225,990	-	(19,489)	206,501	20,121
Total Revenue Obligation	1,373,934	-	(74,619)	1,299,315	77,562
Other Obligations					
Net Pension Liability	557,379	8,774	-	566,153	-
Accrued Compensated Absences	15,527	4,000	3,746	23,273	4,000
Total Other Obligations	572,906	12,774	3,746	589,426	4,000
Total Business-type Activity Long-term Liabilities	<u>\$ 1,946,840</u>	<u>\$ 12,774</u>	<u>\$ (70,873)</u>	<u>\$ 1,888,741</u>	<u>\$ 81,562</u>
Total Long-term Debt	<u>\$ 9,470,569</u>	<u>\$ 1,710,434</u>	<u>\$ (1,853,860)</u>	<u>\$ 9,327,143</u>	<u>\$ 291,758</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 8. Long-Term Obligations (Continued)

Bonds payable consist of the following at June 30, 2016:

Revenue Obligation - Governmental:

2016 Refinancing Agreement Excise Tax Revenue Bonds, due in semiannual principal and interest installments, bearing interest at 1.16% to 1.76%, maturing in July, 2021	\$ 1,380,000
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	245,000
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	220,000

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.	764,000
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.	328,814
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.	<u>206,501</u>

Total Bonds Payable	<u><u>\$ 3,144,315</u></u>
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CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 8. Long-Term Obligations (Continued)

Debt service requirements for bonds payable are as follows:

Fiscal Period Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	135,000	34,421	77,562	53,024
2018	420,000	29,751	80,585	49,887
2019	309,000	22,881	84,693	46,624
2020	311,000	18,177	87,886	43,193
2021	318,000	12,962	91,168	39,633
2022-2026	307,000	24,064	442,421	139,579
2027-2031	45,000	2,141	222,000	72,104
2032-2036	-	-	213,000	22,440
Total	\$ 1,845,000	\$ 144,397	\$ 1,299,315	\$ 466,484

The City has entered into 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
2017	\$ 211
2018	-
2019	-
Total remaining lease payments	211
Less amount representing interest	(15)
Present value of net remaining minimum lease payments	<u>\$ 196</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 8. Long-Term Obligations (Continued)

The City is obligated under a capital lease purchase obligation for the purchase of office equipment with interest accruing at 16.33%. The lease term expires in fiscal year 2017.

As of June 30, 2016 depreciation of assets under capital lease obligations are included with the highways and streets expenses in the statement of activities, and the assets are included in the statement of net position as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Machinery & Equipment	\$ 6,740	\$ 674	\$ 5,392

NOTE 9. Interfund Transactions and Balances

The composition of interfund receivables and payables balances as of June 30, 2016 follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 164,265	\$ -
Grants Fund	-	164,265
Total	\$ 164,265	\$ 164,265

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 9. Interfund Transactions and Balances (Continued)

For the fiscal year ended June 30, 2016 interfund transfers are as follows:

Transfers Out:	Transfers In:	
	General Fund	Non major Funds
General Fund	\$ -	\$ 5,059
Gas Fund	175,565	-
Water Fund	128,521	-
Sewer Fund	148,118	-
Refuse Fund	111,336	-
Total transfers	\$ 563,540	\$ 5,059

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.

NOTE 10. Retirement and Pension Plans

The City contributes to the Arizona State Retirement System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2016, the City reported the following aggregate amounts related to pensions for plans to which it contributes:

Statement of Net Position and	ASRS	PSPRS	Combined Total
Net pension liability	\$ 2,857,917	\$ 3,149,151	\$ 6,007,068
Deferred outflows of resources	323,932	628,472	\$ 952,404
Deferred inflows of resources	297,251	56,934	\$ 354,185
Pension expense	187,629	471,791	\$ 659,420

The City reported \$342,857 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Arizona State Retirement System (ASRS)

Plan description – The City participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.46 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, .13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions than an employee who contributes to the ASRS would typically fill.

The City's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	181,666	9,981	3,992
2015	190,101	10,299	2,095
2016	169,230	7,799	1,872

Pension liability – At June 30, 2016, the City reported a liability of \$2,857,917 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The City's proportion measured as of June 30, 2015, was 0.018350 percent, which was a decrease of 0.000485 percent from its proportion measured as of June 30, 2014.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$154,027. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 77,986	\$ 149,758
Net difference between projected and actual earnings on pension plan investments	-	91,590
Changes in proportion and differences between contributions and proportional share of contributions	76,716	55,903
Contributions subsequent to the measurement date	169,230	-
Total	\$ 323,932	\$ 297,251

The \$169,230 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2016	\$ (27,049)
2017	(110,350)
2018	(71,265)
2019	66,115
2020	-

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.79%	3.94%
Fixed income	25%	3.70%	0.93%
Commodities	2%	3.93%	0.08%
Multi-asset	5%	3.41%	0.17%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.54%
		Inflation	3.25%
		Expected arithmetic nominal return	8.79%

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	\$ 3,744,848	\$ 2,857,917	\$ 2,250,079

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan description – The Town 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. The reports are available on the PSPRS website at www.psprs.com.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Benefits provided – The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date Before January 1, 2012	Initial Membership Date On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Employees covered by benefit terms – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	0
Active employees	10
Total	17

Contributions and annual OPEB cost – State statutes establish the pension contribution requirement for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees can earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active PSPSR members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 55.60 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 0.79 percent.

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

Pension

Contributions made	\$	266,269
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Health Insurance Premium Benefit

Annual OPEB cost	713
Contributions made	713

Pension liability – At June 30, 2016, the Town reported a net pension liability of \$3,149,151. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016, voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the City’s net pension liability as a result of the statutory adjustments is not known.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Pension actuarial assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term Inv	2.00%	0.75%
Total	<u>100.00%</u>	

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Discount Rate –A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 4,858,225	\$ 1,879,486	\$ 2,978,739
Changes for the year:			
Service cost	86,888	-	86,888
Interest on total pension liability	374,632	-	374,632
Changes of benefit terms*	-	-	-
Difference between expected and actual experience in the measurement of the pension liability	11,324	-	11,324
Changes of assumptions**	-	-	-
Contributions - employer	-	193,052	(193,052)
Contributions - employee	-	58,589	(58,589)
Net investment income	-	68,949	(68,949)
Benefit payments, including refunds of employee contributions	(258,577)	(258,577)	-
Pension plan administrative expenses	-	(2,059)	2,059
Other changes	-	(16,099)	16,099
Net changes	214,267	43,855	170,412
Balances at June 30, 2016	\$ 5,072,492	\$ 1,923,341	\$ 3,149,151

* Changes of benefit terms include the payout of Retro PBI and a change in the employee contribution rate

** Changes of assumptions include a decrease in the wage assumption from 4.5% to 4.0% as well as the inclusion of an assumption to explicitly value future PBI

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate -

The following table presents the City's net pension liability using the discount rate of 7.85 percent, as well as what the City's net pension liability would be if were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	1% Decrease (6.85%)	Discount Rate (7.85%)	1% Increase (8.85%)
Proportionate share of Net pension (asset) / liability	\$ 3,756,118	\$ 3,149,151	\$ 2,642,740

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the Town recognized pension expense for PSPRS of \$471,791. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,533	\$ -
Changes in assumptions	281,585	-
Net difference between projected and actual earnings on pension plan investments	62,085	56,934
Contributions subsequent to the measurement date	266,269	-
Total	\$ 628,472	\$ 56,934

The \$266,269 reported as deferred outflows of resources related to PSPRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2017	\$ 197,257
2018	93,038
2019	(652)
2020	15,626
2021	-

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides 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.

Projections of benefits are based on (1) the plan as the Town and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.0%
Wage growth	4.0%

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 10. Retirement and Pension Plans (Continued)

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2014	8,859	100%	-
	2015	8,453	100%	-
	2016	713	100%	

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 100,711
Actuarial value of plan assets	131,880
Unfunded actuarial accrued liability (UAAL)	<u>\$ (31,169)</u>
Funded ratio (actuarial value of plan assets/AAL)	130.95%
Covered payroll (active plan members)	\$ 474,320
UAAL as a percentage of covered payroll	0.00%

The actuarial methods and assumptions used for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

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.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2016

NOTE 14. Bond Refinancing

In fiscal year 2016 the City refinanced the Tax Revenue Bonds, Series 2006 to take advantage of lower interest rates. As part of the refinancing arrangement, the City issued \$1,380,000 of new Revenue Bonds and retired \$210,000 in principal of the refinanced bonds. The restructuring of these bonds is expected to result in a net present value savings of \$90,400 over the life of the bonds.

NOTE 15. Subsequent Events

The City has plans to issue additional debt during fiscal year 2017 to enable the construction of a new wastewater treatment facility. As of the date of these financial statements the amount of the debt to be issued was not yet known as the City was still negotiating the project with the USDA.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLCOX, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.018350%	1.883500%
Proportionate share of the net pension liability (asset) \$	2,857,917	\$ 2,786,895
Covered employee payroll \$	1,634,592	\$ 1,720,605
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	174.84%	161.97%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF WILLCOX, ARIZONA
Schedule of changes in the Net Pension Liability and Related Ratios
June 30, 2016

Public Safety Personnel Retirement System

	Reporting Fiscal Year	
	(Measurement Date)	
	2016	2015
	(2015)	(2014)
Total pension liability		
Service cost	\$ 86,888	\$ 89,382
Interest on total pension liability	374,632	299,250
Changes of benefit terms	-	141,884
Difference between expected and actual experience of the total net pension liability	11,324	23,608
Changes of assumptions	-	663,809
Benefit payments, including refunds of employee contributions	(258,577)	(254,246)
Net change in total pension liability	<u>214,267</u>	<u>963,687</u>
Total pension liability - beginning	<u>4,858,225</u>	<u>3,894,538</u>
Total pension liability - ending (a)	<u><u>\$ 5,072,492</u></u>	<u><u>\$ 4,858,225</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 193,052	\$ 148,617
Contributions - employee	58,589	49,893
Net investment income	68,949	232,082
Benefit payments, including refunds of employee contributions	(258,577)	(254,246)
Pension plan administrative expenses	(2,059)	-
Other (net transfer)	(16,099)	(1,869)
Net change in plan fiduciary net position	<u>43,855</u>	<u>174,477</u>
Plan fiduciary net position - beginning	<u>1,879,486</u>	<u>1,705,009</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,923,341</u></u>	<u><u>\$ 1,879,486</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 3,149,151</u></u>	<u><u>\$ 2,978,739</u></u>
Plan fiduciary net position as a percentage of the total pension liability	37.92%	38.69%
Covered employee payroll	\$ 548,341	\$ 439,667
Net pension liability as a percentage of covered-employee payroll	574.31%	677.50%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF WILLCOX, ARIZONA
Schedule of Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year	
	(Measurement Date)	
	2016	2015
	(2015)	(2014)
	<hr/>	<hr/>
Contractually required contribution	\$ 190,101	181,666
Contributions in relation to the contractually required contribution	\$ (190,101)	(181,666)
Contribution deficiency (excess)	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>
Covered employee payroll	\$ 1,634,592	\$ 1,720,605
Contributions as a percentage of covered-employee payroll	11.63%	10.56%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF WILLCOX, ARIZONA
Schedule of Contributions, Continued
June 30, 2016

Public Safety Personnel Retirement System	Reporting Fiscal Year	
	(Measurement Date)	
	2016	2015
	(2015)	(2014)
Actuarially determined contribution	\$ 193,052	\$ 148,617
Contributions in relation to the actuarially determined contribution	\$ (193,052)	\$ (148,617)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 548,341	\$ 439,667
Contributions as a percentage of covered-employee payroll	35.21%	33.80%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Notes to the Pension Plan Schedules
June 30, 2016

NOTE 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2013 actuarial valuation, the projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%
Wage growth	In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2016 using projection scale AA (adjusted by 105% for both males and females)

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

Public Safety Personnel Retirement System
Health Insurance Premium Benefit

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2014	\$ 113,525	\$ 92,000	\$ (21,525)	123.40%	\$ 439,667	0.00%
2015	126,051	95,291	(30,760)	132.3%	548,341	0.00%
2016	131,880	100,711	(31,169)	131.0%	474,320	0.00%

** The June 30, 2016 information was not yet available at the time the financial statements were issued.

See accompanying notes to schedule of agent OPEB plans' funding progress.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

NOTE 1. Factors that Affect the Identification of Trends

Beginning in fiscal year 2016, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2016, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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.

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 the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property tax	\$ 75,285	\$ 75,285	\$ 73,518	\$ (1,767)
City sales tax	1,451,254	1,451,254	1,449,084	(2,170)
Room occupancy tax	146,203	146,203	142,680	(3,523)
Franchise taxes	229,107	229,107	224,060	(5,047)
Total Taxes	<u>1,901,849</u>	<u>1,901,849</u>	<u>1,889,342</u>	<u>(12,507)</u>
Licenses, Permits and Fees:				
Liquor licenses	2,600	2,600	2,150	(450)
Business licenses	7,360	7,360	6,171	(1,189)
Refuse hauler licenses	16,218	16,218	16,018	(200)
Dog licenses	245	245	255	10
Cemetery fees	19,657	19,657	21,518	1,861
Building permits	28,000	28,000	14,438	(13,562)
Total Licenses, Permits and Fees	<u>74,080</u>	<u>74,080</u>	<u>60,550</u>	<u>(13,530)</u>
Intergovernmental:				
State revenue sharing	453,870	453,870	454,217	347
Auto lieu taxes	168,840	168,840	174,332	5,492
State sales taxes	358,246	358,246	352,791	(5,455)
Total Intergovernmental	<u>980,956</u>	<u>980,956</u>	<u>981,340</u>	<u>384</u>
Charges for Services:				
Rents	8,400	8,400	8,360	(40)
Swimming pool fees	12,368	12,368	11,991	(377)
Golf course	144,969	144,969	192,347	47,378
School resource officer	118,818	118,818	111,897	(6,921)
Total Charges for Services	<u>284,555</u>	<u>284,555</u>	<u>324,595</u>	<u>40,040</u>
Fines and Forfeitures:				
Fines & forfeitures	12,131	12,131	15,405	3,274
Total Fines and Forfeitures	<u>12,131</u>	<u>12,131</u>	<u>15,405</u>	<u>3,274</u>
Interest	<u>28,388</u>	<u>28,388</u>	<u>24,602</u>	<u>(3,786)</u>
Other Revenues:				
Miscellaneous	52,349	52,349	51,681	(668)
Total Other Revenues	<u>52,349</u>	<u>52,349</u>	<u>51,681</u>	<u>(668)</u>
TOTAL REVENUES	<u>3,334,308</u>	<u>3,334,308</u>	<u>3,347,515</u>	<u>13,207</u>

(continued)

CITY OF WILLCOX, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2016 (Continued)

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
EXPENDITURES:				
General Government:				
Mayor & Council	\$ 32,901	\$ 32,901	\$ 31,097	\$ 1,804
General & Administrative	283,246	283,246	282,258	988
Finance	274,007	274,007	273,562	445
Total General Government	<u>590,154</u>	<u>590,154</u>	<u>586,917</u>	<u>3,237</u>
Public Safety:				
Public Safety Administration	244,643	244,643	258,795	(14,152)
Communications	273,050	273,050	269,305	3,745
Police	907,311	907,311	880,055	27,256
Magistrate	190,798	190,798	193,477	(2,679)
Fire	81,680	81,680	72,600	9,080
Animal Control	96,346	96,346	110,816	(14,470)
Building Inspection	128,872	128,872	119,981	8,891
Total Public Safety	<u>1,922,700</u>	<u>1,922,700</u>	<u>1,905,029</u>	<u>17,671</u>
Culture and Recreation:				
Golf Course	228,187	228,187	280,747	(52,560)
Library	228,323	228,323	220,537	7,786
Parks & Recreation	299,331	299,331	307,733	(8,402)
Swimming Pool	124,205	124,205	136,548	(12,343)
Community Programs	117,407	117,407	106,350	11,057
Total Culture and Recreation	<u>997,453</u>	<u>997,453</u>	<u>1,051,915</u>	<u>(54,462)</u>
Public Works				
Public Works Administration	61,303	61,303	45,555	15,748
Cemetery	45,461	45,461	43,006	2,455
Central Garage	33,499	33,499	22,816	10,683
Buildings & Grounds	97,178	97,178	100,289	(3,111)
Total Public Works	<u>237,441</u>	<u>237,441</u>	<u>211,666</u>	<u>25,775</u>
Contingency				
Contingency	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
TOTAL EXPENDITURES	<u>3,897,748</u>	<u>3,897,748</u>	<u>3,755,527</u>	<u>142,221</u>
Excess of Revenues Over (Under) Expenditures	<u>(563,440)</u>	<u>(563,440)</u>	<u>(408,012)</u>	<u>155,428</u>
Other Financing Sources (Uses):				
Transfer from Gas fund	175,565	175,565	175,565	-
Transfer from Water fund	128,521	128,521	128,521	-
Transfer from Sewer fund	148,118	148,118	148,118	-
Transfer from Refuse fund	111,336	111,336	111,336	-
Transfer to capital project and grant funds	(4,100)	(4,100)	(5,059)	(959)
Sale of general capital assets	4,000	4,000	8,389	4,389
Total Other Financing Sources (Uses)	<u>563,440</u>	<u>563,440</u>	<u>566,870</u>	<u>3,430</u>
Net change in fund balance	-	-	158,858	158,858
Fund Balance, Beginning of Year	<u>1,417,221</u>	<u>1,417,221</u>	<u>1,417,221</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,417,221</u>	<u>\$ 1,417,221</u>	<u>\$ 1,576,079</u>	<u>\$ 158,858</u>

CITY OF WILLCOX, ARIZONA
Highway User Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 714,797	\$ 714,797	\$ 725,056	\$ 10,259
Intergovernmental Revenue:				
Highway user revenues	288,316	288,316	273,609	(14,707)
Interest	5,700	5,700	5,770	70
Other revenues	-	-	-	-
Total Revenues	<u>1,008,813</u>	<u>1,008,813</u>	<u>1,004,435</u>	<u>(4,378)</u>
EXPENDITURES:				
Streets and Highways:				
Salaries & wages	178,298	178,298	180,058	(1,760)
Benefits	116,002	116,002	114,192	1,810
Service, supplies and other	354,034	354,034	322,722	31,312
Capital outlay	30,000	30,000	26,851	3,149
Debt Service:				
Principal	235,000	235,000	1,590,000	(1,355,000)
Interest	74,614	74,614	73,000	1,614
Total Expenditures	<u>987,948</u>	<u>987,948</u>	<u>2,306,823</u>	<u>(1,318,875)</u>
Excess of Revenues Over (Under) Expenditures	<u>20,865</u>	<u>20,865</u>	<u>(1,302,388)</u>	<u>(1,323,253)</u>
Other Financing sources / (Uses):				
Proceeds from the issuance of long-term debt	-	-	1,380,000	1,380,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources / (Uses)	<u>-</u>	<u>-</u>	<u>1,380,000</u>	<u>1,380,000</u>
Net change in fund balance	20,865	20,865	77,612	56,747
Fund Balance, Beginning of Year	<u>299,101</u>	<u>299,101</u>	<u>299,101</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 319,966</u>	<u>\$ 319,966</u>	<u>\$ 376,713</u>	<u>\$ 56,747</u>

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

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.

The **Repair and Demolition Fund** is used to account for activities related to the repairing or removing of old buildings within the City which are no longer suitable or safe for continued use.

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, 2016

	Special Revenue Funds		Capital Project Funds		Total Non-major Funds
	Grants	Special Revenue	Capital Projects	Debt Service	
Assets					
Cash and cash equivalents	\$ -	\$ 56,518	\$ 43,493	\$ 164,737	\$ 264,748
Receivables:					
Property taxes	-	-	-	26,890	26,890
Intergovernmental	189,979	-	-	-	189,979
Other	-	1,133	-	5,553	6,686
Total Assets	<u>\$ 189,979</u>	<u>\$ 57,651</u>	<u>\$ 43,493</u>	<u>\$ 197,180</u>	<u>\$ 488,303</u>
Liabilities					
Liabilities:					
Accounts payable	\$ 25,714	\$ 2,650	\$ -	\$ -	\$ 28,364
Due to other funds	164,265	-	-	-	164,265
Total Liabilities	<u>189,979</u>	<u>2,650</u>	<u>-</u>	<u>-</u>	<u>192,629</u>
Deferred Inflows of Resources					
Unavailable revenue-property taxes	-	-	-	24,549	24,549
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,549</u>	<u>24,549</u>
Fund Balances					
Restricted for:					
Debt service	-	-	-	172,631	172,631
Other purposes	-	55,001	-	-	55,001
Capital projects	-	-	43,493	-	43,493
Total Fund Balances (deficits)	<u>-</u>	<u>55,001</u>	<u>43,493</u>	<u>172,631</u>	<u>271,125</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 189,979</u>	<u>\$ 57,651</u>	<u>\$ 43,493</u>	<u>\$ 197,180</u>	<u>\$ 488,303</u>

CITY OF WILLCOX, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Special Revenue Funds		Capital Project Funds		Total Non-major Funds
	Grants	Special Revenue	Capital Projects	Debt Service	
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 155,273	\$ 155,273
Intergovernmental revenue	268,627	-	-	-	268,627
Interest	-	-	13	-	13
Other revenues	-	31,145	-	-	31,145
Total Revenues	268,627	31,145	13	155,273	455,058
EXPENDITURES					
Current:					
Community Development	10,161	-	-	-	10,161
Culture and Recreation	-	7,551	-	-	7,551
Capital Outlay	258,466	43,924	-	-	302,390
Debt Service:					
Principal	-	-	-	130,000	130,000
Interest	-	-	-	23,535	23,535
Total Expenditures	268,627	51,475	-	153,535	473,637
Excess of Revenues Over (Under) Expenditures	-	(20,330)	13	1,738	(18,579)
Other Financing Sources:					
Transfers in	-	5,059	-	-	5,059
Total Other Financing Sources	-	5,059	-	-	5,059
Net change in fund balances	-	(15,271)	13	1,738	(13,520)
Fund Balances, Beginning of Year	-	70,272	43,480	170,893	284,645
Fund Balances, End of Year	\$ -	\$ 55,001	\$ 43,493	\$ 172,631	\$ 271,125

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 815,735	\$ 815,735	\$ 268,627	\$ (547,108)
Total Revenues	<u>815,735</u>	<u>815,735</u>	<u>268,627</u>	<u>(547,108)</u>
EXPENDITURES:				
Community Development	1,135	1,135	10,161	(9,026)
Capital outlay	<u>814,600</u>	<u>814,600</u>	<u>258,466</u>	<u>556,134</u>
Total Expenditures	<u>815,735</u>	<u>815,735</u>	<u>268,627</u>	<u>547,108</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (deficit), End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 9,613	\$ 9,613	\$ -	\$ (9,613)
Contributions and other	13,196	13,196	31,145	17,949
Total Revenues	<u>22,809</u>	<u>22,809</u>	<u>31,145</u>	<u>8,336</u>
EXPENDITURES:				
Culture and recreation	9,585	9,585	7,551	2,034
Capital outlay	76,362	76,362	43,924	32,438
Total Expenditures	<u>85,947</u>	<u>85,947</u>	<u>51,475</u>	<u>32,438</u>
Excess of Revenues Over (Under) Expenditures	<u>(63,138)</u>	<u>(63,138)</u>	<u>(20,330)</u>	<u>40,774</u>
Other Financing Sources (Uses): Transfers in	<u>4,100</u>	<u>4,100</u>	<u>5,059</u>	<u>959</u>
Net change in fund balance	(59,038)	(59,038)	(15,271)	41,733
Fund Balance, Beginning of Year	<u>70,272</u>	<u>70,272</u>	<u>70,272</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 11,234</u>	<u>\$ 11,234</u>	<u>\$ 55,001</u>	<u>\$ 41,733</u>

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ -	\$ -	\$ 13	\$ 13
Total Revenues	-	-	13	13
EXPENDITURES:				
Capital outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	13	13
Other Financing Sources: Transfers in	-	-	-	-
Net change in fund balance	-	-	13	13
Fund Balance, Beginning of Year	43,480	43,480	43,480	-
Fund Balance, End of Year	<u>\$ 43,480</u>	<u>\$ 43,480</u>	<u>\$ 43,493</u>	<u>\$ 13</u>

CITY OF WILLCOX, ARIZONA
Repair and Demolition Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES:				
Community Development	10,000	10,000	-	10,000
Total Expenditures	10,000	10,000	-	10,000
Excess of Revenues Over (Under) Expenditures	(10,000)	(10,000)	-	10,000
Other Financing Sources:				
Transfers from General Fund	10,000	10,000	-	(10,000)
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 158,624	\$ 158,624	\$ 155,273	\$ (3,351)
Total Revenues	<u>158,624</u>	<u>158,624</u>	<u>155,273</u>	<u>(3,351)</u>
EXPENDITURES:				
Debt Service:				
Principal	133,900	133,900	130,000	3,900
Interest	<u>24,724</u>	<u>24,724</u>	<u>23,535</u>	<u>1,189</u>
Total Expenditures	<u>158,624</u>	<u>158,624</u>	<u>153,535</u>	<u>5,089</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>1,738</u>	<u>1,738</u>
Other Financing Sources:				
Transfer in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	1,738	1,738
Fund Balance, Beginning of Year	<u>170,893</u>	<u>170,893</u>	<u>170,893</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 170,893</u></u>	<u><u>\$ 170,893</u></u>	<u><u>\$ 172,631</u></u>	<u><u>\$ 1,738</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willcox, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Willcox, Arizona's basic financial statements, and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

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

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

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

2016-001. Year-end Accounting

Compliance and Other Matters

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

Purpose of this Report

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



HintonBurdick, PLLC

St. George, Utah

January 30, 2017

**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, 2016, and have issued our report thereon dated January 30, 2017. 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, 2016.


HintonBurdick, PLLC
St. George, Utah
January 30, 2017

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