

CITY OF WILLCOX, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
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, 2018, 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, 2018, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 February 15, 2019, 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
Gilbert, Arizona
February 15, 2019

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CITY OF WILLCOX, ARIZONA
Management's Discussion and Analysis
June 30, 2018

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, 2018. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets plus deferred outflows (all activities Governmental and Business-type) increased by \$10,446,058. Total liabilities plus deferred inflows increased by \$5,199,137 which resulted in total assets plus deferred outflows in excess of total liabilities and deferred inflows (net position) increasing by \$5,246,921 at the close of the fiscal year 2018. Total net position (equity) was \$16,825,521 at June 30, 2018.
- Capital outlay for Governmental Activities exceeded depreciation expense in the current year by \$260,221. The City incurred capital expenses in governmental activities to purchase vehicles, a fire truck, and park improvements to various parks throughout the City.
- Capital outlay for Business-type Activities exceeded depreciation expense in the current year by \$8,129,554. The City incurred capital expenses in business-type activities to construct a new wastewater treatment and collection facility, and purchase equipment to further improve distribution systems for the City operated utilities.
- Total Business-type revenues exceeded total Business-type expenses by \$4,909,505.
- Total Governmental revenues exceeded total Governmental expenses by \$315,179.
- The General Fund reported expenditures in excess of revenues (including the sale of capital assets) of \$227,464 (decrease in General Fund Balance).
- Actual General Fund resources received were \$76,315 (2.3%) more than the final Budget.
- Actual General Fund expenditures, including transfers, were \$878,271 (19.4%) less than the final budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.42 million or 39% of total General Fund fiscal year 2018 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 \$16.83 million as of June 30, 2018 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	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Current and other assets	\$ 2,641,126	\$ 2,732,783	\$ 5,417,296	\$ 3,014,902	\$ 8,058,422	5,747,685
Capital assets	9,394,090	9,133,870	13,302,164	5,172,610	22,696,254	14,306,480
Total assets	<u>12,035,216</u>	<u>11,866,653</u>	<u>18,719,460</u>	<u>8,187,512</u>	<u>30,754,676</u>	<u>20,054,165</u>
Deferred outflows of resources	833,617	1,031,828	74,172	130,414	907,789	1,162,242
Long-term liabilities outstanding	731,260	6,609,517	3,396,163	1,439,419	4,127,423	8,048,936
Other liabilities	6,416,737	766,822	3,994,226	323,743	10,410,963	1,090,565
Total liabilities	<u>7,147,997</u>	<u>7,376,339</u>	<u>7,390,389</u>	<u>1,763,162</u>	<u>14,538,386</u>	<u>9,139,501</u>
Deferred inflows of resources	230,452	369,046	68,106	129,260	298,558	498,306
Net position:						
Invested in capital assets, net of related debt	2,683,794	7,703,870	9,818,552	4,435,610	12,502,346	12,139,480
Restricted	821,332	783,154	76,880	65,310	898,212	848,464
Unrestricted	<u>1,985,258</u>	<u>(3,333,928)</u>	<u>1,439,705</u>	<u>1,924,584</u>	<u>3,424,963</u>	<u>(1,409,344)</u>
Total net position	<u>\$ 5,490,384</u>	<u>\$ 5,153,096</u>	<u>\$ 11,335,137</u>	<u>\$ 6,425,504</u>	<u>\$ 16,825,521</u>	<u>\$ 11,578,600</u>

Governmental Activities

The cost of all Governmental activities this year was \$4.45 million. As shown on the statement of Changes in Net Position on the following page, \$401,283 of this cost was paid for by those who directly benefited from the programs and \$428,883 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$3.94 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.

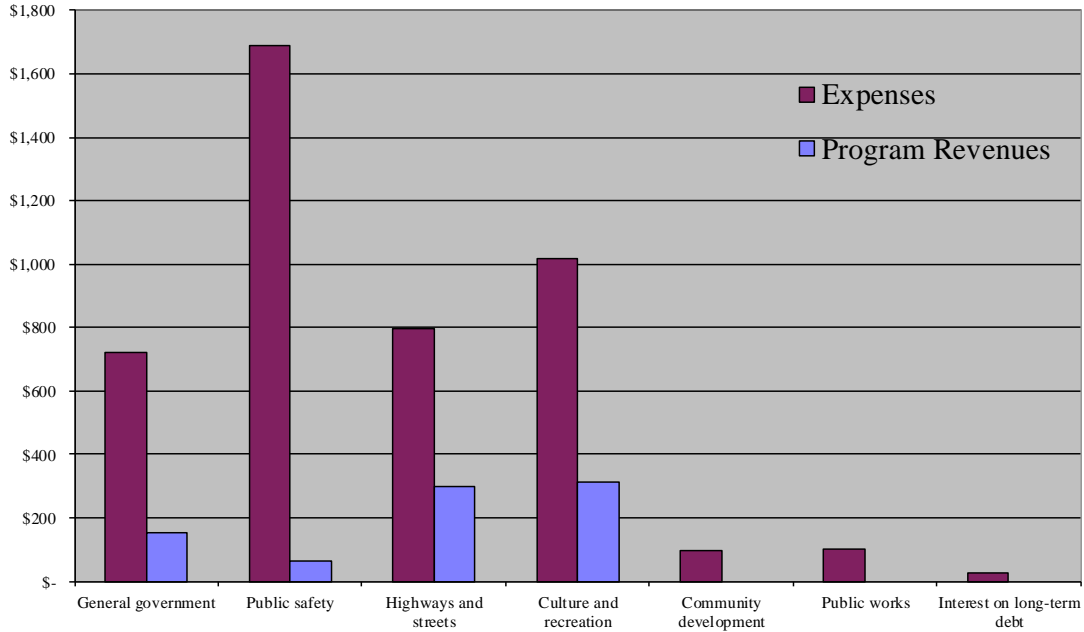
City of Willcox, Arizona
Changes in Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Revenues:						
Program revenues:						
Charges for services	\$ 401,283	\$ 385,232	\$ 2,711,337	\$ 2,672,875	\$ 3,112,620	\$ 3,058,107
Operating grants and contributions	351,370	321,088	-	-	351,370	321,088
Capital grants and contributions	77,513	336,933	4,938,249	80,028	5,015,762	416,961
General revenues:						
Sales taxes	2,596,320	2,513,827	-	-	2,596,320	2,513,827
Other taxes	747,775	730,131	-	-	747,775	730,131
State revenue sharing	434,871	434,562	-	-	434,871	434,562
Assessments	144,247	129,600	-	-	144,247	129,600
Other	15,802	41,604	10,151	10,681	25,953	52,285
Total revenues	<u>4,769,181</u>	<u>4,892,977</u>	<u>7,659,737</u>	<u>2,763,584</u>	<u>12,428,918</u>	<u>7,656,561</u>
Expenses:						
General government	722,440	673,999	-	-	722,440	673,999
Public safety	1,690,860	1,523,705	-	-	1,690,860	1,523,705
Highways and streets	796,867	804,728	-	-	796,867	804,728
Culture and recreation	1,016,267	1,132,738	-	-	1,016,267	1,132,738
Community development	96,897	8,975	-	-	96,897	8,975
Public works	102,189	107,743	-	-	102,189	107,743
Interest on long-term debt	28,482	44,605	-	-	28,482	44,605
Gas	-	-	750,495	836,513	750,495	836,513
Water	-	-	671,247	771,994	671,247	771,994
Sewer	-	-	677,098	750,261	677,098	750,261
Refuse	-	-	651,392	645,067	651,392	645,067
Total expenses	<u>4,454,002</u>	<u>4,296,493</u>	<u>2,750,232</u>	<u>3,003,835</u>	<u>7,204,234</u>	<u>7,300,328</u>
(Decrease)/Increase in net assets before transfers	315,179	596,484	4,909,505	(240,251)	5,224,684	356,233
Transfers	-	-	-	-	-	-
Net position, beginning	5,153,096	4,556,612	6,425,504	6,665,755	11,578,600	11,222,367
Restatement adjustment	22,109	-	128	-	22,237	-
Net position, ending	<u>\$ 5,490,384</u>	<u>\$ 5,153,096</u>	<u>\$ 11,335,137</u>	<u>\$ 6,425,504</u>	<u>\$ 16,825,521</u>	<u>\$ 11,578,600</u>

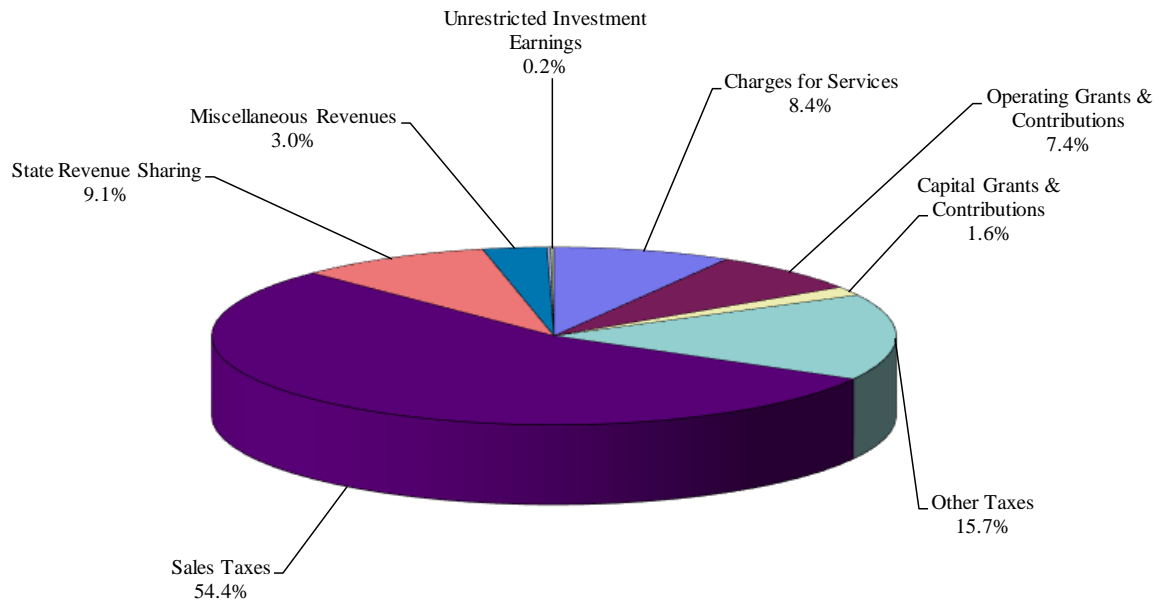
Total governmental resources available during the year to finance governmental operations were \$9.92 million, consisting of net position at July 1, 2017 of \$5.15 million, Program revenues of \$830,166 and general revenues of \$3.94 million. Total governmental activities expenses during the year were \$4.45 million; thus governmental net position increased by \$315,179 to \$5.49 million at June 30, 2018.

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)



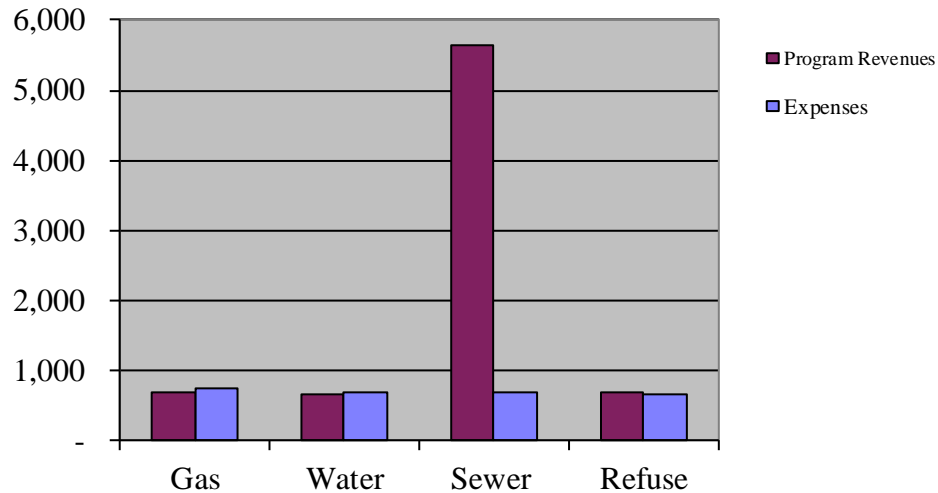
Revenue By Source - Governmental Activities



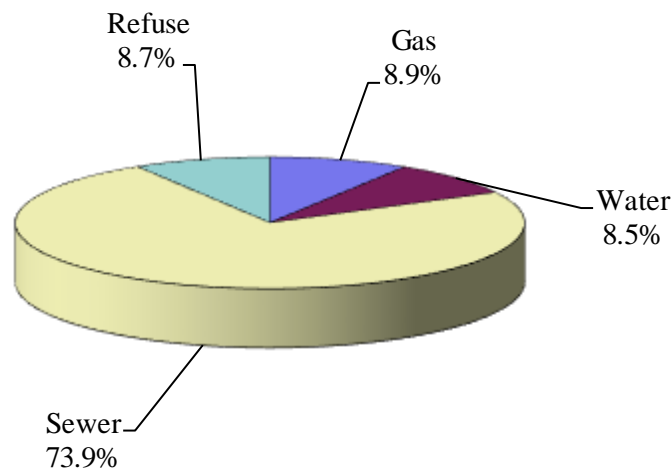
Business-type Activities

Net position of the business-type activities at June 30, 2018, as reflected in the Statement of Net Position was \$11.34 million. As shown in the statement of Changes in Net Position, the total net position at July 1, 2017 was \$6.43 million. Amounts paid by users of the system were \$2.71 million, connection fees were \$27,147 and interest earnings totaled \$10,151. The cost of providing all proprietary (business-type) activities this year was \$2.7 million. Interest expense and fiscal charges were \$5,075.

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 73 and 74.

For fiscal year ended June 30, 2018, the governmental funds reflect a combined fund balance of \$2,243,325. Of this, \$821,232 is reserved because it is not available for expenditure or is legally segregated for a specific future use. The remaining \$1,421,993 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 2018 general fund revenues totaled \$3,403,705. Expenditures, before other financing sources and uses, totaled \$3,639,118. City sales tax revenues came in about 4.16% more than projections. State sales tax revenues came in 2.32% less than estimates. Auto lieu taxes were \$5,976 or about 3.41% more than estimates. Overall intergovernmental income was \$3,540 less than anticipated in the budget. Room occupancy tax revenues of \$188,421 were about 18.3% more than projections and revenues have remained steady. Franchise fee income was \$229,751 or about 5.8% more 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 2018 city sales tax revenues in this fund totaled \$753,049, about \$40,881 more than amount budgeted. HURF revenues from the State were \$299,948 or 6.18% more than amount budgeted and interest income was less than amount budgeted by \$616 or 30.8%. Overall fund revenue was \$1,054,381. The fund expenses totaled \$1,030,793 or about .75% more than projections. Net change in fund balance was \$23,588. The HURF fund balance at the close of fiscal year 2018 was \$514,486.

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 \$115,148, expenses totaled \$115,148 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 \$35,989 and expenses totaled \$30,484 for a net use of funds of \$5,505 and an ending fund balance of \$48,488. Debt Service fund revenues totaled \$161,164. Property tax revenues were \$161,164, and expenses totaled \$152,083 for a net increase to fund balance of \$9,081 and an ending fund balance of \$184,749.

Business-like 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 \$11,335,137 as of June 30, 2018. Operating revenues totaled \$2,684,190, while operating expenses totaled \$2,745,157, for an operating loss of \$60,967. The main cause of the loss was the inclusion of administrative expenses recorded as expenses.

General Fund Budgetary Highlights

Actual revenues as shown on Page 69 were \$76,315 more than budgeted revenues. Revenues included City Sales Tax revenues of \$1,506,097 or \$60,181 more than those budgeted. Expenditures were less than the General Fund appropriations, including transfers, at year-end by \$878,271. 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 vehicles, equipment, buildings, land, park facilities, roads, and utility distribution systems. At the end of fiscal year 2018, net capital assets of the government activities totaled \$9.39 million, and the net capital assets of the business-type activities totaled \$13.3 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 \$6.8 million in governmental type obligations, and \$4.15 million in proprietary obligations. During the current fiscal year, the City's total obligations increased by \$2,383,930. See note 8 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

For the 2018-2019 fiscal year city budget, the City has projected a minimal increase in general operating revenues and operating expenditures from the fiscal year 2017-2018 budgeted amounts. The budgeted utility fund operating revenues are about 9% more than actual operations for fiscal year 2018-2019. Gas operating revenues are estimated to increase in fiscal year 2019 by about 1.2%. Water revenues are anticipated to increase by about 1.1%. Sewer revenues are projected to increase by about 34% as sewer rates increased to fund the new wastewater treatment and collection facility. The refuse revenues are projected to increase by about .75%.

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 Caleb Blaschke, City Manager, cblaschke@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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,238,892	\$ 1,692,565	\$ 3,931,457
Receivables (net of allowance)	198,175	3,409,155	3,607,330
Inventory	1,900	168,949	170,849
Internal balances	133,891	(133,891)	-
Prepays	30,099	-	30,099
Temporarily restricted assets:			
Cash and cash equivalents	-	278,219	278,219
Net pension/OPEB asset	38,169	2,299	40,468
Capital assets (net of accumulated depreciation):			
Land and improvements	1,230,992	151,578	1,382,570
Buildings and improvements	3,194,104	-	3,194,104
System and other improvements	-	3,244,361	3,244,361
Furniture, equipment and vehicles	1,413,034	270,161	1,683,195
Infrastructure	3,547,778	-	3,547,778
Construction in progress	8,182	9,636,064	9,644,246
Total Assets	<u>12,035,216</u>	<u>18,719,460</u>	<u>30,754,676</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions/OPEB	833,617	74,172	907,789
Liabilities			
Accounts payable and other current liabilities	306,441	2,772,622	3,079,063
Customer deposits	-	76,880	76,880
Retainage payable	-	388,577	388,577
Unearned revenue	20,000	-	20,000
Noncurrent liabilities:			
Due within one year	376,000	106,489	482,489
Due in more than one year	731,260	3,396,163	4,127,423
Net pension liability	5,714,296	649,658	6,363,954
Total Liabilities	<u>7,147,997</u>	<u>7,390,389</u>	<u>14,538,386</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions/OPEB	230,452	68,106	298,558
Total deferred inflows of resources	<u>230,452</u>	<u>68,106</u>	<u>298,558</u>
Net Position			
Net investment in capital assets	2,683,794	9,818,552	12,502,346
Nonspendable:			
Prepays	30,099	-	30,099
Restricted for:			
Debt service	184,749	278,219	462,968
Streets and other	562,974	-	562,974
Capital projects	43,510	-	43,510
Unrestricted	1,985,258	1,238,366	3,223,624
Total Net Position	<u>\$ 5,490,384</u>	<u>\$ 11,335,137</u>	<u>\$ 16,825,521</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 722,440	\$ 132,532	\$ 18,720	\$ -	\$ (571,188)	\$ -	\$ (571,188)
Public safety	1,690,860	50,416	14,209	-	(1,626,235)	-	(1,626,235)
Highways and streets	796,867	-	299,948	-	(496,919)	-	(496,919)
Culture and recreation	1,016,267	218,335	18,493	77,513	(701,926)	-	(701,926)
Community development	96,897	-	-	-	(96,897)	-	(96,897)
Public works	102,189	-	-	-	(102,189)	-	(102,189)
Interest on long-term debt	28,482	-	-	-	(28,482)	-	(28,482)
Total governmental activities	4,454,002	401,283	351,370	77,513	(3,623,836)	-	(3,623,836)
Business-type activities:							
Gas	750,495	677,524	-	-	-	(72,971)	(72,971)
Water	671,247	650,036	-	-	-	(21,211)	(21,211)
Sewer	677,098	716,708	-	4,938,249	-	4,977,859	4,977,859
Refuse	651,392	667,069	-	-	-	15,677	15,677
Total business-type activities	2,750,232	2,711,337	-	4,938,249	-	4,899,354	4,899,354
Total primary government	\$ 7,204,234	\$ 3,112,620	\$ 351,370	\$ 5,015,762	(3,623,836)	4,899,354	1,275,518
General Revenues:							
Property taxes levied for general purposes					230,047	-	230,047
Sales taxes					2,596,320	-	2,596,320
Other taxes					517,728	-	517,728
State revenue sharing					434,871	-	434,871
Miscellaneous revenues					144,247	-	144,247
Gain on sale of assets					7,950	-	7,950
Unrestricted investment earnings/(loss)					7,852	10,151	18,003
Total general revenues & transfers					3,939,015	10,151	3,949,166
Change in net position					315,179	4,909,505	5,224,684
Net position - beginning					5,153,096	6,425,504	11,578,600
Restatement adjustment					22,109	128	22,237
Net position - ending					\$ 5,490,384	\$ 11,335,137	\$ 16,825,521

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

CITY OF WILLCOX, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2018

	General	Highway User Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,376,412	\$ 590,161	\$ 272,319	\$ 2,238,892
Receivables:				
Property taxes	11,064	-	22,733	33,797
Other	70,740	-	4,023	74,763
Intergovernmental	-	39,745	49,870	89,615
Due from other funds	162,114	-	-	162,114
Inventory	1,900	-	-	1,900
Prepays	30,099	-	-	30,099
Total Assets	<u>1,652,329</u>	<u>629,906</u>	<u>348,945</u>	<u>2,631,180</u>
Liabilities				
Accounts payable	76,686	108,616	3,691	188,993
Accrued liabilities	110,644	6,804	-	117,448
Due to other funds	-	-	28,223	28,223
Unearned revenue	-	-	20,000	20,000
Total Liabilities	<u>187,330</u>	<u>115,420</u>	<u>51,914</u>	<u>354,664</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	12,907	-	20,284	33,191
Total deferred inflows of resources	<u>12,907</u>	<u>-</u>	<u>20,284</u>	<u>33,191</u>
Fund Balances				
Nonspendable:				
Prepays	30,099	-	-	30,099
Restricted for:				
Roads and highways	-	514,486	-	514,486
Debt service	-	-	184,749	184,749
Other purposes	-	-	48,488	48,488
Capital projects	-	-	43,510	43,510
Unassigned	1,421,993	-	-	1,421,993
Total Fund Balances	<u>1,452,092</u>	<u>514,486</u>	<u>276,747</u>	<u>2,243,325</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,652,329</u>	<u>\$ 629,906</u>	<u>\$ 348,945</u>	<u>\$ 2,631,180</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, 2018

Total governmental fund balances		\$ 2,243,325
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	\$ 17,301,713	
Accumulated Depreciation	<u>(7,907,623)</u>	9,394,090
Other assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
		33,191
Other postemployment benefits asset is not an available resource and, therefore, is not reported in the funds.		
		38,169
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (996,000)	
Net pension liability	(5,714,296)	
Compensated absences	<u>(111,260)</u>	<u>(6,821,556)</u>
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	\$ 833,617	
Deferred inflows	<u>(230,452)</u>	<u>603,165</u>
Total net position of governmental activities		<u>\$ 5,490,384</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

REVENUES	General	Highway User Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Taxes	\$ 2,002,311	\$ 753,049	\$ 161,164	\$ 2,916,524
Licenses, permits and fees	68,075	-	-	68,075
Intergovernmental revenue	955,464	299,948	115,148	1,370,560
Charges for services	300,335	-	-	300,335
Fines and forfeitures	12,689	-	-	12,689
Interest	6,464	1,384	4	7,852
Other revenues	58,367	-	35,989	94,356
Total Revenues	3,403,705	1,054,381	312,305	4,770,391
EXPENDITURES				
Current:				
General Government	572,038	-	-	572,038
Public Safety	2,000,345	-	37,288	2,037,633
Community Development	-	-	88,457	88,457
Culture and Recreation	969,413	-	8,178	977,591
Streets and Highways	-	627,798	-	627,798
Public Works	97,322	-	-	97,322
Capital Outlay	-	92,596	11,709	104,305
Debt Service:				
Principal	-	294,000	140,000	434,000
Interest	-	16,399	12,083	28,482
Total Expenditures	3,639,118	1,030,793	297,715	4,967,626
Excess of Revenues Over (Under) Expenditures	(235,413)	23,588	14,590	(197,235)
Other Financing Sources (Uses):				
Sale of general capital assets	7,949	-	-	7,949
Total Other Financing Sources (Uses)	7,949	-	-	7,949
Net change in fund balances	(227,464)	23,588	14,590	(189,286)
Fund Balances, Beginning of Year	1,679,556	490,898	262,157	2,432,611
Fund Balances, End of Year	\$ 1,452,092	\$ 514,486	\$ 276,747	\$ 2,243,325

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, 2018

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

Net change in fund balances - total governmental funds	\$	(189,286)
<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	\$	898,761
Depreciation Expense		<u>(638,540)</u>
		260,221
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.		(9,159)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.		-
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.		434,000
<p>Pension/OPEB 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/OPEB liability is measured a year before the City's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the Statement of Activities.</p>		
Pension/OPEB contributions	\$	405,642
Pension/OPEB expense		<u>(598,826)</u>
		(193,184)
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>12,587</u>
Change in net position of governmental activities	\$	<u><u>315,179</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, 2018

Assets	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Current Assets:					
Cash	\$ 813,645	\$ 641,241	\$ -	\$ 237,679	\$ 1,692,565
Receivables (net of allowance)	44,295	78,222	72,842	54,482	249,841
Due from other governments	-	-	3,159,314	-	3,159,314
Inventory	56,851	112,098	-	-	168,949
Total Current Assets	<u>914,791</u>	<u>831,561</u>	<u>3,232,156</u>	<u>292,161</u>	<u>5,270,669</u>
Noncurrent Assets:					
Restricted cash	38,272	5,806	208,516	25,625	278,219
Net pension/OPEB asset	693	842	764	-	2,299
Land and improvements	-	131,900	19,678	-	151,578
Buildings and improvements	16,000	-	5,800	-	21,800
System and other improvements	1,789,417	5,098,481	3,979,017	-	10,866,915
Machinery and equipment	169,993	212,310	237,882	-	620,185
Vehicles	82,705	94,834	110,152	-	287,691
Construction in progress	-	-	9,636,064	-	9,636,064
Accumulated depreciation	(1,223,593)	(3,732,740)	(3,325,736)	-	(8,282,069)
Total Noncurrent Assets	<u>873,487</u>	<u>1,811,433</u>	<u>10,872,137</u>	<u>25,625</u>	<u>13,582,682</u>
Total Assets	<u>1,788,278</u>	<u>2,642,994</u>	<u>14,104,293</u>	<u>317,786</u>	<u>18,853,351</u>
Deferred Outflows of Resources					
Deferred outflows related to pensions	<u>22,374</u>	<u>27,165</u>	<u>24,633</u>	<u>-</u>	<u>74,172</u>
Liabilities					
Current Liabilities:					
Accounts payable	28,428	17,212	2,670,575	41,284	2,757,499
Accrued liabilities	4,148	6,086	4,889	-	15,123
Customer deposits	38,272	5,806	7,177	25,625	76,880
Retainage payable	-	-	388,577	-	388,577
Due to other funds	-	-	133,891	-	133,891
Current portion - compensated absences	2,160	4,896	4,944	-	12,000
Current portion - long-term debt	-	-	94,489	-	94,489
Total Current Liabilities	<u>73,008</u>	<u>34,000</u>	<u>3,304,542</u>	<u>66,909</u>	<u>3,478,459</u>
Long-Term Debt (net of current portion):					
Revenue bonds payable	-	-	3,389,123	-	3,389,123
Net pension liability	195,769	238,041	215,848	-	649,658
Compensated absences	1,272	2,866	2,902	-	7,040
Total Long-Term Debt	<u>197,041</u>	<u>240,907</u>	<u>3,607,873</u>	<u>-</u>	<u>4,045,821</u>
Total Liabilities	<u>270,049</u>	<u>274,907</u>	<u>6,912,415</u>	<u>66,909</u>	<u>7,524,280</u>
Deferred Inflows of Resources					
Deferred inflows related to pensions	<u>20,523</u>	<u>24,958</u>	<u>22,625</u>	<u>-</u>	<u>68,106</u>
Net Position					
Net investment in capital assets	834,522	1,804,785	7,179,245	-	9,818,552
Restricted	38,272	5,806	208,516	25,625	278,219
Unrestricted	647,286	559,703	(193,875)	225,252	1,238,366
Total net position	<u>\$ 1,520,080</u>	<u>\$ 2,370,294</u>	<u>\$ 7,193,886</u>	<u>\$ 250,877</u>	<u>\$ 11,335,137</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, 2018

Operating Revenues:	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Charges for services	\$ 637,844	\$ 637,064	\$ 714,020	\$ 664,570	\$ 2,653,498
Other revenues	23,174	2,331	2,688	2,499	30,692
Total Operating Revenues	<u>661,018</u>	<u>639,395</u>	<u>716,708</u>	<u>667,069</u>	<u>2,684,190</u>
Operating Expenses:					
Salaries, wages and benefits	146,129	205,469	159,735	-	511,333
Office expenses and travel	180,581	146,670	145,000	145,000	617,251
Repairs and maintenance	5,709	5,602	9,141	-	20,452
Utilities	5,171	57,035	-	-	62,206
Contract services	12,714	16,033	-	506,392	535,139
Licenses and permits	31,807	31,288	35,772	-	98,867
Miscellaneous	2,606	3,018	-	-	5,624
Gas purchases	204,095	-	-	-	204,095
Service, supplies and other	104,723	67,295	229,282	-	401,300
Depreciation/amortization	56,960	138,837	93,093	-	288,890
Total Operating Expenses	<u>750,495</u>	<u>671,247</u>	<u>672,023</u>	<u>651,392</u>	<u>2,745,157</u>
Operating Income	<u>(89,477)</u>	<u>(31,852)</u>	<u>44,685</u>	<u>15,677</u>	<u>(60,967)</u>
Non-operating Revenues (Expenses):					
Investment income/(loss)	2,844	6,376	931	-	10,151
Interest expense and fiscal charges	-	-	(5,075)	-	(5,075)
Connection fees	16,506	10,641	-	-	27,147
Total Non-Operating Revenue (Expense)	<u>19,350</u>	<u>17,017</u>	<u>(4,144)</u>	<u>-</u>	<u>32,223</u>
Net Income before contributions and transfers	<u>(70,127)</u>	<u>(14,835)</u>	<u>40,541</u>	<u>15,677</u>	<u>(28,744)</u>
Capital grants	<u>-</u>	<u>-</u>	<u>4,938,249</u>	<u>-</u>	<u>4,938,249</u>
Net Income/(loss)	<u>(70,127)</u>	<u>(14,835)</u>	<u>4,978,790</u>	<u>15,677</u>	<u>4,909,505</u>
Total net position (deficit), beginning of year	1,590,171	2,385,081	2,215,052	235,200	6,425,504
Restatement adjustment	36	48	44	-	128
Total net position, end of year	<u>\$ 1,520,080</u>	<u>\$ 2,370,294</u>	<u>\$ 7,193,886</u>	<u>\$ 250,877</u>	<u>\$ 11,335,137</u>

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, 2018

	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 639,186	\$ 625,410	\$ 708,968	\$ 661,788	\$ 2,635,352
Cash received from customers, other	23,174	2,331	2,688	2,499	30,692
Cash paid to suppliers	(537,813)	(442,174)	(470,365)	(650,680)	(2,101,032)
Cash paid to employees	(167,440)	(235,862)	(176,562)	-	(579,864)
Net cash flows from operating activities	<u>(42,893)</u>	<u>(50,295)</u>	<u>64,729</u>	<u>13,607</u>	<u>(14,852)</u>
Cash Flows From Noncapital Financing Activities:					
Proceeds/Payments from/(to) other funds	-	-	182,782	-	182,782
Net cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>182,782</u>	<u>-</u>	<u>182,782</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(34,221)	(42,384)	(5,297,398)	-	(5,374,003)
Principal paid on long-term debt	-	(737,000)	(20,388)	-	(757,388)
Debt issues	-	-	3,504,000	-	3,504,000
Interest paid	-	-	(5,075)	-	(5,075)
Capital grants	-	-	1,778,935	-	1,778,935
Connection & impact fees	16,506	10,641	-	-	27,147
Net cash flows from capital and related financing activities	<u>(17,715)</u>	<u>(768,743)</u>	<u>(39,926)</u>	<u>-</u>	<u>(826,384)</u>
Cash Flows From Investing Activities:					
Investment income/(loss)	2,844	6,376	931	-	10,151
Net cash flows from investing activities	<u>2,844</u>	<u>6,376</u>	<u>931</u>	<u>-</u>	<u>10,151</u>
Net change in Cash and Cash Equivalents	(57,764)	(812,662)	208,516	13,607	(648,303)
Cash and Cash Equivalents, Beginning of Year	909,681	1,459,709	-	249,697	2,619,087
Cash and Cash Equivalents, End of Year	<u>\$ 851,917</u>	<u>\$ 647,047</u>	<u>\$ 208,516</u>	<u>\$ 263,304</u>	<u>\$ 1,970,784</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Net Operating Income	\$ (89,477)	\$ (31,852)	\$ 44,685	\$ 15,677	\$ (60,967)
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation/amortization	56,960	138,837	93,093	-	288,890
Pension/OPEB expense	(11,340)	(16,320)	(9,678)	-	(37,338)
Employer pension/OPEB contributions	(12,127)	(14,745)	(13,371)	-	(40,243)
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables/deferred charges	1,342	(11,654)	(5,052)	(2,782)	(18,146)
(Increase)/Decrease in prepaids/inventory	(2,604)	(51,114)	-	-	(53,718)
Increase/(Decrease) in accounts payable	12,197	(64,119)	(51,170)	18	(103,074)
Increase/(Decrease) in accrued liabilities	2,156	672	6,222	694	9,744
Net cash flows from operating activities	<u>\$ (42,893)</u>	<u>\$ (50,295)</u>	<u>\$ 64,729</u>	<u>\$ 13,607</u>	<u>\$ (14,852)</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Fiduciary Net Position
Court Agency Fund and Pension Trust Fund
June 30, 2018

	Magistrate Court Agency Fund	Volunteer Firefighters' Relief and Pension
ASSETS		
Cash and cash equivalents	\$ 829	\$ 267,043
Accounts receivable	-	4,181
Total assets and other debits	829	271,224
LIABILITIES		
Accrued liabilities	829	-
Total liabilities	829	-
NET POSITION		
Held in trust for pension benefits and other purposes	\$ -	\$ 271,224

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, 2018

	<u>Volunteer Firefighters' Relief and Pension</u>
Additions:	
Contributions:	
Employer	\$ 1,049
State fire tax	4,183
Plan members	<u>1,049</u>
Total Contributions	<u>6,281</u>
Investment Income:	
Interest earnings	<u>1,228</u>
Net Investment Income (Loss)	<u>1,228</u>
Total Additions	<u>7,509</u>
Deductions:	
Benefits	<u>2,873</u>
Loss on investments	<u>-</u>
Total Deductions	<u>2,873</u>
Net Increase (Decrease)	4,636
Net Position Held in Trust for Pension Benefits	
Beginning of Year	<u>266,588</u>
End of Year	<u><u>\$ 271,224</u></u>

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

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 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, 2018

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, 2018

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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

Property taxes, sales taxes, state shared revenue, 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.

Receivables and Payables

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

Inventories 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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

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.

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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

Pension and postemployment benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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, 2018

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, 2018

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.

Tax Abatements

The City has not entered into any tax abatement agreements and the City is not aware of any tax abatement agreements that have been entered into by other governments that would reduce the City's tax revenues.

Use of Estimates

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

New Pronouncements

For the year ended June 30, 2018, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 10).

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

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

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

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

Budgets and Budgetary Accounting

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.

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 3. Stewardship, Compliance and Accountability (Continued)

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, 2018, if any.

NOTE 4. Deposits and Investments

A reconciliation of total cash and cash equivalents to the government-wide statement of net position follows:

Cash and cash equivalents	\$ 3,931,457
Restricted cash and cash equivalents	278,219
Trust and agency fund cash	<u>267,872</u>
Total cash and equivalents	<u><u>\$ 4,477,548</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposits may not be returned. The City does not have a formal policy for custodial credit risk. As of June 30, 2018, cash on hand was \$1,570 and the carrying amount of the City's bank deposits was \$1,146,294. As of June 30, 2018, \$862,803 of the City's bank balance of \$4,542,894 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Investment Fund

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 4. Deposits and Investments (Continued)

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

As of June 30, 2018 the government had the following investments and maturities:

	<u>Fair Value</u>	<u>Quality Rating</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	\$ 1,570	N/A	N/A
Cash in bank	1,079,383	N/A	N/A
Investments:			
State Treasurer's Investment Pool	2,882,404	(1)	2.18 years
Money market funds	<u>514,190</u>	N/A	N/A
Total cash and investments	<u>\$ 4,477,548</u>		

(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.

(2) Interest rate risk is estimated using the weighted average days to maturity, when applicable.

Interest rate risk

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

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.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 5. Restricted Assets

Restricted assets at June 30, 2018 consisted of the following cash reserves:

Restricted Cash

Gas Fund - Customer Deposits	\$ 38,272
Water Fund - Debt Reserves and Customer Deposits	5,806
Sewer Fund - Debt Reserves and Customer Deposits	208,516
Refuse Fund - Customer Deposits	25,625
Total Restricted Cash	<u> \$ 278,219</u>

NOTE 6. Property Taxes Receivable

Property taxes receivable in the amount of \$33,797 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Unavailable revenue of \$33,191 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.

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CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 was as follows:

Governmental Activities:	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Capital assets, not being depreciated:				
Land	\$ 1,230,992	\$ 1	\$ (1)	\$ 1,230,992
Construction in progress	-	8,182	-	8,182
Total capital assets not being depreciated	<u>1,230,992</u>	<u>8,183</u>	<u>(1)</u>	<u>1,239,174</u>
Capital assets, being depreciated:				
Buildings and Improvements	6,249,873	-	-	6,249,873
Infrastructure	5,535,309	241,340	-	5,776,649
Furniture, Equipment, Vehicles	3,473,429	649,238	(86,650)	4,036,017
Total capital assets being depreciated	<u>15,258,611</u>	<u>890,578</u>	<u>(86,650)</u>	<u>16,062,539</u>
Less accumulated depreciation for:				
Buildings and Improvements	(2,879,318)	(176,451)	-	(3,055,769)
Infrastructure	(2,016,787)	(212,084)	-	(2,228,871)
Furniture, Equipment, Vehicles	(2,459,628)	(250,005)	86,650	(2,622,983)
Total accumulated depreciation	<u>(7,355,733)</u>	<u>(638,540)</u>	<u>86,650</u>	<u>(7,907,623)</u>
Total capital assets being depreciated, net	<u>7,902,878</u>	<u>252,038</u>	<u>-</u>	<u>8,154,916</u>
Governmental activities capital assets, net	<u>\$ 9,133,870</u>	<u>\$ 260,221</u>	<u>\$ (1)</u>	<u>\$ 9,394,090</u>

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

Governmental Activities:	
General government	\$ 137,592
Public safety	101,702
Highways and streets	243,400
Culture and recreation	154,371
Public works	1,475
Total depreciation expense - governmental activities	<u>\$ 638,540</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2018 was as follows:

Business Type Activities:	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Capital assets, not being depreciated:				
Land	\$ 151,578	\$ -	\$ -	\$ 151,578
Construction in progress	1,320,068	8,337,839	(21,843)	9,636,064
Total capital assets not being depreciated	<u>1,471,646</u>	<u>8,337,839</u>	<u>(21,843)</u>	<u>9,787,642</u>
Capital assets, being depreciated:				
Buildings and Improvements	21,800	-	-	21,800
System and Other Improvements	10,841,675	25,240	-	10,866,915
Furniture, Equipment, Vehicles	837,431	77,208	(6,763)	907,876
Total capital assets being depreciated	<u>11,700,906</u>	<u>102,448</u>	<u>(6,763)</u>	<u>11,796,591</u>
Less accumulated depreciation for:				
Buildings and Improvements	(21,800)	-	-	(21,800)
System and Other Improvements	(7,384,110)	(238,444)	-	(7,622,554)
Furniture, Equipment, Vehicles	(594,032)	(50,446)	6,763	(637,715)
Total accumulated depreciation	<u>(7,999,942)</u>	<u>(288,890)</u>	<u>6,763</u>	<u>(8,282,069)</u>
Total capital assets being depreciated, net	<u>3,700,964</u>	<u>(186,442)</u>	<u>-</u>	<u>3,514,522</u>
Business type activities capital assets, net	<u>\$ 5,172,610</u>	<u>\$ 8,151,397</u>	<u>\$ (21,843)</u>	<u>\$ 13,302,164</u>

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

Business-Type Activities:	
Gas	\$ 56,960
Water	138,837
Sewer	93,093
Total depreciation expense - business-type activities	<u>\$ 288,890</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 8. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2018.

Governmental activities:	Balance 6/30/17	Additions	Retirements	Balance 6/30/18	Current Portion
Revenue Obligation Bonds:					
2016 Refinancing Agreement	\$ 1,100,000	\$ -	\$ (294,000)	\$ 806,000	\$ 296,000
GADA Revenue Bonds,					
Series 2004A	125,000	-	(125,000)	-	-
Series 2007	205,000	-	(15,000)	190,000	15,000
Total Revenue Obligation Bonds	<u>1,430,000</u>	<u>-</u>	<u>(434,000)</u>	<u>996,000</u>	<u>311,000</u>
Other Obligations					
Net Pension Liability	5,564,670	149,626	-	5,714,296	-
Accrued Compensated Absences	123,847	60,000	(72,587)	111,260	65,000
Total Other Obligations	<u>5,688,517</u>	<u>209,626</u>	<u>(72,587)</u>	<u>5,825,556</u>	<u>65,000</u>
Total Governmental Activity					
Long-term Liabilities	<u>\$ 7,118,517</u>	<u>\$ 209,626</u>	<u>\$ (506,587)</u>	<u>\$ 6,821,556</u>	<u>\$ 376,000</u>
Business-type Activities:					
Revenue Obligation Bonds:					
Water Revenue Bonds, USDA/RD					
Series 2005	\$ 737,000	\$ -	\$ (737,000)	\$ -	\$ -
Total Revenue Obligation Bonds	<u>737,000</u>	<u>-</u>	<u>(737,000)</u>	<u>-</u>	<u>-</u>
Loans:					
USDA Promissory Note 92-02	-	2,005,000	(20,388)	1,984,612	54,225
USDA Promissory Note 92-04	-	1,499,000	-	1,499,000	40,264
Total Loans	<u>-</u>	<u>3,504,000</u>	<u>(20,388)</u>	<u>3,483,612</u>	<u>94,489</u>
Other Obligations;					
Net Pension Liability	720,160	-	(70,502)	649,658	-
Accrued Compensated Absences	14,259	11,000	(6,219)	19,040	12,000
Total Other Obligations	<u>734,419</u>	<u>11,000</u>	<u>(76,721)</u>	<u>668,698</u>	<u>12,000</u>
Total Business-type Activity					
Long-term Liabilities	<u>\$ 1,471,419</u>	<u>\$ 3,515,000</u>	<u>\$ (834,109)</u>	<u>\$ 4,152,310</u>	<u>\$ 106,489</u>
Total Long-term Debt	<u>\$ 8,589,936</u>	<u>\$ 3,724,626</u>	<u>\$ (1,340,696)</u>	<u>\$ 10,973,866</u>	<u>\$ 482,489</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 8. Long-Term Obligations (Continued)

Long-term debt consist of the following at June 30, 2018:

Revenue Obligation Bonds - 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	\$ 806,000
semiannual principal and interest installments, bearing interest at 4.0% to 5.0%, maturing in August 1, 2027	<u>190,000</u>
Total Bonds Payable	<u>996,000</u>

Loans - business-type:

Promissory Note with United States Department of Agriculture, due in monthly insallments of \$7,599, bearing interest at 2%, maturing in March, 2047	1,984,612
Promissory Note with United States Department of Agriculture, due in monthly insallments of \$5,682, bearing interest at 2%, maturing in March, 2047	<u>1,499,000</u>
Total Loans Payable	<u>3,483,612</u>

Total Bonds and Loans Payable	4,479,612
Net Pension Liabilities	6,363,954
Accrued Vacation and Comp Time Payable	<u>130,300</u>
Total Long-Term Debt	10,973,866
Less: Curent Portion	
Governmental Activities	(376,000)
Business-type Activities	<u>(106,489)</u>
Net Long-Term Debt	<u>\$ 10,491,377</u>

Debt service requirements for bonds payable are as follows:

Fiscal Period Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 311,000	\$ 18,927	\$ 94,489	\$ 64,883
2020	318,000	13,637	92,427	66,945
2021	222,000	8,714	94,293	65,079
2022	20,000	6,181	96,195	63,177
2023	20,000	5,356	98,137	61,235
2024-2028	105,000	12,848	518,208	275,648
2029-2033	-	-	575,978	220,882
2034-2038	-	-	636,501	160,357
2039-2043	-	-	703,382	93,477
2044-2047	-	-	<u>574,002</u>	<u>22,078</u>
Total	<u>\$ 996,000</u>	<u>\$ 65,663</u>	<u>\$ 3,483,612</u>	<u>\$ 1,093,761</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Interfund Transactions and Balances

The composition of interfund receivables and payables balances as of June 30, 2018 follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 162,114	\$ -
Sewer Fund	-	133,891
Non-major - Grants Fund	-	28,223
Total	\$ 162,114	\$ 162,114

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.

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. For the fiscal year ended June 30, 2018 there were no interfund transfers.

NOTE 10. Pensions and Other Postemployment Benefits

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, 2018, the City reported the following aggregate amounts related to pensions and other post employment benefits (OPEB) for plans to which it contributes:

Statement of Net Position and Statement of Activities	ASRS	PSPRS	Combined Total	Governmental Activities	Business-Type Activities
Net pension/OPEB asset	\$ 9,347	\$ 31,121	\$ 40,468	\$ 38,169	\$ 2,299
Net pension/OPEB liabilities	2,641,964	3,721,990	6,363,954	5,714,296	649,658
Deferred outflows of resources	316,063	591,726	907,789	833,617	74,172
Deferred inflows of resources	276,768	21,790	298,558	230,452	68,106
Pension/OPEB expense	15,241	586,526	601,767	598,826	2,941

The City reported \$441,671 of pension and OPEB 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, 2018

NOTE 10. Pensions and Other Postemployment Benefits (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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 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 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 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 9.49 percent (9.26 percent for retirement, 0.1 percent for health insurance premium benefit, and 0.13 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS would typically fill.

The City's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were \$173,131, \$6,989, and \$2,541 respectively.

Liability/Asset – At June 30, 2018, the City reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB liability.

	Net pension/OPEB (asset) liability
Pension	\$ 2,635,806
Health insurance premium benefit	(9,347)
Long-term disability	6,158

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset and net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

The City's proportion of the net asset or net 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, 2017. The City's proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	Proportion June 30, 2016	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.017200%	0.016920%	-0.000280%
Health insurance premium benefit	0.017170%	0.017170%	0.000000%
Long-term disability	0.016991%	0.016990%	-0.000001%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's net asset and net liabilities as a result of these changes is not known.

Expense – For the year ended June 30, 2018, the City recognized pension and OPEB expense as follows:

	Pension/OPEB Expense
Pension	\$ 6,489
Health insurance premium benefit	5,467
Long-term disability	3,285

Deferred outflows/inflows of resources – At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-Term Disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 79,036	\$ -	\$ -	\$ -	\$ -
Changes of assumptions or other inputs	114,479	78,815	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	18,923	-	-	10,525	-	921
Changes in proportion and differences between contributions and proportionate share of contributions	-	107,458	-	12	-	1
Contributions subsequent to the measurement date	173,131	-	6,989	-	2,541	-
Total	\$ 306,533	\$ 265,309	\$ 6,989	\$ 10,537	\$ 2,541	\$ 922

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2019	\$ (184,260)	\$ (2,634)	\$ (231)
2020	83,549	(2,634)	(230)
2021	29,436	(2,634)	(230)
2022	(60,632)	(2,635)	(231)
2023	-	-	-
Thereafter	-	-	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75% for pension/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, 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 8.7 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:

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

Expected Return Arithmetic Basis

Asset Class	Target Asset Allocation	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real Estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 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/OPEB liability.

Sensitivity of the proportionate share of the net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the City's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension/OPEB (asset) 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 liability	\$ 3,383,103	\$ 2,635,806	\$ 2,011,376
Net insurance premium benefit liability (asset)	15,523	(9,347)	(30,483)
Net long-term disability liability	7,364	6,158	5,136

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan description – The City contributes to the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers agent and costsharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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.

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 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, 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 4.0% 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%	1.5% to 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	

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

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, 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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

Employees covered by benefit terms – At June 30, 2018, the following employees were covered by the agent pension plans' benefit terms:

PSPRS - Police	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	9	9
Inactive employees entitled to but not yet receiving benefits	1	0
Active employees	9	9
Total	19	18

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. Contribution rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active member - Pension	City - Pension	City-Health insurance premium
PSPRS Police	7.65-11.65%	65.16%	0.00%
PSPRS Tier 3 risk pool	9.94%	9.68%	0.26%

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

Also, statute required the City to contribute at the actuarially determined rate of 9.68% of the annual covered payroll of City police employees who were PSPRS Tier 3 Risk Pool members, in addition to the City's required contributions to the PSPRS Tier 3 Risk Pool for these City police employees.

In addition, statute required the City to contribute at the actuarially determined rate of 62.89% for police of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the PSPRS would typically fill.

The City's contributions to the plans for the year ended June 30, 2018, were:

PSPRS - Police	<u>Pension</u>	<u>Health insurance premium benefit</u>
PSPRS	\$ 303,180	\$ 513
PSPRS Tier 3 risk pool	-	-

During fiscal year 2018, the City paid for PSPRS pension and OPEB contributions 100% from the general fund.

Liability (Asset) – At June 30, 2018, the City reported the following assets and liabilities:

	<u>Net pension (asset) liability</u>	<u>Net OPEB (asset) liability</u>
PSPRS Police	\$ 3,721,990	\$ (31,121)

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/ not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.40 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. 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%	7.60%
Non-U.S. Equity	14.00%	8.70%
Private Equity	12.00%	6.75%
Fixed Income	5.00%	1.25%
Credit Opportunities	16.00%	5.83%
Absolute Return	2.00%	3.75%
GTAA	10.00%	3.96%
Real Assets	9.00%	4.52%
Real Estate	10.00%	3.75%
Risk Parity	4.00%	5.00%
Short Term Inv	2.00%	0.25%
Total	<u>100.00%</u>	

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

Discount Rate – At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liability was 7.40 percent, which was a decrease of .1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine this 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Changes in the Net Pension Liability

PSPRS-Police	Pension			Health insurance premium benefit		
	Increase (decrease)			Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 5,464,094	\$ 1,955,517	\$ 3,508,577	\$ 100,711	\$ 121,610	\$ (20,899)
Changes for the year:						
Service cost	115,328	-	115,328	2,659	-	2,659
Interest on total pension/OPEB liability	402,105	-	402,105	7,469	-	7,469
Changes of benefit terms	75,847	-	75,847	79	-	79
Difference between expected and actual experience in the measurement of the pension/OPEB liability	(22,357)	-	(22,357)	(2,750)	-	(2,750)
Changes of assumptions	169,783	-	169,783	(2,840)	-	(2,840)
Contributions - employer	-	243,206	(243,206)	-	853	(853)
Contributions - employee	-	55,762	(55,762)	-	-	-
Net investment income	-	230,739	(230,739)	-	14,111	(14,111)
Benefit payments, including refunds of employee contributions	(320,704)	(320,704)	-	(4,920)	(4,920)	-
Plan administrative expenses	-	(2,442)	2,442	-	(125)	125
Other changes*	-	28	(28)	-	-	-
Net changes	420,002	206,589	213,413	(303)	9,919	(10,222)
Balances at June 30, 2018	\$ 5,884,096	\$ 2,162,106	\$ 3,721,990	\$ 100,408	\$ 131,529	\$ (31,121)

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves.

Sensitivity of the City’s net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the City's net pension/OPEB (assets) liabilities calculated using the discount rate of 7.4%, as well as what the City’s net pension/OPEB (assets) liabilities would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.40%)	Discount Rate (7.40%)	1% Increase (8.40%)
PSPRS-Police			
Net pension (asset) / liability	\$ 4,493,421	\$ 3,721,990	\$ 3,091,399
Net OPEB (asset)/ liability	(19,717)	(31,121)	(40,687)

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Pensions and Other Postemployment Benefits (Continued)

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

Expense – For the year ended June 30, 2018, the City recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	\$ 587,366	\$ (840)

Deferred outflows/inflows of resources – At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

PSPRS - Police	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	Differences between expected and actual experience	\$ 32,379	\$ 17,379	\$ -
Changes in assumptions	246,904	-	-	2,241
Net difference between projected and actual earnings on pension/OPEB plan investments	28,364	-	(4,118)	-
Contributions subsequent to the measurement date	303,180	-	513	-
Total	\$ 610,827	\$ 17,379	\$ (3,605)	\$ 4,411

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	PSPRS - Police	
	Pension	Health Insurance Premium Benefit
2019	\$ 99,502	\$ (2,208)
2020	115,780	(2,208)
2021	75,869	(2,208)
2022	(883)	(1,905)
2023	-	-
Thereafter	-	-

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2018

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. Commitments and Contingencies

The City entered into a construction contract in March 2017 for the construction of a new waste water treatment and collection facility totaling \$13,175,000. At year end June 30, 2018 the City had the following commitments related to this project:

PCL	\$ 6,312,271
Wilson Engineers	<u>278,379</u>
Total	<u><u>\$ 6,590,650</u></u>

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, 2018

NOTE 14. Subsequent Events

The City obtained additional debt with United States Department of Agriculture amounting to \$1,200,000 to complete the construction of a new wastewater treatment and collection facility. Completion date of the facility is expected in March 2019. As a result of the new debt, sewer rates were raised 8% as of September 1, 2018. Once the new facility is completed, there will be costs incurred to drain the current lagoons which costs are currently undeterminable.

NOTE 15. Restatement Adjustment

As mentioned in Note 1 to the financial statements, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. This resulted in a restatement of beginning net position as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Restatement adjustment - implementation of GASB 75:					
Net OPEB liability (measurement date as of June 30, 2016)	\$ 12,700	\$ (2,872)	\$ (866)	\$ (1,063)	\$ (943)
Deferred outflows - contributions made during fiscal year 2017	9,409	2,997	904	1,109	984
Total Restatement Adjustment	<u>\$ 22,109</u>	<u>\$ 125</u>	<u>\$ 38</u>	<u>\$ 46</u>	<u>\$ 41</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2018

ASRS - Pension	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.016920%	0.017200%	1.835000%	1.883500%
Proportionate share of the net pension liability (asset)	\$ 2,635,806	\$ 2,776,253	\$ 2,857,917	\$ 2,786,895
Covered payroll	\$ 1,591,123	\$ 1,559,729	\$ 1,634,592	\$ 1,720,605
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	165.66%	178.00%	174.84%	161.97%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

Note: In accordance with GASB 68, which was implemented in fiscal year 2015, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the OPEB Liability
June 30, 2018

ASRS - Health insurance premium benefit	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.017170%	0.017170%
Proportionate share of the net OPEB (asset)	\$ (9,347)	\$ 4,965
Covered payroll	\$ 1,591,123	\$ 1,559,729
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.59%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	98.02%
ASRS - Long-term disability	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.016990%	0.016991%
Proportionate share of the net OPEB (asset)	\$ 6,158	\$ 6,106
Covered payroll	\$ 1,591,123	\$ 1,559,729
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.39%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	85.17%

Note: In accordance with GASB 75, employers will need to disclose a 10-year history for the OPEB schedules above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2018

PSPRS Police - Pension	Reporting Fiscal Year			
	(Measurement Date)			
	2018	2017	2016	2015
	(2017)	(2016)	(2015)	(2014)
Total pension liability				
Service cost	\$ 115,328	\$ 94,769	\$ 86,888	\$ 89,382
Interest on total pension liability	402,105	389,979	374,632	299,250
Changes of benefit terms	75,847	(46,008)	-	141,884
Difference between expected and actual experience of the total net pension liability	(22,357)	52,420	11,324	23,608
Changes of assumptions	169,783	204,433	-	663,809
Benefit payments, including refunds of employee contributions	(320,704)	(303,991)	(258,577)	(254,246)
Net change in total pension liability	420,002	391,602	214,267	963,687
Total pension liability - beginning	5,464,094	5,072,492	4,858,225	3,894,538
Total pension liability - ending (a)	\$ 5,884,096	\$ 5,464,094	\$ 5,072,492	\$ 4,858,225
Plan fiduciary net position				
Contributions - employer	\$ 243,206	\$ 268,467	\$ 193,052	\$ 148,617
Contributions - employee	55,762	55,731	58,589	49,893
Net investment income	230,739	11,329	68,949	232,082
Benefit payments, including refunds of employee contributions	(320,704)	(303,991)	(258,577)	(254,246)
Pension plan administrative expenses	(2,442)	(2,030)	(2,059)	-
Other (net transfer)	28	2,670	(16,099)	(1,869)
Net change in plan fiduciary net position	206,589	32,176	43,855	174,477
Plan fiduciary net position - beginning	1,955,517	1,923,341	1,879,486	1,705,009
Plan fiduciary net position - ending (b)	\$ 2,162,106	\$ 1,955,517	\$ 1,923,341	\$ 1,879,486
Net pension liability - ending (a) - (b)	\$ 3,721,990	\$ 3,508,577	\$ 3,149,151	\$ 2,978,739
Plan fiduciary net position as a percentage of the total pension liability	36.74%	35.79%	37.92%	38.69%
Covered payroll	\$ 501,643	\$ 474,320	\$ 548,341	\$ 439,667
Net pension liability as a percentage of covered payroll	741.96%	739.71%	574.31%	677.50%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2018

PSPRS Police Health Insurance Premium Benefit	Reporting Fiscal Year (Measurement Date)
	2018 (2017)
Total OPEB liability	
Service cost	\$ 2,659
Interest on total OPEB liability	7,469
Changes of benefit terms	79
Difference between expected and actual experience of the total net OPEB liability	(2,750)
Changes of assumptions or other inputs	(2,840)
Benefit payments	(4,920)
Net change in total OPEB liability	(303)
Total OPEB liability - beginning	100,711
Total OPEB liability - ending (a)	\$ 100,408
Plan fiduciary net position	
Contributions - employer	\$ 853
Net investment income	14,111
Benefit payments	(4,920)
Administrative expense	(125)
Other changes	-
Net change in plan fiduciary net position	9,919
Plan fiduciary net position - beginning	121,610
Plan fiduciary net position - ending (b)	\$ 131,529
Net OPEB liability - ending (a) - (b)	\$ (31,121)
Plan fiduciary net position as a percentage of the total OPEB liability	130.99%
Covered payroll	\$ 501,643
Net OPEB (asset) liability as a percentage of covered payroll	-6.20%

Note: In accordance with GASB 75, employers will need to disclose a 10-year history for the OPEB schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Pension/OPEB Contributions
June 30, 2018

ASRS - Pension	Reporting Fiscal Year			
	2018	2017	2016	2015
Contractually required contribution	\$ 173,131	\$ 177,906	\$ 169,230	\$ 181,666
Contributions in relation to the contractually required contribution	\$ (173,131)	\$ (177,906)	\$ (169,230)	\$ (181,666)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,501,445	\$ 1,591,123	\$ 1,559,729	\$ 1,634,592
Contributions as a percentage of covered payroll	11.53%	11.18%	10.85%	11.11%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Pension/OPEB Contributions
June 30, 2018

ASRS - Health insurance premium benefit	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 6,989	\$ 9,242
Contributions in relation to the contractually required contribution	(6,989)	(9,242)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 1,501,445	\$ 1,591,123
Contributions as a percentage of covered payroll	0.47%	0.58%
 ASRS - Long-term disability	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 2,541	\$ 2,311
Contributions in relation to the contractually required contribution	(2,541)	(2,311)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 1,501,445	\$ 1,591,123
Contributions as a percentage of covered payroll	0.17%	0.15%

Note: In accordance with GASB 75, employers will need to disclose a 10-year history for the OPEB schedules above. Additional information will be displayed as it becomes available .

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Schedule of Pension/OPEB Contributions
June 30, 2018

PSPRS Police-Pensions	Reporting Fiscal Year				
	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 303,180	\$ 243,206	\$ 268,467	\$ 193,052	\$ 148,617
Contributions in relation to the actuarially determined contribution	\$ (303,180)	\$ (243,206)	\$ (268,467)	\$ (193,052)	\$ (148,617)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 597,515	\$ 501,643	\$ 474,320	\$ 548,341	\$ 439,667
Contributions as a percentage of covered payroll	50.74%	48.48%	56.60%	35.21%	33.80%

Note: In accordance with GASB 68, employers will need to disclose a 10-year history for the pension schedule above. Additional information will be displayed as it becomes available

PSPRS Police Health Insurance Premium Benefit	Reporting Fiscal Year	
	2018	2017
Actuarially determined contribution	\$ 513	\$ 853
Contributions in relation to the actuarially determined contribution	\$ (513)	\$ (853)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 597,515	\$ 501,643
Contributions as a percentage of covered payroll	0.09%	0.17%

Note: In accordance with GASB 75, employers will need to disclose a 10-year history for the OPEB schedule above. Additional information will be displayed as it becomes available.

See accompanying notes to pension/OPEB plan schedules.

CITY OF WILLCOX, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2018

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	Age Entry Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	20 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return decreased from 8% to 7.85%,
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5% - 8.5% to 4.0%-8.0%. 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 2014 actuarial valuation, wage growth decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth 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
Notes to Pension/OPEB Plan Schedules
June 30, 2018

Note 2. Factors that Affect the Identification of Trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

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, 2018

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property tax	\$ 78,302	\$ 78,302	\$ 78,042	\$ (260)
City sales tax	1,445,916	1,445,916	1,506,097	60,181
Room occupancy tax	159,215	159,215	188,421	29,206
Law agency tax	-	1,547	-	(1,547)
Franchise taxes	217,157	217,157	229,751	12,594
Total Taxes	<u>1,900,590</u>	<u>1,902,137</u>	<u>2,002,311</u>	<u>100,174</u>
Licenses, Permits and Fees:				
Liquor licenses	2,270	2,270	2,000	(270)
Business licenses	6,000	6,000	6,082	82
Refuse hauler licenses	15,821	15,821	13,253	(2,568)
Dog licenses	245	245	310	65
Cemetery fees	21,359	21,359	26,341	4,982
Building permits	15,084	15,084	20,089	5,005
Total Licenses, Permits and Fees	<u>60,779</u>	<u>60,779</u>	<u>68,075</u>	<u>7,296</u>
Intergovernmental:				
State revenue sharing	447,364	447,364	436,950	(10,414)
Auto lieu taxes	175,364	175,364	181,340	5,976
State sales taxes	336,276	336,276	337,174	898
Total Intergovernmental	<u>959,004</u>	<u>959,004</u>	<u>955,464</u>	<u>(3,540)</u>
Charges for Services:				
Rents	11,400	11,400	8,563	(2,837)
Swimming pool fees	12,945	12,945	11,370	(1,575)
Golf course	167,727	167,727	150,961	(16,766)
School resource officer	130,183	130,183	129,441	(742)
Total Charges for Services	<u>322,255</u>	<u>322,255</u>	<u>300,335</u>	<u>(21,920)</u>
Fines and Forfeitures:				
Fines & forfeitures	12,578	12,578	12,689	111
Total Fines and Forfeitures	<u>12,578</u>	<u>12,578</u>	<u>12,689</u>	<u>111</u>
Interest	<u>12,000</u>	<u>12,000</u>	<u>6,464</u>	<u>(5,536)</u>
Other Revenues:				
Miscellaneous	58,637	58,637	58,367	(270)
Total Other Revenues	<u>58,637</u>	<u>58,637</u>	<u>58,367</u>	<u>(270)</u>
TOTAL REVENUES	<u>\$ 3,325,843</u>	<u>\$ 3,327,390</u>	<u>\$ 3,403,705</u>	<u>\$ 76,315</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, 2018(Continued)

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
General Government:				
Mayor & Council	\$ 40,710	\$ 40,710	\$ 39,221	\$ 1,489
Administrative & Finance	636,291	636,291	532,817	103,474
Total General Government	<u>677,001</u>	<u>677,001</u>	<u>572,038</u>	<u>104,963</u>
Public Safety:				
Public Safety Administration	1,354,467	1,354,467	975,435	379,032
Communications	321,582	321,582	308,784	12,798
Magistrate	140,584	140,584	117,846	22,738
Fire	580,621	580,621	414,862	165,759
Animal Control	115,265	115,265	109,101	6,164
Building Inspection	74,327	74,327	74,317	10
Total Public Safety	<u>2,586,846</u>	<u>2,586,846</u>	<u>2,000,345</u>	<u>586,501</u>
Culture and Recreation:				
Golf Course	221,877	221,877	200,119	21,758
Library	219,303	219,303	147,860	71,443
Parks & Recreation	420,924	420,924	422,411	(1,487)
Swimming Pool	145,820	145,820	103,706	42,114
Community Programs	123,263	123,263	95,317	27,946
Total Culture and Recreation	<u>1,131,187</u>	<u>1,131,187</u>	<u>969,413</u>	<u>161,774</u>
Public Works				
Public Works Administration	48,122	48,122	23,584	24,538
Cemetery	54,519	54,519	56,500	(1,981)
Central Garage	19,714	19,714	17,238	2,476
Total Public Works	<u>122,355</u>	<u>122,355</u>	<u>97,322</u>	<u>25,033</u>
TOTAL EXPENDITURES	<u>4,517,389</u>	<u>4,517,389</u>	<u>3,639,118</u>	<u>878,271</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,191,546)</u>	<u>(1,189,999)</u>	<u>(235,413)</u>	<u>954,586</u>
Other Financing Sources (Uses):				
Transfer from Gas fund	145,000	145,000	-	(145,000)
Transfer from Water fund	145,000	145,000	-	(145,000)
Transfer from Sewer fund	145,000	145,000	-	(145,000)
Transfer from Refuse fund	145,000	145,000	-	(145,000)
Sale of general capital assets	4,000	4,000	7,949	3,949
Total Other Financing Sources (Uses)	<u>584,000</u>	<u>584,000</u>	<u>7,949</u>	<u>(576,051)</u>
Net change in fund balance	(607,546)	(605,999)	(227,464)	378,535
Fund Balance, Beginning of Year	<u>1,679,556</u>	<u>1,679,556</u>	<u>1,679,556</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,072,010</u>	<u>\$ 1,073,557</u>	<u>\$ 1,452,092</u>	<u>\$ 378,535</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, 2018

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
City sales tax	\$ 712,168	\$ 712,168	\$ 753,049	\$ 40,881
Intergovernmental Revenue:				
Highway user revenues	282,478	282,478	299,948	17,470
Interest	2,000	2,000	1,384	(616)
Total Revenues	996,646	996,646	1,054,381	57,735
EXPENDITURES:				
Streets and Highways:				
Salaries & wages	184,717	184,717	183,425	1,292
Benefits	103,098	103,098	100,751	2,347
Service, supplies and other	392,432	392,432	343,622	48,810
Capital outlay	6,000	6,000	92,596	(86,596)
Debt Service:				
Principal	294,000	294,000	294,000	-
Interest	16,399	16,399	16,399	-
Total Expenditures	996,646	996,646	1,030,793	(34,147)
Excess of Revenues Over (Under) Expenditures	-	-	23,588	23,588
Other Financing sources / (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources / (Uses)	-	-	-	-
Net change in fund balance	-	-	23,588	23,588
Fund Balance, Beginning of Year	490,898	490,898	490,898	-
Fund Balance, End of Year	\$ 490,898	\$ 490,898	\$ 514,486	\$ 23,588

**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.

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, 2018

	Special Revenue Funds		Capital Project Funds		Total Non-major Funds
	Grants	Special Revenue	Capital Projects	Debt Service	
Assets					
Cash and cash equivalents	\$ -	\$ 50,334	\$ 43,510	\$ 178,475	\$ 272,319
Receivables:					
Property taxes	-	-	-	22,733	22,733
Intergovernmental	49,870	-	-	-	49,870
Other	-	198	-	3,825	4,023
Total Assets	49,870	50,532	43,510	205,033	348,945
Liabilities					
Liabilities:					
Accounts payable	1,647	2,044	-	-	3,691
Due to other funds	28,223	-	-	-	28,223
Unearned revenue	20,000	-	-	-	20,000
Total Liabilities	49,870	2,044	-	-	51,914
Deferred Inflows of Resources					
Unavailable revenue-property taxes	-	-	-	20,284	20,284
Total deferred inflows of resources	-	-	-	20,284	20,284
Fund Balances					
Restricted for:					
Debt service	-	-	-	184,749	184,749
Other purposes	-	48,488	-	-	48,488
Capital projects	-	-	43,510	-	43,510
Total Fund Balances (deficits)	-	48,488	43,510	184,749	276,747
Total liabilities, deferred inflows of resources, and fund balances	\$ 49,870	\$ 50,532	\$ 43,510	\$ 205,033	\$ 348,945

CITY OF WILLCOX, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

REVENUES	Special Revenue Funds				Total Non-major Funds
	Grants	Special Revenue	Capital Projects	Debt Service	
Taxes	\$ -	\$ -	\$ -	\$ 161,164	\$ 161,164
Intergovernmental revenue	115,148	-	-	-	115,148
Interest	-	-	4	-	4
Other revenues	-	35,989	-	-	35,989
Total Revenues	115,148	35,989	4	161,164	312,305
EXPENDITURES					
Current:					
Public Safety	26,691	10,597	-	-	37,288
Community Development	88,457	-	-	-	88,457
Culture and Recreation	-	8,178	-	-	8,178
Capital Outlay	-	11,709	-	-	11,709
Debt Service:					
Principal	-	-	-	140,000	140,000
Interest	-	-	-	12,083	12,083
Total Expenditures	115,148	30,484	-	152,083	297,715
Net change in fund balances	-	5,505	4	9,081	14,590
Fund Balances, Beginning of Year	-	42,983	43,506	175,668	262,157
Fund Balances, End of Year	\$ -	\$ 48,488	\$ 43,510	\$ 184,749	\$ 276,747

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, 2018

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 710,100	\$ 710,100	\$ 115,148	\$ (594,952)
Total Revenues	710,100	710,100	115,148	(594,952)
EXPENDITURES:				
Public Safety	710,100	710,100	26,691	683,409
Community Development	-	-	88,457	(88,457)
Capital outlay	-	-	-	-
Total Expenditures	710,100	710,100	115,148	594,952
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance (deficit), End of Year	\$ -	\$ -	\$ -	\$ -

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, 2018

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Contributions and other	\$ 26,600	\$ 26,600	\$ 35,989	\$ 9,389
Total Revenues	26,600	26,600	35,989	9,389
EXPENDITURES:				
Culture and recreation	6,538	6,538	8,178	(1,640)
Public safety	9,669	9,669	10,597	(928)
Capital outlay	19,638	19,638	11,709	7,929
Total Expenditures	35,845	35,845	30,484	5,361
Excess of Revenues Over (Under) Expenditures	(9,245)	(9,245)	5,505	14,750
Other Financing Sources (Uses):				
Transfers in	4,100	4,100	-	(4,100)
Net change in fund balance	(5,145)	(5,145)	5,505	10,650
Fund Balance, Beginning of Year	42,983	42,983	42,983	-
Fund Balance, End of Year	\$ 37,838	\$ 37,838	\$ 48,488	\$ 10,650

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Interest	-	-	4	4
	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
EXPENDITURES:				
Debt issue costs	-	-	-	-
Capital outlay	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	4	4
Fund Balance, Beginning of Year	<u>43,506</u>	<u>43,506</u>	<u>43,506</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 43,506</u>	<u>\$ 43,506</u>	<u>\$ 43,510</u>	<u>\$ 4</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 156,640	\$ 156,640	\$ 161,164	\$ 4,524
Total Revenues	<u>156,640</u>	<u>156,640</u>	<u>161,164</u>	<u>4,524</u>
EXPENDITURES:				
Allowance Uncollectible Tax				
Debt Service:	4,552	4,552	-	4,552
Principal	140,000	140,000	140,000	-
Interest	<u>12,088</u>	<u>12,088</u>	<u>12,083</u>	<u>5</u>
Total Expenditures	<u>156,640</u>	<u>156,640</u>	<u>152,083</u>	<u>4,557</u>
Net change in fund balance	-	-	9,081	9,081
Fund Balance, Beginning of Year	<u>175,668</u>	<u>175,668</u>	<u>175,668</u>	-
Fund Balance, End of Year	<u><u>\$ 175,668</u></u>	<u><u>\$ 175,668</u></u>	<u><u>\$ 184,749</u></u>	<u><u>\$ 9,081</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, 2018, 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 February 15, 2019.

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.

2014-001. Accounting Adjustments

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
Gilbert, Arizona
February 15, 2019



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, 2018, and have issued our report thereon dated February 15, 2019. 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, 2018.

The results of our auditing procedures disclosed instances of noncompliance, which are described in a separate schedule of findings and recommendations letter dated February 15, 2019 as items 2018-001 and 2018-002. Our opinion on compliance is not modified with respect to these matters.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the requirements. Accordingly, this report is not suitable to any other purpose.

HintonBurdick, PLLC

HintonBurdick, PLLC

Gilbert, Arizona

February 15, 2019



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