

CITY OF WILLCOX, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2010
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WILLCOX, ARIZONA

TABLE OF CONTENTS

Financial Section:

Report of Certified Public Accountants	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Fiduciary Net Assets – Court Agency and Pension Trust Funds.....	23
Statement of Changes in Fiduciary Net Assets - Pension Trust Fund	24
Notes to the Financial Statements.....	25
Required Supplementary Information – Public Safety Personnel Retirement System	48

CITY OF WILLCOX, ARIZONA

TABLE OF CONTENTS, CONTINUED

Required Supplementary Information and Individual Major Fund Statements:

Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – General Fund 50

Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – Highway User Special Revenue Fund 52

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet - Nonmajor Governmental Funds..... 54

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds..... 55

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Grants Special Revenue Fund..... 56

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Special Revenue Fund 57

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Capital Projects Fund 58

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Debt Service Fund 59

Other Communications from Independent Auditors:

Report on Compliance with Federal Laws and Regulations and Internal Controls 61

Report on Compliance with State Laws and Regulations 63



HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

MEMBERS:

CHAD B. ATKINSON
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
TODD B. FELTNER
BRENT R. HALL
TODD R. HESS
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
City Council
City of Willcox, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willcox, Arizona, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Willcox, Arizona's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of the City of Willcox, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the Public Safety Personnel Retirement System information and the budgetary information for the General fund and major special revenue funds is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as whole. The combining and individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Willcox. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in - relation to the basic financial statements taken as a whole.



Michael K. Spilker, CPA
October 29, 2010

CITY OF WILLCOX, ARIZONA
Management's Discussion and Analysis
June 30, 2010

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, 2010. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets (all funds Governmental and Business type) increased by \$196,611. Total Liabilities decreased by \$628,760 which resulted in total assets in excess of total liabilities (net assets) increasing by \$825,371 at the close of the fiscal year 2010.
- Net change in assets of Governmental Activities is \$174,943.
- Capital outlays for Governmental Activities (including repayment of debt) exceeded depreciation in the current year by \$282,403. The City continued the Public Safety/Council Chamber complex. Renovations were completed on the first planned phase of the City Library renovations project, and a second phase to add a Solarium Room is planned for FY11.
- Total business-type revenues exceeded total business-type expenses by \$650,428.
- Total Governmental expenses exceeded Governmental revenue by \$565,697.
- The General Fund reported expenses in excess of revenues (net of transfers) of \$231,043 (reduction in General Fund Balance).
- Actual General Fund resources received were \$82,739 (2.6%) less than the final Budget.
- Actual General Fund expenditures, excluding other financing uses, were \$516,712 (12.2%) less than the final Budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2.1 million or 57% of total General Fund FY 10 expenditures, (approximately 6 months of reserves), excluding transfers

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets 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 Assets 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 Assets 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 modified 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 assets and changes in them. Net assets, 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 assets 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 Assets 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. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets 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 Assets 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 Assets. 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 can not be used to finance operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$14.6 million as of June 30, 2010 as shown in the following condensed statement of net assets. The City has chosen to account for its water, sewer, gas, and refuse operations in enterprise funds which are shown as Business Activities.

City of Willcox, Arizona Statement of Net Assets

	Governmental activities		Business-type activities		Combined Total	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Current and other assets	\$ 2,841,938	\$ 3,491,905	\$ 3,082,466	\$ 2,730,616	\$ 5,924,404	6,222,521
Capital assets	10,247,991	9,965,589	4,674,338	4,462,012	14,922,329	14,427,601
Total assets	<u>13,089,929</u>	<u>13,457,494</u>	<u>7,756,804</u>	<u>7,192,628</u>	<u>20,846,733</u>	<u>20,650,122</u>
Long-term liabilities outstanding	3,719,907	4,086,345	1,644,453	1,706,437	5,364,360	5,792,782
Other liabilities	690,434	866,504	241,898	266,166	932,332	1,132,670
Total liabilities	<u>4,410,341</u>	<u>4,952,849</u>	<u>1,886,351</u>	<u>1,972,603</u>	<u>6,296,692</u>	<u>6,925,452</u>
Net assets:						
Invested in capital assets, net of related debt	6,117,556	5,376,916	2,967,902	2,696,121	9,085,458	8,073,037
Restricted	450,873	986,821	-	-	450,873	986,821
Unrestricted	2,111,159	2,140,908	2,902,551	2,523,904	5,013,710	4,664,812
Total net assets	<u>\$ 8,679,588</u>	<u>\$ 8,504,645</u>	<u>\$ 5,870,453</u>	<u>\$ 5,220,025</u>	<u>\$ 14,550,041</u>	<u>\$ 13,724,670</u>

Governmental Activities

The cost of all Governmental activities this year was \$4.9 million. As shown on the statement of Changes in Net Assets on the following page, \$120,771 of this cost was paid for by those who directly benefited from the programs and \$745,785 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$3.8 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 Assets

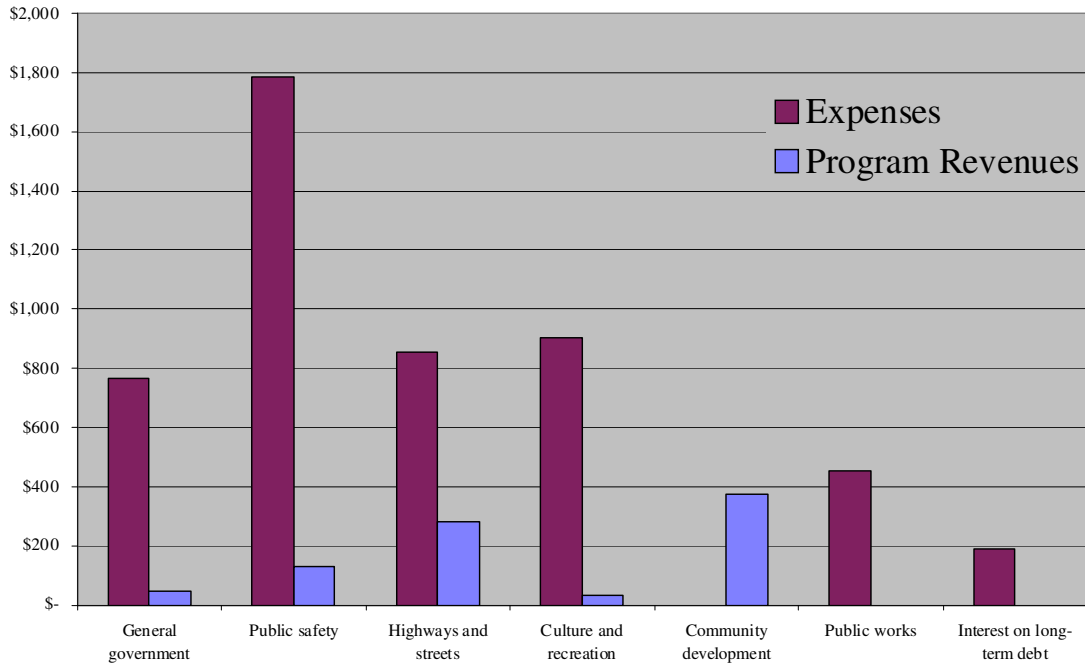
	Governmental activities		Business-type activities		Combined Total	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Revenues:						
Program revenues:						
Charges for services	\$ 120,771	\$ 147,246	\$ 3,196,917	\$ 3,055,387	\$ 3,317,688	\$ 3,202,633
Operating grants and contributions	362,059	540,852	-	-	362,059	540,852
Capital grants and contributions	383,726	206,481	19,192	7,403	402,918	213,884
General revenues:						
Sales taxes	2,341,298	2,716,472	-	-	2,341,298	2,716,472
Other taxes	851,805	900,578	-	-	851,805	900,578
State revenue sharing	501,594	581,918	-	-	501,594	581,918
Assessments	79,487	78,133	-	-	79,487	78,133
Other	10,867	48,993	9,557	17,954	20,424	66,947
Total revenues	<u>4,651,607</u>	<u>5,220,673</u>	<u>3,225,666</u>	<u>3,080,744</u>	<u>7,877,273</u>	<u>8,301,417</u>
Expenses:						
General government	768,967	914,307	-	-	768,967	914,307
Public safety	1,784,874	1,717,431	-	-	1,784,874	1,717,431
Highways and streets	853,247	838,919	-	-	853,247	838,919
Culture and recreation	901,862	947,176	-	-	901,862	947,176
Community development	-	53,738	-	-	-	53,738
Public works	451,914	528,765	-	-	451,914	528,765
Interest on long-term debt	186,250	203,651	-	-	186,250	203,651
Gas	-	-	698,393	691,644	698,393	691,644
Water	-	-	426,882	447,681	426,882	447,681
Sewer	-	-	504,428	464,389	504,428	464,389
Refuse	-	-	475,085	502,249	475,085	502,249
Total expenses	<u>4,947,114</u>	<u>5,203,987</u>	<u>2,104,788</u>	<u>2,105,963</u>	<u>7,051,902</u>	<u>7,309,950</u>
(Decrease)/Increase in net assets before transfers	(295,507)	16,686	1,120,878	974,781	825,371	991,467
Transfers	470,450	428,400	(470,450)	(428,400)	-	-
Net assets, beginning	<u>8,504,645</u>	<u>8,059,559</u>	<u>5,220,025</u>	<u>4,673,644</u>	<u>13,724,670</u>	<u>12,733,203</u>
Net assets, ending	<u>\$ 8,679,588</u>	<u>\$ 8,504,645</u>	<u>\$ 5,870,453</u>	<u>\$ 5,220,025</u>	<u>\$ 14,550,041</u>	<u>\$ 13,724,670</u>

Total governmental resources available during the year to finance governmental operations were \$8.7 million, consisting of Net assets at July 1, 2009 of \$8.5 million, Program revenues of \$866,556, Transfers of \$470,450, and General revenues of \$3.8 million, less total Governmental Activities expenses during the year of \$4.9 million; thus Governmental Net Assets were increased by \$174,943 to \$8.7 million.

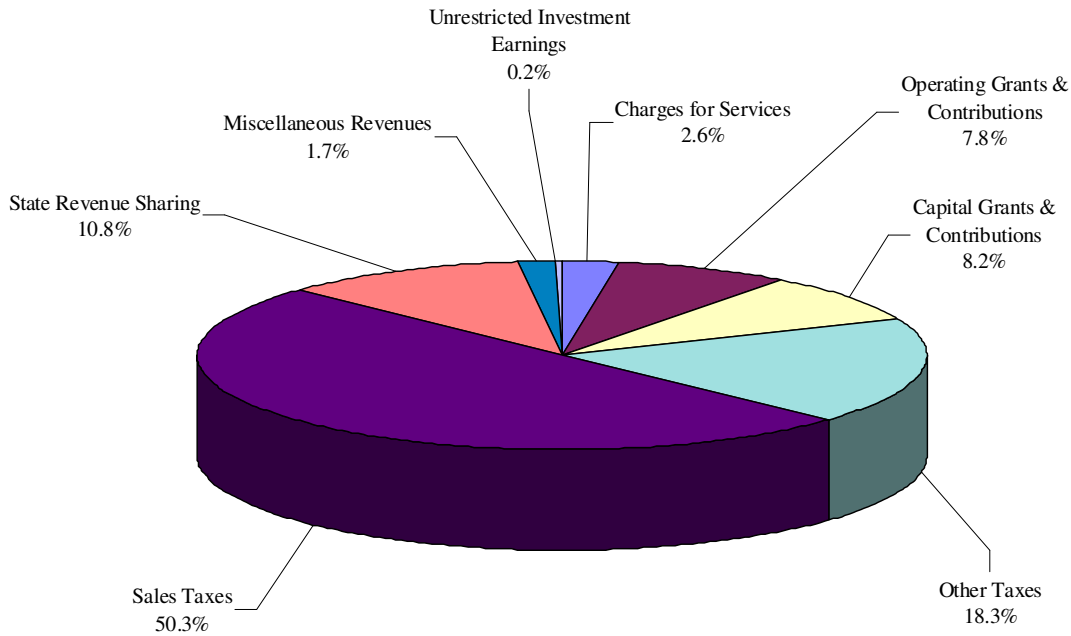
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities

(in Thousands)



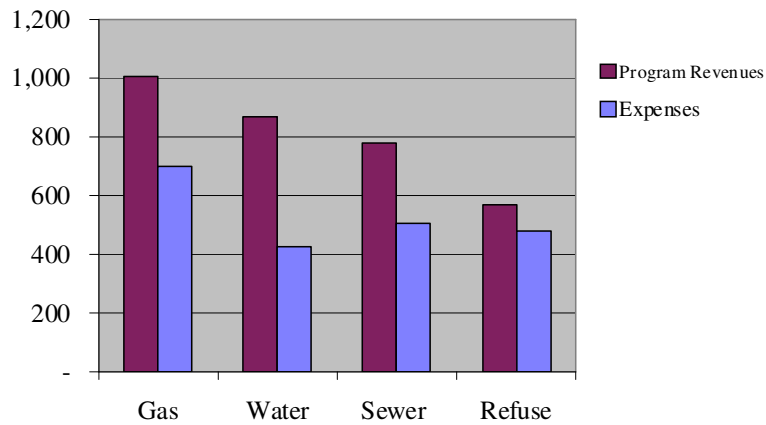
Revenue By Source - Governmental Activities



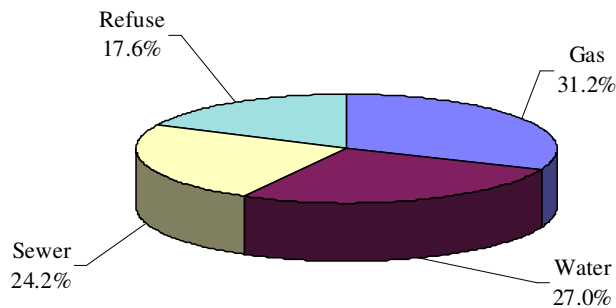
Business Type Activities

Net assets of the Business Type activities at June 30, 2010, as reflected in the Statement of Net Assets were \$5.9 million. As shown in the statement of Changes in Net Assets, the Total net assets at July 1, 2009 were \$5.2 million. Amounts paid by users of the system were \$3.2 million, \$17,954 was subsidized by capital grants and contributions, and interest earnings totaled \$9,557. The cost of providing all Proprietary (Business Type) activities this year was \$2.1 million. Transfers to governmental activities were \$470,450 and interest expense and fiscal charges were \$74,850. The Net Assets increased by \$650,428.

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



Revenue By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds

The focus of the City's governmental fund financial statements (16-18) 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 page 50 and 51.

For fiscal year ended June 30, 2010, the governmental funds reflect a combined fund balance of \$2,881,315. Of this, \$454,819 is reserved because it is not available for expenditure or is legally segregated for a specific future use. The remaining \$2,111,159 is classified as "Unreserved". 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. FY10 general fund revenues totaled \$3,533,028. Expenditures, before other financing sources and uses, totaled \$3,714,839. City sales tax revenue came in about 10% below projections. State sales tax revenues were about 5% less than State estimates, and Auto lieu taxes were \$7,294 over budget. Overall intergovernmental income was as anticipated. Room occupancy tax revenues of \$138,628 were about 8% less than projections; however, revenues picked up as the year progressed and have remained steady. Franchise fee income was about \$48,540 more than the amount budgeted and about \$6,440 less than the prior year. Building permits exceeded budgeted revenues by \$7,607, and fines and forfeitures revenue came in at \$21,242 over budget.

The Highway User Revenue Fund is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments, and required to be used for transportation purposes. The City also deposits 1% of the City enacted Sales tax (1/3 of the 3% total) to this fund. FY10 Revenues in this fund totaled \$969,744, while expenses totaled \$1,079,294. The fund transferred \$84,121 to the Grants Fund to be used for the City's match on the Ft. Grant Improvement Project and other street projects. HURF revenues from the State were below projections by \$28,678, and expenses exceeded budget by \$39,064. The net expenditures over revenues of \$120,382 were offset by use of fund balance. The HURF fund balance at the close of FY 10 is \$129,575. Long term projections show the payoff of fixed cost leases and bond payments which should make this fund balanced by 2014.

The non-major funds of the City consist of the Grants Special Revenue Fund, the Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund that services the long-term debt of the City.

The non-major funds are combined into one column on the governmental fund statements. On July 1, 2008 the City's Magistrate Court operations were turned over to the Cochise County JP4 Court and as active cases at the time of the change are resolved, activity in the fund will be reduced.

Proprietary Funds

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

Net assets of the Proprietary Funds were \$5,870,453 as of June 30, 2010. Operating revenues totaled \$3,196,917, while operating expenses totaled \$2,032,933, resulting in operating income of \$1,163,984. This income is reflective of a surplus in revenue for all of the proprietary funds, Gas, Water, Sewer and Refuse.

General Fund Budgetary Highlights

Actual revenues as shown on Page 46 were \$82,739 less than budgeted revenues. Revenues included City Sales Tax revenues of \$1,370,798, or \$153,622 less than those budgeted. Budgeted miscellaneous revenues included fund balance appropriations of \$615,784 of which \$231,043 was used. Expenditures, excluding transfers, were less than the General Fund appropriations at year-end by \$516,712. This difference was due to conservative spending. There were no budget amendments or supplemental appropriations made during the year to prevent budget overruns or to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2010, net capital assets of the government activities totaled \$10.2 million, and the net capital assets of the business-type activities totaled \$4.7 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. See note 7 to the financial statements.

Debt

At year-end, the City had \$4.1 million in governmental type debt, and \$1.7 million in proprietary debt. The debt is a liability of the government and amounts to \$1,195 per capita. During the current fiscal year, the City's total debt decreased by \$518,726, which consisted of retirements of \$591,734, and an increase of \$73,008 for the allowance for accrued compensated absences. See note 8 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

For the 2010-2011 fiscal year city budget, the City has projected an increase of 2% in general operating revenues and operating expenditures from the fiscal year 2009-2010 budgeted amounts. Due to conservative estimates and anticipation for a warm winter, the budgeted utility fund operating revenues are about 2% less than actual operations for fiscal year 2009-2010. Gas operating revenues are estimated to increase 2% in fiscal year 2011 due to anticipated higher costs for the purchase of natural gas to meet customer demands. There is an emphasis on infrastructure improvements which continues into 2011. In fiscal year 2010-2011 new and/or improved facilities for community programs, library, parks and streets are proposed in the capital expenditure program for approximately \$2.3 million, to be financed by grants and fund appropriations. Also, \$20 million is budgeted for capital improvements for utilities to be financed by grants and bonds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patrick McCourt, City

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

This page intentionally left blank

BASIC FINANCIAL STATEMENTS

CITY OF WILLCOX, ARIZONA
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,923,333	\$ 2,484,649	\$ 4,407,982
Receivables (net of allowance)	404,856	370,464	775,320
Inventory	-	110,369	110,369
Internal balances	107,396	(107,396)	-
Prepays	34,060	12,607	46,667
Deferred charges	-	31,253	31,253
Temporarily restricted assets:			
Cash and cash equivalents	372,293	180,520	552,813
Capital assets (net of accumulated depreciation):			
Land and improvements	1,238,102	184,425	1,422,527
Buildings and improvements	3,717,450	-	3,717,450
System and other improvements	-	4,345,759	4,345,759
Furniture, equipment and vehicles	968,245	144,154	1,112,399
Infrastructure	4,197,630	-	4,197,630
Construction in progress	126,564	-	126,564
Total Assets	<u>13,089,929</u>	<u>7,756,804</u>	<u>20,846,733</u>
Liabilities			
Accounts payable and other current liabilities	252,467	140,522	392,989
Deferred revenue	23,492	-	23,492
Customer deposits	-	39,393	39,393
Interest payable	3,947	-	3,947
Noncurrent liabilities:			
Due within one year	410,528	61,983	472,511
Due in more than one year	3,719,907	1,644,453	5,364,360
Total Liabilities	<u>4,410,341</u>	<u>1,886,351</u>	<u>6,296,692</u>
Net Assets			
Invested in capital assets, net of related debt	6,117,556	2,967,902	9,085,458
Restricted for:			
Debt service	155,392	-	155,392
Streets and other	229,364	-	229,364
Capital projects	66,117	-	66,117
Unrestricted	2,111,159	2,902,551	5,013,710
Total Net Assets	<u>\$ 8,679,588</u>	<u>\$ 5,870,453</u>	<u>\$ 14,550,041</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, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 768,967	\$ 33,615	\$ 12,538	\$ -	\$ (722,814)	\$ -	\$ (722,814)
Public safety	1,784,874	63,342	66,164	-	(1,655,368)	-	(1,655,368)
Highways and streets	853,247	-	283,181	-	(570,066)	-	(570,066)
Culture and recreation	901,862	23,814	176	9,325	(868,547)	-	(868,547)
Community development	-	-	-	374,401	374,401	-	374,401
Public works	451,914	-	-	-	(451,914)	-	(451,914)
Interest on long-term debt	186,250	-	-	-	(186,250)	-	(186,250)
Total governmental activities	4,947,114	120,771	362,059	383,726	(4,080,558)	-	(4,080,558)
Business-type activities:							
Gas	698,393	994,014	-	9,560	-	305,181	305,181
Water	426,882	725,321	-	141,556	-	439,995	439,995
Sewer	504,428	693,352	-	85,000	-	273,924	273,924
Refuse	475,085	567,306	-	-	-	92,221	92,221
Total business-type activities	2,104,788	2,979,993	-	236,116	-	1,111,321	1,111,321
General Revenues:							
Property taxes levied for general purposes					215,143	-	215,143
Sales taxes					2,341,298	-	2,341,298
Other taxes					636,662	-	636,662
State revenue sharing					501,594	-	501,594
Miscellaneous revenues					79,487	-	79,487
Unrestricted investment earnings					10,867	9,557	20,424
Transfers					470,450	(470,450)	-
Total general revenues & transfers					4,255,501	(460,893)	3,794,608
Change in net assets					174,943	650,428	825,371
Net assets - beginning					8,504,645	5,220,025	13,724,670
Net assets - ending					\$ 8,679,588	\$ 5,870,453	\$ 14,550,041

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

CITY OF WILLCOX, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2010

ASSETS	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,923,333	\$ -	\$ -	\$ 1,923,333
Receivables:				
Property taxes	9,242	-	19,254	28,496
Other	48,448	-	-	48,448
Intergovernmental	173,271	70,919	83,722	327,912
Due from other funds	146,773	-	-	146,773
Prepaid items	29,742	4,318	-	34,060
Restricted cash and investments	-	80,030	292,263	372,293
Total Assets	<u>\$ 2,330,809</u>	<u>\$ 155,267</u>	<u>\$ 395,239</u>	<u>\$ 2,881,315</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 79,408	\$ 16,237	\$ 14,887	\$ 110,532
Accrued liabilities	132,481	9,455	-	141,936
Due to other funds	-	-	39,377	39,377
Deferred revenue	7,761	-	15,731	23,492
Total Liabilities	<u>219,650</u>	<u>25,692</u>	<u>69,995</u>	<u>315,337</u>
Fund Balances:				
Reserved for:				
Roads and highways	-	129,575	-	129,575
Debt service	-	-	159,338	159,338
Other purposes	-	-	165,906	165,906
Unreserved/Undesignated	2,111,159	-	-	2,111,159
Total Fund Balances	<u>2,111,159</u>	<u>129,575</u>	<u>325,244</u>	<u>2,565,978</u>
Total Liabilities and Fund Balances	<u>\$ 2,330,809</u>	<u>\$ 155,267</u>	<u>\$ 395,239</u>	<u>\$ 2,881,315</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 Assets
June 30, 2010

Total governmental fund balances		\$ 2,565,978
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Governmental capital assets	\$ 14,119,042	
Accumulated Depreciation	<u>(3,871,051)</u>	10,247,991
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$ (3,830,000)	
Capital leases	(185,508)	
Compensated absences	(114,926)	
Accrued interest	<u>(3,947)</u>	<u>(4,134,381)</u>
Total net assets of governmental activities		<u><u>\$ 8,679,588</u></u>

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

CITY OF WILLCOX, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

REVENUES	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 1,897,850	\$ 685,398	\$ 150,458	\$ 2,733,706
Licenses, permits and fees	71,030		-	71,030
Intergovernmental revenue	961,859	283,181	426,476	1,671,516
Charges for services	17,868	-	-	17,868
Fines and forfeitures	28,592	-	-	28,592
Interest	8,774	1,165	928	10,867
Other revenues	81,755	-	36,274	118,029
Total Revenues	<u>3,067,728</u>	<u>969,744</u>	<u>614,136</u>	<u>4,651,608</u>
EXPENDITURES				
Current:				
General Government	660,200	-	52,113	712,313
Public Safety	1,771,686	-	-	1,771,686
Culture and Recreation	833,051	-	-	833,051
Streets and Highways	-	622,279	-	622,279
Public Works	449,902	-	-	449,902
Capital Outlay	-	25,789	682,485	708,274
Debt Service:				
Principal	-	300,000	104,000	404,000
Interest	-	131,626	54,624	186,250
Total Expenditures	<u>3,714,839</u>	<u>1,079,694</u>	<u>893,222</u>	<u>5,687,755</u>
Excess of Revenues Over (Under) Expenditures	<u>(647,111)</u>	<u>(109,950)</u>	<u>(279,086)</u>	<u>(1,036,147)</u>
Other Financing Sources (Uses):				
Transfers out	(49,232)	(84,121)	-	(133,353)
Transfers in	465,300	-	138,503	603,803
Total Other Financing Sources (Uses)	<u>416,068</u>	<u>(84,121)</u>	<u>138,503</u>	<u>470,450</u>
Net change in fund balances	(231,043)	(194,071)	(140,583)	(565,697)
Fund Balance, Beginning of Year	<u>2,342,202</u>	<u>323,646</u>	<u>465,827</u>	<u>3,131,675</u>
Fund Balance, End of Year	<u>\$ 2,111,159</u>	<u>\$ 129,575</u>	<u>\$ 325,244</u>	<u>\$ 2,565,978</u>

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

CITY OF WILLCOX, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds		\$ (565,697)
<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 capital outlays exceeded depreciation in the current period.</p>		
Capital Outlay	\$ 795,551	
Depreciation Expense	<u>(513,148)</u>	
		282,403
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds and is recorded as an expenditure, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		457,255
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>982</u>
Change in net assets of governmental activities		<u><u>\$ 174,943</u></u>

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

CITY OF WILLCOX, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2010

Assets	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Current Assets:					
Cash	\$ 861,340	\$ 1,072,327	\$ 533,418	\$ 17,564	\$ 2,484,649
Receivables (net of allowance)	57,374	73,407	65,251	48,488	244,520
Prepays	6,383	3,589	2,635	-	12,607
Due from other governments	-	125,944	-	-	125,944
Deferred charges	-	-	31,253	-	31,253
Inventory	59,364	40,502	10,503	-	110,369
Restricted cash	32,698	36,381	107,789	3,652	180,520
Total Current Assets	<u>1,017,159</u>	<u>1,352,150</u>	<u>750,849</u>	<u>69,704</u>	<u>3,189,862</u>
Noncurrent Assets:					
Land and improvements	28,030	131,900	24,495	-	184,425
Buildings and improvements	16,000	-	5,800	-	21,800
System and other improvements	1,254,182	4,817,698	3,975,064	-	10,046,944
Machinery and equipment	128,094	108,613	119,389	-	356,096
Vehicles	85,582	80,303	26,899	-	192,784
Accumulated depreciation	<u>(917,078)</u>	<u>(2,618,813)</u>	<u>(2,591,820)</u>	<u>-</u>	<u>(6,127,711)</u>
Total Noncurrent Assets	<u>594,810</u>	<u>2,519,701</u>	<u>1,559,827</u>	<u>-</u>	<u>4,674,338</u>
Total Assets	<u>1,611,969</u>	<u>3,871,851</u>	<u>2,310,676</u>	<u>69,704</u>	<u>7,864,200</u>
Liabilities					
Current Liabilities:					
Accounts payable	25,542	8,810	15,346	39,858	89,556
Accrued liabilities	17,071	15,208	15,036	3,651	50,966
Customer deposits	32,698	6,695	-	-	39,393
Due to other funds	-	-	-	107,396	107,396
Current portion of long-term debt	-	22,000	39,983	-	61,983
Total Current Liabilities	<u>75,311</u>	<u>52,713</u>	<u>70,365</u>	<u>150,905</u>	<u>349,294</u>
Long-Term Debt (net of current portion):					
Revenue bonds payable	-	884,000	760,453	-	1,644,453
Total Long-Term Debt	<u>-</u>	<u>884,000</u>	<u>760,453</u>	<u>-</u>	<u>1,644,453</u>
Total Liabilities	<u>75,311</u>	<u>936,713</u>	<u>830,818</u>	<u>150,905</u>	<u>1,993,747</u>
Net Assets					
Invested in capital assets, net of related debt	594,810	1,613,701	759,391	-	2,967,902
Restricted	-	-	-	-	-
Unrestricted (deficit)	<u>941,848</u>	<u>1,321,437</u>	<u>720,467</u>	<u>(81,201)</u>	<u>2,902,551</u>
Total Net Assets (deficit)	<u>\$ 1,536,658</u>	<u>\$ 2,935,138</u>	<u>\$ 1,479,858</u>	<u>\$ (81,201)</u>	<u>\$ 5,870,453</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

Operating Revenues:	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
Charges for services	\$ 938,159	\$ 725,295	\$ 693,352	\$ 567,306	\$ 2,924,112
Other revenues	55,825	131,980	85,000	-	272,805
Total Operating Revenues	<u>993,984</u>	<u>857,275</u>	<u>778,352</u>	<u>567,306</u>	<u>3,196,917</u>
Operating Expenses:					
Salaries, wages and benefits	97,228	177,822	136,757	-	411,807
Office expenses and travel	3,167	887	-	-	4,054
Repairs and maintenance	1,915	1,556	12,338	-	15,809
Utilities	1,768	45,746	-	-	47,514
Contract services	-	1,676	-	470,102	471,778
Miscellaneous	125	1,087	-	4,983	6,195
Gas purchases	491,801	-	-	-	491,801
Service, supplies and other	71,395	49,264	229,065	-	349,724
Depreciation/amortization	30,994	110,605	92,652	-	234,251
Total Operating Expenses	<u>698,393</u>	<u>388,643</u>	<u>470,812</u>	<u>475,085</u>	<u>2,032,933</u>
Operating Income	<u>295,591</u>	<u>468,632</u>	<u>307,540</u>	<u>92,221</u>	<u>1,163,984</u>
Non-operating Revenues (Expenses):					
Interest income	3,493	4,270	1,794	-	9,557
Interest expense and fiscal charges	-	(38,239)	(33,616)	-	(71,855)
Connection and impact fees	9,590	9,602	-	-	19,192
Total Non-Operating Revenue (Expense)	<u>13,083</u>	<u>(24,367)</u>	<u>(31,822)</u>	<u>-</u>	<u>(43,106)</u>
Net Income before contributions and transfers	308,674	444,265	275,718	92,221	1,120,878
Transfers out	<u>(145,200)</u>	<u>(186,650)</u>	<u>(85,800)</u>	<u>(52,800)</u>	<u>(470,450)</u>
Net Income	163,474	257,615	189,918	39,421	650,428
Total net assets (deficit), beginning of year	<u>1,373,184</u>	<u>2,677,523</u>	<u>1,289,940</u>	<u>(120,622)</u>	<u>5,220,025</u>
Total net assets (deficit), end of year	<u><u>\$ 1,536,658</u></u>	<u><u>\$ 2,935,138</u></u>	<u><u>\$ 1,479,858</u></u>	<u><u>\$ (81,201)</u></u>	<u><u>\$ 5,870,453</u></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, 2010

	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 962,685	\$ 744,662	\$ 702,052	\$ 573,833	\$ 2,983,232
Cash received from customers, other	55,825	131,980	85,000	-	272,805
Cash paid to suppliers	(592,042)	(136,256)	(259,380)	(503,372)	(1,491,050)
Cash paid to employees	(88,719)	(174,993)	(135,482)	-	(399,194)
Net cash flows from operating activities	<u>337,749</u>	<u>565,393</u>	<u>392,190</u>	<u>70,461</u>	<u>1,365,793</u>
Cash Flows From Noncapital Financing Activities:					
Proceeds/Payments from/(to) other funds	-	(125,944)	-	-	(125,944)
Transfers out	(145,200)	(186,650)	(85,800)	(52,800)	(470,450)
Net cash flows from noncapital financing activities	<u>(145,200)</u>	<u>(312,594)</u>	<u>(85,800)</u>	<u>(52,800)</u>	<u>(596,394)</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(202,565)	(185,092)	(56,836)	-	(444,493)
Principal paid on long-term debt	-	(21,000)	(38,455)	-	(59,455)
Interest paid	-	(38,239)	(33,616)	-	(71,855)
Connection & impact fees	9,590	9,602	-	-	19,192
Net cash flows from capital and related financing activities	<u>(192,975)</u>	<u>(234,729)</u>	<u>(128,907)</u>	<u>-</u>	<u>(556,611)</u>
Cash Flows From Investing Activities:					
Interest on investments	3,493	4,270	1,794	-	9,557
Net cash flows from investing activities	<u>3,493</u>	<u>4,270</u>	<u>1,794</u>	<u>-</u>	<u>9,557</u>
Net change in Cash and Cash Equivalents	3,067	22,340	179,277	17,661	222,345
Cash and Cash Equivalents, Beginning of Year	890,971	1,086,368	461,930	3,555	2,442,824
Cash and Cash Equivalents, End of Year	<u>\$ 894,038</u>	<u>\$ 1,108,708</u>	<u>\$ 641,207</u>	<u>\$ 21,216</u>	<u>\$ 2,665,169</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Net Operating Income	\$ 295,591	\$ 468,632	\$ 307,540	\$ 92,221	\$ 1,163,984
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation/amortization	30,994	110,605	92,652	-	234,251
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables	24,526	19,367	8,700	6,527	59,120
(Increase)/Decrease in prepaids/inventory	(23,939)	(27,688)	(13,138)	-	(64,765)
Increase/(Decrease) in accounts payable	2,068	(8,352)	(4,839)	(28,355)	(39,478)
Increase/(Decrease) in accrued liabilities	8,509	2,829	1,275	68	12,681
Net cash flows from operating activities	<u>\$ 337,749</u>	<u>\$ 565,393</u>	<u>\$ 392,190</u>	<u>\$ 70,461</u>	<u>\$ 1,365,793</u>

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

CITY OF WILLCOX, ARIZONA
Statement of Fiduciary Net Assets
Court Agency Fund and Pension Trust Fund
June 30, 2010

	<u>Magistrate Court Agency Fund</u>	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS		
Cash and cash equivalents	\$ 4,025	\$ 215,403
Accounts receivable	<u>-</u>	<u>-</u>
Total Assets and Other Debits	<u>4,025</u>	<u>215,403</u>
LIABILITIES		
Accrued liabilities	<u>4,025</u>	<u>-</u>
Total liabilities	<u>4,025</u>	<u>-</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u><u>\$ -</u></u>	<u><u>\$ 215,403</u></u>

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

CITY OF WILLCOX, ARIZONA
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund
For the Year Ended June 30, 2010

	<u>Volunteer Firefighters' Relief and Pension</u>
ADDITIONS:	
Contributions:	
Employer	\$ 1,271
State fire tax	2,875
Plan member	<u>1,271</u>
Total Contributions	<u>5,417</u>
Investment Income:	
Interest earnings	<u>363</u>
Net Investment Income (Loss)	<u>363</u>
Total Additions	<u>5,780</u>
DEDUCTIONS:	
Benefits	<u>2,786</u>
Total Deductions	<u>2,786</u>
Net Increase (Decrease)	2,994
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	<u>212,409</u>
End of Year	<u>\$ 215,403</u>

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies

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

Reporting entity

The City is a municipal corporation governed by an elected seven member council which appoints the mayor and vice-mayor. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements include all funds and account groups that account for activities over which the City's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component unit included in defining the City's reporting entity. There are no discretely presented component units and one blended component unit.

Blended Component Unit included within the reporting entity:

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

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, state shared revenues, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

The **Highway User Revenue Special Revenue Fund** is used to account for the City's share of motor fuel tax revenues and lottery proceeds which are set aside 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 Public Safety Employees Retirement System, which accumulates resources for pension benefit payments to qualified public safety employees.

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

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

Receivables and Payables

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

Taxes

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (Continued)

second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter. A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets 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, 2010

NOTE 1. Summary of Significant Accounting Policies (Continued)

Long-term Obligations

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

Estimates

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the City throughout the year; however, all encumbrances and/or appropriations lapse at fiscal year-end.

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

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the City Council to June 30, 2010. There were no amendments made to the original appropriations during the current fiscal year.

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

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

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

The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Council approval.

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

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to 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, 2010, if any.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 3. Stewardship, Compliance and Accountability (Continued)

Deficit Fund Equity

The Refuse Fund had a deficit in fund balance of \$81,201 as of June 30, 2010 which decreased from the \$120,622 June 30, 2009 deficit.

NOTE 4. Deposits and Investments

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

Cash and cash equivalents	\$ 4,407,982
Restricted cash and cash equivalents	552,813
Trust and agency fund cash	<u>219,428</u>
Total cash and equivalents	<u><u>\$ 5,180,223</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2010, cash on hand was \$1,794 and the carrying amount of the City's deposits was \$4,159,251. As of June 30, 2010, \$0 of the City's bank balance of \$4,213,102 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, 2010

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, 2010 the government had the following investments and maturities:

	Fair Value	Quality Rating (1)	Weighted Average Maturity (2)
Cash on hand and on deposit:			
Cash on deposit	\$ 622,683	N/A	N/A
Local Government Pooled			
Investment Fund (LGIP)	1,019,187	N/A	N/A
Certificates of deposit	1,003,802	N/A	N/A
Money market funds	<u>2,534,551</u>	N/A	N/A
Total cash and investments	<u>\$5,180,223</u>		

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable.

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 5. Restricted Assets

Restricted assets at June 30, 2010 consisted of the following cash reserves:

Restricted Cash

Streets and Other	80,030
Nonmajor Funds	292,263
Gas Fund - Customer Deposits	32,698
Water Fund - Debt Reserves and Customer Deposits	36,381
Sewer Fund - Debt Reserves and Customer Deposits	107,789
Refuse Fund - Customer Deposits	<u>3,652</u>
Subtotal	552,813
Magistrate Court Agency Fund	4,025
Volunteer Firefighters Relief and Pension Fund	<u>215,402</u>
Total Restricted Cash	<u><u>\$ 772,240</u></u>

NOTE 6. Property Taxes Receivable

Property taxes receivable in the amount of \$9,242 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Deferred revenue of \$7,761 represents that portion of the property taxes receivable that have not been collected within 60 days after year end. Consequently, this amount has not been included in current year revenues.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 7. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2010 was as follows:

Governmental Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets, not being depreciated:				
Land	\$ 1,214,006	\$ 24,096	\$ -	\$ 1,238,102
Construction in progress	96,432	629,104	(598,972)	126,564
Total capital assets not being depreciated	<u>1,310,438</u>	<u>653,200</u>	<u>(598,972)</u>	<u>1,364,666</u>
Capital assets, being depreciated:				
Buildings and Improvements	4,854,154	635,764	(110,000)	5,379,918
Infrastructure	4,743,562	87,531	-	4,831,093
Furniture, Equipment, Vehicles	2,533,688	18,027	(8,350)	2,543,365
Total capital assets being depreciated	<u>12,131,404</u>	<u>741,322</u>	<u>(118,350)</u>	<u>12,754,376</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,632,001)	(140,467)	110,000	(1,662,468)
Infrastructure	(449,761)	(183,702)	-	(633,463)
Furniture, Equipment, Vehicles	(1,394,491)	(188,979)	8,350	(1,575,120)
Total accumulated depreciation	<u>(3,476,253)</u>	<u>(513,148)</u>	<u>118,350</u>	<u>(3,871,051)</u>
Total capital assets being depreciated, net	<u>8,655,151</u>	<u>228,174</u>	<u>-</u>	<u>8,883,325</u>
Governmental activities capital assets, net	<u>\$ 9,965,589</u>	<u>\$ 881,374</u>	<u>\$ (598,972)</u>	<u>\$ 10,247,991</u>

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

Governmental Activities:	
General government	\$ 110,069
Public safety	100,862
Highways and streets	231,106
Culture and recreation	68,998
Public works	2,113
Total depreciation expense - governmental activities	<u>\$ 513,148</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2010 was as follows:

Business Type Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets, not being depreciated:				
Land	\$ 184,425	\$ -	\$ -	\$ 184,425
Construction in progress	1,618,891	104,961	(1,723,852)	-
Total capital assets not being depreciated	<u>1,803,316</u>	<u>104,961</u>	<u>(1,723,852)</u>	<u>184,425</u>
Capital assets, being depreciated:				
Buildings and Improvements	21,800	-	-	21,800
System and Other Improvements	8,007,457	2,039,487	-	10,046,944
Furniture, Equipment, Vehicles	526,061	22,819	-	548,880
Total capital assets being depreciated	<u>8,555,318</u>	<u>2,062,306</u>	<u>-</u>	<u>10,617,624</u>
Less accumulated depreciation for:				
Buildings and Improvements	(21,800)	-	-	(21,800)
System and Other Improvements	(5,502,839)	(198,346)	-	(5,701,185)
Furniture, Equipment, Vehicles	(371,983)	(30,875)	(1,868)	(404,726)
Total accumulated depreciation	<u>(5,896,622)</u>	<u>(229,221)</u>	<u>(1,868)</u>	<u>(6,127,711)</u>
Total capital assets being depreciated, net	<u>2,658,696</u>	<u>1,833,085</u>	<u>(1,868)</u>	<u>4,489,913</u>
Business type activities capital assets, net	<u>\$ 4,462,012</u>	<u>\$ 1,938,046</u>	<u>\$ (1,725,720)</u>	<u>\$ 4,674,338</u>

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

Business-Type Activities:	
Gas	\$ 30,994
Water	110,605
Sewer	<u>87,622</u>
Total depreciation expense - business-type activities	<u>\$ 229,221</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 8. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010.

Governmental activities:	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010	Current Portion
General Obligation:					
Capital Leases	\$ 238,763	\$ -	\$ (53,255)	\$ 185,508	\$ 56,528
Water Improvement Bonds, Project of 1974	24,000	-	(4,000)	20,000	4,000
Total General Obligation	<u>262,763</u>	<u>-</u>	<u>(57,255)</u>	<u>205,508</u>	<u>60,528</u>
Revenue Obligation:					
Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006	2,825,000	-	(185,000)	2,640,000	195,000
Highway User Revenue Refunding Bonds, Series 2003	115,000	-	(115,000)	-	-
GADA Revenue Bonds, Series 2003A	965,000	-	(90,000)	875,000	95,000
Series 2007	305,000	-	(10,000)	295,000	10,000
Total Revenue Obligation	<u>4,210,000</u>	<u>-</u>	<u>(400,000)</u>	<u>3,810,000</u>	<u>300,000</u>
Accrued Compensated Absences	<u>115,910</u>	<u>56,783</u>	<u>(57,766)</u>	<u>114,927</u>	<u>50,000</u>
Total Governmental Activity Long-term Liabilities	<u>\$ 4,588,673</u>	<u>\$ 56,783</u>	<u>\$ (515,021)</u>	<u>\$ 4,130,435</u>	<u>\$ 410,528</u>
Business-type Activities:					
Revenue Obligation:					
Water Revenue Bonds, USDA/RD Series 2005	\$ 927,000	\$ -	(21,000)	\$ 906,000	\$ 22,000
Sewer Revenue Bonds, Rural Utilities 2001 A	508,196	-	(22,369)	485,827	23,375
Rural Utilities Bonds 2001 B	330,695	-	(16,086)	314,609	16,608
Total Revenue Obligation	<u>1,765,891</u>	<u>-</u>	<u>(59,455)</u>	<u>1,706,436</u>	<u>61,983</u>
Accrued Compensated Absences	<u>19,763</u>	<u>16,225</u>	<u>(17,258)</u>	<u>18,730</u>	<u>18,730</u>
Total Business-type Activity Long-term Liabilities	<u>\$ 1,785,654</u>	<u>\$ 16,225</u>	<u>\$ (76,713)</u>	<u>\$ 1,725,166</u>	<u>\$ 80,713</u>
Total Long-term Debt	<u>\$ 6,374,327</u>	<u>\$ 73,008</u>	<u>\$ (591,734)</u>	<u>\$ 5,855,601</u>	<u>\$ 491,241</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 8. Long-Term Debt (Continued)

Bonds payable consist of the following at June 30, 2010:

General Obligation:

5% Water Improvement Bonds, Project of 1974, payable in semi-annual installments of principal and interest through 2014. \$ 20,000

Revenue Obligation - Governmental:

Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006, due in semiannual principal and interest installments, bearing interest at 3.85% to 4.625%, maturing in July 1, 2021 2,640,000

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2003A, due in semiannual principal and interest installments, bearing interest at 4.0% to 4.375%, maturing in August 1, 2017 875,000

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2007 due in semiannual principal and interest installments, bearing interest at 4.0% to 5.0%, maturing in August 1, 2027 295,000

Revenue Obligation - Business-type:

United States Department of Agriculture 4.125% Water Revenue Bonds, Series 2005, payable in semi-annual installments of principal and interest, maturing July 1, 2035. 906,000

United States Department of Agriculture 4.5% Sewer Revenue Bonds, Rural Utilities 2001 A Bonds, payable in semi-annual installments of principal and interest, maturing July 1, 2025. 485,827

United States Department of Agriculture 3.25% Rural Utilities 2001 A Bonds, payable in semi-annual installments of principal and interest, maturing July 1, 2025. 314,609

Total Bonds Payable \$ 5,536,436

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 8. Long-Term Debt (Continued)

Debt service requirements for bonds payable are as follows:

Fiscal Period Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 304,000	\$ 166,384	\$ 61,983	\$ 69,459
2012	310,000	154,184	63,575	66,962
2013	330,000	141,284	66,231	64,397
2014	351,000	126,784	68,955	61,723
2015	350,000	111,805	71,750	58,938
2016-2020	1,730,000	320,213	405,342	248,769
2021-2025	390,000	40,188	494,600	159,660
2026-2030	65,000	4,735	213,000	80,890
2031-2035	-	-	261,000	33,206
Total	\$ 3,830,000	\$ 1,065,577	\$ 1,706,436	\$ 844,004

The City has entered into four lease agreements which are considered capital leases in accordance with Financial Accounting Standard Board statement number 13. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the fiscal years ending June 30:

Fiscal Period Ending June 30	Governmental Leases
2011	\$ 66,902
2012	62,336
2013	45,982
2014	34,089
2015	-
Total remaining lease payments	209,309
Less amount representing interest	(23,801)
Present value of net remaining minimum lease payments	<u>\$ 185,508</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 9. Interfund Transactions and Balances

The composition of interfund receivables and payables balances as of June 30, 2010 follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 146,773	\$ -
Grants Special Revenue Fund	-	39,377
Refuse Fund	-	107,396
Total	\$ 146,773	\$ 146,773

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statement as Internal balances.

As of June 30, 2010 interfund transfers are as follows:

	Transfers In:		
	General Fund	Non major Funds	Total
Transfers Out:			
General Fund	\$ -	\$ 49,232	\$ 49,232
Gas Fund	145,200	-	145,200
Water Fund	181,500	5,150	186,650
Sewer Fund	85,800	-	85,800
Refuse Fund	52,800	-	52,800
Highway User Fund	-	84,121	84,121
Total transfers out	\$ 465,300	\$ 138,503	\$ 603,803

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 10. Equity Classifications

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Reservations and designations are used to indicate that a portion of the fund balance is not available for appropriation or expenditure, or is legally segregated for a specific future use.

NOTE 11. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description – The City contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 11. Retirement and Pension Plans (Continued)

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement, and 0.5 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

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

<u>Year Ended</u> <u>June 30,</u>	<u>Retirement</u> <u>Fund</u>	<u>Health Benefit</u> <u>Supplement Fund</u>	<u>Long-Term</u> <u>Disability Fund</u>
2008	\$ 147,656	\$ 20,535	\$ 9,779
2009	134,721	17,572	8,368
2010	131,098	17,100	8,143

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 19.81 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.78 percent of covered payroll

Actuarial Methods and Assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 11. Retirement and Pension Plans (Continued)

The PSPRS contribution requirements for the year ended June 30, 2010 were established by the June 30, 2009 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.50 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 27 years for unfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information on page 44 provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension/OPEB Cost – During the year ended June 30, 2009, the City's annual pension cost of \$123,230 and the annual OPEB cost of \$9,690 was equal to the City's required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2008	\$ 93,498	100%	\$ -
	2009	123,230	100%	-
	2010	*	*	*
Health Insurance	2008	\$ 6,603	100%	\$ -
	2009	9,690	100%	-
	2010	*	*	*

* Information for fiscal year 2010 is not yet available.

Additional historical trend information for the City's PSPRS is disclosed on page 44. Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 11. Retirement and Pension Plans (Continued)

Firefighters' Relief and Pension Fund

The Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters. There are twenty current members of the plan. Financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Under the plan provisions, the volunteer firefighters voluntarily make contributions to the plan which is equally matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2010, the City's contributions amounted to \$1,271, and the firefighters' contributions amounted to \$1,271; and the State's contributions totaled \$2,875.

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2010

NOTE 12. 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 13. 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 14. Contingencies

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

NOTE 15. Subsequent Events

Early in fiscal year 2011 the city borrowed \$1,000,000 from the Water Infrastructure Authority of Arizona (WIFA) for wastewater system improvements. The note bears interest at 3%. The entire principal balance of \$1,000,000 is scheduled to be repaid on July 1, 2013.

This page intentionally left blank

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLCOX, ARIZONA
Schedule of Funding Progress
June 30, 2010

Public Safety Personnel Retirement System - Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2003 through June 30, 2010, based on actuarial valuations follows:

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(a)/(b) Percent Funded	(b)-(a) Unfunded AAL	[c] Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2003	1,453,650	1,841,033	78.96%	387,383	383,352	101.1%
2004	1,436,213	2,020,638	71.08%	584,425	404,724	144.4%
2005	1,414,826	2,295,922	61.62%	881,096	401,879	219.2%
2006	1,415,567	2,226,313	63.58%	810,746	459,137	176.6%
2007	1,373,221	2,433,358	56.43%	1,060,137	482,350	219.8%
2008	1,568,725	2,505,824	62.60%	937,099	545,678	171.7%
2009 *	1,755,045	2,779,782	63.14%	1,024,737	547,566	187.1%
2010 *	**	**	**	**	**	**

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

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2006	-	27,564	27,564	0.0%	459,137	6.0%
2007	-	44,436	44,436	0.0%	482,350	9.2%
2008	-	48,594	48,594	0.0%	545,678	8.9%
2009 *	-	67,596	67,596	0.0%	547,566	12.3%
2010 *	**	**	**	**	**	**

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

** Information for fiscal year 2010 is not yet available.

CITY OF WILLCOX, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Detail Budget and Actual

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds – Detail Budget and Actual

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

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the City’s share of motor fuel tax revenues and lottery proceeds which are set aside 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 Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property tax	\$ 66,080	\$ 66,080	\$ 64,684	\$ (1,396)
City sales tax	1,524,420	1,524,420	1,370,798	(153,622)
Room occupancy tax	150,000	150,000	138,628	(11,372)
Franchise taxes	<u>275,200</u>	<u>275,200</u>	<u>323,740</u>	<u>48,540</u>
Total Taxes	<u>2,015,700</u>	<u>2,015,700</u>	<u>1,897,850</u>	<u>(117,850)</u>
Licenses, Permits and Fees:				
Liquor licenses	1,700	1,700	2,221	521
Business licenses	5,000	5,000	5,378	378
Cemetery fees	20,000	20,000	25,824	5,824
Building permits	<u>30,000</u>	<u>30,000</u>	<u>37,607</u>	<u>7,607</u>
Total Licenses, Permits and Fees	<u>56,700</u>	<u>56,700</u>	<u>71,030</u>	<u>14,330</u>
Intergovernmental:				
State revenue sharing	501,654	501,654	502,463	809
Auto lieu taxes	167,000	167,000	174,294	7,294
State sales taxes	<u>298,681</u>	<u>298,681</u>	<u>285,102</u>	<u>(13,579)</u>
Total Intergovernmental	<u>967,335</u>	<u>967,335</u>	<u>961,859</u>	<u>(5,476)</u>
Charges for Services:				
Community center rent	3,500	3,500	2,850	(650)
Stout Cider Mill rent	2,000	2,000	-	(2,000)
Swimming pool fees	<u>13,000</u>	<u>13,000</u>	<u>15,018</u>	<u>2,018</u>
Total Charges for Services	<u>18,500</u>	<u>18,500</u>	<u>17,868</u>	<u>(632)</u>
Fines and Forfeitures:				
Fines & forfeitures	<u>7,350</u>	<u>7,350</u>	<u>28,592</u>	<u>21,242</u>
Total Fines and Forfeitures	<u>7,350</u>	<u>7,350</u>	<u>28,592</u>	<u>21,242</u>
Interest	<u>30,000</u>	<u>30,000</u>	<u>8,774</u>	<u>(21,226)</u>
Other Revenues:				
Miscellaneous	<u>54,882</u>	<u>54,882</u>	<u>81,755</u>	<u>26,873</u>
Total Other Revenues	<u>54,882</u>	<u>54,882</u>	<u>81,755</u>	<u>26,873</u>
TOTAL REVENUES	<u>3,150,467</u>	<u>3,150,467</u>	<u>3,067,728</u>	<u>(82,739)</u>

(continued)

CITY OF WILLCOX, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For Year Ended June 30, 2010 (Continued)

EXPENDITURES	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General Government:				
Mayor & Council	\$ 25,918	\$ 25,216	\$ 24,690	\$ 526
General & Administrative	571,901	372,879	349,908	22,971
Finance	308,339	296,839	285,602	11,237
Total General Government	906,158	694,934	660,200	34,734
Public Safety:				
Public Safety Administration	308,121	308,121	287,222	20,899
Communications	295,591	273,044	245,691	27,353
Police	774,638	750,638	706,897	43,741
Magistrate	-	193,125	192,585	540
Fire	150,720	150,720	104,524	46,196
Animal Control	89,408	89,408	89,008	400
Building Inspection	179,083	174,383	145,759	28,624
Total Public Safety	1,797,561	1,939,439	1,771,686	167,753
Culture and Recreation:				
Library	306,099	304,099	245,633	58,466
Parks & Recreation	418,736	409,236	364,220	45,016
Swimming Pool	154,270	150,270	117,160	33,110
Community Programs	162,250	155,256	106,038	49,218
Total Culture and Recreation	1,041,355	1,018,861	833,051	185,810
Public Works				
Public Works Administration	216,310	194,650	170,700	23,950
Cemetery	70,532	68,532	42,225	26,307
Central Garage	101,800	104,223	99,873	4,350
Buildings & Grounds	224,412	210,912	137,104	73,808
Total Public Works	613,054	578,317	449,902	128,415
TOTAL EXPENDITURES	4,358,128	4,231,551	3,714,839	516,712
Excess of Revenues Over (Under) Expenditures	(1,207,661)	(1,081,084)	(647,111)	433,973
Other Financing Sources (Uses):				
Transfer from Gas fund	145,200	145,200	145,200	-
Transfer from Water fund	181,500	181,500	181,500	-
Transfer from Sewer fund	85,800	85,800	85,800	-
Transfer from Refuse fund	52,800	52,800	52,800	-
Transfer to capital project and grant funds	-	-	(49,232)	49,232
Total Other Financing Sources (Uses)	465,300	465,300	416,068	49,232
Net change in fund balance	(742,361)	(615,784)	(231,043)	384,741
Fund Balance, Beginning of Year	2,342,202	2,342,202	2,342,202	-
Fund Balance, End of Year	\$ 1,599,841	\$ 1,726,418	\$ 2,111,159	\$ 384,741

CITY OF WILLCOX, ARIZONA
Highway User Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 762,210	\$ 762,210	\$ 685,398	\$ (76,812)
Intergovernmental Revenue:				
Highway user revenues	311,859	311,859	283,181	(28,678)
Interest	5,000	5,000	1,165	(3,835)
Total Revenues	<u>1,079,069</u>	<u>1,079,069</u>	<u>969,744</u>	<u>(109,325)</u>
EXPENDITURES:				
Streets and Highways:				
Salaries & wages	223,715	192,631	181,744	10,887
Benefits	109,272	94,089	84,634	9,455
Service, supplies and other	392,081	306,110	355,901	(49,791)
Capital outlay	95,301	94,301	25,789	68,512
Debt Service:				
Principal	300,000	300,000	300,000	-
Interest	131,627	131,627	131,626	1
Total Expenditures	<u>1,251,996</u>	<u>1,118,758</u>	<u>1,079,694</u>	<u>39,064</u>
Excess of Revenues Over (Under) Expenditures	<u>(172,927)</u>	<u>(39,689)</u>	<u>(109,950)</u>	<u>(70,261)</u>
Other Financing Uses:				
Transfers out	<u>(34,000)</u>	<u>(34,000)</u>	<u>(84,121)</u>	<u>(50,121)</u>
Total Other Financing Uses	<u>(34,000)</u>	<u>(34,000)</u>	<u>(84,121)</u>	<u>(50,121)</u>
Net change in fund balance	(206,927)	(73,689)	(194,071)	(120,382)
Fund Balance, Beginning of Year	<u>323,646</u>	<u>323,646</u>	<u>323,646</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 116,719</u>	<u>\$ 249,957</u>	<u>\$ 129,575</u>	<u>\$ (120,382)</u>

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

COMBINING STATEMENTS AND BUDGET AND ACTUAL

SPECIAL REVENUE FUNDS

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

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

CAPITAL PROJECTS FUNDS

The **Capital Projects Fund** is used to account for various grants and other contributions and transfers that are restricted or designated 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, 2010

ASSETS	<u>Grants</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Non-major Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:					
Property taxes	-	-	-	19,254	19,254
Intergovernmental	51,805	1,917	30,000	-	83,722
Restricted cash and investments	-	97,872	38,576	155,815	292,263
Total Assets	\$ 51,805	\$ 99,789	\$ 68,576	\$ 175,069	\$ 395,239
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,428	\$ -	\$ 2,459	\$ -	\$ 14,887
Due to other funds	39,377	-	-	-	39,377
Deferred revenue	-	-	-	15,731	15,731
Total Liabilities	51,805	-	2,459	15,731	69,995
Fund Balances:					
Reserved	-	99,789	66,117	159,338	325,244
Total Fund Balances	-	99,789	66,117	159,338	325,244
Total Liabilities and Fund Balances	\$ 51,805	\$ 99,789	\$ 68,576	\$ 175,069	\$ 395,239

CITY OF WILLCOX, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

REVENUES	<u>Grants</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Non-major Funds</u>
Taxes	\$ -	\$ -	\$ -	\$ 150,458	\$ 150,458
Intergovernmental revenue	396,476	-	30,000	-	426,476
Interest	-	34	894	-	928
Other revenues	-	36,274	-	-	36,274
Total Revenues	<u>396,476</u>	<u>36,308</u>	<u>30,894</u>	<u>150,458</u>	<u>614,136</u>
EXPENDITURES					
General Government	52,113	-	-	-	52,113
Capital Outlay	416,920	36,448	229,117	-	682,485
Debt Service:					
Principal	-	-	-	104,000	104,000
Interest	-	-	-	54,624	54,624
Total Expenditures	<u>469,033</u>	<u>36,448</u>	<u>229,117</u>	<u>158,624</u>	<u>893,222</u>
Excess of Revenues Over (Under) Expenditures	<u>(72,557)</u>	<u>(140)</u>	<u>(198,223)</u>	<u>(8,166)</u>	<u>(279,086)</u>
Other Financing Sources:					
Transfers in	71,432	-	61,921	5,150	138,503
Total Other Financing Sources	<u>71,432</u>	<u>-</u>	<u>61,921</u>	<u>5,150</u>	<u>138,503</u>
Net change in fund balances	(1,125)	(140)	(136,302)	(3,016)	(140,583)
Fund Balances, Beginning of Year	<u>1,125</u>	<u>99,929</u>	<u>202,419</u>	<u>162,354</u>	<u>465,827</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 99,789</u>	<u>\$ 66,117</u>	<u>\$ 159,338</u>	<u>\$ 325,244</u>

CITY OF WILLCOX, ARIZONA
Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 861,131	\$ 861,131	\$ 396,476	\$ (464,655)
Other revenues	95,000	95,000	-	(95,000)
Total Revenues	<u>956,131</u>	<u>956,131</u>	<u>396,476</u>	<u>(559,655)</u>
EXPENDITURES:				
Public Safety	8,000	8,000	17,720	(9,720)
Community Development	152,013	152,013	34,393	117,620
Capital Outlay	848,529	848,529	416,920	431,609
Total Expenditures	<u>1,008,542</u>	<u>1,008,542</u>	<u>469,033</u>	<u>539,509</u>
Excess of Revenues Over (Under) Expenditures	<u>(52,411)</u>	<u>(52,411)</u>	<u>(72,557)</u>	<u>(20,146)</u>
Other Financing Sources: Transfers in	<u>52,411</u>	<u>52,411</u>	<u>71,432</u>	<u>19,021</u>
Net change in fund balance	-	-	(1,125)	(1,125)
Fund Balance, Beginning of Year	<u>1,125</u>	<u>1,125</u>	<u>1,125</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 1,125</u></u>	<u><u>\$ 1,125</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,125)</u></u>

CITY OF WILLCOX, ARIZONA
Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 100	\$ 100	\$ 34	\$ (66)
Contributions and other	14,807	14,807	36,274	21,467
Total Revenues	<u>14,907</u>	<u>14,907</u>	<u>36,308</u>	<u>21,401</u>
EXPENDITURES:				
Capital outlay	114,507	114,507	36,448	78,059
Total Expenditures	<u>114,507</u>	<u>114,507</u>	<u>36,448</u>	<u>78,059</u>
Excess of Revenues Over (Under) Expenditures	<u>(99,600)</u>	<u>(99,600)</u>	<u>(140)</u>	<u>99,460</u>
Fund Balance, Beginning of Year	<u>99,929</u>	<u>99,929</u>	<u>99,929</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 329</u></u>	<u><u>\$ 329</u></u>	<u><u>\$ 99,789</u></u>	<u><u>\$ 99,460</u></u>

CITY OF WILLCOX, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES:				
Interest	\$ -	\$ -	\$ 894	\$ 894
Intergovernmental Revenue	-	-	30,000	30,000
Total Revenues	<u>-</u>	<u>-</u>	<u>30,894</u>	<u>30,894</u>
EXPENDITURES:				
Capital outlay	<u>186,500</u>	<u>186,500</u>	<u>229,117</u>	<u>(42,617)</u>
Total Expenditures	<u>186,500</u>	<u>186,500</u>	<u>229,117</u>	<u>(42,617)</u>
Excess of Revenues Over (Under) Expenditures	<u>(186,500)</u>	<u>(186,500)</u>	<u>(198,223)</u>	<u>(11,723)</u>
Other Financing Sources:				
Transfers from General Fund	<u>-</u>	<u>-</u>	<u>61,921</u>	<u>61,921</u>
Net change in fund balance	(186,500)	(186,500)	(136,302)	50,198
Fund Balance, Beginning of Year	<u>202,419</u>	<u>202,419</u>	<u>202,419</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 15,919</u>	<u>\$ 15,919</u>	<u>\$ 66,117</u>	<u>\$ 50,198</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 153,046	\$ 153,046	\$ 150,458	\$ (2,588)
Total Revenues	<u>153,046</u>	<u>153,046</u>	<u>150,458</u>	<u>(2,588)</u>
EXPENDITURES:				
Debt Service:				
Principal	100,000	104,000	104,000	-
Interest	<u>53,046</u>	<u>54,196</u>	<u>54,624</u>	<u>(428)</u>
Total Expenditures	<u>153,046</u>	<u>158,196</u>	<u>158,624</u>	<u>(428)</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>(5,150)</u>	<u>(8,166)</u>	<u>(3,016)</u>
Other Financing Sources:				
Transfer in	<u>-</u>	<u>5,150</u>	<u>5,150</u>	<u>-</u>
Net change in fund balance	-	-	(3,016)	(3,016)
Fund Balance, Beginning of Year	<u>162,354</u>	<u>162,354</u>	<u>162,354</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 162,354</u>	<u>\$ 162,354</u>	<u>\$ 159,338</u>	<u>\$ (3,016)</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS



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

The Honorable Mayor and
 City Council
 City of Willcox, Arizona

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
 BRENT R. HALL
 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

We have audited the basic financial statements of the City of Willcox, Arizona, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in the schedule of findings and recommendations dated October 29, 2010.

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

A handwritten signature in black ink, appearing to read "Michael K. Spilker". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael K. Spilker, CPA
October 29, 2010



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

The Honorable Mayor and
 City Council
 Willcox, Arizona

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
 BRENT R. HALL
 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

We have audited the basic financial statements of the City of Willcox, Arizona for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. 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, 2010.

Michael K. Spilker, CPA
 October 29, 2010

This page intentionally left blank