

CITY OF WILLCOX, ARIZONA



FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2009
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WILLCOX, ARIZONA

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**Independent Auditors' Report on
 Financial Statements**

The Honorable Mayor and
 City Council
 City of Willcox, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willcox, Arizona, as of and for the year ended June 30, 2009, 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, 2009, 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 September 3, 2009, 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
September 3, 2009

CITY OF WILLCOX, ARIZONA
Management's Discussion and Analysis
June 30, 2009

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, 2008. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets increased by \$991,467 which resulted in total assets in excess of total liabilities (net assets) of \$13.7 million at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$445,086.
- Capital outlays for governmental activities exceeded depreciation in the current year by \$707,801. The City continued on-going projects for the construction of Water Well #2 and a Public Safety/Council Chamber complex. The City will undertake a Library renovation project in FY10.
- Total business-type revenues exceeded total business-type expenses by \$546,381.
- Total revenues from all sources were \$8.3 million.
- The total cost of all City programs was \$7.3 million.
- The General Fund reported expenses in excess of revenues of \$110,542.
- Actual resources received in the General Fund were more than the final budget by \$6,885, and actual expenditures, including other financing sources, were \$406,533 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2.34 million or 59% of total General Fund expenditures, excluding transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net 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 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 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 \$13.7 million as of June 30, 2009 as shown in the following condensed statement of net assets. The City has chosen to account for its water, sewer, gas, refuse and cemetery 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	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 3,491,905	\$ 4,497,915	\$ 2,730,616	\$ 2,443,618	\$ 6,222,521	6,941,533
Capital assets	9,965,589	9,323,206	4,462,012	4,359,244	14,427,601	13,682,450
Total assets	<u>13,457,494</u>	<u>13,821,121</u>	<u>7,192,628</u>	<u>6,802,862</u>	<u>20,650,122</u>	<u>20,623,983</u>
Long-term liabilities outstanding	4,086,345	4,388,575	1,706,437	1,765,892	5,792,782	6,154,467
Other liabilities	866,504	1,372,987	266,166	363,326	1,132,670	1,736,313
Total liabilities	<u>4,952,849</u>	<u>5,761,562</u>	<u>1,972,603</u>	<u>2,129,218</u>	<u>6,925,452</u>	<u>7,890,780</u>
Net assets:						
Invested in capital assets, net of related debt	5,376,916	4,468,727	2,696,121	2,536,368	8,073,037	7,005,095
Restricted	986,821	1,138,088	-	-	986,821	1,138,088
Unrestricted	2,140,908	2,452,744	2,523,904	2,137,276	4,664,812	4,590,020
Total net assets	<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>

Governmental Activities

The cost of all Governmental activities this year was \$5.2 million. As shown on the statement of Changes in Net Assets on the following page, \$147,246 of this cost was paid for by those who directly benefited from the programs and \$747,333 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes and investment earnings totaled \$4.32 million.

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

City of Willcox, Arizona
Changes in Net Assets

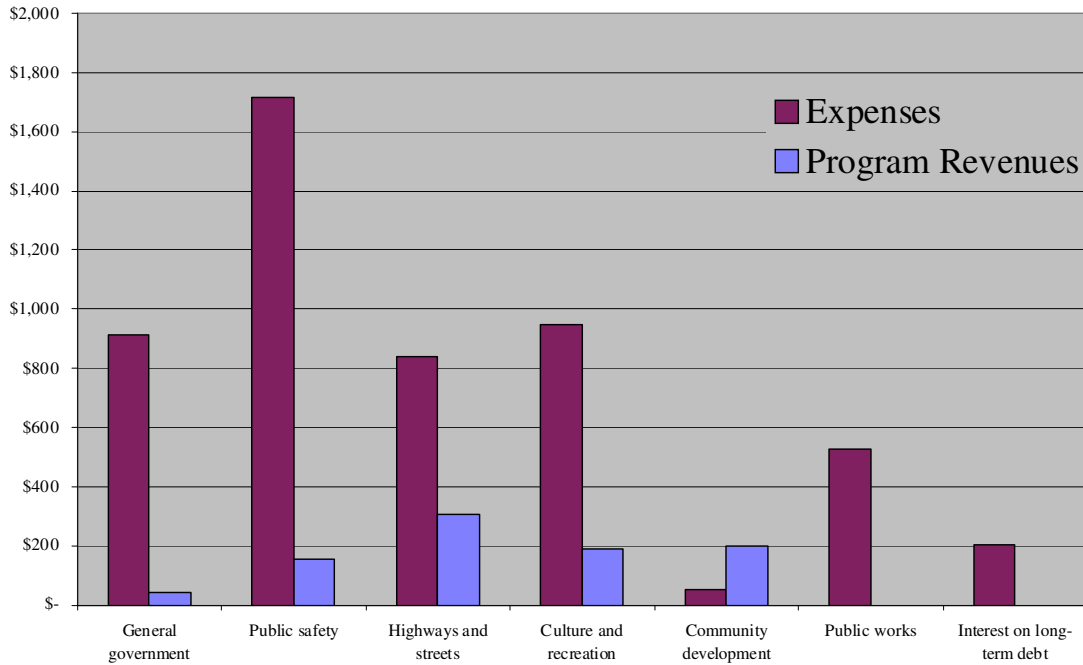
	Governmental activities		Business-type activities		Combined Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Revenues:						
Program revenues:						
Charges for services	\$ 147,246	\$ 191,760	\$ 3,055,387	\$ 3,192,830	\$ 3,202,633	\$ 3,384,590
Operating grants and contributions	540,852	464,576	-	-	540,852	464,576
Capital grants and contributions	206,481	322,444	7,403	406,433	213,884	728,877
General revenues:						
Sales taxes	2,716,472	2,675,538	-	-	2,716,472	2,675,538
Other taxes	900,578	872,771	-	-	900,578	872,771
State revenue sharing	581,918	546,736	-	-	581,918	546,736
Assessments	78,133	64,506	-	-	78,133	64,506
Other	48,993	209,030	17,954	63,589	66,947	272,619
Total revenues	<u>5,220,673</u>	<u>5,347,361</u>	<u>3,080,744</u>	<u>3,662,852</u>	<u>8,301,417</u>	<u>9,010,213</u>
Expenses:						
General government	914,307	1,027,421	-	-	914,307	1,027,421
Public safety	1,717,431	1,852,004	-	-	1,717,431	1,852,004
Highways and streets	838,919	713,909	-	-	838,919	713,909
Culture and recreation	947,176	911,373	-	-	947,176	911,373
Community development	53,738	68,828	-	-	53,738	68,828
Public works	528,765	353,890	-	-	528,765	353,890
Interest on long-term debt	203,651	200,598	-	-	203,651	200,598
Gas	-	-	691,644	1,040,428	691,644	1,040,428
Water	-	-	447,681	474,920	447,681	474,920
Sewer	-	-	464,389	492,754	464,389	492,754
Refuse	-	-	502,249	512,115	502,249	512,115
Total expenses	<u>5,203,987</u>	<u>5,128,023</u>	<u>2,105,963</u>	<u>2,520,217</u>	<u>7,309,950</u>	<u>7,648,240</u>
(Decrease)/Increase in net assets before transfers	16,686	219,338	974,781	1,142,635	991,467	1,361,973
Transfers	428,400	428,601	(428,400)	(428,601)	-	-
Net assets, beginning	<u>8,059,559</u>	<u>7,411,620</u>	<u>4,673,644</u>	<u>3,959,610</u>	<u>12,733,203</u>	<u>11,371,230</u>
Net assets, ending	<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>

Total resources available during the year to finance governmental operations were \$13.7 million, consisting of Net assets at July 1, 2008 of \$8 million, Program revenues of \$894,579, Transfers of \$428,400 and General revenues of \$4.32 million, less total Governmental Activities expenses during the year of \$5.2 million; thus Governmental Net Assets were increased by \$445,086 to \$8.5 million.

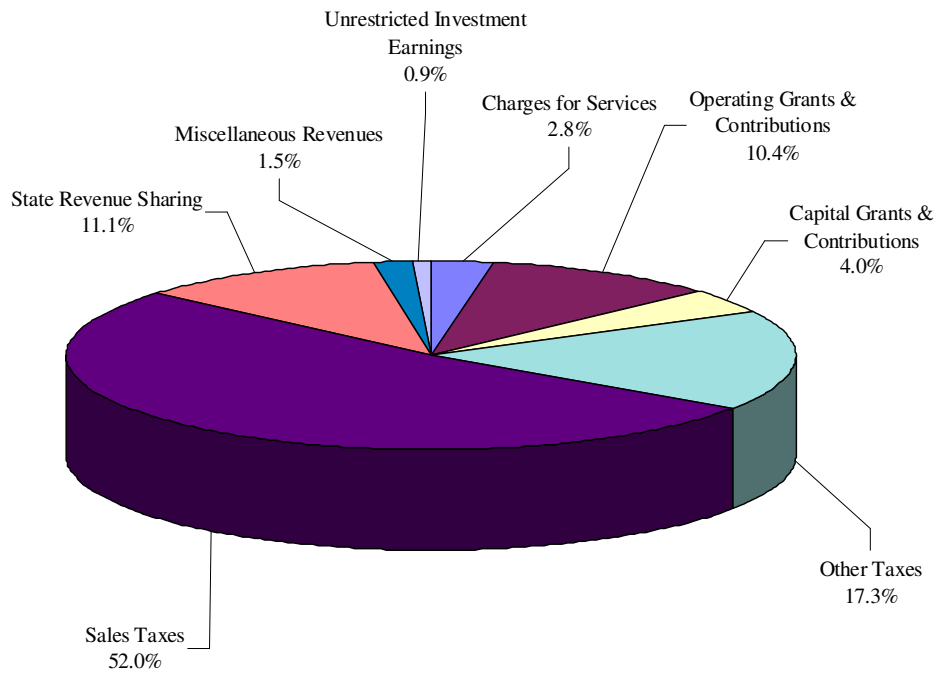
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities

(in Thousands)



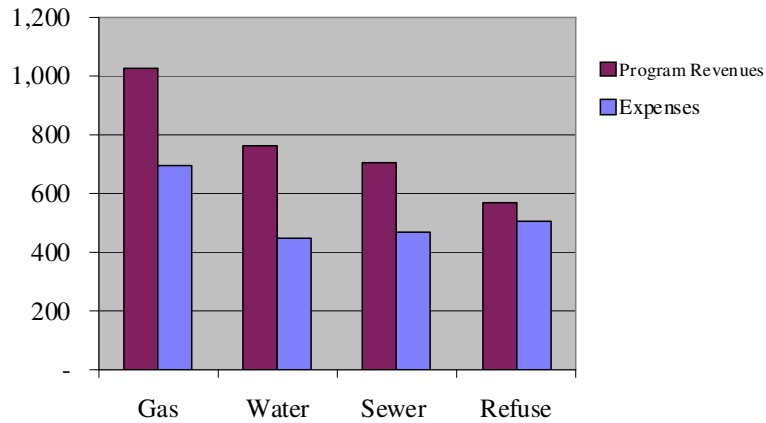
Revenue By Source - Governmental Activities



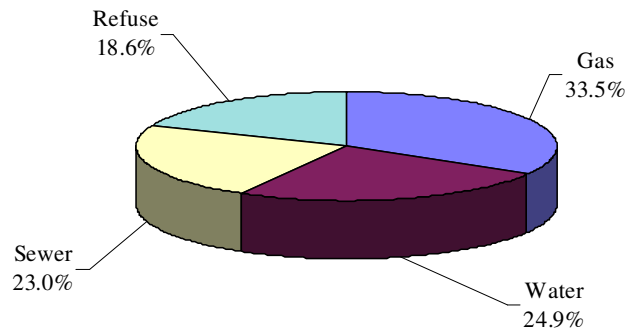
Business Type Activities

Net assets of the Business Type activities at June 30, 2009, as reflected in the Statement of Net Assets were \$5.2 million. As shown in the statement of Changes in Net Assets, the Total net assets at July 1, 2008 were \$4.67 million. Amounts paid by users of the system were \$3 million, \$7,403 was subsidized by capital grants and contributions, and interest earnings were \$17,954. The cost of providing all Proprietary (Business Type) activities this year was \$2.1 million. Transfers to governmental activities were \$428,400 and interest expense and fiscal charges were \$74,850. The Net Assets increased by \$546,381.

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 (15-16) 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 53 and 54.

For fiscal year ended June 30, 2009, the governmental funds reflect a combined fund balance of \$3,131,675. Of this, \$788,348 is reserved because it is not available for expenditure or is legally segregated for a specific future use. The remaining \$2,343,327 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, parks and recreation, community development and general administrative services. The general fund revenues total \$3,477,276 in fiscal year 2009. The expenditures, before other financing sources and uses, totaled \$3,985,176. City sales tax revenue estimates were reduced by 15% from FY08 to FY09, and came in over budget, while State sales tax revenues were less than State estimates. Room occupancy tax revenues were \$52,434 less than budget due to the financial crisis that began in September 2008. Franchise fee income was about \$55,000 more than the amount budgeted and increased by about \$36,000 from the prior year. Building permits exceeded budgeted revenues by \$36,921, and fines and forfeitures revenue came in at \$22,000 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. Revenue in this fund totaled \$1,119,287, while expenses totaled \$1,336,060, in fiscal year 2009. The net expenditures over revenues were offset by debt proceeds. A Caterpillar Bulldozer was purchased on a Capital Lease and debt financing revenues totaled \$176,147. HURF revenues from the State were below projections by \$22,687, and expenses exceeded budget by \$75,059

Other major governmental funds of the City include the Grants Special Revenue Fund, which accounts for federal and state grants and other contributions that are restricted for specific use. Grant Funds received totaled \$439,552 and expenses totaled \$502,620.

The non-major funds of the City consist of the JCEF-TCPF 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.

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 \$5,220,025 as of June 30, 2009. Operating revenues in fiscal year 2008-2009 were \$3,055,387 while operating expenses totaled \$2,016,938, resulting in operating income of \$1,038,449. 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 48 were \$6,885 more than budgeted revenues. Revenues included City Sales Tax revenues of \$1,604,914, or \$80,494 more than those budgeted. Budgeted miscellaneous revenue included fund balance appropriations of \$523,960 of which, \$110,542 was used. The final actual expenditures, including transfers, were less than the General Fund appropriations at year-end by \$432,175. 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 2009, net capital assets of the government activities totaled \$9.96 million and the net capital assets of the business-type activities totaled \$4.46 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 \$4.6 million in governmental type debt, and \$1.8 million in proprietary debt. The debt is a liability of the government and amounts to \$1,633 per capita. During the current fiscal year, the City's total debt decreased by \$265,806, which consisted of retirements of \$505,132, and an increase for the addition of \$176,147 for a capital lease and \$63,179 for accrued compensated absences. See note 8 to the financial statements for detailed descriptions.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

For the fiscal year 2009-2010 city budget, the City has projected a decrease of 1% in general fund operating revenues and operating expenditures from the fiscal year 2009 budgeted amounts. Due to some growth and increased rates for water and sewer utilities, the utility fund operating revenues budgeted are expected to increase by 10% for all utilities revenues and expenditures over fiscal year 2009 actual revenues. Gas operating revenues are estimated to increase 30% in fiscal year 2010 due to gas purchase costs which are passed through to customers. There is an emphasis on infrastructure improvements which continues into 2010. In fiscal year 2009-2010 new and/or improved facilities for community programs, police and fire, library, parks and streets are proposed in the capital expenditure program for approximately \$1.5 million, to be financed by grants and fund appropriations. Also, \$25 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, Arizona 85643. Phone: (520) 384-4271, email: pmccourt@willcoxcity.org or rgraham@willcoxcity.org.

BASIC FINANCIAL STATEMENTS

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CITY OF WILLCOX, ARIZONA
Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,212,669	\$ 2,279,166	\$ 4,491,835
Receivables (net of allowance)	425,424	303,640	729,064
Inventory	-	58,211	58,211
Internal balances	107,395	(107,395)	-
Prepays	-	-	-
Deferred charges	-	33,336	33,336
Temporarily restricted assets:			
Cash and cash equivalents	746,417	163,658	910,075
Capital assets (net of accumulated depreciation):			
Land and improvements	1,214,006	184,425	1,398,431
Buildings and improvements	3,222,153	-	3,222,153
System and other improvements	-	2,504,618	2,504,618
Furniture, equipment and vehicles	1,139,197	154,078	1,293,275
Infrastructure	4,293,801	-	4,293,801
Construction in progress	96,432	1,618,891	1,715,323
Total Assets	<u>13,457,494</u>	<u>7,192,628</u>	<u>20,650,122</u>
Liabilities			
Accounts payable and other current liabilities	324,289	166,572	490,861
Deferred revenue	35,941	-	35,941
Customer deposits	-	40,140	40,140
Interest payable	3,946	-	3,946
Noncurrent liabilities:			
Due within one year	502,328	59,454	561,782
Due in more than one year	4,086,345	1,706,437	5,792,782
Total Liabilities	<u>4,952,849</u>	<u>1,972,603</u>	<u>6,925,452</u>
Net Assets			
Invested in capital assets, net of related debt	5,376,916	2,696,121	8,073,037
Restricted for:			
Debt service	158,408		158,408
Streets and other	625,994		625,994
Capital projects	202,419	-	202,419
Unrestricted	2,140,908	2,523,904	4,664,812
Total Net Assets	<u>\$ 8,504,645</u>	<u>\$ 5,220,025</u>	<u>\$ 13,724,670</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, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 914,307	\$ 26,904	\$ 16,340	\$ 288	\$ (870,775)	\$ -	\$ (870,775)
Public safety	1,717,431	96,166	59,662	-	(1,561,603)	-	(1,561,603)
Highways and streets	838,919	-	307,749	-	(531,170)	-	(531,170)
Culture and recreation	947,176	24,176	156,101	8,404	(758,495)	-	(758,495)
Community development	53,738	-	1,000	197,789	145,051	-	145,051
Public works	528,765	-	-	-	(528,765)	-	(528,765)
Interest on long-term debt	203,651	-	-	-	(203,651)	-	(203,651)
Total governmental activities	5,203,987	147,246	540,852	206,481	(4,309,408)	-	(4,309,408)
Business-type activities:							
Gas	691,644	1,022,051	-	4,198	-	334,605	334,605
Water	447,681	758,084	-	3,205	-	313,608	313,608
Sewer	464,389	705,914	-	-	-	241,525	241,525
Refuse	502,249	569,338	-	-	-	67,089	67,089
Total business-type activities	2,105,963	3,055,387	-	7,403	-	956,827	956,827
General Revenues:							
Property taxes levied for general purposes					218,685	-	218,685
Sales taxes					2,716,472	-	2,716,472
Other taxes					681,893	-	681,893
State revenue sharing					581,918	-	581,918
Miscellaneous revenues					78,133	-	78,133
Unrestricted investment earnings					48,993	17,954	66,947
Transfers					428,400	(428,400)	-
Total general revenues & transfers					4,754,494	(410,446)	4,344,048
Change in net assets					445,086	546,381	991,467
Net assets - beginning					8,059,559	4,673,644	12,733,203
Net assets - ending					\$ 8,504,645	\$ 5,220,025	\$ 13,724,670

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

CITY OF WILLCOX, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2009

ASSETS	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,157,919	\$ -	\$ 54,750	\$ -	\$ 2,212,669
Receivables:					
Property taxes	16,053	-	-	23,584	39,637
Other	40,741	-	-	-	40,741
Intergovernmental	214,395	90,948	37,871	1,832	345,046
Due from other funds	107,395	-	-	-	107,395
Prepaid items	-	-	-	-	-
Restricted cash and investments	-	274,733	-	471,684	746,417
Total Assets	<u>\$ 2,536,503</u>	<u>\$ 365,681</u>	<u>\$ 92,621</u>	<u>\$ 497,100</u>	<u>\$ 3,491,905</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 110,065	\$ 32,900	\$ 91,496	\$ 11,486	\$ 245,947
Accrued liabilities	69,207	9,135	-	-	78,342
Due to other funds	-	-	-	-	-
Deferred revenue	15,029	-	-	20,912	35,941
Total Liabilities	<u>194,301</u>	<u>42,035</u>	<u>91,496</u>	<u>32,398</u>	<u>360,230</u>
Fund Balances:					
Reserved for:					
Roads and highways	-	323,646	-	-	323,646
Debt service	-	-	-	162,354	162,354
Other purposes	-	-	-	302,348	302,348
Unreserved/Undesignated	2,342,202	-	1,125	-	2,343,327
Total Fund Balances	<u>2,342,202</u>	<u>323,646</u>	<u>1,125</u>	<u>464,702</u>	<u>3,131,675</u>
Total Liabilities and Fund Balances	<u>\$ 2,536,503</u>	<u>\$ 365,681</u>	<u>\$ 92,621</u>	<u>\$ 497,100</u>	

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

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	9,965,589
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,592,619)</u>
Net assets of governmental activities	<u><u>\$ 8,504,645</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, 2009

REVENUES	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,145,118	\$ 802,455	\$ -	\$ 156,227	\$ 3,103,800
Licenses, permits and fees	95,363		-	-	95,363
Intergovernmental revenue	1,070,680	305,249	439,552	288	1,815,769
Charges for services	19,610	-	-	-	19,610
Fines and forfeitures	30,300	-	-	-	30,300
Interest	35,387	9,083	-	4,523	48,993
Other revenues	80,818	2,500	-	23,520	106,838
Total Revenues	<u>3,477,276</u>	<u>1,119,287</u>	<u>439,552</u>	<u>184,558</u>	<u>5,220,673</u>
EXPENDITURES					
Current:					
General Government	830,527	-	-	1,590	832,117
Public Safety	1,721,123	-	24,159	-	1,745,282
Community Development	-	-	53,587	-	53,587
Culture and Recreation	877,277	-	-	-	877,277
Streets and Highways	-	617,977	-	-	617,977
Public Works	556,249	-	-	-	556,249
Capital Outlay	-	285,373	424,874	261,653	971,900
Debt Service:					
Principal	-	290,000	-	104,000	394,000
Interest	-	142,710	-	58,753	201,463
Total Expenditures	<u>3,985,176</u>	<u>1,336,060</u>	<u>502,620</u>	<u>425,996</u>	<u>6,249,852</u>
Excess of Revenues					
Over (Under) Expenditures	<u>(507,900)</u>	<u>(216,773)</u>	<u>(63,068)</u>	<u>(241,438)</u>	<u>(1,029,179)</u>
Other Financing Sources (Uses):					
Proceeds from debt	-	176,147	-	-	176,147
Loss on investments	(25,642)	(7,449)	-	-	(33,091)
Intergovernmental transfer	-	-	-	(3,192)	(3,192)
Transfers out	-	(46,895)	-	(17,298)	(64,193)
Transfers in	423,000	-	64,193	5,400	492,593
Total Other Financing Sources (Uses)	<u>397,358</u>	<u>121,803</u>	<u>64,193</u>	<u>(15,090)</u>	<u>568,264</u>
Net change in fund balances	(110,542)	(94,970)	1,125	(256,528)	(460,915)
Fund Balance, Beginning of Year	2,452,744	418,616	-	721,230	3,592,590
Fund Balance, End of Year	<u>\$ 2,342,202</u>	<u>\$ 323,646</u>	<u>\$ 1,125</u>	<u>\$ 464,702</u>	<u>\$ 3,131,675</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, 2009

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

Net change in fund balances - total governmental funds	\$ (460,915)
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.	707,801
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt related items.	279,000
Some 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.	(15,382)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	<u>(65,418)</u>
Change in net assets of governmental activities	<u><u>\$ 445,086</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, 2009

Assets	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
Current Assets:					
Cash	\$ 857,024	\$ 1,056,426	\$ 365,716	\$ -	\$ 2,279,166
Receivables (net of allowance)	81,900	92,774	73,951	55,015	303,640
Prepays	-	-	-	-	-
Due from other governments	-	-	-	-	-
Deferred charges	-	-	33,336	-	33,336
Inventory	41,808	16,403	-	-	58,211
Restricted cash	33,947	29,942	96,214	3,555	163,658
Total Current Assets	<u>1,014,679</u>	<u>1,195,545</u>	<u>569,217</u>	<u>58,570</u>	<u>2,838,011</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	1,054,438	3,016,721	3,936,298	-	8,007,457
Machinery and equipment	123,405	105,606	105,163	-	334,174
Automobiles and trucks	85,582	80,303	26,002	-	191,887
Construction in progress	-	1,618,891	-	-	1,618,891
Accumulated depreciation	<u>(884,216)</u>	<u>(2,508,208)</u>	<u>(2,504,198)</u>	<u>-</u>	<u>(5,896,622)</u>
Total Noncurrent Assets	<u>423,239</u>	<u>2,445,213</u>	<u>1,593,560</u>	<u>-</u>	<u>4,462,012</u>
Total Assets	<u>1,437,918</u>	<u>3,640,758</u>	<u>2,162,777</u>	<u>58,570</u>	<u>7,300,023</u>
Liabilities					
Current Liabilities:					
Accounts payable	23,474	17,161	20,185	68,214	129,034
Accrued liabilities	7,313	12,881	13,761	3,583	37,538
Customer deposits	33,947	6,193	-	-	40,140
Due to other funds	-	-	-	107,395	107,395
Current portion of long-term debt	<u>-</u>	<u>21,000</u>	<u>38,454</u>	<u>-</u>	<u>59,454</u>
Total Current Liabilities	<u>64,734</u>	<u>57,235</u>	<u>72,400</u>	<u>179,192</u>	<u>373,561</u>
Long-Term Debt (net of current portion):					
Revenue bonds payable	<u>-</u>	<u>906,000</u>	<u>800,437</u>	<u>-</u>	<u>1,706,437</u>
Total Long-Term Debt	<u>-</u>	<u>906,000</u>	<u>800,437</u>	<u>-</u>	<u>1,706,437</u>
Total Liabilities	<u>64,734</u>	<u>963,235</u>	<u>872,837</u>	<u>179,192</u>	<u>2,079,998</u>
Net Assets					
Invested in capital assets, net of related debt	423,239	1,518,213	754,669	-	2,696,121
Restricted	-	-	-	-	-
Unrestricted (deficit)	<u>949,945</u>	<u>1,159,310</u>	<u>535,271</u>	<u>(120,622)</u>	<u>2,523,904</u>
Total Net Assets (deficit)	<u>\$ 1,373,184</u>	<u>\$ 2,677,523</u>	<u>\$ 1,289,940</u>	<u>\$ (120,622)</u>	<u>\$ 5,220,025</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, 2009

Operating Revenues:	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Charges for services	\$ 930,057	\$ 717,033	\$ 705,914	\$ 569,338	\$ 2,922,342
Other revenues	91,994	41,051	-	-	133,045
Total Operating Revenues	1,022,051	758,084	705,914	569,338	3,055,387
Operating Expenses:					
Salaries, wages and benefits	101,103	189,220	139,868	-	430,191
Office expenses and travel	5,312	514	-	-	5,826
Repairs and maintenance	3,581	6,678	6,867	-	17,126
Utilities	1,887	46,884	-	-	48,771
Contract services	-	21,396	-	502,179	523,575
Miscellaneous	74	2,190	-	70	2,334
Gas purchases	496,567	-	-	-	496,567
Service, supplies and other	52,466	65,934	189,786	-	308,186
Depreciation/amortization	23,791	67,789	92,782	-	184,362
Total Operating Expenses	684,781	400,605	429,303	502,249	2,016,938
Operating Income	337,270	357,479	276,611	67,089	1,038,449
Non-operating Revenues (Expenses):					
Intergovernmental	-	-	-	-	-
Loss on investments	(6,863)	(7,312)	-	-	(14,175)
Interest income	8,368	8,916	670	-	17,954
Interest expense and fiscal charges	-	(39,764)	(35,086)	-	(74,850)
Connection and impact fees	4,198	3,205	-	-	7,403
Total Non-Operating Revenue (Expense)	5,703	(34,955)	(34,416)	-	(63,668)
Net Income before contributions and transfers	342,973	322,524	242,195	67,089	974,781
Transfers out	(132,000)	(170,400)	(78,000)	(48,000)	(428,400)
Net Income	210,973	152,124	164,195	19,089	546,381
Total net assets, beginning of year	1,162,211	2,525,399	1,125,745	(139,711)	4,673,644
Total net assets, end of year	\$ 1,373,184	\$ 2,677,523	\$ 1,289,940	\$ (120,622)	\$ 5,220,025

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, 2009

	Gas Fund	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 944,477	\$ 702,058	\$ 702,426	\$ 567,368	\$ 2,916,329
Cash received from customers, other	91,994	41,051	-	-	133,045
Cash paid to suppliers	(580,999)	(131,185)	(247,394)	(489,524)	(1,449,102)
Cash paid to employees	(121,017)	(202,061)	(147,400)	-	(470,478)
Net cash flows from operating activities	<u>334,455</u>	<u>409,863</u>	<u>307,632</u>	<u>77,844</u>	<u>1,129,794</u>
Cash Flows From Noncapital Financing Activities:					
Proceeds/Payments from/(to) other funds	-	50,988	-	(29,844)	21,144
Transfers out	(132,000)	(170,400)	(78,000)	(48,000)	(428,400)
Net cash flows from noncapital financing activities	<u>(132,000)</u>	<u>(119,412)</u>	<u>(78,000)</u>	<u>(77,844)</u>	<u>(407,256)</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(149,153)	(123,540)	(12,353)	-	(285,046)
Principal paid on long-term debt	-	(20,000)	(36,985)	-	(56,985)
Debt issues	-	-	-	-	-
Interest paid	-	(39,764)	(35,086)	-	(74,850)
Capital grants	-	-	-	-	-
Connection & impact fees	4,198	3,205	-	-	7,403
Net cash flows from capital and related financing activities	<u>(144,955)</u>	<u>(180,099)</u>	<u>(84,424)</u>	<u>-</u>	<u>(409,478)</u>
Cash Flows From Investing Activities:					
Interest on investments	8,368	8,916	670	-	17,954
Loss on investments	(6,863)	(7,312)	-	-	(14,175)
Net cash flows from investing activities	<u>1,505</u>	<u>1,604</u>	<u>670</u>	<u>-</u>	<u>3,779</u>
Net change in Cash and Cash Equivalents	59,005	111,956	145,878	-	316,839
Cash and Cash Equivalents, Beginning of Year	831,966	974,412	316,052	3,555	2,125,985
Cash and Cash Equivalents, End of Year	<u>\$ 890,971</u>	<u>\$ 1,086,368</u>	<u>\$ 461,930</u>	<u>\$ 3,555</u>	<u>\$ 2,442,824</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income/(Loss)	\$ 337,270	\$ 357,479	\$ 276,611	\$ 67,089	\$ 1,038,449
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:					
Depreciation/amortization	23,791	67,789	92,782	-	184,362
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables	14,420	(14,975)	(3,488)	(1,970)	(6,013)
(Increase)/Decrease in prepaids/inventory	(2,050)	9,879	4,799	-	12,628
Increase/(Decrease) in accounts payable	(19,062)	2,532	(55,540)	12,697	(59,373)
Increase/(Decrease) in accrued liabilities	(19,914)	(12,841)	(7,532)	28	(40,259)
Net cash provided (used) by operating activities	<u>\$ 334,455</u>	<u>\$ 409,863</u>	<u>\$ 307,632</u>	<u>\$ 77,844</u>	<u>\$ 1,129,794</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, 2009

	<u>Magistrate Court Agency Fund</u>	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS		
Cash and cash equivalents	\$ 12,859	\$ 207,939
Accounts receivable	<u>-</u>	<u>4,470</u>
Total Assets and Other Debits	<u>12,859</u>	<u>212,409</u>
LIABILITIES		
Accrued liabilities	<u>12,859</u>	<u>-</u>
Total liabilities	<u>12,859</u>	<u>-</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u><u>\$ -</u></u>	<u><u>\$ 212,409</u></u>

The accompanying notes are in 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, 2009

	<u>Volunteer Firefighters' Relief and Pension</u>
ADDITIONS:	
Contributions:	
Employer	\$ 1,229
State fire tax	4,470
Plan member	<u>1,229</u>
Total Contributions	<u>6,928</u>
Investment Income:	
Interest earnings	<u>2,466</u>
Net Investment Income (Loss)	<u>2,466</u>
Total Additions	<u>9,394</u>
DEDUCTIONS:	
Benefits	4,400
Loss on investments	<u>1,894</u>
Total Deductions	<u>6,294</u>
Net Increase (Decrease)	3,100
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	<u>209,309</u>
End of Year	<u><u>\$ 212,409</u></u>

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

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 mayor, vice-mayor and three-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. 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, 2009

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, 2009

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

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, 2009

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, 2009

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

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

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. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

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

The details of this difference are as follows:

Bonds payable	\$4,234,000
Capital leases	238,763
Compensated absences	115,910
Accrued interest	<u>3,946</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$4,592,619</u></u>

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

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. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital Outlay	\$ 1,174,802
Asset Disposals	(18,500)
Depreciation Expense	<u>(448,501)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 707,801</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

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

The details of this difference are as follows:

Issuance of debt	\$ (176,147)
Principal repayments on debt	<u>455,147</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 279,000</u>

Another element of that reconciliation states that "Some 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." The details of this difference are as follows:

Compensated absences	\$ (13,194)
Accrued interest	<u>(2,188)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (15,382)</u>

In the statement of activities, only the gain/(loss) on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

\$ (65,418)

Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (65,418)</u>
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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, 2009. There were no amendments made to the original appropriations during the current fiscal year.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 3. Stewardship, Compliance and Accountability, (Continued)

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, 2009, if any.

Deficit Fund Equity

The Refuse Fund had a deficit in fund balance of \$120,622 as of June 30, 2009 which decreased from the \$139,711 June 30, 2008 deficit.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 4. Deposits and Investments

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

Cash and cash equivalents	\$ 4,491,835
Restricted cash and cash equivalents	910,075
Trust and agency fund cash	<u>220,798</u>
Total cash and equivalents	<u>\$ 5,622,708</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, 2009, cash on hand was \$1,750 and the carrying amount of the City's deposits was \$1,640,227. As of June 30, 2009, \$0 of the City's bank balance of \$1,640,227 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.

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

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 4. Deposits and Investments (Continued)

As of June 30, 2009 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Local Government Pooled					
Investment Fund	\$ 4,036,496	\$ 4,036,496	\$ -	\$ -	\$ -
Treasury Obligations	958	958			
Total Fair Value	<u>\$ 4,037,454</u>	<u>\$ 4,037,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

At June 30, 2009 the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Local Government Pooled					
Investment Fund	\$ 4,036,496	\$ -	\$ -	\$ -	\$ 4,036,496
Treasury Obligations	\$ 958	\$ 958			
Total Fair Value	<u>\$ 4,037,454</u>	<u>\$ 958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,036,496</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 5. **Restricted Assets**

Restricted assets at June 30, 2009 consisted of the following cash reserves:

Restricted Cash

Streets and Other	\$ 274,733
Capital Projects	213,905
Nonmajor Funds	257,779
Gas Fund - Customer Deposits	33,947
Water Fund - Debt Reserves and Customer Deposits	29,942
Sewer Fund - Debt Reserves and Customer Deposits	96,214
Refuse Fund - Customer Deposits	<u>3,555</u>
Subtotal	910,075
Magistrate Court Agency Fund	12,859
Volunteer Firefighters Relief and Pension Fund	<u>207,939</u>
Total Restricted Cash	<u><u>\$ 1,130,873</u></u>

NOTE 6. **Property Taxes Receivable**

Property taxes receivable in the amount of \$39,637 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Deferred revenue of \$35,941 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, 2009

NOTE 7. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2009 was as follows:

Governmental Activities:	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets, not being depreciated:				
Land	\$ 1,214,006	\$ -	\$ -	\$ 1,214,006
Construction in progress	1,251,317	601,563	(1,756,448)	96,432
Total capital assets not being depreciated	<u>2,465,323</u>	<u>601,563</u>	<u>(1,756,448)</u>	<u>1,310,438</u>
Capital assets, being depreciated:				
Buildings and Improvements	3,102,807	1,784,370	(33,023)	4,854,154
Infrastructure	4,618,661	124,901	-	4,743,562
Furniture, Equipment, Vehicles	2,185,874	420,416	(72,602)	2,533,688
Total capital assets being depreciated	<u>9,907,342</u>	<u>2,329,687</u>	<u>(105,625)</u>	<u>12,131,404</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,548,923)	(97,601)	14,523	(1,632,001)
Infrastructure	(276,614)	(173,147)	-	(449,761)
Furniture, Equipment, Vehicles	(1,223,922)	(177,753)	7,184	(1,394,491)
Total accumulated depreciation	<u>(3,049,459)</u>	<u>(448,501)</u>	<u>21,707</u>	<u>(3,476,253)</u>
Total capital assets being depreciated, net	<u>6,857,883</u>	<u>1,881,186</u>	<u>(83,918)</u>	<u>8,655,151</u>
Governmental activities capital assets, net	<u>\$ 9,323,206</u>	<u>\$ 2,482,749</u>	<u>\$(1,840,366)</u>	<u>\$ 9,965,589</u>

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

Governmental Activities:	
General government	\$ 69,709
Public safety	86,215
Highways and streets	219,201
Culture and recreation	67,427
Public works	5,949
Total depreciation expense - governmental activities	<u>\$ 448,501</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 7. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2009 was as follows:

Business Type Activities:	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets, not being depreciated:				
Land	\$ 184,425	\$ -	\$ -	\$ 184,425
Construction in progress	1,645,897	9,487	(36,493)	1,618,891
Total capital assets not being depreciated	<u>1,830,322</u>	<u>9,487</u>	<u>(36,493)</u>	<u>1,803,316</u>
Capital assets, being depreciated:				
Buildings and Improvements	27,375	-	(5,575)	21,800
System and Other Improvements	7,718,527	288,930	-	8,007,457
Furniture, Equipment, Vehicles	575,732	33,927	(83,598)	526,061
Total capital assets being depreciated	<u>8,321,634</u>	<u>322,857</u>	<u>(89,173)</u>	<u>8,555,318</u>
Less accumulated depreciation for:				
Buildings and Improvements	(27,375)	-	5,575	(21,800)
System and Other Improvements	(5,358,597)	(144,242)	-	(5,502,839)
Furniture, Equipment, Vehicles	(406,740)	(38,036)	72,793	(371,983)
Total accumulated depreciation	<u>(5,792,712)</u>	<u>(182,278)</u>	<u>78,368</u>	<u>(5,896,622)</u>
Total capital assets being depreciated, net	<u>2,528,922</u>	<u>140,579</u>	<u>(10,805)</u>	<u>2,658,696</u>
Business type activities capital assets, net	<u>\$ 4,359,244</u>	<u>\$ 150,066</u>	<u>\$ (47,298)</u>	<u>\$ 4,462,012</u>

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

Business-Type Activities:	
Gas	\$ 23,790
Water	67,789
Sewer	90,699
Total depreciation expense - business-type activities	<u>\$ 182,278</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 8. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2009.

Governmental activities:	Balance 6/30/2008	Additions	Retirements	Balance 6/30/2009	Current Portion
General Obligation:					
Capital Leases	\$ 123,763	\$ 176,147	\$ (61,147)	\$ 238,763	\$ 53,328
Water Improvement Bonds, Project of 1974	28,000	-	(4,000)	24,000	4,000
Total General Obligation	<u>151,763</u>	<u>176,147</u>	<u>(65,147)</u>	<u>262,763</u>	<u>57,328</u>
Revenue Obligation:					
Municipal Property Corporation Excise Tax Revenue Bonds, Series 2006	3,005,000	-	(180,000)	2,825,000	185,000
Highway User Revenue Refunding Bonds, Series 2003	225,000	-	(110,000)	115,000	115,000
GADA Revenue Bonds, Series 2003 A	1,370,000	-	(100,000)	1,270,000	100,000
Total Revenue Obligation	<u>4,600,000</u>	<u>-</u>	<u>(390,000)</u>	<u>4,210,000</u>	<u>400,000</u>
Accrued Compensated Absences	<u>102,716</u>	<u>63,179</u>	<u>(49,985)</u>	<u>115,910</u>	<u>45,000</u>
Total Governmental Activity Long-term Liabilities	<u>\$ 4,854,479</u>	<u>\$ 239,326</u>	<u>\$ (505,132)</u>	<u>\$ 4,588,673</u>	<u>\$ 502,328</u>
Business-type Activities:					
Revenue Obligation:					
Water Revenue Bonds, USDA/RD Series 2005	\$ 947,000	\$ -	(20,000)	\$ 927,000	\$ 21,000
Sewer Revenue Bonds, Rural Utilities 2001 A	529,602	-	(21,406)	508,196	22,369
Rural Utilities Bonds 2001 B	346,274	-	(15,579)	330,695	16,085
Total Revenue Obligation	<u>1,822,876</u>	<u>-</u>	<u>(56,985)</u>	<u>1,765,891</u>	<u>59,454</u>
Accrued Compensated Absences	<u>48,421</u>	<u>21,423</u>	<u>(50,081)</u>	<u>19,763</u>	<u>24,000</u>
Total Business-type Activity Long-term Liabilities	<u>\$ 1,871,297</u>	<u>\$ 21,423</u>	<u>\$ (107,066)</u>	<u>\$ 1,785,654</u>	<u>\$ 83,454</u>
Total Long-term Debt	<u>\$ 6,725,776</u>	<u>\$ 260,749</u>	<u>\$ (612,198)</u>	<u>\$ 6,374,327</u>	<u>\$ 585,782</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 8. Long-Term Debt (Continued)

Bonds payable consist of the following at June 30, 2009:

General Obligation:

5% Water Improvement Bonds, Project of 1974, payable in semi-annual installments of principal and interest through 2014. \$ 24,000

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 2,825,000

JP Morgan Highway User Revenue refunding Bond, Series 2003 payable in semi-annual installments of principal and interest, maturing July 1, 2010. 115,000

Greater Arizona Development Authority Infrastructure Revenue Bonds due in semiannual principal and interest installments, bearing interest at 2.5% to 5.0%, maturing in August 1, 2027 1,270,000

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. 927,000

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. 508,196

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. 330,695

Total Bonds Payable \$ 5,999,891

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

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
2010	\$ 404,000	\$ 182,603	\$ 59,454	\$ 71,855
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
2015-2019	1,780,000	397,695	389,208	264,514
2020-2024	670,000	70,917	475,214	178,940
2025-2029	85,000	8,329	274,271	92,139
2030-2034	-	-	250,000	43,518
2035	-	-	57,000	6,930
Total	\$ 4,234,000	\$ 1,248,180	\$ 1,765,891	\$ 920,437

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
2010	\$ 66,900
2011	66,908
2012	62,336
2013	45,903
2014	34,089
Total remaining lease payments	276,136
Less amount representing interest	(37,373)
Present value of net remaining minimum lease payments	<u>\$ 238,763</u>

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 9. Interfund Transactions and Balances

The composition of interfund receivables and payables balances as of June 30, 2009 follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 107,395	\$ -
Refuse Fund	-	107,395
 Total	 \$ 107,395	 \$ 107,395

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, 2009 interfund transfers are as follows:

	Transfers In:					Total
	General Fund	Highway User Fund	Grants Fund	Capital Projects Fund	Non major Funds	
Transfers Out:						
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gas Fund	132,000	-	-	-	-	132,000
Water Fund	165,000	-	-	-	5,400	170,400
Sewer Fund	78,000	-	-	-	-	78,000
Refuse Fund	48,000	-	-	-	-	48,000
Highway User Fund	-	-	46,895	-	-	46,895
Grants Fund	-	-	-	-	-	-
Non major funds	-	-	17,298	-	-	17,298
 Total transfers out	 \$ 423,000	 \$ -	 \$ 64,193	 \$ -	 \$ 5,400	 \$ 492,593

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, 2009

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

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2002 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2009, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 9.5 percent of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2009, 2008, and 2007, were \$160,661, \$177,969, and \$165,753, respectively, which were equal to the required contributions for the year.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 11. Retirement and Pension Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System 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, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute.

Annual Pension Cost - During the year ended June 30, 2009, the City's annual pension cost of \$125,775 for police was equal to the City's required and actual contributions.

The required contribution was determined as part of the June 30, 2009 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation and other across-the-board increases, and (c) additional projected salary increases of 0.50% to 3.50% per year attributable to seniority/merit.

The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining open amortization period at June 30, 2009, is 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. In addition, the preceding actuarial information presents prior year information as the information for 2009 was not yet available.

Historical trend information is presented in the following table in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable. Additional historical trend information for the City's PSPRS is disclosed on page 46.

CITY OF WILLCOX, ARIZONA
Notes to the Financial Statements
June 30, 2009

NOTE 11. Retirement and Pension Plans (Continued)

Three-Year Trend Information – Police

Fiscal Year Ended <u>June 30,</u>	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2007	87,511	100%	-
2008	100,101	100%	-
2009	125,775	100%	-

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, 2009, the City’s contributions amounted to \$1,229, and the firefighters’ contributions amounted to \$1,229; and the State’s contributions totaled \$4,470.

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, 2009

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 currently contracts for landfill services and does not own a landfill; thus, there are no liabilities for landfill closure and postclosure care costs. The City performs annual inspections and provides maintenance services at the site.

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. Commitments

The City has entered into various contracts for the construction of the City's public safety facility and water well projects which were still under construction at fiscal year end. See note 7 for the amounts capitalized as construction in progress at June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLCOX, ARIZONA
Schedule of Funding Progress
June 30, 2009

Police						
Valuation Date <u>June 30,</u>	Actuarial Value of <u>Assets</u>	Entry Age Actuarial Accrued <u>Liability (AAL)</u>	Unfunded <u>AAL</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	Unfunded AAL as a Percentage of Covered <u>Payroll</u>
1996	\$ 573,693	\$ 749,923	\$ 176,230	76.5%	\$ 287,927	61.2%
1997	645,737	795,530	149,793	81.2	263,768	56.8
1998	725,016	878,770	153,754	82.5	285,749	53.8
1999	856,170	997,531	141,361	85.8	342,496	41.3
2000	993,909	1,143,202	149,263	86.9	388,082	38.5
2001	1,365,574	1,241,180	(124,394)	110.0	446,771	-
2002	1,424,365	1,363,625	(60,740)	104.5	466,738	-
2003	1,453,650	1,841,033	387,383	79.0	383,352	101.1
2004	1,436,213	2,020,638	584,425	71.1	404,724	144.4
2005	1,414,826	2,295,922	881,096	61.6	401,879	219.2
2006	1,415,567	2,226,313	810,746	63.6	459,137	176.6
2007	1,373,221	2,433,358	1,060,137	56.4	482,350	219.8
2008	1,568,725	2,505,824	937,099	62.6	545,678	171.7
2009	*	*	*	*	*	*

* Information not available at the date financial statements were issued.

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 or motor fuel tax revenues and lottery proceeds which are set aside for the maintaining, repairing, and upgrading of streets.
- The **Grants Special Revenue Fund** is used to account for federal and state grants and other contributions that are restricted for specific use.

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

CITY OF WILLCOX, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property tax	\$ 65,069	\$ 65,069	\$ 62,458	\$ (2,611)
City sales tax	1,524,420	1,524,420	1,604,914	80,494
Room occupancy tax	200,000	200,000	147,566	(52,434)
Franchise taxes	350,200	350,200	330,180	(20,020)
Total Taxes	<u>2,139,689</u>	<u>2,139,689</u>	<u>2,145,118</u>	<u>5,429</u>
Licenses, Permits and Fees:				
Liquor licenses	1,600	1,600	1,975	375
Business licenses	5,000	5,000	4,779	(221)
Dog licenses	250	250	-	(250)
Cemetery fees	20,000	20,000	21,688	1,688
Building permits	30,000	30,000	66,921	36,921
Total Licenses, Permits and Fees	<u>56,850</u>	<u>56,850</u>	<u>95,363</u>	<u>38,513</u>
Intergovernmental:				
State revenue sharing	572,781	572,781	582,430	9,649
Auto lieu taxes	179,000	179,000	179,147	147
State sales taxes	351,389	351,389	309,103	(42,286)
Total Intergovernmental	<u>1,103,170</u>	<u>1,103,170</u>	<u>1,070,680</u>	<u>(32,490)</u>
Charges for Services:				
Community center rent	3,000	3,000	4,500	1,500
Stout Cider Mill rent	2,000	2,000	1,979	(21)
Swimming pool fees	13,000	13,000	13,131	131
Total Charges for Services	<u>18,000</u>	<u>18,000</u>	<u>19,610</u>	<u>1,610</u>
Fines and Forfeitures:				
Fines & forfeitures	8,300	8,300	30,300	22,000
Total Fines and Forfeitures	<u>8,300</u>	<u>8,300</u>	<u>30,300</u>	<u>22,000</u>
Interest	<u>60,000</u>	<u>60,000</u>	<u>35,387</u>	<u>(24,613)</u>
Other Revenues:				
Miscellaneous	84,382	84,382	80,818	(3,564)
Total Other Revenues	<u>84,382</u>	<u>84,382</u>	<u>80,818</u>	<u>(3,564)</u>
TOTAL REVENUES	<u>3,470,391</u>	<u>3,470,391</u>	<u>3,477,276</u>	<u>6,885</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, 2009 (Continued)

EXPENDITURES	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General Government:				
Mayor & Council	\$ 29,903	\$ 29,903	\$ 25,393	\$ 4,510
General & Administrative	559,270	559,270	520,182	39,088
Finance and Human Resources	308,911	308,911	284,952	23,959
Total General Government	<u>898,084</u>	<u>898,084</u>	<u>830,527</u>	<u>67,557</u>
Public Safety:				
Public Safety Administration	303,865	303,865	303,855	10
Communications	325,237	325,237	305,577	19,660
Police	716,577	716,577	715,295	1,282
Fire	162,404	162,404	111,542	50,862
Animal Control	89,278	89,278	84,290	4,988
Building Inspection	200,595	200,595	200,564	31
Total Public Safety	<u>1,797,956</u>	<u>1,797,956</u>	<u>1,721,123</u>	<u>76,833</u>
Culture and Recreation:				
Library	258,199	258,199	250,532	7,667
Parks & Recreation	412,367	412,367	359,951	52,416
Swimming Pool	146,249	146,249	139,821	6,428
Community Programs	242,000	242,000	126,973	115,027
Total Culture and Recreation	<u>1,058,815</u>	<u>1,058,815</u>	<u>877,277</u>	<u>181,538</u>
Public Works				
Public Works Administration	221,344	221,344	176,042	45,302
Cemetery	56,785	56,785	43,527	13,258
Central Garage	105,408	105,408	101,665	3,743
Buildings & Grounds	278,959	278,959	235,015	43,944
Total Public Works	<u>662,496</u>	<u>662,496</u>	<u>556,249</u>	<u>106,247</u>
TOTAL EXPENDITURES	<u>4,417,351</u>	<u>4,417,351</u>	<u>3,985,176</u>	<u>432,175</u>
Excess of Revenues Over (Under) Expenditures	<u>(946,960)</u>	<u>(946,960)</u>	<u>(507,900)</u>	<u>439,060</u>
Other Financing Sources (Uses):				
Debt Proceeds	-	-	-	-
Transfer from Gas fund	132,000	132,000	132,000	-
Transfer from Water fund	165,000	165,000	165,000	-
Transfer from Sewer fund	78,000	78,000	78,000	-
Transfer from Refuse fund	48,000	48,000	48,000	-
Loss on investments	-	-	(25,642)	25,642
Total Other Financing Sources (Uses)	<u>423,000</u>	<u>423,000</u>	<u>397,358</u>	<u>25,642</u>
Net change in fund balance	(523,960)	(523,960)	(110,542)	413,418
Fund Balance, Beginning of Year	<u>2,452,744</u>	<u>2,452,744</u>	<u>2,452,744</u>	-
Fund Balance, End of Year	<u>\$ 1,928,784</u>	<u>\$ 1,928,784</u>	<u>\$ 2,342,202</u>	<u>\$ 413,418</u>

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 762,210	\$ 762,210	\$ 802,455	\$ 40,245
Intergovernmental Revenue:				
Highway user revenues	352,039	352,039	305,249	(46,790)
Interest	18,000	18,000	9,083	(8,917)
Other revenues	9,725	9,725	2,500	(7,225)
Total Revenues	<u>1,141,974</u>	<u>1,141,974</u>	<u>1,119,287</u>	<u>(22,687)</u>
EXPENDITURES:				
Streets and Highways:				
Salaries & wages	201,327	201,327	188,927	12,400
Benefits	99,389	99,389	90,647	8,742
Service, supplies and other	330,700	330,700	338,403	(7,703)
Capital outlay	197,723	197,723	285,373	(87,650)
Debt Service:				
Principal	290,000	290,000	290,000	-
Interest	141,862	141,862	142,710	(848)
Total Expenditures	<u>1,261,001</u>	<u>1,261,001</u>	<u>1,336,060</u>	<u>(75,059)</u>
Excess of Revenues Over (Under) Expenditures	<u>(119,027)</u>	<u>(119,027)</u>	<u>(216,773)</u>	<u>(97,746)</u>
Other Financing Sources (Uses):				
Proceeds from debt	-	-	176,147	176,147
Loss on investments	-	-	(7,449)	(7,449)
Transfers in	-	-	-	-
Transfers out	-	-	(46,895)	(46,895)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>121,803</u>	<u>121,803</u>
Net change in fund balance	(119,027)	(119,027)	(94,970)	24,057
Fund Balance, Beginning of Year	<u>418,616</u>	<u>418,616</u>	<u>418,616</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 299,589</u>	<u>\$ 299,589</u>	<u>\$ 323,646</u>	<u>\$ 24,057</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 2,002,103	\$ 2,002,103	\$ 439,552	\$ (1,562,551)
Other revenues	200,000	200,000	-	(200,000)
Total Revenues	<u>2,202,103</u>	<u>2,202,103</u>	<u>439,552</u>	<u>(1,762,551)</u>
EXPENDITURES:				
Public Safety	200,325	200,325	24,159	176,166
Community Development	271,202	271,202	53,587	217,615
Capital Outlay	1,730,576	1,730,576	424,874	1,305,702
Total Expenditures	<u>2,202,103</u>	<u>2,202,103</u>	<u>502,620</u>	<u>1,699,483</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(63,068)</u>	<u>(63,068)</u>
Other Financing Sources (Uses): Transfers in	<u>-</u>	<u>-</u>	<u>64,193</u>	<u>64,193</u>
Net change in fund balance	-	-	1,125	1,125
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,125</u>	<u>\$ 1,125</u>

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

COMBINING STATEMENTS AND BUDGET-TO-ACTUAL

SPECIAL REVENUE FUNDS

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

- The **JCEF-TCPF Special Revenue Fund** is used to account for justice court enhancement funds that are restricted or designated for capital outlay and/or improvements for the court.
- 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.
- The **Youth Court Special Revenue Fund** is used to account for youth court funds that are restricted or designated for specific use for the youth court.

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, 2009

ASSETS	Special Revenue			Capital Projects	Debt Service	Total Non-major Funds
	JCEF-TCPF	Special Revenue	Youth Court			
Cash and cash equivalents	\$ -	\$ -	\$ -	-	\$ -	\$ -
Receivables:						
Property taxes	-	-	-	-	23,584	23,584
Intergovernmental	-	1,832	-	-	-	1,832
Restricted cash and investments	-	98,097	-	213,905	159,682	471,684
Total Assets	\$ -	\$ 99,929	\$ -	\$ 213,905	\$ 183,266	\$ 497,100
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 11,486	\$ -	\$ 11,486
Deferred revenue	-	-	-	-	20,912	20,912
Total Liabilities	-	-	-	11,486	20,912	32,398
Fund Balances:						
Reserved	-	99,929	-	202,419	162,354	464,702
Total Fund Balances	-	99,929	-	202,419	162,354	464,702
Total Liabilities and Fund Balances	\$ -	\$ 99,929	\$ -	\$ 213,905	\$ 183,266	\$ 497,100

CITY OF WILLCOX, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

REVENUES	Special Revenue			Capital Projects	Debt Service	Total Non-major Funds
	JCEF-TCPF	Special Revenue	Youth Court			
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 156,227	\$ 156,227
Intergovernmental revenue	288	-	-	-	-	288
Interest	4	69	-	4,450	-	4,523
Other revenues	-	23,520	-	-	-	23,520
Total Revenues	292	23,589	-	4,450	156,227	184,558
EXPENDITURES						
Current:						
General Government	1,590	-	-	-	-	1,590
Capital Outlay	-	20,642	-	241,011	-	261,653
Debt Service:						
Principal	-	-	-	-	104,000	104,000
Interest	-	-	-	-	58,753	58,753
Total Expenditures	1,590	20,642	-	241,011	162,753	425,996
Excess of Revenues Over (Under) Expenditures	(1,298)	2,947	-	(236,561)	(6,526)	(241,438)
Other Financing Sources (Uses):						
Intergovernmental transfer	(3,192)	-	-	-	-	(3,192)
Transfers out	-	-	(17,298)	-	-	(17,298)
Transfers in	-	-	-	-	5,400	5,400
Total Other Financing Sources (Uses)	(3,192)	-	(17,298)	-	5,400	(15,090)
Net change in fund balances	(4,490)	2,947	(17,298)	(236,561)	(1,126)	(256,528)
Fund Balance, Beginning of Year	4,490	96,982	17,298	438,980	163,480	721,230
Fund Balance, End of Year	\$ -	\$ 99,929	\$ -	\$ 202,419	\$ 162,354	\$ 464,702

CITY OF WILLCOX, ARIZONA
JCEF-TCPF Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ 288	\$ 288
Interest	-	-	4	4
Total Revenues	-	-	292	292
EXPENDITURES:				
Service, supplies and other	-	-	1,590	(1,590)
Total Expenditures	-	-	1,590	(1,590)
Excess of Revenues Over (Under) Expenditures	-	-	(1,298)	(1,298)
Other Financing Sources (Uses):				
Intergovernmental transfer	-	-	(3,192)	(3,192)
Transfers out	-	-	-	-
Net change in fund balance	-	-	(4,490)	(4,490)
Fund Balance, Beginning of Year	4,490	4,490	4,490	-
Fund Balance, End of Year	<u>\$ 4,490</u>	<u>\$ 4,490</u>	<u>\$ -</u>	<u>\$ (4,490)</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ -	\$ -	\$ 69	\$ 69
Contributions and other	-	-	23,520	23,520
Total Revenues	<u>-</u>	<u>-</u>	<u>23,589</u>	<u>23,589</u>
EXPENDITURES:				
Capital outlay	<u>95,609</u>	<u>95,609</u>	<u>20,642</u>	<u>74,967</u>
Total Expenditures	<u>95,609</u>	<u>95,609</u>	<u>20,642</u>	<u>74,967</u>
Excess of Revenues Over (Under) Expenditures	<u>(95,609)</u>	<u>(95,609)</u>	<u>2,947</u>	<u>98,556</u>
Other Financing Sources (Uses): Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(95,609)	(95,609)	2,947	98,556
Fund Balance, Beginning of Year	<u>96,982</u>	<u>96,982</u>	<u>96,982</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,373</u>	<u>\$ 1,373</u>	<u>\$ 99,929</u>	<u>\$ 98,556</u>

CITY OF WILLCOX, ARIZONA
Youth Court Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Charges for services	-	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES:				
Service, supplies and other	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers out	-	-	(17,298)	(17,298)
Net change in fund balance	-	-	(17,298)	(17,298)
Fund Balance, Beginning of Year	17,298	17,298	17,298	-
Fund Balance, End of Year	<u>\$ 17,298</u>	<u>\$ 17,298</u>	<u>\$ -</u>	<u>\$ (17,298)</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ -	\$ -	\$ 4,450	\$ 4,450
Total Revenues	-	-	4,450	4,450
EXPENDITURES:				
Capital outlay	462,500	462,500	241,011	221,489
Total Expenditures	462,500	462,500	241,011	221,489
Net change in fund balance	(462,500)	(462,500)	(236,561)	225,939
Fund Balance, Beginning of Year	438,980	438,980	438,980	-
Fund Balance, End of Year	<u>\$ (23,520)</u>	<u>\$ (23,520)</u>	<u>\$ 202,419</u>	<u>\$ 225,939</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES:				
Taxes	<u>\$ 162,760</u>	<u>\$ 162,760</u>	<u>\$ 156,227</u>	<u>\$ (6,533)</u>
Total Revenues	<u>162,760</u>	<u>162,760</u>	<u>156,227</u>	<u>(6,533)</u>
EXPENDITURES:				
Debt Service:				
Principal	104,000	104,000	104,000	-
Interest	<u>58,760</u>	<u>58,760</u>	<u>58,753</u>	<u>7</u>
Total Expenditures	<u>162,760</u>	<u>162,760</u>	<u>162,753</u>	<u>7</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(6,526)</u>	<u>(6,526)</u>
Other Financing Sources (Uses):				
Transfer in	<u>-</u>	<u>-</u>	<u>5,400</u>	<u>5,400</u>
Net change in fund balance	-	-	(1,126)	(1,126)
Fund Balance, Beginning of Year	<u>163,480</u>	<u>163,480</u>	<u>163,480</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 163,480</u>	<u>\$ 163,480</u>	<u>\$ 162,354</u>	<u>\$ (1,126)</u>

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OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

The Honorable Mayor and
 City Council
 City of Willcox, Arizona

We have audited the basic financial statements of the City of Willcox, Arizona, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 3, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the schedule of findings and recommendations dated September 3, 2009 to be significant deficiencies in internal control over financial reporting.

09-1 Year End Audit Adjustments

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 September 3, 2009.

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 an 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.



Michael K. Spilker, CPA
September 3, 2009



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

The Honorable Mayor and
 City Council
 Willcox, Arizona

We have audited the basic financial statements of the City of Willcox, Arizona for the year ended June 30, 2009, and have issued our report thereon dated September 3, 2009. 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, 2009.

Michael K. Spilker, CPA
 September 3, 2009

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