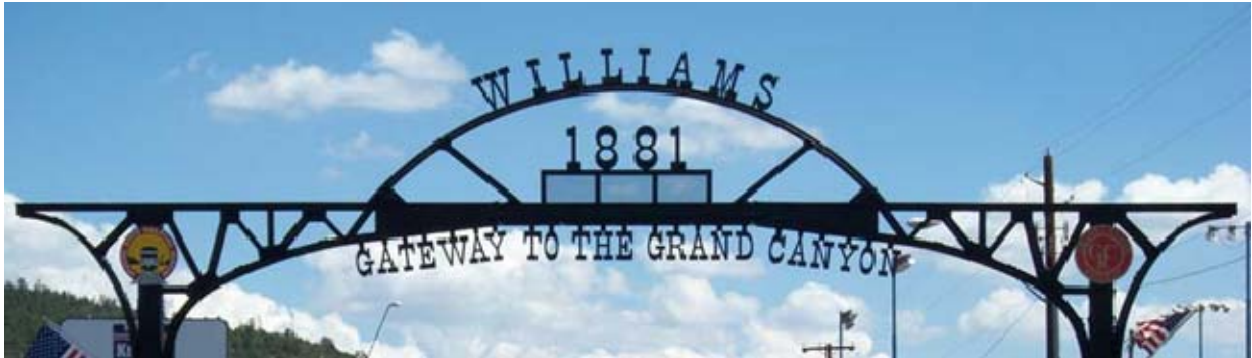


CITY OF WILLIAMS, ARIZONA



FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WILLIAMS, ARIZONA

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CITY OF WILLIAMS, ARIZONA

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FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
City Council
Williams, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Williams, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Williams' 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Williams as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 March 26, 2013, on our consideration of the City of Williams' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Williams, Arizona's basic financial statements. The nonmajor combining and individual fund financial statements as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The nonmajor combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HintonBurdick, PLLC
March 26, 2013

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

As management of the City of Williams, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity (3) identify changes in the City's financial position (4) identify any material deviations from the financial plan (the approved budget) and (5) individual fund issues or concerns.

The discussion and analysis (MD&A) has a different focus and purpose than the transmittal letter of this report, and is designed to be read in conjunction with the transmittal letter as well as the basic financial statements beginning on page 12 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position at the close of the fiscal year was \$37.4 million. This amount is comprised of \$34,838,884 in net investment in capital assets, \$1,194,685 of restricted net position and \$1,363,188 in unrestricted net position.
- Governmental net position decreased by \$1,069,668 and Business-Type net position increased by \$255,886.
- Total City Sales tax revenue increased by 3.4 percent from last year and still is the single largest revenue in the budget.
- Improvements totaling \$1.36 million were made to the City's capital assets.
- Total debt service payments, including interest expense, were approximately \$3 million leaving approximately \$26 million in total outstanding debt at the close of the year.
- The General Fund's unassigned fund balance decreased by \$146,224 to \$211,533. The unassigned fund balance represents 4% of total General Fund expenditures for the fiscal year.
- Other governmental fund balances decreased by \$206,550 to \$690,841. The entire amount is restricted.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

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

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, economic development, culture and recreation, and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended 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 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 Position and the Statement of Activities) and governmental funds in a reconciliation included on page 15 and 17.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$37.4 million as of June 30, 2012 as shown in the following condensed statement of net position.

City of Williams Statement of Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 1,891,070	\$ 2,156,855	\$ 1,760,946	\$ 2,423,694	\$ 3,652,016	\$ 4,580,549
Capital assets	23,430,430	24,436,212	37,837,552	38,458,462	61,267,982	62,894,674
Total assets	<u>25,321,500</u>	<u>26,593,067</u>	<u>39,598,498</u>	<u>40,882,156</u>	<u>64,919,998</u>	<u>67,475,223</u>
Long-term liabilities outstanding	4,720,362	5,017,253	19,748,780	20,948,315	24,469,142	25,965,568
Other liabilities	1,072,849	977,866	1,981,250	2,321,259	3,054,099	3,299,125
Total liabilities	<u>5,793,211</u>	<u>5,995,119</u>	<u>21,730,030</u>	<u>23,269,574</u>	<u>27,523,241</u>	<u>29,264,693</u>
Net position:						
Net investment in capital assets	17,869,017	18,780,366	16,969,867	16,118,572	34,838,884	34,898,938
Restricted	690,841	897,391	503,844	292,347	1,194,685	1,189,738
Unrestricted	968,431	920,191	394,757	1,201,663	1,363,188	2,121,854
Total net position	<u>\$ 19,528,289</u>	<u>\$ 20,597,948</u>	<u>\$ 17,868,468</u>	<u>\$ 17,612,582</u>	<u>\$ 37,396,757</u>	<u>\$ 38,210,530</u>

The City has \$64,919,998 in total assets, with \$61,267,982 in capital assets (net of depreciation). The City's Utility Funds, (Electric, Water & Sewer, Sanitation, and Golf) operations are included in the Business-type activities column.

Governmental Activities

The City's governmental programs include: General Government, Public Safety, Highways and Streets, Culture and Recreation, Economic Development, and Health and Welfare. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**City of Williams
Changes in Net Position**

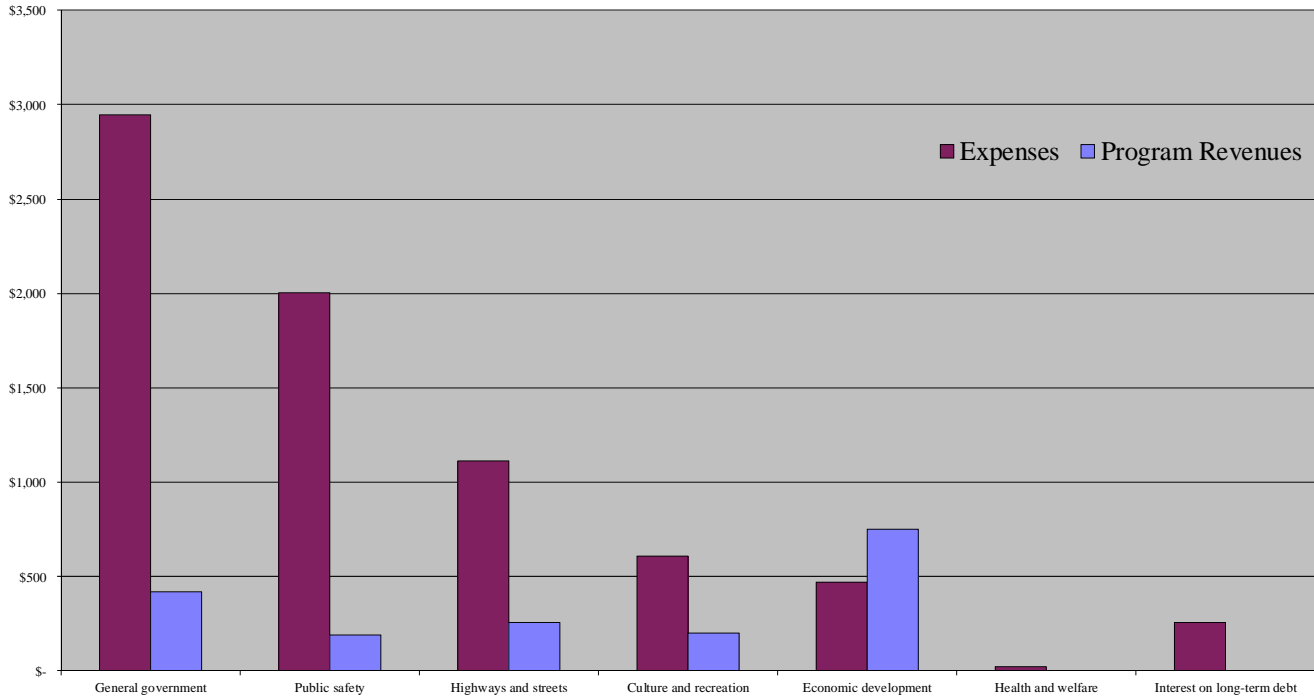
	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 433,344	\$ 377,089	\$ 6,927,818	\$ 6,637,264	\$ 7,361,162	\$ 7,014,353
Operating grants and contributions	1,140,871	1,419,890	-	-	1,140,871	1,419,890
Capital grants and contributions	243,629	222,641	36,314	88,863	279,943	311,504
General revenues:						
Property taxes	775,235	667,940	-	-	775,235	667,940
Sales taxes	3,416,340	3,323,301	-	-	3,416,340	3,323,301
State and other taxes	406,246	468,850	-	-	406,246	468,850
Other	18,501	1,903	20,246	21,581	38,747	23,484
Total revenues	<u>6,434,166</u>	<u>6,481,614</u>	<u>6,984,378</u>	<u>6,747,708</u>	<u>13,418,544</u>	<u>13,229,322</u>
Expenses:						
General government	2,944,314	2,833,436	-	-	2,944,314	2,833,436
Public safety	2,002,156	1,961,796	-	-	2,002,156	1,961,796
Highways and streets	1,113,626	1,224,825	-	-	1,113,626	1,224,825
Culture and recreation	606,877	441,016	-	-	606,877	441,016
Economic development	469,361	444,773	-	-	469,361	444,773
Health and welfare	23,240	22,196	-	-	23,240	22,196
Interest on long-term debt	259,260	259,885	-	-	259,260	259,885
Electric	-	-	2,150,039	2,133,623	2,150,039	2,133,623
Water & Sewer	-	-	3,404,130	3,090,789	3,404,130	3,090,789
Golf Course	-	-	536,037	471,136	536,037	471,136
Sanitation	-	-	723,286	711,425	723,286	711,425
Total expenses	<u>7,418,834</u>	<u>7,187,927</u>	<u>6,813,492</u>	<u>6,406,973</u>	<u>14,232,326</u>	<u>13,594,900</u>
(Decrease)/Increase in net assets before transfers	(984,668)	(706,313)	170,886	340,735	(813,782)	(365,578)
Transfers	(85,000)	(100,000)	85,000	100,000	-	-
(Decrease)/Increase in net assets	(1,069,668)	(806,313)	255,886	440,735	(813,782)	(365,578)
Net position, beginning	20,597,957	21,404,261	17,612,582	16,571,731	38,210,539	37,975,992
Prior period adjustment	-	-	-	600,116	-	600,116
Net position, ending	<u>\$19,528,289</u>	<u>\$20,597,948</u>	<u>\$17,868,468</u>	<u>\$17,612,582</u>	<u>\$37,396,757</u>	<u>\$38,210,530</u>

The cost of all governmental activities this year was \$7,418,834 as shown in the schedule of Changes in Net Position above. \$433,344 of this cost was paid for by those who directly benefited from the programs. \$1,384,500 was subsidized by grants received from other governmental organizations for both capital and operating activities. General taxes, Urban Revenue Sharing and investment earnings totaled \$4,616,322.

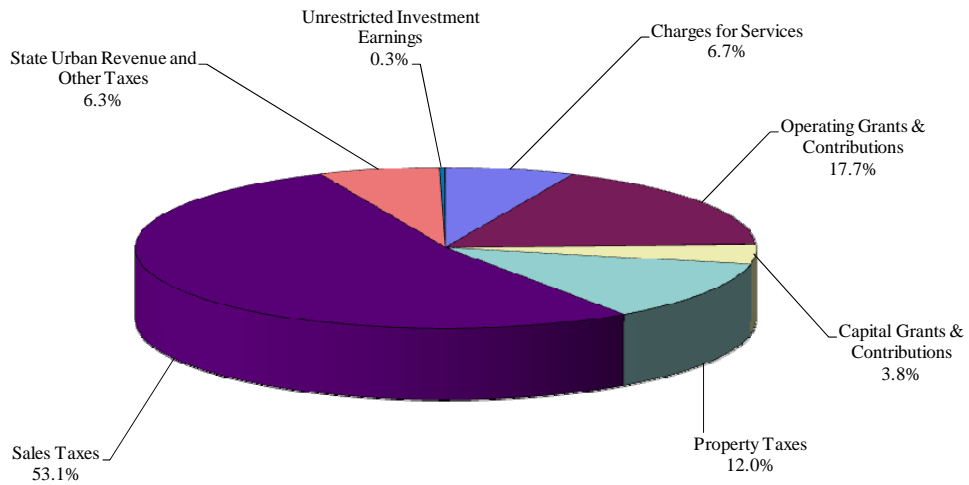
Total resources available during the year to finance governmental operations were \$27.86 million consisting of Net position at July 1, 2011 of \$21.4 million, program revenues of \$2 million and General Revenues of \$4.46 million. Total Governmental Activities during the year were \$7.4 million; thus Governmental Net Position was decreased by \$1 million to \$19.5 million.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



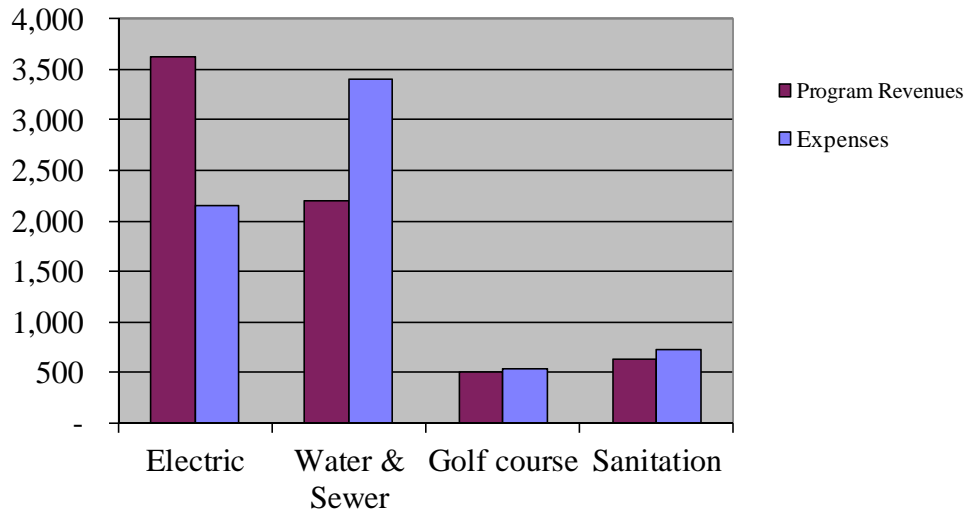
Revenue By Source - Governmental Activities



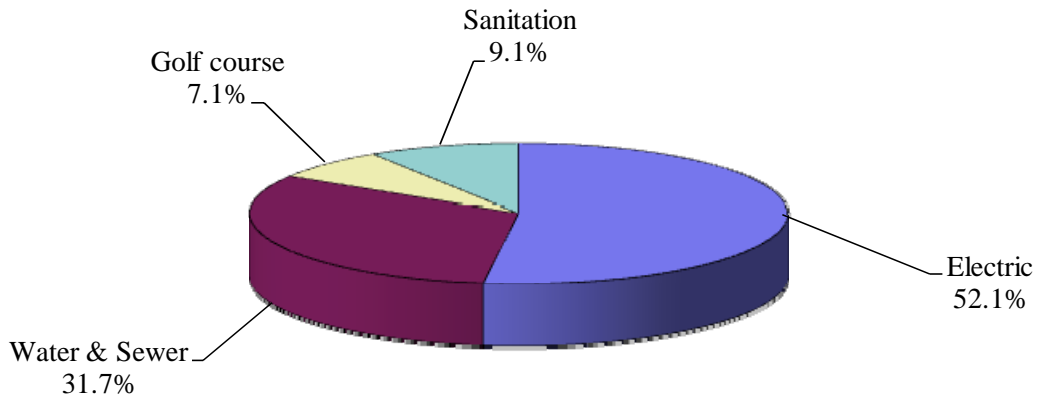
Business Type Activities

Net position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position was \$17.8 million. The cost of providing all Proprietary (Business Type) activities this year was \$6.8 million, including interest expense of \$946,958. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$6.9 million. Interest earnings and other revenues were \$20,246. Net Position increased by \$255,886.

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



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Williams uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Williams's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Williams's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Williams's governmental funds reported combined ending fund balances of \$1.12 million, a decrease of \$341,454 in comparison with the prior year. Approximately, 19% of this total amount or \$211,533 constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or committed because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Williams. At the end of the current fiscal year, total fund balance in the general fund was \$432,537, of which 211,533 is unassigned. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Both unassigned fund balance and total fund balance represents 8.2% of total general fund expenditures.

During the year, the City of Williams's general fund balance decreased by \$134,904.

The debt service fund balance decreased from \$328,369 to \$113,510. The entire debt service fund balance is restricted for future debt service.

Highway User fund expenditures of \$733,039 were funded by Highway User revenues of \$255,691 and transfers in from other funds of \$477,348 which resulted in a fund balance of zero.

The non-major fund balance consists of \$525,492 held in the Greater Arizona Development Authority fund which is all restricted for capital projects. There was only an \$892 increase in this fund balance as a result of interest earnings.

General Fund Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$5,862,006 were greater than the budget of \$5,770,000 by \$92,006 mainly due to miscellaneous revenues received during the fiscal year. Actual expenditures of \$5,292,019 were \$648,619 more than budgeted expenditures of \$4,643,400. There were several departments that exceeded the budget during the fiscal year; however, the most significant variance was due to capital lease expenditures funded by capital lease proceeds.

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, vehicles, buildings, land, park facilities and roads. At the end of fiscal year 2012, net capital assets of the government activities totaled \$23.4 million and the net capital assets of the business-type activities totaled \$37.8 million. Combined capital assets additions were \$1.36 million for fiscal year 2012 consisting of: \$329 thousand and \$113 thousand added to the City's utility and electric systems, respectively, \$333 thousand for the 9th street drainage project and other infrastructure, \$130 thousand for SCBA equipment, \$119 thousand for golf carts and other equipment and \$336 thousand for other assorted capital assets for various City departments. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the City had \$5.27 million in governmental type debt, and \$21 million in business-type debt. During the current fiscal year there was \$208,282 in new capital leases and the City's total debt decreased by \$1.72 million as a result of regularly scheduled debt service payments. (See notes 7 and 8 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City budget for fiscal year 2012/2013, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2011/2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to: City of Williams, Finance Department, 113 South First Street, Williams, AZ 86046-2549. (928) 635-4451.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ -	\$ 204,833	\$ 204,833	\$ 225,358
Receivables (net of allowance)	742,276	946,472	1,688,748	8,750
Internal balances	288,497	(288,497)	-	-
Prepays	191,832	-	191,832	2,258
Inventory	29,172	-	29,172	-
Deferred Charges	-	140,966	140,966	-
Temporarily restricted assets:				
Cash and cash equivalents	639,293	757,172	1,396,465	-
Capital assets (net of accumulated depreciation):				
Land and improvements	257,978	100,000	357,978	481,979
Buildings and improvements	5,740,679	3,469,165	9,209,844	1,003,027
System and other improvements	10,209,495	33,265,589	43,475,084	62,872
Furniture, equipment and vehicles	1,325,772	1,002,798	2,328,570	11,527
Infrastructure	5,896,506	-	5,896,506	-
Total Assets	<u>25,321,500</u>	<u>39,598,498</u>	<u>64,919,998</u>	<u>1,795,771</u>
Liabilities				
Accounts payable and other current liabilities	518,267	703,579	1,221,846	68,123
Noncurrent liabilities:				
Due within one year	554,582	1,277,671	1,832,253	-
Due in more than one year	4,720,362	19,748,780	24,469,142	9,725
Total Liabilities	<u>5,793,211</u>	<u>21,730,030</u>	<u>27,523,241</u>	<u>77,848</u>
Net Position				
Net investment in capital assets	17,869,017	16,969,867	34,838,884	1,559,405
Restricted for:				
Debt service	113,510	-	113,510	-
Capital projects	525,492	-	525,492	-
Other purposes	51,839	503,844	555,683	-
Unrestricted	968,431	394,757	1,363,188	158,518
Total Net Position	<u>\$ 19,528,289</u>	<u>\$ 17,868,468</u>	<u>\$ 37,396,757</u>	<u>\$ 1,717,923</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 2,944,314	\$ 310,667	\$ 104,795	\$ 2,772	\$ (2,526,080)	\$ -	\$ (2,526,080)	\$ -
Public safety	2,002,156	71,704	36,335	83,920	(1,810,197)	-	(1,810,197)	-
Highways and streets	1,113,626	-	256,176	-	(857,450)	-	(857,450)	-
Culture and recreation	606,877	50,973	84,753	65,037	(406,114)	-	(406,114)	-
Economic development	469,361	-	658,812	91,900	281,351	-	281,351	-
Health and welfare	23,240	-	-	-	(23,240)	-	(23,240)	-
Interest on long-term debt	259,260	-	-	-	(259,260)	-	(259,260)	-
Total governmental activities	7,418,834	433,344	1,140,871	243,629	(5,600,990)	-	(5,600,990)	-
Business-type activities:								
Electric	2,150,039	3,629,983	-	-	-	1,479,944	1,479,944	-
Water & Sewer	3,404,130	2,169,773	-	36,314	-	(1,198,043)	(1,198,043)	-
Golf course	536,037	493,810	-	-	-	(42,227)	(42,227)	-
Sanitation	723,286	634,252	-	-	-	(89,034)	(89,034)	-
Total business-type activities	6,813,492	6,927,818	-	36,314	-	150,640	150,640	-
Component Unit:								
Housing Authority	513,202	53,003	440,823	-	-	-	-	(19,376)
General Revenues:								
Property taxes levied for general purposes					775,235	-	775,235	-
Sales taxes					3,416,340	-	3,416,340	-
State urban revenues and other taxes - Unrestricted					406,246	-	406,246	-
Unrestricted investment earnings					16,301	23,301	39,602	45
Miscellaneous					-	-	-	-
Loss on disposal of capital assets					2,200	(3,055)	(855)	(81)
Transfers					(85,000)	85,000	-	-
Total general revenues & transfers					4,531,322	105,246	4,636,568	(36)
Change in net position					(1,069,668)	255,886	(813,782)	(19,412)
Net position - beginning					20,597,957	17,612,582	38,210,539	1,737,335
Net position - ending					\$ 19,528,289	\$ 17,868,468	\$ 37,396,757	\$ 1,717,923

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

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

ASSETS	<u>General</u>	<u>Debt Service</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:						
Property Taxes	24,657	224,768	-	-	-	249,425
Other	95,088	-	-	60,792	-	155,880
Intergovernmental	310,269	-	26,702	-	-	336,971
Due from other funds	305,784	-	-	-	-	305,784
Inventory	29,172	-	-	-	-	29,172
Prepaid items	191,832	-	-	-	-	191,832
Restricted Cash and Investments	-	113,510	291	-	525,492	639,293
Total Assets	<u>\$ 956,802</u>	<u>\$ 338,278</u>	<u>\$ 26,993</u>	<u>\$ 60,792</u>	<u>\$ 525,492</u>	<u>\$ 1,908,357</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 403,129	\$ -	\$ 8,516	\$ 5,006	\$ -	\$ 416,651
Accrued Liabilities	93,679	-	5,137	-	-	98,816
Customer Deposits and Construction Advances	2,800	-	-	-	-	2,800
Due to Other Funds	-	-	13,340	3,947	-	17,287
Deferred Revenue	24,657	224,768	-	-	-	249,425
Total Liabilities	<u>524,265</u>	<u>224,768</u>	<u>26,993</u>	<u>8,953</u>	<u>-</u>	<u>784,979</u>
Fund Balances:						
Nonspendable:						
Inventory	29,172	-	-	-	-	29,172
Prepaid items	191,832	-	-	-	-	191,832
Restricted for:						
Capital projects	-	-	-	-	525,492	525,492
Debt service	-	113,510	-	-	-	113,510
Other items	-	-	-	51,839	-	51,839
Unassigned	211,533	-	-	-	-	211,533
Total Fund Balances	<u>432,537</u>	<u>113,510</u>	<u>-</u>	<u>51,839</u>	<u>525,492</u>	<u>1,123,378</u>
Total Liabilities and Fund Balances	<u>\$ 956,802</u>	<u>\$ 338,278</u>	<u>\$ 26,993</u>	<u>\$ 60,792</u>	<u>\$ 525,492</u>	<u>\$ 1,908,357</u>

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

CITY OF WILLIAMS, ARIZONA
Reconciliation of Total Governmental Fund Balance
To Net Position of Governmental Activities
June 30, 2012

Total governmental fund balances \$ 1,123,378

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 64,588,290	
Accumulated depreciation	<u>(41,157,860)</u>	23,430,430

Certain property taxes and special assessments collected after year-end and are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds but recognized when earned in the statement of activities.

249,425

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

Bonds payable	\$ (4,189,426) *	
Capital leases payable	(153,368)	
Notes payable	(669,957)	
Compensated absences	<u>(262,193)</u>	(5,274,944)

Total net position of governmental activities	\$ 19,528,289
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* Since the majority of the City's debt payments are paid annually or semi-annually on June 30, any accrued interest payable is not applicable or deemed immaterial and not reported.

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

REVENUES	General	Debt Service	Highway User Special Revenue	Grants Special Revenue	Non-major Governmental Funds	Total Governmental Funds
Taxes	\$ 4,480,883	\$ -	\$ -	\$ -	\$ -	\$ 4,480,883
Licenses, Permits and Fees	29,485	-	-	-	-	29,485
Intergovernmental Revenue	637,803	-	255,691	217,836	-	1,111,330
Charges for Services	323,269	-	-	-	-	323,269
Fines and Forfeitures	37,635	-	-	-	-	37,635
Special Assessments	-	-	-	-	93,928	93,928
Interest	1,390	13,964	-	-	965	16,319
Other Revenues	351,541	-	-	3,770	-	355,311
Total Revenues	5,862,006	13,964	255,691	221,606	94,893	6,448,160
EXPENDITURES						
Current:						
General Government	1,975,494	-	-	-	1,039	1,976,533
Public Safety	1,840,399	-	-	28,275	-	1,868,674
Highways & Streets	-	-	628,058	-	-	628,058
Culture and Recreation	499,006	-	-	3,355	-	502,361
Economic Development	471,404	-	-	-	-	471,404
Health & Welfare	19,746	-	-	-	-	19,746
Capital Outlay	417,897	-	45,800	182,559	-	646,256
Debt Service:						
Principal	62,496	323,090	58,069	-	-	443,655
Interest	5,577	252,571	1,112	-	-	259,260
Total Expenditures	5,292,019	575,661	733,039	214,189	1,039	6,815,947
Excess of Revenues Over (Under) Expenditures	569,987	(561,697)	(477,348)	7,417	93,854	(367,787)
Other Financing Sources (Uses):						
Debt Issuance	111,333	-	-	-	-	111,333
Transfers in	-	346,838	477,348	-	7,629	831,815
Transfers out	(816,224)	-	-	-	(100,591)	(916,815)
Total Other Financing Sources (Uses)	(704,891)	346,838	477,348	-	(92,962)	26,333
Net change in fund balances	(134,904)	(214,859)	-	7,417	892	(341,454)
Fund balances, beginning of year	567,441	328,369	-	44,422	524,600	1,464,832
Fund balances, end of year	\$ 432,537	\$ 113,510	\$ -	\$ 51,839	\$ 525,492	\$ 1,123,378

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

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

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

Net change in fund balances - total governmental funds \$ (341,454)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay	\$ 758,708	
Depreciation expense	<u>(1,764,490)</u>	(1,005,782)

The net effect of various transactions involving capital assets (i.e. sales, trade-ins, and donations) resulted in an increase to net assets. 24,304

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. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Capital lease financing		(111,333)
Repayment of long-term debt principal		443,655

Revenues that do not provide current financial resources are not reported as revenues in the funds. This represents the change in unearned revenues for property taxes and assessments receivable that have previously been deferred in the funds. (103,334)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 24,276

Change in net position of governmental activities	<u><u>\$ (1,069,668)</u></u>
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The accompanying notes are an integral part of the financial statements.

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

Assets	Electric Fund	Water & Sewer Fund	Sanitation Fund	Non-Major Golf Course Fund	Total
Current Assets:					
Cash	\$ 204,733	\$ -	\$ 100	\$ -	\$ 204,833
Receivables (net of allowance)	484,868	382,152	13,962	42,078	923,060
Due from other governments	-	-	23,412	-	23,412
Due from other funds	1,617,670	217,866	-	-	1,835,536
Prepaid Expenses	-	-	-	-	-
Total Current Assets	<u>2,307,271</u>	<u>600,018</u>	<u>37,474</u>	<u>42,078</u>	<u>2,986,841</u>
Restricted cash	191,549	394,791	5,316	165,516	757,172
Deferred bond issue costs	34,080	78,380	902	27,604	140,966
Land and improvements	100,000	-	-	-	100,000
Buildings and improvements	129,000	4,011,446	46,426	98,804	4,285,676
System and other improvements	6,381,143	34,806,814	104,983	2,265,810	43,558,750
Furniture, equipment and vehicles	-	1,112,920	931,635	837,553	2,882,108
Accumulated depreciation	<u>(1,852,519)</u>	<u>(9,257,142)</u>	<u>(734,708)</u>	<u>(1,144,613)</u>	<u>(12,988,982)</u>
Total Noncurrent Assets	<u>4,983,253</u>	<u>31,147,209</u>	<u>354,554</u>	<u>2,250,674</u>	<u>38,735,690</u>
Total Assets	<u>7,290,524</u>	<u>31,747,227</u>	<u>392,028</u>	<u>2,292,752</u>	<u>41,722,531</u>
Liabilities					
Current Liabilities:					
Accounts payable	227,697	142,539	40,589	20,787	431,612
Accrued liabilities	14,279	10,947	-	18,289	43,515
Refundable construction advances	55,605	-	-	-	55,605
Customer deposits	109,053	63,794	-	-	172,847
Due to other funds	-	-	147,032	1,977,001	2,124,033
Current portion, compensated absences	-	26,586	24,843	18,571	70,000
Current portion, capital lease payable	-	-	-	23,537	23,537
Current portion, long-term debt	<u>28,964</u>	<u>1,126,185</u>	<u>798</u>	<u>28,187</u>	<u>1,184,134</u>
Total Current Liabilities	<u>435,598</u>	<u>1,370,051</u>	<u>213,262</u>	<u>2,086,372</u>	<u>4,105,283</u>
Long-Term Debt (net of current portion):					
Compensated absences	-	20,642	23,497	3,425	47,564
Capital lease payable	-	-	-	52,804	52,804
General obligation bonds payable	215,737	85,452	6,108	183,276	490,573
Revenue bonds payable	-	2,535,487	-	-	2,535,487
Loans payable	-	16,633,954	-	-	16,633,954
Deferred loss on defeasance	<u>-</u>	<u>(4,888)</u>	<u>-</u>	<u>(6,714)</u>	<u>(11,602)</u>
Total Long-Term Debt	<u>215,737</u>	<u>19,270,647</u>	<u>29,605</u>	<u>232,791</u>	<u>19,748,780</u>
Total Liabilities	<u>651,335</u>	<u>20,640,698</u>	<u>242,867</u>	<u>2,319,163</u>	<u>23,854,063</u>
Net Position					
Net investment in capital assets	4,512,923	10,292,960	341,430	1,822,554	16,969,867
Restricted	109,053	394,791	-	-	503,844
Unrestricted (deficit)	<u>2,017,213</u>	<u>418,778</u>	<u>(192,269)</u>	<u>(1,848,965)</u>	<u>394,757</u>
Total Net Position (deficit)	<u>\$ 6,639,189</u>	<u>\$ 11,106,529</u>	<u>\$ 149,161</u>	<u>\$ (26,411)</u>	<u>\$ 17,868,468</u>

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

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

Operating Revenues	Electric Fund	Water & Sewer Fund	Sanitation Fund	Non-major Golf Course Fund	Total
Charges for services	\$ 3,537,948	\$ 2,168,917	\$ 634,252	\$ 493,810	\$ 6,834,927
Other revenues	92,035	856	-	-	92,891
Total Operating Revenues	3,629,983	2,169,773	634,252	493,810	6,927,818
Operating Expenses					
Salaries, wages and benefits	-	418,545	368,527	256,981	1,044,053
Office expenses and travel	2,642	102,781	73,948	30,871	210,242
Repairs and maintenance	54,987	73,660	5,409	69,335	203,391
Utilities	-	298,082	1,683	35,670	335,435
Legal and professional fees	15,276	92,005	-	429	107,710
Contract services	217,551	-	-	-	217,551
Miscellaneous	-	129,749	-	7,577	137,326
Purchase power	1,662,093	-	-	-	1,662,093
Supplies	-	481,370	14,501	24,503	520,374
Resident and tipping fees	-	-	208,573	-	208,573
Depreciation/amortization	159,061	931,248	49,576	79,901	1,219,786
Total Operating Expenses	2,111,610	2,527,440	722,217	505,267	5,866,534
Operating Income (Loss)	1,518,373	(357,667)	(87,965)	(11,457)	1,061,284
Non-operating Revenues (Expenses)					
Interest income	832	22,380	-	89	23,301
Interest expense and fiscal charges	(38,429)	(876,690)	(1,069)	(30,770)	(946,958)
Connection and impact fees	-	6,684	-	-	6,684
Gain (Loss) on disposal of capital assets	-	(3,055)	-	-	(3,055)
Total Non-Operating Revenue (Expense)	(37,597)	(850,681)	(1,069)	(30,681)	(920,028)
Net Income (Loss) before contributions and transfers	1,480,776	(1,208,348)	(89,034)	(42,138)	141,256
Capital contributions	-	29,630	-	-	29,630
Transfers in	-	686,000	25,500	100,000	811,500
Transfers out	(686,000)	-	-	(40,500)	(726,500)
Net Income (Loss)	794,776	(492,718)	(63,534)	17,362	255,886
Total net position (deficit), beginning of year	5,844,413	11,599,247	212,695	(43,773)	17,612,582
Total net position (deficit), end of year	\$ 6,639,189	\$ 11,106,529	\$ 149,161	\$ (26,411)	\$ 17,868,468

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

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

	Electric Fund	Water & Sewer Fund	Sanitation Fund	Non-major Golf Course Fund	Total
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 3,512,439	\$ 2,145,921	\$ 651,170	\$ 459,141	\$ 6,768,671
Cash received from customers, other	92,035	856	-	-	92,891
Cash paid to suppliers	(2,062,104)	(1,187,546)	(315,595)	(171,743)	(3,736,988)
Cash paid to employees	5,099	(417,579)	(368,527)	(254,621)	(1,035,628)
Net cash flows from operating activities	<u>1,547,469</u>	<u>541,652</u>	<u>(32,952)</u>	<u>32,777</u>	<u>2,088,946</u>
Cash Flows From Noncapital Financing Activities:					
Proceeds/Payments from other funds	-	1,292,103	43,298	100,626	1,436,027
Proceeds/Payments to other funds	(450,143)	-	-	-	(450,143)
Transfers in	-	686,000	-	100,000	786,000
Transfers out	(686,000)	-	25,500	(40,500)	(701,000)
Net cash flows from noncapital financing activities	<u>(1,136,143)</u>	<u>1,978,103</u>	<u>68,798</u>	<u>160,126</u>	<u>1,070,884</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	(113,359)	(339,494)	-	(22,501)	(475,354)
Principal paid on long-term debt	(120,577)	(1,136,175)	(11,429)	(113,151)	(1,381,332)
Principal paid on capital lease	-	(21,047)	(23,498)	(32,289)	(76,834)
Interest paid	(16,903)	(868,799)	(919)	(25,051)	(911,672)
Increase/(Decrease) in refundable construction advances	(92,039)	-	-	-	(92,039)
Proceeds from issuance of debt	-	-	-	-	-
Connection & impact fees	-	6,684	-	-	6,684
Net cash flows from capital and related financing activities	<u>(342,878)</u>	<u>(2,358,831)</u>	<u>(35,846)</u>	<u>(192,992)</u>	<u>(2,930,547)</u>
Cash Flows From Investing Activities:					
Interest on investments	832	22,380	-	89	23,301
Net change in Cash and Cash Equivalents	69,280	183,304	-	-	252,584
Cash and cash equivalents, including restricted cash, beginning of year	<u>327,002</u>	<u>211,487</u>	<u>5,416</u>	<u>165,516</u>	<u>709,421</u>
Cash and cash equivalents, including restricted cash, end of year	<u>\$ 396,282</u>	<u>\$ 394,791</u>	<u>\$ 5,416</u>	<u>\$ 165,516</u>	<u>\$ 962,005</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income/(Loss)	\$ 1,518,373	\$ (357,667)	\$ (87,965)	\$ (11,457)	\$ 1,061,284
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:					
Depreciation/amortization	159,061	931,248	49,576	79,901	1,219,786
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables	(53,702)	(17,901)	16,918	(34,669)	(89,354)
Increase/(Decrease) in prepaids	1,299	-	-	-	1,299
Increase/(Decrease) in accounts payable	(110,854)	(9,899)	(11,481)	(3,358)	(135,592)
Increase/(Decrease) in accrued liabilities	5,099	966	-	2,360	8,425
Increase/(Decrease) in deposits	28,193	(5,095)	-	-	23,098
Net cash provided (used) by operating activities	<u>\$ 1,547,469</u>	<u>\$ 541,652</u>	<u>\$ (32,952)</u>	<u>\$ 32,777</u>	<u>\$ 2,088,946</u>
Supplemental Schedule of Non-cash Financing and Investing Activities:					
Capital asset contributions	\$ -	\$ 29,630	\$ -	\$ -	\$ 29,630
Proceeds from capital lease	\$ -	\$ -	\$ -	\$ 96,949	\$ 96,949

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

CITY OF WILLIAMS, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2012

	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS	
Cash and cash equivalents	\$ 369,717
Accounts receivable	<u>-</u>
Total Assets and Other Debits	<u>369,717</u>
LIABILITIES	
Accounts payable	-
Internal balances	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for pension benefits and other purposes	<u>\$ 369,717</u>

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

CITY OF WILLIAMS, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2012

	<u>Volunteer Firefighters' Relief and Pension</u>
ADDITIONS:	
Contributions:	
Employer	\$ 8,190
Other	9,177
Plan Member	<u>18,105</u>
Total Contributions	<u>35,472</u>
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	-
Interest Earnings (Loss)	<u>(39,424)</u>
Net Investment Income	<u>(39,424)</u>
Total Additions	<u>(3,952)</u>
DEDUCTIONS:	
Benefits	90,243
Service, Supplies and Other	<u>9</u>
Total Deductions	<u>90,252</u>
Net Increase (Decrease)	(94,204)
Net Position Held in Trust for Pension Benefits and Other Purposes	
Beginning of Year	<u>463,921</u>
End of Year	<u>\$ 369,717</u>

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

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

NOTE 1. Summary of Significant Accounting Policies

The accompanying financial statements include all activities of the City of Williams, 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

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these and other criteria, 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. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year end. The following is a brief summary of the component units included in defining the City's reporting entity.

Blended Component Unit: The City of Williams Municipal Development Authority, Inc.'s (MDA) board of directors consists of three members which are appointed by the Williams City Council. The MDA, 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 of the city. The City has a "contractual obligation" for the repayment of the City of Williams MDA Municipal Facilities Revenue Bonds, Series 2002. The portion of the MDA's activities relating to governmental funds is reported in the Debt Service Fund and the activities relating to proprietary funds is reported in the applicable proprietary funds. All related receivables and payables between the City and the MDA have been eliminated.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit: The Williams Housing Authority is a public benefit corporation created by the City to provide subsidized public housing in accordance with federal legislation. The mayor and council appoint members of the governing board for staggered terms; they, in turn, elect a chairman. The governing board employs executives; authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations; and causes the corporation to construct, own, and operate public housing facilities within the boundaries of the City. The financial liability of the housing authority is essentially supported by the operating and debt service subsidies received under contract from the federal government, although services or cash subsidies may be, and from time to time are, received from the City as well.

Separate, complete financial statements for each of the City's component units are not prepared.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

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.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. 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.

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 **Debt Service Fund** accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The **Highway User Revenue Special Revenue Fund** is used to account for the City's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 **Electric Utilities Fund** is used to account for the provision of electricity to the residents of the City.

The **Water & Sewer Fund** is used to account for the provision of water & sewer services to the residents of the City.

The **Sanitation Fund** is used to account for the provision of sanitation services to the residents of the City.

Additionally, the City reports the following fund types:

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.

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.

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.

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.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Deposits and Investments

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

Receivables and Payables

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

Taxes

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

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the 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 are deemed immaterial and are not recorded.

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.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Buildings	25-50 years
Improvements	10-20 years
Equipment	3-10 years
Water and sewer lines	20-40 years
Distribution system	50 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. For governmental funds amounts of accumulated vacation and compensatory time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Unused sick pay is reported as a liability in governmental funds only if they have matured, for example, as a result of employee resignation and retirements. Sick pay amounts are charged as wages when used. Annually, employees with over 10 years of service with the City and over 960 hours of accumulated sick pay are paid out one hour for every three hours over 960. If an employee with over 10 years of service separates from service with the City they are paid out one-third of any unused sick leave.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When both committed, assigned, or unassigned resources are available for use, it is the City's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

Equity is classified in the government-wide financial statements and in the proprietary fund financial statements as net position and is displayed in three components as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position is net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position is all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the City Council. A resolution by the City Council is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose in accordance with the City's budget policy.

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

Estimates

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

Encumbrances

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

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. These differences primarily result from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

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

NOTE 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the City Council to June 30, 2012. There were no amendments made to the original appropriations during the current fiscal year.

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

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

For management purposes, the City adopts a budget by function and activity for each individual fund. The adopted budget can be amended as long as the total budgeted expenditures of all funds does not increase. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level in the General Fund and at the individual fund level for the Special Revenue, Debt Service and Capital Projects funds. The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Council approval.

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

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2012, if any.

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

NOTE 3. Stewardship, Compliance and Accountability (Continued)

Deficit Fund Equity

The Golf Course enterprise fund reported a deficit net position of \$26,411 as of June 30, 2012. This deficit has decreased by \$17,362 when compared to the prior year. It is the City's intention to manage the Golf Course fund such that this deficit can be eliminated by Golf Course fund earnings and transfers from the General Fund over several years.

NOTE 4. Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Position is as follows:

Cash and cash equivalents	\$ 204,833
Restricted cash and cash equivalents	1,396,465
Agency fund monies	<u>369,717</u>
	<u>\$ 1,971,015</u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. At June 30, 2012 cash on hand was \$850 and the carrying amount of the City's deposits was \$227,759. As of June 30, 2012 none of the bank balance of \$1,533,700 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

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

NOTE 4. Deposits and Investments (Continued)

Moody's investors or "A1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

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

	Fair Value	Credit Rating (1)	Weighted Average Maturity (2)
Deposits:			
Cash on deposit	\$ 227,759	N/A	N/A
Cash on hand	850	N/A	N/A
Investments:			
Local Governments Investment Pool 5 *	528,731	AAAF/S1+	26 days
Local Governments Investment Pool 7 *	317,948	AA+	29 days
U.S. Treasuries	569,851	AA+	< 1 year
Mutual Funds	325,875	N/A	N/A
Total cash and investments	<u>1,971,015</u>		

* The fair value of the City's position in each pool is the same as the value of the pool shares.

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

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

Interest rate risk

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

Credit risk

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

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

NOTE 4. Deposits and Investments (Continued)

Housing Authority

Cash and investments of the Housing Authority at June 30, 2012 consist of the following:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on deposit	\$ 174,563	N/A	N/A
Certificates of deposit	<u>50,794.41</u>	N/A	< 1 year
Total	<u>\$ 225,358</u>		

The Housing Authority's deposits as of June 30, 2012, were entirely insured by the FDIC.

NOTE 5. Property Taxes Receivable

Property taxes receivable in the amount of \$24,657 consist of collected and undistributed taxes and uncollected property taxes as determined from the records of the County Treasurer's office. Deferred revenue of \$24,657 represents that portion of the property taxes receivable that have not been collected within 60 days after year end. Consequently, this amount has not been included in current year revenues.

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

NOTE 6. Capital Assets

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

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 257,978	\$ -	\$ -	\$ 257,978
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>257,978</u>	<u>-</u>	<u>-</u>	<u>257,978</u>
Capital assets, being depreciated:				
Land Improvements	18,020,230	488,216	-	18,508,446
Buildings and Improvements	7,804,506	-	-	7,804,506
Infrastructure	33,463,924	-	-	33,463,924
Furniture, Equipment, Vehicles	4,361,640	270,492	(78,696)	4,553,436
Total capital assets being depreciated	<u>63,650,300</u>	<u>758,708</u>	<u>(78,696)</u>	<u>64,330,312</u>
Less accumulated depreciation for:				
Land Improvements	(7,463,436)	(835,515)	-	(8,298,951)
Buildings and Improvements	(1,856,200)	(207,627)	-	(2,063,827)
Infrastructure	(27,086,137)	(481,281)	-	(27,567,418)
Furniture, Equipment, Vehicles	(3,066,293)	(240,067)	78,696	(3,227,664)
Total accumulated depreciation	<u>(39,472,066)</u>	<u>(1,764,490)</u>	<u>78,696</u>	<u>(41,157,860)</u>
Total capital assets being depreciated, net	<u>24,178,234</u>	<u>(1,005,782)</u>	<u>-</u>	<u>23,172,452</u>
Governmental activities capital assets, net	<u>\$ 24,436,212</u>	<u>\$ (1,005,782)</u>	<u>\$ -</u>	<u>\$ 23,430,430</u>

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

Governmental Activities:	
General government	\$ 976,559
Public safety	141,780
Highways and streets	535,772
Culture and recreation	106,747
Economic development	50
Health and welfare	3,582
Total depreciation expense - governmental activities	<u>\$ 1,764,490</u>

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

NOTE 6. Capital Assets (Continued)

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

Business Type Activities:	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2012</u>
Capital assets, not being depreciated:				
Land and Improvements	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Capital assets, being depreciated:				
Buildings and Improvements	4,285,676	-	-	4,285,676
System and Other Improvements	43,083,556	475,192	-	43,558,749
Furniture, Equipment, Vehicles	<u>2,785,924</u>	<u>126,739</u>	<u>(30,555)</u>	<u>2,882,109</u>
Total capital assets being depreciated	<u>50,155,156</u>	<u>601,931</u>	<u>(30,555)</u>	<u>50,726,534</u>
Less accumulated depreciation for:				
Buildings and Improvements	(714,894)	(101,619)	-	(816,511)
System and Other Improvements	(9,337,593)	(955,565)	-	(10,293,160)
Furniture, Equipment, Vehicles	<u>(1,744,207)</u>	<u>(162,602)</u>	<u>27,499</u>	<u>(1,879,311)</u>
Total accumulated depreciation	<u>(11,796,694)</u>	<u>(1,219,786)</u>	<u>27,499</u>	<u>(12,988,982)</u>
Total capital assets being depreciated, net	<u>38,358,462</u>	<u>(617,855)</u>	<u>(3,056)</u>	<u>37,737,552</u>
Governmental activities capital assets, net	<u>\$ 38,458,462</u>	<u>\$ (617,855)</u>	<u>\$ (3,056)</u>	<u>\$ 37,837,552</u>

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

Business Type Activities:	
Electric	\$ 159,061
Water & sewer	931,248
Golf course	79,901
Sanitation	<u>49,576</u>
Total depreciation expense - business activities	<u>\$ 1,219,786</u>

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

NOTE 6. Capital Assets (Continued)

Component Unit, Housing Authority Activities:

	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2012</u>
Capital assets, not being depreciated:				
Land and Improvements	\$ 481,979	\$ -	\$ -	481,979
Total capital assets not being depreciated	<u>481,979</u>	<u>-</u>	<u>-</u>	<u>481,979</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,894,207	-	-	1,894,207
Other Improvements	212,107	-	-	212,107
Furniture, Equipment, Vehicles	135,497	-	(3,454)	132,043
Total capital assets being depreciated	<u>2,241,811</u>	<u>-</u>	<u>(3,454)</u>	<u>2,238,357</u>
Less accumulated depreciation for:				
Buildings and Improvements	(837,864)	(53,316)	-	(891,180)
Other Improvements	(134,505)	(14,730)	-	(149,235)
Furniture, Equipment, Vehicles	(118,985)	(1,531)	-	(120,516)
Total accumulated depreciation	<u>(1,091,354)</u>	<u>(69,577)</u>	<u>-</u>	<u>(1,160,931)</u>
Total capital assets being depreciated, net	<u>1,150,457</u>	<u>(69,577)</u>	<u>(3,454)</u>	<u>1,077,426</u>
Component Unit activities capital assets, net	<u>\$ 1,632,436</u>	<u>\$ (69,577)</u>	<u>\$ (3,454)</u>	<u>\$ 1,559,405</u>

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

NOTE 7. Capital Leases Payable

The City has entered into two lease agreements which are considered capital leases in accordance with Generally Accepted Accounting Principles. The leases are for the purchase of various capital items with varying annual payments through September 2015, including interest at 3.9% to 4.5% and are shown as Governmental and Golf Course fund debt. Equipment and improvements capitalized under the capitalized leases are shown below. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ending June 30:

<u>June 30,</u>	<u>Governmental Debt</u>	<u>Golf Fund</u>	<u>Total</u>
2013	89,078	26,683	115,761
2014	67,359	26,683	94,042
2015	7,790	26,693	34,483
2016	<u>-</u>	<u>2,213</u>	<u>2,213</u>
Total remaining lease payments	164,227	82,272	246,499
Less amount representing interest	<u>(10,859)</u>	<u>(5,931)</u>	<u>(16,790)</u>
Present value of net remaining minimum lease payments	<u>\$ 153,368</u>	<u>\$ 76,341</u>	<u>\$ 229,709</u>

A summary of assets acquired through capital leases follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Capital Assets:		
Furniture, Equipment & Vehicles	\$ 423,591	\$ 202,003
Enterprise Funds:		
Furniture, Equipment & Vehicles	\$ 96,949	\$ 16,158

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

NOTE 8. Long-Term Debt

The City has several obligations with payment dates on July 1 of each year. It is the City's policy to provide payment for these obligations on or before June 30 of each year. Thus, these early debt service payments have been recognized as expenditures and related reductions in liabilities. The City plans to continue using the "early recognition" option in all future years.

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

Governmental Activities:	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Accrued Compensated Absences	\$ 286,469	\$ 173,271	\$ (197,547)	\$ 262,193	\$ 195,000
Capital Leases	186,904	111,333	(144,869)	153,368	80,698
Total other long-term debt	473,373	284,604	(342,416)	415,561	275,698
General Obligation:					
MDA Municipal Facilities Revenue Refunding Bonds, Series 2002	210,916	-	(69,690)	141,226	20,196
Total General Obligation	210,916	-	(69,690)	141,226	20,196
Revenue Bonds:					
GADA Revenue Bonds, Series 2003	206,600	-	(8,400)	198,200	8,688
GADA Revenue Bonds, Series 2005	1,165,000	-	(65,000)	1,100,000	65,000
GADA Revenue Bonds, Series 2008	2,715,000	-	(110,000)	2,605,000	115,000
Total Revenue Bonds	4,086,600	-	(183,400)	3,903,200	188,688
Loans Payable					
Zion's Bank Loan - 2010	669,957	-	-	669,957	-
Total Loans Payable	669,957	-	-	669,957	-
Special Assessment Debt with Government Commitment:					
North side Sewer Improvement District No. 2 Improvement Bonds	215,000	-	(70,000)	145,000	70,000
Total Governmental Debt	<u>\$ 5,655,846</u>	<u>\$ 284,604</u>	<u>\$ (665,506)</u>	<u>\$ 5,274,944</u>	<u>\$ 554,582</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

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

NOTE 8. Long-Term Debt (Continued)

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

Business-type Activities:	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
General Obligation:					
MDA Municipal Facilities Revenue Refunding Bonds, Series 2002	\$ 834,085	\$ -	\$ (275,310)	\$ 558,775	\$ 79,804
Difference Between Reacquisition Price and Carrying Amount of Old Debt	(29,382)	-	17,780	(11,602)	(11,602)
Total General Obligation	804,703	-	(257,530)	547,173	68,202
Revenue Bonds:					
GADA Revenue Bonds, Series 2003	2,763,400	-	(111,600)	2,651,800	116,313
Total Revenue Bonds	2,763,400	-	(111,600)	2,651,800	116,313
Loans Payable:					
Water Infrastructure Finance Authority, 1997-1998 Loan	954,913	-	(146,962)	807,951	151,635
Water Infrastructure Finance Authority, 2000-2001 Loan	1,706,695	-	(160,447)	1,546,248	167,065
Water Infrastructure Finance Authority, 2005-2006 Loan	1,289,643	-	(68,203)	1,221,440	70,403
Water Infrastructure Finance Authority, 2005-2006 Loan	7,313,886	-	(323,777)	6,990,109	334,915
Water Infrastructure Finance Authority, 2008 Loan	6,904,547	-	(266,766)	6,637,781	275,601
Zion's Bank Loan - 2010	430,043	-	-	430,043	-
Total Loans Payable	18,599,727	-	(966,155)	17,633,572	999,619
Other long-term debt:					
Capital Leases	56,226	96,949	(76,834)	76,341	23,537
Accrued Compensated Absences	145,833	68,312	(96,581)	117,564	70,000
Total other long-term debt	202,059	165,261	(173,415)	193,905	93,537
Total Enterprise Fund Long-Term Debt	\$ 22,369,889	\$ 165,261	\$ (1,508,700)	\$ 21,026,450	\$ 1,277,671

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

NOTE 8. Long-Term Debt (Continued)

Bonds and other long-term obligations consist of the following at June 30, 2012:

General Obligation Debt:

City of Williams Municipal Development Authority Facilities Refunding Revenue Bonds, Series 2002, bearing interest at 2.75% to 4.8% due in semiannual principal and interest installments, maturing July, 2018.	<u>\$ 700,001</u> *
Total General Long-Term Debt	700,001
Less Deferred Loss on Defeasance - Enterprise Funds	(11,602)
Less Current Portion - Enterprise Funds	<u>(79,804)</u>
Total net of current portion	<u><u>\$ 608,595</u></u>

* The MDA, Series 2002 Refunding Bond was used to refinance debt of both the general government and various enterprise funds and is allocated across the funds as follows:

Governmental Activities	\$ 141,226
Business-Type Activities	<u>558,775</u>
Total MDA, Series 2002	<u><u>\$ 700,001</u></u>

General obligation debt service maturities are as follows:

Year Ended	Governmental Activities		Business-Type Activities		Total
June 30,	Principal	Interest	Principal	Interest	
2013	20,196	6,786	79,804	26,815	\$ 133,601
2014	22,216	5,816	87,784	22,984	138,800
2015	23,225	4,750	91,775	18,769	138,519
2016	24,235	3,635	95,765	14,364	137,999
2017	25,245	2,472	99,755	9,768	137,240
2018	26,109	1,260	103,892	4,921	136,182
2019	-	-	-	-	-
Total	<u>\$ 141,226</u>	<u>\$ 24,719</u>	<u>\$ 558,775</u>	<u>\$ 97,621</u>	<u>\$ 822,341</u>

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

NOTE 8. Long-Term Debt (Continued)

Special Assessment Debt with Government Commitment:

North side Sewer Improvement District No. 2, Improvement Bonds payable in semiannual principal and interest installments, bearing interest at 8.875%, maturing January 1, 2018.

\$ 145,000

The special assessment debt with government commitment listed above is payable from the special assessments levied against and secured by a lien upon the lots, tracts and parcels of land within each district. In the event that the assessments are insufficient to pay the bonds and interest thereon as they become due, the deficiency shall be paid out of the general fund of the City as per Arizona Revised Statute Section 48-557. There are no reserve requirements in the bond ordinances.

Special Assessment debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2013	\$ 70,000	\$ 12,869	\$ 82,869
2014	75,000	6,656	81,656
2015	-	-	-
2016			
Total	<u>\$ 145,000</u>	<u>\$ 19,525</u>	<u>\$ 164,525</u>

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

NOTE 8. Long-Term Debt (Continued)

Revenue Bonds:

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2003A, due in semiannual principal and interest installments, bearing interest at 3.0% to 5.0%, maturing July 1, 2028. \$ 2,850,000 *

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2005B, due in semiannual principal and interest installments, bearing interest at 4% to 5%, maturing July 1, 2025. 1,100,000

Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2008, due in semiannual principal and interest installments, bearing interest at 3% to 5%, maturing July 1, 2028. 2,605,000

Total bonds payable \$ 6,555,000

Less current portion (305,001)

Total Revenue Bonds net of current portion \$ 6,249,999

* The GADA, Series 2003 Revenue Bond was used by both the general government and the water and sewer enterprise fund and is allocated across the funds as follows:

Governmental Activities \$ 198,200
 Business-type Activities 2,651,800

Total GADA, Series 2003 \$ 2,850,000

Revenue Bond debt service maturities are as follows:

Year Ended June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 188,688	\$ 56,930	\$ 245,618	\$ 116,313	\$ 243,310	\$ 359,623
2014	199,035	53,259	252,294	120,965	232,974	353,939
2015	204,383	49,338	253,721	125,618	221,813	347,431
2016	214,730	46,201	260,931	130,270	210,393	340,663
2017	220,078	42,750	262,828	134,923	199,059	333,982
2018-2022	1,273,729	156,640	1,430,369	786,274	790,253	1,576,527
2023-2027	1,360,062	43,035	1,403,097	1,004,942	370,538	1,375,480
2028	242,495	434	242,929	232,495	11,441	243,936
Total	<u>\$3,903,200</u>	<u>\$ 448,587</u>	<u>\$ 4,351,787</u>	<u>\$ 2,651,800</u>	<u>\$ 2,279,781</u>	<u>\$ 4,931,581</u>

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

NOTE 8. Long-Term Debt (Continued)

Loans Payable:

Water Infrastructure Finance Authority loan payable, issued in fiscal year 1997-98, bearing interest at 3.48% due in semiannual principal and interest installments, maturing July 1, 2017	\$ 807,951
Water Infrastructure Finance Authority loan payable, issued in fiscal year 2000-2001, bearing interest at 4.125% due in semiannual principal and interest installments, maturing July 1, 2020	1,546,248
Water Infrastructure Finance Authority loan payable, issued in fiscal year 2005-2006, bearing interest at 3.225% due in semiannual principal and interest installments, maturing July 1, 2026	1,221,440
Water Infrastructure Finance Authority loan payable, issued in fiscal year 2005-2006, bearing interest at 3.440% due in semiannual principal and interest installments, maturing July 1, 2026	6,990,109
Water Infrastructure Finance Authority loan payable, issued in fiscal year 2008, bearing interest at 3.312% due in semiannual principal and interest installments, maturing July 1, 2030	6,637,781
Zion's bank 2010 loan payable, issued in 2010, bearing interest at 4.55%, due in interest only payments through fiscal year 2013, thereafter interest and principal payments due annually through fiscal year 2021.	<u>1,100,000</u>
Total loans payable	\$ 18,303,529
Less current portion	<u>(999,619)</u>
Total loans payable net of current portion	<u><u>\$ 17,303,910</u></u>

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

NOTE 8. Long-Term Debt (Continued)

Loans payable debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total	Business-Type Activities		Total
	Principal	Interest		Principal	Interest	
2013	\$ -	\$ 30,481	\$ 30,481	\$ 999,619	\$ 608,732	\$ 1,608,351
2014	73,092	29,107	102,199	1,081,160	573,218	1,654,378
2015	73,092	26,264	99,356	1,117,003	535,551	1,652,554
2016	79,183	23,112	102,295	1,158,007	496,433	1,654,440
2017	82,229	19,604	101,833	1,198,350	455,792	1,654,142
2018-2022	362,361	36,621	398,982	5,168,988	413,581	5,582,569
2023-2027	-	-	-	4,961,149	375,428	5,336,577
2028-2030	-	-	-	1,949,296	335,753	2,285,049
Total	<u>\$ 669,957</u>	<u>\$ 165,189</u>	<u>\$ 835,146</u>	<u>\$ 17,633,572</u>	<u>\$ 3,794,488</u>	<u>\$ 21,428,060</u>

Note 9. Defeasance of Long-Term Debt

On May 1, 2003, the City issued \$5,480,000 in Municipal Development Authority Revenue Bonds, Series 2003, bearing interest between 2.75% to 4.8%. Of the proceeds, \$4,871,577 was used to advance refund the outstanding 1997 and 1998 MDA Bonds, and 1993 Certificates of Participation, bearing interest between 3.5% and 6.5%. The escrow account established by the City with the \$4,871,577 and other funds will provide for payment of the interest on the \$4,780,700 amount defeased and will be used to make the final principal payments on the Bonds due July 1, 2018. As a result, the \$4,780,700 principal amount is considered to be defeased and the related liability has been removed from the City's books.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$208,072. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged as interest expense through the year 2018 using the straight line method. For the fiscal year ended June 30, 2012, these interest expenses totaled \$17,778. The City completed the advance refunding to reduce its total debt service payments by \$30,546 over 16 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$18,424.

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

NOTE 10. Interfund Receivables, Payables and Transfers

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

	Due from Other Funds	Due to Other Funds
General Fund	\$ 305,784	\$ -
Special Revenue Funds:		
HURF	-	13,340
Grants	-	3,947
Enterprise Funds:		
Electric	1,617,670	-
Utility	217,866	-
Sanitation	-	147,032
Golf Course	-	1,977,001
Total	\$ 2,141,320	\$ 2,141,320

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. The interfund balances reflected above are intended to be repaid during the subsequent year except for the Golf Course and Utility fund interfund balances. The Council has not determined any terms for repayment for these balances; however, it is expected that they will be repaid over the next few fiscal years.

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

	Transfers Out:				
Transfers In:	General Fund	Capital Project	Golf Fund	Electric Fund	Total
Highway User	\$ 477,348	\$ -	\$ -	\$ -	\$ 477,348
Debt Service	205,747	100,591	40,500	-	346,838
Capital Project	7,629	-	-	-	7,629
Utility	-	-	-	686,000	686,000
Sanitation	25,500	-	-	-	25,500
Golf Fund	100,000	-	-	-	100,000
	\$ 816,224	\$ 100,591	\$ 40,500	\$ 686,000	\$ 1,643,315

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

NOTE 11. Segment Information - Enterprise Funds

The City maintains four enterprise funds which account for the operation of the City's Electric System, Water & Sewer Utilities, Sanitation and Golf Course. Segment information for the year ended June 30, 2012 is not presented here since the information for all four funds is available in the basic financial statements.

NOTE 12. Risk Management

The City is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City is insured by Arizona State Workers Compensation Insurance Fund 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 with the City of Flagstaff for landfill services; thus, there are no liabilities for landfill closure and postclosure care costs.

NOTE 14. Contingent Liabilities

Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees until ten years of service has been completed; therefore, this portion is not accrued. Unvested accumulated sick leave of City employees at June 30, 2012 totaled approximately \$395,000.

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of the City Management, based on the advice of the City Attorney with respect to such litigation, such matters will not have a material adverse effect on the City's financial position at June 30, 2012.

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

NOTE 15. 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 (ASRS). 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. www.azasrs.gov

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the current fiscal year, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	228,508	18,083	10,960
2011	228,404	14,957	6,338
2012	248,104	15,836	6,033

Public Safety Personnel Retirement System (PSPRS)

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

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

NOTE 15. Retirement and Pension Plans (Continued)

Funding Policy - For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 13.32 percent of annual covered payroll. The health insurance premium portion of the contribution rate was actuarially set at 1.09 percent.

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

The PSPRS contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions include (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 9.0 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made.

Annual Pension/OPEB Cost - During the year ended June 30, 2012 the City's annual pension cost of \$80,238 and the annual OPEB cost of \$7,151 was equal to the City's required and actual contributions.

Annual pension and OPEB cost information for the current and 2 preceding years were as follows:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2010	\$ 68,551	100%	-
	2011	84,501	100%	-
	2012	80,238	100%	-
Health Insurance	2010	\$ 5,014	100%	-
	2011	6,615	100%	-
	2012	7,151	100%	-

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

NOTE 15. Retirement and Pension Plans (Continued)

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 1,807,234
Actuarial value of plan assets	1,449,936
Unfunded actuarial accrued liability (UAAL)	<u>\$ 357,298</u>
Funded ratio (actuarial value of plan assets/AAL)	80.2%
Covered payroll (active plan members)	\$ 529,832
UAAL as a percentage of covered payroll	67.4%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. This historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

NOTE 16. Debt Agreements, Covenants and Obligations

The City's water/sewer fund has reported operating losses and overall losses before transfers for the past three years or more. These losses have resulted in the depletion of required loan reserve funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLIAMS, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
PSPRS

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2007 through June 30, 2012 based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
June 30,						
2007	\$1,011,800	\$ 1,159,063	147,263	87.3%	\$ 543,027	27.1%
2008	1,141,587	1,202,023	60,436	95.0%	545,028	11.1%
2009 *	1,331,496	1,373,398	41,902	96.9%	612,748	6.8%
2010 *	1,449,544	1,474,487	24,943	98.3%	589,450	4.2%
2011 *	1,604,470	1,628,273	23,803	98.5%	523,819	4.5%
2012 *	1,449,936	1,807,234	357,298	80.2%	529,832	67.4%

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

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
June 30,						
2007	\$ -	\$ 19,945	\$ 19,945	0.0%	\$ 543,027	3.67%
2008	-	22,573	22,573	0.0%	545,028	4.14%
2009 *	-	29,139	29,139	0.0%	612,748	4.76%
2010 *	-	34,313	34,313	0.0%	589,450	5.82%
2011 *	-	18,021	18,021	0.0%	523,819	3.44%
2012 *	-	20,269	20,269	0.0%	529,832	3.83%

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

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING FUNDS:

General Fund

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.

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.

Special Revenue Funds

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

- The **Highway User Revenue Fund** (Streets) is used to account for the City's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.
- The **Grants 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 Generally Accepted Accounting Principles for all governmental funds.

CITY OF WILLIAMS, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property Tax	\$ 591,000	\$ 591,000	\$ 609,260	\$ 18,260
Sales Tax	3,249,000	3,249,000	3,180,122	(68,878)
Bed, Board & Booze Tax	643,000	643,000	658,812	15,812
Gas Franchise Fees	48,000	48,000	32,689	(15,311)
Total Taxes	<u>4,531,000</u>	<u>4,531,000</u>	<u>4,480,883</u>	<u>(50,117)</u>
Licenses, Permits and Fees:				
Business Licenses	37,500	37,500	9,387	(28,113)
Dog Licenses	2,000	2,000	2,560	560
Building Permits	26,000	26,000	17,538	(8,462)
Total Licenses, Fees and Permits	<u>65,500</u>	<u>65,500</u>	<u>29,485</u>	<u>(36,015)</u>
Intergovernmental:				
State Revenue Sharing	255,000	255,000	255,143	143
Auto Lieu Taxes	122,000	122,000	118,414	(3,586)
State Sales Taxes	229,000	229,000	236,218	7,218
Library Assistance Tax	28,000	28,000	28,028	28
Total Intergovernmental	<u>634,000</u>	<u>634,000</u>	<u>637,803</u>	<u>3,803</u>
Charges for Services:				
Airport Lease	8,000	8,000	8,136	136
Airport Fuel	50,000	50,000	51,778	1,778
Cemetery Charges & Sales	5,000	5,000	5,400	400
Swimming Pool Fees	20,000	20,000	24,837	4,837
Community Development Fees	4,000	4,000	250	(3,750)
Plan Check Fees & Development Review	12,000	12,000	10,471	(1,529)
Facility Rental	185,000	185,000	194,688	9,688
Recreation Programs	4,000	4,000	4,160	160
Rodeo Grounds Fund	16,000	16,000	18,228	2,228
City Park Revenues	1,000	1,000	308	(692)
Rural Fire Districts	500	500	3,250	2,750
Police Travel Reimbursement	2,500	2,500	1,763	(737)
Total Charges for Services	<u>308,000</u>	<u>308,000</u>	<u>323,269</u>	<u>15,269</u>
Fines and Forfeitures:				
Fines & Forfeitures	37,500	37,500	37,635	135
Total Fines and Forfeitures	<u>37,500</u>	<u>37,500</u>	<u>37,635</u>	<u>135</u>
Interest	<u>1,000</u>	<u>1,000</u>	<u>1,390</u>	<u>390</u>
Other Revenues:				
Miscellaneous	193,000	193,000	351,541	158,541
Total Other Revenues	<u>193,000</u>	<u>193,000</u>	<u>351,541</u>	<u>158,541</u>
TOTAL REVENUES	<u>5,770,000</u>	<u>5,770,000</u>	<u>5,862,006</u>	<u>92,006</u>

(continued)

CITY OF WILLIAMS, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2012

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Mayor & Council	62,000	62,000	70,718	(8,718)
Magistrate	169,400	169,400	180,750	(11,350)
General & Administrative	710,000	710,000	742,295	(32,295)
Finance	274,500	274,500	276,107	(1,607)
Maintenance	239,500	239,500	231,535	7,965
Central Garage	289,500	289,500	289,813	(313)
Airport	99,900	99,900	102,089	(2,189)
Community Facilities	81,500	81,500	82,187	(687)
Total General Government	1,926,300	1,926,300	1,975,494	(49,194)
Public Safety:				
Police	1,430,700	1,430,700	1,585,881	(155,181)
Fire	168,400	168,400	157,741	10,659
Building Inspection	90,300	90,300	96,777	(6,477)
Total Public Safety	1,689,400	1,689,400	1,840,399	(150,999)
Culture & Recreation:				
Library	87,500	87,500	81,496	6,004
Parks & Recreation	188,300	188,300	189,874	(1,574)
Swimming Pool	105,500	105,500	93,703	11,797
Recreation Facilities	45,000	45,000	133,933	(88,933)
Total Culture and Recreation	426,300	426,300	499,006	(72,706)
Economic Development:				
Planning	-	-	-	-
Visitor Center	37,500	37,500	31,367	6,133
Tourism Promotion	447,000	447,000	440,037	6,963
Total Economic Development	484,500	484,500	471,404	13,096
Health & Welfare:				
Senior Center	17,000	17,000	19,746	(2,746)
Capital Outlay				
	60,000	60,000	417,897	(357,897)
Debt Service:				
Principal	34,323	34,323	62,496	(28,173)
Interest	5,577	5,577	5,577	-
Total Debt Service	39,900	39,900	68,073	(28,173)
TOTAL EXPENDITURES	4,643,400	4,643,400	5,292,019	(648,619)
Excess of Revenues Over Expenditures	1,126,600	1,126,600	569,987	(556,613)
Other Financing Sources (Uses):				
Debt issuance	-	-	111,333	111,333
Transfers in	-	-	-	-
Transfers out	(917,000)	(917,000)	(816,224)	100,776
Total Other Financing Sources (Uses)	(917,000)	(917,000)	(704,891)	212,109
Net change in fund balance	209,600	209,600	(134,904)	(344,504)
Fund balance, beginning of year	567,441	567,441	567,441	-
Fund balance, end of year	\$ 777,041	\$ 777,041	\$ 432,537	\$ (344,504)

CITY OF WILLIAMS, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 1,000	\$ 1,000	\$ 13,964	\$ 12,964
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>13,964</u>	<u>12,964</u>
EXPENDITURES:				
Debt Service:				
Principal	333,090	333,090	323,090	10,000
Interest	<u>256,760</u>	<u>256,760</u>	<u>252,571</u>	<u>4,189</u>
Total Expenditures	<u>589,850</u>	<u>589,850</u>	<u>575,661</u>	<u>14,189</u>
Excess of Revenues Over (Under) Expenditures	<u>(588,850)</u>	<u>(588,850)</u>	<u>(561,697)</u>	<u>27,153</u>
Other Financing Sources (Uses):				
Operating Transfer In	<u>474,000</u>	<u>474,000</u>	<u>346,838</u>	<u>(127,162)</u>
Total Other Financing Sources (Uses)	<u>474,000</u>	<u>474,000</u>	<u>346,838</u>	<u>(127,162)</u>
Net change in fund balance	(114,850)	(114,850)	(214,859)	(100,009)
Fund balance, beginning of year	<u>328,369</u>	<u>328,369</u>	<u>328,369</u>	<u>-</u>
Fund balance, end of year	<u>\$ 213,519</u>	<u>\$ 213,519</u>	<u>\$ 113,510</u>	<u>\$ (100,009)</u>

CITY OF WILLIAMS, ARIZONA
HIGHWAY USER REVENUE – STREETS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental Revenue:				
Highway User Revenues	\$ 300,000	\$ 300,000	\$ 255,691	\$ (44,309)
Total Intergovernmental	<u>300,000</u>	<u>300,000</u>	<u>255,691</u>	<u>(44,309)</u>
Total Revenues	<u>300,000</u>	<u>300,000</u>	<u>255,691</u>	<u>(44,309)</u>
EXPENDITURES:				
Highways & Streets:				
Salaries & Wages	359,506	359,506	330,248	29,258
Benefits	152,994	152,994	138,083	14,911
Service, Supplies and Other	156,100	156,100	159,727	(3,627)
Capital Outlay	-	-	45,800	(45,800)
Debt Service:				
Principal	77,865	77,865	58,069	19,796
Interest	1,135	1,135	1,112	23
Total Expenditures	<u>747,600</u>	<u>747,600</u>	<u>733,039</u>	<u>14,561</u>
Excess of Revenues Over (Under) Expenditures	<u>(447,600)</u>	<u>(447,600)</u>	<u>(477,348)</u>	<u>(29,748)</u>
Other Financing Sources (Uses):				
Transfer from General Fund	449,000	449,000	477,348	28,348
Total Other Financing Sources (Uses)	<u>449,000</u>	<u>449,000</u>	<u>477,348</u>	<u>28,348</u>
Net change in fund balance	1,400	1,400	-	(1,400)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ 1,400</u>	<u>\$ 1,400</u>	<u>\$ -</u>	<u>\$ (1,400)</u>

CITY OF WILLIAMS, ARIZONA
GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental Revenue	\$ 5,000,000	\$ 5,000,000	\$ 217,836	\$ (4,782,164)
Donations and Other Revenue	\$ -	\$ -	\$ 3,770	\$ 3,770
Total Revenues	<u>5,000,000</u>	<u>5,000,000</u>	<u>221,606</u>	<u>(4,778,394)</u>
EXPENDITURES:				
Public Safety	-	-	28,275	(28,275)
Highways & Streets	-	-	-	-
Culture and Recreation	-	-	3,355	(3,355)
Capital Outlay	<u>5,000,000</u>	<u>5,000,000</u>	<u>182,559</u>	<u>4,817,441</u>
Total Expenditures	<u>5,000,000</u>	<u>5,000,000</u>	<u>214,189</u>	<u>4,785,811</u>
Excess of Revenues Over (Under) Expenditures	-	-	7,417	7,417
Fund balance, beginning of year	<u>44,422</u>	<u>44,422</u>	<u>44,422</u>	<u>-</u>
Fund balance, end of year	<u>\$ 44,422</u>	<u>\$ 44,422</u>	<u>\$ 51,839</u>	<u>\$ 7,417</u>

CITY OF WILLIAMS, ARIZONA
Combining and Individual Fund
Financial Statements
NONMAJOR GOVERNMENTAL FUNDS and COMPONENT UNIT

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

- The **Northside Sewer Improvements Capital Projects Fund** is used to account for the construction of the Northside Sewer System.
- The **Greater Arizona Development Authority Fund** is used to account for the construction of various infrastructure projects of the City.

Component Unit

The **Williams Housing Authority** is a public benefit corporation created by the City to provide subsidized public housing in accordance with federal legislation.

CITY OF WILLIAMS, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

	Capital Project Funds		Total
ASSETS	North Side Sewer	Greater Arizona Development Authority	Non-major Governmental Funds
Cash and cash equivalents	\$ -	\$ 525,492	\$ 525,492
Total assets	\$ -	\$ 525,492	\$ 525,492
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to Other Funds	\$ -	\$ -	\$ -
Total liabilities	-	-	-
Fund Balances:			
Restricted for:			
Capital projects	-	525,492	525,492
Total Fund Balances	-	525,492	525,492
Total Liabilities and Fund Balances	\$ -	\$ 525,492	\$ 525,492

CITY OF WILLIAMS, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2012

	<u>Capital Project Funds</u>		Total Non-major Governmental Funds
	<u>North Side Sewer</u>	<u>Greater Arizona Development Authority</u>	
REVENUES			
Special assessments	\$ 93,928	\$ -	\$ 93,928
Interest	73	892	965
Total revenues	<u>94,001</u>	<u>892</u>	<u>94,893</u>
EXPENDITURES			
Current:			
General government	1,039	-	1,039
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,039</u>	<u>-</u>	<u>1,039</u>
Excess of revenues over (under) expenditures	<u>92,962</u>	<u>892</u>	<u>93,854</u>
Other financing sources (uses):			
Transfers in	7,629	-	7,629
Transfers out	<u>(100,591)</u>	<u>-</u>	<u>(100,591)</u>
Total other financing sources (uses)	<u>(92,962)</u>	<u>-</u>	<u>(92,962)</u>
Net change in fund balances	-	892	892
Fund balances, beginning of year	<u>-</u>	<u>524,600</u>	<u>524,600</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 525,492</u>	<u>\$ 525,492</u>

CITY OF WILLIAMS, ARIZONA
NORTH SIDE SEWER
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Special assessments	\$ 97,000	\$ 97,000	\$ 93,928	\$ (3,072)
Interest earnings	-	-	73	73
Total revenues	<u>97,000</u>	<u>97,000</u>	<u>94,001</u>	<u>(2,999)</u>
EXPENDITURES:				
General government:				
Service, supplies and other	-	-	1,039	(1,039)
Capital Outlay	<u>110,000</u>	<u>110,000</u>	-	<u>110,000</u>
Total expenditures	<u>110,000</u>	<u>110,000</u>	<u>1,039</u>	<u>108,961</u>
Excess of revenues over (under) expenditures	<u>(13,000)</u>	<u>(13,000)</u>	<u>92,962</u>	<u>105,962</u>
Other financing sources (uses):				
Transfer from General Fund	-	-	7,629	7,629
Transfer to debt service fund	-	-	<u>(100,591)</u>	<u>(100,591)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(92,962)</u>	<u>(92,962)</u>
Net change in fund balance	(13,000)	(13,000)	-	13,000
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ (13,000)</u>	<u>\$ (13,000)</u>	<u>\$ -</u>	<u>\$ 13,000</u>

CITY OF WILLIAMS, ARIZONA
GREATER ARIZONA DEVELOPMENT AUTHORITY
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest earnings	\$ -	\$ -	\$ 892	\$ 892
Total revenues	-	-	892	892
EXPENDITURES:				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over (under) expenditures	-	-	892	892
Fund balance, beginning of year	524,600	524,600	524,600	-
Fund balance, end of year	\$ 524,600	\$ 524,600	\$ 525,492	\$ 892

CITY OF WILLIAMS, ARIZONA
Statement of Net Position
Component Unit
June 30, 2012

	<u>Williams Housing Authority</u>
Assets	
Current Assets:	
Cash	\$ 225,358
Receivables (net of allowance)	8,750
Prepays	<u>2,258</u>
Total Current Assets	<u>236,366</u>
Noncurrent Assets:	
Land and improvements	481,979
Buildings and improvements	1,894,207
Other improvements	212,107
Furniture, equipment, vehicles	132,043
Accumulated depreciation	<u>(1,160,931)</u>
Total noncurrent assets	<u>1,559,405</u>
Total Assets	<u>\$ 1,795,771</u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 60,023
Accrued liabilities	7,861
Customer deposits	<u>239</u>
Total Current Liabilities	<u>68,123</u>
Long-Term Debt (net of current portion):	
Accrued vacation	<u>9,725</u>
Total Long-Term Debt	<u>9,725</u>
Total Liabilities	<u>77,848</u>
Net Position	
Net investment in capital assets	1,559,405
Restricted	-
Unrestricted	<u>158,518</u>
Total Net Position	<u>\$ 1,717,923</u>

CITY OF WILLIAMS, ARIZONA
Statement of Activities
Component Unit
For the Year Ended June 30, 2012

	<u>Williams Housing Authority</u>
Expenses:	
Health and Welfare:	\$ 513,202
Total Expenses	<u>513,202</u>
Program Revenues:	
Charges for services	53,003
Operating grants and contributions	<u>440,823</u>
Net (Expense) Revenue	<u>(19,376)</u>
General Revenues:	
Interest income	45
Gain/(loss) on sale of equipment	<u>(81)</u>
Total general revenues and transfers	<u>(36)</u>
Change in net position	(19,412)
Total net position, beginning of year	<u>1,737,335</u>
Total net position, end of year	<u>\$ 1,717,923</u>

SINGLE AUDIT SECTION



MEMBERS:

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KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
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**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 Williams, Arizona

We have audited the basic financial statements of the City of Williams, Arizona, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Williams, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Williams's internal control over financial reporting as 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

11-1 Year End Accounting and Financial Statement Controls

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Williams'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 other matters that we have reported to the management of the City of Williams in a separate letter dated March 26, 2013.

This report is intended solely for the information of 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 part parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC

March 26, 2013

MEMBERS:

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

The Honorable Mayor and
City Council
Williams, Arizona

We have audited the basic financial statements of the City of Williams, Arizona for the year ended June 30, 2012, and have issued our report thereon dated March 26, 2013. Our audit also included test work on the City of Williams's 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 Williams 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 Williams 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 Williams 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 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 Williams complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.


HintonBurdick, PLLC
March 26, 2013

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CITY OF WILLIAMS, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce			
Community Development Block Grant	14.218		\$ 91,900
Low Rent	14.850		86,257
Section 8 Housing Choice Vouchers	14.871		308,070
Public Housing Capital Fund	14.872		<u>44,054</u>
Total U.S. Department of Housing			<u>530,281</u>
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607		<u>519</u>
Total U.S. Department of Justice			<u>519</u>
U.S. Department of Energy			
Passed through Arizona Department of Commerce:			
ARRA-Energy Efficiency & Conservation Block Grant	81.128	G032-10-04	<u>35,812</u>
Total U.S. Department of Energy			<u>35,812</u>
U.S. Department of Homeland Security			
Passed through Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	555111-01	<u>19,965</u>
Total U.S. Department of Homeland Security			<u>19,965</u>
Total expenditure of federal awards			<u>\$ 586,577</u>

Note: This schedule has been prepared on the modified accrual basis of accounting and includes the federal grant activity of the City of Williams, Arizona. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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**Report on Compliance with Requirements That Could Have a Direct
and Material Effect on Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and
City Council
Williams, Arizona

We have audited the City of Williams, Arizona's compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Williams, Arizona's major federal programs for the year ended June 30, 2012. The City of Williams, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Williams, Arizona's management. Our responsibility is to express an opinion on the City of Williams, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Williams, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Williams, Arizona's compliance with those requirements.

In our opinion, the City of Williams, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Williams, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Williams, Arizona's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Williams, Arizona's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the City Council, management, and various state agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
March 26, 2013

CITY OF WILLIAMS, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:

- Material weakness (es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

CITY OF WILLIAMS, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section II - Financial Statement Findings

Material Weakness:

11-1. Year End Accounting and Financial Statement Controls, Prior Year Reworded, Reissued

Finding

This year's audit was delayed for several months due to the timing of year-end closing adjustments and reconciliations. During our audit we made recommendations for various journal entries that were not initially identified by the City's internal controls that were necessary to make accruals, record capital asset and debt activity, and other miscellaneous corrections. We also noted that bank reconciliations and various subsidiary ledgers such as accounts receivable had not been reconciled on a timely basis. Management is aware of the need to reconcile accounts and post journal entries on a monthly basis. We understand that this was mainly due to staffing shortages and changes within the finance department. Statement on Auditing Standards No. 115 (SAS 115) indicates that the identification by the auditor of such misstatements in the financial statements combined with untimely reconciliations may be a material weakness in the City's internal controls.

SAS 115 also indicates that it may be a deficiency in the City's internal controls when the City does not have sufficient controls over the financial reporting process or the expertise to select and apply generally accepted accounting principles. It is our opinion that the City may lack a certain level of controls or expertise in the preparation of the City's financial statements and related notes to the financial statements.

Recommendation

We recommend that management review the journal entries and discuss them with us to ensure you agree with the entries, and understand the purpose and underlying accounting principles associated with each entry and that management continue its efforts to record all year-end adjustments and perform necessary reconciliations in a timely manner.

We also recommend that management establish a financial statement review process and prepare a financial statement checklist and disclosure checklist that we can provide in order to elevate the level of understanding and involvement with the financial statements.

Section III - Federal Award Findings and Questioned Costs

No significant matters were noted.

**CITY OF WILLIAMS, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Section IV - Summary of Prior Year Findings and Questioned Costs

No significant matters were noted.