

CITY OF WILLIAMS, ARIZONA
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2010

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council
City of Williams, Arizona
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 (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Williams, Arizona, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Highway User and Grant Funds 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 February 22, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and the City Council
City of Williams, Arizona

The management's discussion and analysis on pages 3 - 11 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 22, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

As management of the City of Williams, Arizona, we are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2010. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. When referring to prior year data in this analysis we will be drawing upon information from last years' audited financial reports.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City of Williams, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$37,975,992 (net assets).
- ◆ As of the close of the current fiscal year, the City of Williams, Arizona's governmental funds reported combined ending fund balances of \$2,174,292, an increase of \$514,192 in comparison with the prior year. This increase was mainly due to the City issuing new debt that was not expended during the year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$156,011.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$684,205 for the fiscal year ending June 30, 2010. Additionally, budgetary basis expenditures were less than the final budget by \$298,059.
- ◆ General Fund revenues exceeded expenditures by \$934,474; a negative variance of \$386,146 from the original budget.
- ◆ The City includes two types of separate legal entities in its report - City of Williams Municipal Development Authority and the Williams Housing Authority. Although legally separate, these "component units" are important because the City is financially accountable for them. A description of these component units is available in Note 1 on page 29. Separate financial statements are not available for these entities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the Annual Financial Report (AFR) for the City of Williams, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General, Highway User and Grant Funds, and notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Williams, Arizona's finances, in a manner similar to private-sector business.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The statement of net assets presents information on all of the City of Williams, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of Williams, Arizona is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Williams, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Williams, Arizona include general government, public safety, highways and streets, culture and recreation, economic development, and health and welfare. The business-type activities include the City's electric system, water and sewer, golf course and sanitation operations.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund Financial Statements

Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Williams, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Williams, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- ◆ *Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term expendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 14 - 19 of this report.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

- ◆ *Proprietary Funds* – The City of Williams, Arizona maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Williams, Arizona uses enterprise funds to account for its electric system, water and sewer, golf course and sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the electric system, water and sewer, golf course and sanitation operations of the City of Williams, Arizona.

The basic proprietary fund financial statements can be found on pages 23 - 26 of this report.

- ◆ *Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Williams, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27 - 28 of this report.

Notes to Basic Financial Statements

The notes to the basic financial statements (pages 29 - 55) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required Supplementary Information Other Than MD&A

Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 4.D. to the basic financial statements and required supplementary information on page 56.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Government-Wide Financial Analysis

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2010 showing that assets exceeded liabilities by \$37,975,992.

**Table A-1
The City's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and Other Assets	\$ 3,031,095	\$ 2,792,327	\$ 2,194,585	\$ 1,017,511	\$ 5,225,680	\$ 3,809,838
Capital Assets						
Non-depreciable	257,978	257,978	1,281,120	1,089,168	1,539,098	1,347,146
Depreciable (Net)	24,700,115	25,869,020	37,839,493	38,652,175	62,539,608	64,521,195
Total Assets	<u>27,989,188</u>	<u>28,919,325</u>	<u>41,315,198</u>	<u>40,758,854</u>	<u>69,304,386</u>	<u>69,678,179</u>
LIABILITIES						
Other Liabilities	438,863	637,639	1,712,571	1,676,564	2,151,434	2,314,203
Non-Current Liabilities						
Due Within One Year	663,330	643,027	1,519,850	1,456,086	2,183,180	2,099,113
Due in More Than						
One Year	5,482,734	5,181,248	21,511,046	21,657,769	26,993,780	26,839,017
Total Liabilities	<u>6,584,927</u>	<u>6,461,914</u>	<u>24,743,467</u>	<u>24,790,419</u>	<u>31,328,394</u>	<u>31,252,333</u>
NET ASSETS						
Invested in Capital Assets,						
Net of Related Debt	19,786,853	20,511,708	16,634,115	16,694,367	36,420,968	37,206,075
Restricted	2,018,281	1,644,628	-	-	2,018,281	1,644,628
Unrestricted	(400,873)	301,075	(62,384)	(725,932)	(463,257)	(424,857)
Total Net Assets	<u>\$ 21,404,261</u>	<u>\$ 22,457,411</u>	<u>\$ 16,571,731</u>	<u>\$ 15,968,435</u>	<u>\$ 37,975,992</u>	<u>\$ 38,425,846</u>

The net assets of the City are \$37,975,992 in fiscal year 2010 for governmental and business-type activities combined.

Net assets consist of three components. One portion of the City of Williams, Arizona's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Williams, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Williams, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Williams, Arizona's net assets represents resources that are subject to external restrictions on how they may be used.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

At the end of the current fiscal year, the City of Williams, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

**Table A-2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 641,694	\$ 438,828	\$ 6,804,294	\$ 6,807,823	\$ 7,445,988	\$ 7,246,651
Operating Grants and Contributions	619,042	851,534	-	-	619,042	851,534
Capital Grants and Contributions	798,305	1,892,100	-	-	798,305	1,892,100
General Revenues:						
Property Taxes	558,396	506,155	-	-	558,396	506,155
Local Taxes	3,668,307	4,121,311	-	-	3,668,307	4,121,311
State Shared Revenues	792,877	882,051	-	-	792,877	882,051
Investment Earnings	4,724	22,828	950	22,348	5,674	45,176
Total Revenues	7,083,345	8,714,807	6,805,244	6,830,171	13,888,589	15,544,978
EXPENSES						
General Government	2,876,957	2,961,597	-	-	2,876,957	2,961,597
Public Safety	2,031,995	1,964,650	-	-	2,031,995	1,964,650
Highways and Streets	1,750,066	2,443,956	-	-	1,750,066	2,443,956
Culture and Recreation	636,227	744,645	-	-	636,227	744,645
Economic Development	480,917	498,681	-	-	480,917	498,681
Health and Welfare	15,308	28,253	-	-	15,308	28,253
Interest on Long-Term Debt	245,025	285,473	-	-	245,025	285,473
Electric System	-	-	2,119,967	2,270,848	2,119,967	2,270,848
Water and Sewer	-	-	2,938,290	3,048,950	2,938,290	3,048,950
Golf Course	-	-	514,155	622,059	514,155	622,059
Sanitation	-	-	729,534	788,399	729,534	788,399
Total Expenses	8,036,495	8,927,255	6,301,946	6,730,256	14,338,441	15,657,511
CHANGE IN NET ASSETS BEFORE TRANSFERS	(953,150)	(212,448)	503,298	99,915	(449,852)	(112,533)
Transfers	(100,000)	(100,000)	100,000	100,000	-	-
CHANGE IN NET ASSETS	(1,053,150)	(312,448)	603,298	199,915	(449,852)	(112,533)
Net Assets - Beginning of Year	22,457,411	22,769,859	15,968,433	15,768,518	38,425,844	38,538,377
NET ASSETS - END OF YEAR	\$ 21,404,261	\$ 22,457,411	\$ 16,571,731	\$ 15,968,433	\$ 37,975,992	\$ 38,425,844

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Governmental Activities – Governmental activities decreased the City's net assets by \$1,053,150. Key factors of this decrease are lower city sales tax and highway user revenues resulting from the downturn in the economy.

Business-Type Activities – Business-type activities increased the City's net assets by \$603,298. The primary reason for the increase was revenue received by the City's electric system.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal compliance. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City'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. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$2,174,292, an increase of \$514,192 in comparison with the prior year. At fiscal year ended June 30, 2010 fund balances were as follows:

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From 2008-09
General Fund	\$ 156,011	\$ 140,539
Highway User fund	-	-
Grants Fund	71,267	24,739
Debt Service Fund	518,941	372,692
Nonmajor Governmental Funds	1,428,073	(23,778)

The General Fund is the chief operating fund of the City of Williams, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$156,011, while total fund balance for the City reached \$2,174,292.

The fund balance of the City of Williams, Arizona's General Fund increased by \$140,539 during the current fiscal year. This increase was mainly due to the City reducing its budget as a result of the downturn in the economy.

The Highway User Fund's fund balance did not change during the fiscal year due to transfers from the General Fund.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Grants Fund's fund balance increased by \$24,739 during the fiscal year due to the City carrying over funding for several grants.

The Debt Service Fund's fund balance increased by \$372,692 during the fiscal year. This change was mainly due to the City issuing debt to be used for future debt payments.

The Nonmajor Governmental Funds fund balance decreased by \$23,778 during the fiscal year. The change was primarily due to expenditures in the Forest Service Building Fund exceeding rental income for the year.

Proprietary Funds – The City of Williams, Arizona's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$275,966 in the Electric System Fund, \$1,991,324 in the Water and Sewer Fund, \$(1,763,287) in the Golf Course Fund and \$(136,346) in the Sanitation 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 and may be found on pages 20 - 22. 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 \$5,584,295, on a budgetary basis, were less than budgeted revenues of \$6,268,500 by \$684,205 mainly due to the downturn in the economy. In addition, budgetary basis expenditures of \$4,649,821 were less than budgeted expenditures by \$298,059 as City management exercised caution on budgeted expenditures and took preventive measures to not overspend City resources resulting in expenditure savings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010 amount to \$64,078,706 (net of accumulated depreciation). Capital assets include land and improvements, buildings and improvements, infrastructure, furniture, machinery and equipment, and construction in progress.

Major capital asset events during the current fiscal year included the following:

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Governmental Activities:

- ◆ Airport improvements.
- ◆ Street improvements.
- ◆ Railroad museum construction.
- ◆ Purchases of a number of furniture and equipment items.

Business-Type Activities:

- ◆ Electric system upgrades.
- ◆ Transfer station upgrade.
- ◆ Wastewater treatment plant expansion.
- ◆ Purchases of a number of furniture and equipment items.

The following table provides a breakdown of the capital assets of the City at June 30, 2010 and 2009.

**Table A-4
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and Improvements	\$ 11,220,531	\$ 11,276,126	\$ -	\$ -	\$ 11,220,531	\$ 11,276,126
Buildings and Improvements	5,962,996	6,180,794	3,720,669	3,818,167	9,683,665	9,998,961
Infrastructure	6,150,712	6,850,367	-	-	6,150,712	6,850,367
Furniture, Machinery and Equipment	1,365,876	1,561,733	1,175,507	1,285,849	2,541,383	2,847,582
System and Other Improvements	-	-	32,943,317	33,548,159	32,943,317	33,548,159
Land	257,978	257,978	1,281,120	1,080,834	1,539,098	1,338,812
Construction In Progress	-	-	-	8,334	-	8,334
Total Capital Assets	\$ 24,958,093	\$ 26,126,998	\$ 39,120,613	\$ 39,741,343	\$ 64,078,706	\$ 65,868,341

Long-term Obligations

At the end of the current fiscal year, the City of Williams, Arizona had total long-term obligations outstanding of \$29,176,960. Of the outstanding debt, \$1,380,001 is general obligation bonds and \$1,100,000 of notes payable backed by the full faith and credit of the City. An additional \$295,000 is improvement bonds that are backed by the property owners within the District. An additional \$18,437,796 is loans payable secured by pledges of specific revenue sources of the City. An additional \$4,264,386 and \$2,865,701 of outstanding debt is secured by pledges of specific revenue sources of the City. The remaining \$834,076 consists of the difference between reacquisition price and carrying amount of old debt, capital leases and compensated absences.

**CITY OF WILLIAMS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2010 and 2009. Further detail on the City's outstanding debt may be found in Note 3.D. on pages 44 - 50.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 278,586	\$ 344,236	\$ 1,101,415	\$ 1,360,765	\$ 1,380,001	\$ 1,705,001
Improvement Bonds	295,000	360,000	-	-	295,000	360,000
Revenue Bonds	4,264,386	4,437,042	2,865,701	2,968,000	7,130,087	7,405,042
Loans Payable	-	-	18,437,796	18,584,584	18,437,796	18,584,584
Notes Payable	669,957	-	430,043	-	1,100,000	-
Difference Between Reacquisition Price and Carrying Amount of Old Debt	-	-	(47,161)	(64,939)	(47,161)	(64,939)
Capital Leases	333,268	474,012	128,747	198,564	462,015	672,576
Compensated Absences	304,867	208,985	114,355	66,881	419,222	275,866
Total Outstanding Debt	<u>\$ 6,146,064</u>	<u>\$ 5,824,275</u>	<u>\$ 23,030,896</u>	<u>\$ 23,113,855</u>	<u>\$ 29,176,960</u>	<u>\$ 28,938,130</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- ◆ Due to the recent economic slowdown, the City has reduced next fiscal year's budget by 25%. Only essential capital projects will be completed with no additional borrowing being considered. The City has increased water and sewer rates and will continue to monitor the need for additional rate increases in the future.
- ◆ The City is considering refinancing some of its outstanding debt in order to restructure future repayment schedules.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of those with an interest 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
113 South First Street
Williams, AZ 86046-2549
928-635-4451

Or visit our website at:

www.williamsaz.gov

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BASIC FINANCIAL STATEMENTS

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Governmental Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 1,283,324	\$ 455,036	\$ 1,738,360	\$ 148,001
Receivables, Net:				
Accounts Receivable	115,599	674,805	790,404	-
Taxes Receivable	24,422	-	24,422	-
Intergovernmental Receivable	512,206	97,451	609,657	-
Special Assessments Receivable	376,884	-	376,884	-
Inventories	50,948	-	50,948	-
Prepaid Items	157,268	-	157,268	-
Deferred Charges	27,362	175,977	203,339	-
Restricted Assets	483,082	791,316	1,274,398	-
Capital Assets:				
Non-Depreciable	257,978	1,281,120	1,539,098	481,979
Depreciable (Net)	24,700,115	37,839,493	62,539,608	1,220,896
Total Assets	27,989,188	41,315,198	69,304,386	1,850,876
LIABILITIES				
Accounts Payable	267,404	651,687	919,091	37,801
Accrued Wages and Benefits	159,613	43,803	203,416	7,988
Intergovernmental Payable	7,356	30,531	37,887	-
Customer Deposits Payable	4,490	106,486	110,976	6,275
Unearned Revenue	-	600,115	600,115	-
Refundable Construction Advances	-	279,949	279,949	-
Noncurrent Liabilities:				
Due Within One Year	663,330	1,519,850	2,183,180	-
Due in More Than One Year	5,482,734	21,511,046	26,993,780	-
Total Liabilities	6,584,927	24,743,467	31,328,394	52,064
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	19,786,853	16,634,115	36,420,968	1,702,875
Restricted for:				
Debt Service	518,941	-	518,941	-
Capital Outlay	1,228,798	-	1,228,798	-
Other	270,542	-	270,542	-
Unrestricted	(400,873)	(62,384)	(463,257)	95,937
Total Net Assets	\$ 21,404,261	\$ 16,571,731	\$ 37,975,992	\$ 1,798,812

See accompanying Notes to Basic Financial Statements.

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units Governmental Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 2,876,957	\$ 453,297	\$ 30,929	\$ 798,305	\$ (1,594,426)	\$ -	\$ (1,594,426)	\$ -
Public Safety	2,031,995	86,586	159,766	-	(1,785,643)	-	(1,785,643)	-
Highways and Streets	1,750,066	5,070	343,013	-	(1,401,983)	-	(1,401,983)	-
Culture and Recreation	636,227	59,275	85,334	-	(491,618)	-	(491,618)	-
Economic Development	480,917	-	-	-	(480,917)	-	(480,917)	-
Health and Welfare	15,308	-	-	-	(15,308)	-	(15,308)	-
Interest on Long-Term Debt	245,025	37,466	-	-	(207,559)	-	(207,559)	-
Total Governmental Activities	8,036,495	641,694	619,042	798,305	(5,977,454)	-	(5,977,454)	-
Business-Type Activities:								
Electric System	2,119,967	3,499,989	-	-	-	1,380,022	1,380,022	-
Water and Sewer	2,938,290	2,113,867	-	-	-	(824,423)	(824,423)	-
Golf Course	514,155	490,618	-	-	-	(23,537)	(23,537)	-
Sanitation	729,534	699,820	-	-	-	(29,714)	(29,714)	-
Total Business-Type Activities	6,301,946	6,804,294	-	-	-	502,348	502,348	-
Total Primary Government	<u>\$ 14,338,441</u>	<u>\$ 7,445,988</u>	<u>\$ 619,042</u>	<u>\$ 798,305</u>	<u>(5,977,454)</u>	<u>502,348</u>	<u>(5,475,106)</u>	<u>-</u>
Component Units:								
Williams Housing Authority	\$ 598,111	\$ 45,529	\$ 407,493	\$ 117,528				\$ (27,561)
General Revenues:								
Taxes:								
Sales Taxes					3,631,153	-	3,631,153	-
Property Taxes					558,396	-	558,396	-
Franchise Taxes					37,154	-	37,154	-
State Revenue Sharing					406,053	-	406,053	-
State Sales Tax Revenue Sharing					230,797	-	230,797	-
Auto Lieu Tax Revenue Sharing					156,027	-	156,027	-
Grants and Contributions not Restricted					-	-	-	-
Investment Income					4,724	950	5,674	686
Other					-	-	-	3,511
Transfers					(100,000)	100,000	-	-
Total General Revenues and Transfers					4,924,304	100,950	5,025,254	4,197
Change in Net Assets					(1,053,150)	603,298	(449,852)	(23,364)
Net Assets - Beginning					22,457,411	15,968,433	38,425,844	1,822,176
Net Assets - Ending					<u>\$ 21,404,261</u>	<u>\$ 16,571,731</u>	<u>\$ 37,975,992</u>	<u>\$ 1,798,812</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WILLIAMS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

Assets	General Fund	Highway User	Grants	Debt Service
Cash and Investments	\$ -	\$ 2,135	\$ -	\$ 35,859
Receivables				
Accounts Receivable	115,599	-	-	-
Taxes Receivable	24,422	-	-	-
Intergovernmental	320,976	32,219	159,011	-
Special Assessments	-	-	-	376,884
Due from Other Funds	-	-	-	-
Inventories	50,948	-	-	-
Prepaid Items	157,268	-	-	-
Restricted Assets	-	-	-	483,082
Total Assets	<u>\$ 669,213</u>	<u>\$ 34,354</u>	<u>\$ 159,011</u>	<u>\$ 895,825</u>
Liabilities and Fund Balance				
Liabilities				
Accounts Payable	\$ 213,118	\$ 15,558	\$ 27,737	\$ -
Accrued Wages and Benefits	139,890	18,796	-	-
Intergovernmental Payable	7,356	-	-	-
Due to Other Funds	134,654	-	60,007	-
Deferred Revenue	13,694	-	-	376,884
Customer Deposits Payable	4,490	-	-	-
Total Liabilities	<u>513,202</u>	<u>34,354</u>	<u>87,744</u>	<u>376,884</u>
Fund Balances				
Unreserved	156,011	-	71,267	518,941
Unreserved; reporting in nonmajor:				
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Total Fund Balance	<u>156,011</u>	<u>-</u>	<u>71,267</u>	<u>518,941</u>
Total Liabilities and Fund Balance	<u>\$ 669,213</u>	<u>\$ 34,354</u>	<u>\$ 159,011</u>	<u>\$ 895,825</u>

See accompanying Notes to Basic Financial Statements.

Nonmajor Governmental Funds	Totals
\$ 1,245,330	\$ 1,283,324
-	115,599
-	24,422
-	512,206
-	376,884
194,661	194,661
-	50,948
-	157,268
-	483,082
<u>\$ 1,439,991</u>	<u>\$ 3,198,394</u>

\$ 10,991	\$ 267,404
927	159,613
-	7,356
-	194,661
-	390,578
-	4,490
<u>11,918</u>	<u>1,024,102</u>

- 746,219

199,275	199,275
<u>1,228,798</u>	<u>1,228,798</u>
<u>1,428,073</u>	<u>2,174,292</u>
<u>\$ 1,439,991</u>	<u>\$ 3,198,394</u>

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**CITY OF WILLIAMS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances for Governmental Funds \$ 2,174,292

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$ 257,978	
Land Improvements	17,834,945	
Buildings and Improvements	7,615,622	
Infrastructure	32,772,775	
Furniture, Machinery and Equipment	4,286,940	
Total Capital Assets	62,768,260	
Less: Accumulated Depreciation	(37,810,167)	24,958,093

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the governmental funds. 390,578

Bond issuance costs are reported as expenditures in the governmental funds and are shown net of accumulated amortization on the statement of net assets. 27,362

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of Net Assets.

General Obligation Bonds	(278,586)	
Improvement Bonds	(295,000)	
Revenue Bonds	(4,264,386)	
Note Payable	(669,957)	
Capital Lease Payable	(333,268)	
Compensated Absence Payable	(304,867)	(6,146,064)

Total Net Assets of Governmental Activities \$ 21,404,261

CITY OF WILLIAMS, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Highway User	Grants	Debt Service
Revenue:				
Taxes:				
Sales Taxes	\$ 3,631,153	\$ -	\$ -	\$ -
Property Taxes	584,820	-	-	-
Franchise Taxes	37,154	-	-	-
Intergovernmental Revenue	912,379	338,621	959,224	-
Fines and Forfeits	55,310	-	-	-
Licenses and Permits	28,000	-	-	-
Charges for Services	119,649	-	-	-
Rents and Royalties	-	-	-	-
Special Assessments	-	-	-	-
Investment Earnings	929	-	-	820
Other	214,901	5,070	-	-
Total Revenue	<u>5,584,295</u>	<u>343,691</u>	<u>959,224</u>	<u>820</u>
Expenditures				
Current				
General Government	1,862,907	-	23,742	-
Public Safety	1,815,653	-	136,258	-
Highways and Streets	-	855,381	11,507	-
Culture and Recreation	474,380	-	63,343	-
Economic Development	480,567	-	-	-
Health and Welfare	16,314	-	1,700	-
Debt Service				
Principal Retirement	-	-	-	303,306
Interest on Long-Term Debt	-	-	-	243,728
Issuance Costs	-	-	-	27,362
Capital Outlay	-	-	697,935	-
Total Expenditures	<u>4,649,821</u>	<u>855,381</u>	<u>934,485</u>	<u>574,396</u>
Excess (Deficiency) of Revenue Over Expenditures	934,474	(511,690)	24,739	(573,576)
Other Financing Sources (Uses)				
Transfers In	-	511,690	-	276,311
Transfers Out	(793,935)	-	-	-
Issuance of Long-Term Debt	-	-	-	669,957
Total Other Financing Sources (Uses)	<u>(793,935)</u>	<u>511,690</u>	<u>-</u>	<u>946,268</u>
Net Change in Fund Balance	140,539	-	24,739	372,692
Fund Balance:				
Beginning of Year	15,472	-	46,528	146,249
End of Year	<u>\$ 156,011</u>	<u>\$ -</u>	<u>\$ 71,267</u>	<u>\$ 518,941</u>

See accompanying Notes to Basic Financial Statements.

Nonmajor Governmental Funds	Totals
\$ -	\$ 3,631,153
-	584,820
-	37,154
-	2,210,224
-	55,310
-	28,000
-	119,649
181,298	181,298
115,052	115,052
2,975	4,724
-	219,971
299,325	7,187,355
91,002	1,977,651
-	1,951,911
-	866,888
-	537,723
-	480,567
-	18,014
-	303,306
1,297	245,025
-	27,362
136,738	834,673
229,037	7,243,120
70,288	(55,765)
-	788,001
(94,066)	(888,001)
-	669,957
(94,066)	569,957
(23,778)	514,192
1,451,851	1,660,100
\$ 1,428,073	\$ 2,174,292

**CITY OF WILLIAMS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances-Total Governmental Funds \$ 514,192

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

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

Expenditures for Capital Assets	\$ 1,045,564	
Depreciation Expense	<u>(2,130,087)</u>	(1,084,523)

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposal of capital assets. (84,382)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Issuance of long-term debt	(669,957)	
Debt Issuance Costs	27,362	
Repayment of Bond Principal	303,306	
Repayment of Capital Leases Principal	<u>140,744</u>	(198,545)

Delinquent and deferred property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds.

Deferred Revenue - June 30, 2009	494,588	
Deferred Revenue - June 30, 2010	<u>390,578</u>	(104,010)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During fiscal year 2010, compensated absence payable changed. (95,882)

Change in Net Assets of Governmental Activities \$ (1,053,150)

CITY OF WILLIAMS, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Taxes				
Sales Taxes	\$ 4,379,000	\$ 4,379,000	\$ 3,631,153	\$ (747,847)
Property Taxes	550,000	550,000	584,820	34,820
Franchise Taxes	46,000	46,000	37,154	(8,846)
Intergovernmental Revenue	823,000	823,000	912,379	89,379
Fines and Forfeits	59,000	59,000	55,310	(3,690)
Licenses and Permits	114,000	114,000	28,000	(86,000)
Charges for Services	52,000	52,000	119,649	67,649
Investment Income	5,000	5,000	929	(4,071)
Other	240,500	240,500	214,901	(25,599)
Total Revenue	6,268,500	6,268,500	5,584,295	(684,205)
Expenditures				
Current				
General Government				
Mayor and Council	75,000	66,500	51,761	14,739
Magistrate	188,500	177,100	165,284	11,816
General and Administrative	711,000	697,200	668,734	28,466
Finance	309,500	304,100	298,523	5,577
Maintenance	217,000	209,780	217,443	(7,663)
Central Garage	342,000	339,500	307,457	32,043
Airport	98,000	78,000	153,705	(75,705)
CFD Expenses	2,500	2,500	-	2,500
Total General Government	1,943,500	1,874,680	1,862,907	11,773
Public Safety				
Police	1,493,500	1,480,500	1,461,784	18,716
Fire	227,000	211,000	246,386	(35,386)
Building Inspection	176,000	137,200	107,483	29,717
Total Public Safety	1,896,500	1,828,700	1,815,653	13,047
Culture and Recreation				
Library	88,000	88,000	76,238	11,762
Recreation	232,000	218,000	180,583	37,417
Swimming Pool	270,500	250,500	184,118	66,382
Recreation Facilities	159,000	159,000	33,441	125,559
Total Culture and Recreation	749,500	715,500	474,380	241,120
Economic Development				
Planning	83,500	75,500	46,060	29,440
Tourism Promotion	436,500	396,500	402,859	(6,359)
Visitor Center	39,000	39,000	31,648	7,352
Total Economic Development	559,000	511,000	480,567	30,433
Health and Welfare				
Senior Center	23,000	18,000	16,314	1,686
Total Expenditures	5,171,500	4,947,880	4,649,821	298,059
Excess (Deficiency) of Revenue Over Expenditures	1,097,000	1,320,620	934,474	(386,146)
Other Financing Sources (Uses)				
Transfers Out	(897,000)	(897,000)	(793,935)	103,065
Net Change in Fund Balance	200,000	423,620	140,539	(283,081)
Fund Balance				
Beginning of Year	731,041	731,041	15,472	(715,569)
End of Year	<u>\$ 931,041</u>	<u>\$ 1,154,661</u>	<u>\$ 156,011</u>	<u>\$ (998,650)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WILLIAMS, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USER FUND
YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenue				
Intergovernmental	\$ 333,000	\$ 333,000	\$ 338,621	\$ 5,621
Other	1,000	1,000	5,070	4,070
Total Revenue	<u>334,000</u>	<u>334,000</u>	<u>343,691</u>	<u>9,691</u>
Expenditures				
Current				
Highways and Streets	<u>913,500</u>	<u>848,700</u>	<u>855,381</u>	<u>(6,681)</u>
Excess (Deficiency) of Revenue Over Expenditures	(579,500)	(514,700)	(511,690)	3,010
Other Financing Sources (Uses)				
Transfers In (Out)	<u>565,500</u>	<u>565,500</u>	<u>511,690</u>	<u>(53,810)</u>
Net Change in Fund Balances	(14,000)	50,800	-	(50,800)
Fund Balances				
Fund Balances, Beginning of Year	<u>14,000</u>	<u>14,000</u>	<u>-</u>	<u>(14,000)</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 64,800</u>	<u>\$ -</u>	<u>\$ (64,800)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WILLIAMS, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2010

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue			
Intergovernmental	\$ 5,000,000	\$ 959,224	\$ (4,040,776)
Expenditures			
Current			
General Government	-	23,742	(23,742)
Public Safety	-	136,258	(136,258)
Highways and Streets	-	11,507	(11,507)
Culture and Recreation	-	63,343	(63,343)
Health and Welfare	-	1,700	(1,700)
Capital Outlay	5,000,000	697,935	4,302,065
Total Expenditures	<u>5,000,000</u>	<u>934,485</u>	<u>4,065,515</u>
Excess (Deficiency) of Revenue Over Expenditures	-	24,739	24,739
Fund Balances			
Fund Balances, Beginning of Year	-	46,528	46,528
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 71,267</u>	<u>\$ 71,267</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WILLIAMS, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities				
	Electric System	Water and Sewer	Golf Course	Sanitation	Totals
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 445,629	\$ 9,407	\$ -	\$ -	\$ 455,036
Receivables, Net					
Accounts Receivable	339,518	302,067	29,558	3,662	674,805
Intergovernmental Receivable	-	62,969	-	34,482	97,451
Due from Other Funds	-	2,007,917	-	-	2,007,917
Deferred Charges	45,440	92,531	36,804	1,202	175,977
Restricted Assets	252,293	368,156	165,550	5,317	791,316
Total Current Assets	<u>1,082,880</u>	<u>2,843,047</u>	<u>231,912</u>	<u>44,663</u>	<u>4,202,502</u>
Noncurrent Assets					
Capital Assets					
Non-Depreciable	100,000	260,785	920,335	-	1,281,120
Depreciable (net)	4,496,022	31,734,298	1,161,311	447,862	37,839,493
Total Noncurrent Assets	<u>4,596,022</u>	<u>31,995,083</u>	<u>2,081,646</u>	<u>447,862</u>	<u>39,120,613</u>
Total Assets	<u>5,678,902</u>	<u>34,838,130</u>	<u>2,313,558</u>	<u>492,525</u>	<u>43,323,115</u>
Liabilities					
Current Liabilities					
Accounts Payable	454,645	121,738	29,551	45,753	651,687
Accrued Wages and Benefits	-	18,157	10,376	15,270	43,803
Intergovernmental Payable	11,535	9,341	9,655	-	30,531
Due to Other Funds	-	-	1,928,296	79,621	2,007,917
Refundable Construction Advances	279,949	-	-	-	279,949
Unearned Revenue	-	600,115	-	-	600,115
Customer Deposits Payable	60,785	45,701	-	-	106,486
Compensated Absences	-	37,984	11,125	23,541	72,650
Capital Leases Payable	-	27,146	15,067	30,308	72,521
Bonds, Notes and Loans Payable	101,238	1,170,140	100,051	3,250	1,374,679
Total Current Liabilities	<u>908,152</u>	<u>2,030,322</u>	<u>2,104,121</u>	<u>197,743</u>	<u>5,240,338</u>
Noncurrent Liabilities					
Compensated Absences Payable	-	18,687	6,195	16,823	41,705
Capital Leases Payable	-	21,047	11,681	23,498	56,226
Bonds, Notes and Loans Payable	349,433	20,745,610	307,820	10,252	21,413,115
Total Noncurrent Liabilities	<u>349,433</u>	<u>20,785,344</u>	<u>325,696</u>	<u>50,573</u>	<u>21,511,046</u>
Total Liabilities	<u>1,257,585</u>	<u>22,815,666</u>	<u>2,429,817</u>	<u>248,316</u>	<u>26,751,384</u>
Net Assets					
Invested in Capital Assets, Net of					
Related Debt	4,145,351	10,461,183	1,647,027	380,554	16,634,115
Unrestricted	275,966	1,561,281	(1,763,286)	(136,345)	(62,384)
Total Net Assets	<u>\$ 4,421,317</u>	<u>\$ 12,022,464</u>	<u>\$ (116,259)</u>	<u>\$ 244,209</u>	<u>\$ 16,571,731</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WILLIAMS, ARIZONA
STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities				
	Electric System	Water and Sewer	Golf Course	Sanitation	Totals
Operating Revenue					
Charges for Services	\$ 3,499,989	\$ 2,008,302	\$ 490,618	\$ 699,820	\$ 6,698,729
Operating Expenses					
Cost of Sales and Services	1,915,523	1,222,487	411,088	665,655	4,214,753
Depreciation	150,754	908,788	68,186	60,084	1,187,812
Total Operating Expenses	<u>2,066,277</u>	<u>2,131,275</u>	<u>479,274</u>	<u>725,739</u>	<u>5,402,565</u>
Operating Income (Loss)	1,433,712	(122,973)	11,344	(25,919)	1,296,164
Nonoperating Revenue (Expense)					
Impact Fees	-	105,565	-	-	105,565
Investment Earnings	142	659	146	3	950
Interest Expense	(48,010)	(801,696)	(30,281)	(3,645)	(883,632)
Issuance Costs	(5,680)	(5,319)	(4,600)	(150)	(15,749)
Total Nonoperating Revenue (Expenses)	<u>(53,548)</u>	<u>(700,791)</u>	<u>(34,735)</u>	<u>(3,792)</u>	<u>(792,866)</u>
Income (Loss) Before Contributions and Transfers	1,380,164	(823,764)	(23,391)	(29,711)	503,298
Transfers In	-	1,090,247	100,000	12,439	1,202,686
Transfers Out	<u>(1,090,247)</u>	<u>(12,439)</u>	<u>-</u>	<u>-</u>	<u>(1,102,686)</u>
Change in Net Assets	289,917	254,044	76,609	(17,272)	603,298
Net Assets, Beginning of Year	<u>4,131,400</u>	<u>11,768,420</u>	<u>(192,868)</u>	<u>261,481</u>	<u>15,968,433</u>
Net Assets, End of Year	<u>\$ 4,421,317</u>	<u>\$ 12,022,464</u>	<u>\$ (116,259)</u>	<u>\$ 244,209</u>	<u>\$ 16,571,731</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Business-type Activities - Enterprise Funds				
	Electric System	Water and Sewer	Golf Course	Sanitation	Totals
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 3,527,700	\$ 1,996,471	\$ 510,789	\$ 697,177	\$ 6,732,137
Payments to Suppliers	(1,773,921)	(732,015)	(179,741)	(315,924)	(3,001,601)
Payments to Employees	-	(436,059)	(253,359)	(342,216)	(1,031,634)
Customer Deposits	16,540	(2,024)	-	-	14,516
Net Cash Flows from Operating Activities	<u>1,770,319</u>	<u>826,373</u>	<u>77,689</u>	<u>39,037</u>	<u>2,713,418</u>
Cash Flows from Noncapital Financing Activities:					
Cash Received From (Paid to) Other					
Funds for Interfund Borrowing	323,367	(800,826)	(41,019)	(20,555)	(539,033)
Transfers In	-	1,090,247	100,000	12,439	1,202,686
Transfers Out	(1,090,247)	(12,439)	-	-	(1,102,686)
Debt Proceeds	-	430,043	-	-	430,043
Net Cash Flows from Noncapital Financing Activities	<u>(766,880)</u>	<u>707,025</u>	<u>58,981</u>	<u>(8,116)</u>	<u>(8,990)</u>
Cash Flows from Capital and Financing Activities:					
Impact Fees	-	94,904	-	-	94,904
Refundable Construction Advances Paid	(79,084)	-	-	-	(79,084)
Purchases of Capital Assets	(322,937)	(225,480)	(6,621)	(12,046)	(567,084)
Debt Proceeds	-	165,708	-	-	165,708
Debt Issuance Costs	-	(17,564)	-	-	(17,564)
Principal Paid on Capital Debt	(97,742)	(547,544)	(105,341)	(15,508)	(766,135)
Interest Paid on Capital Debt	(48,010)	(801,696)	(30,281)	(3,645)	(883,632)
Net Cash Flows from Capital and Related Financing Activities	<u>(547,773)</u>	<u>(1,331,672)</u>	<u>(142,243)</u>	<u>(31,199)</u>	<u>(2,052,887)</u>
Cash Flows from Investing Activities:					
Investment Earnings	<u>142</u>	<u>659</u>	<u>146</u>	<u>3</u>	<u>950</u>
Net Change in Cash and Cash Equivalents	455,808	202,385	(5,427)	(275)	652,491
Cash and Cash Equivalents, Beginning of Year	<u>242,114</u>	<u>175,178</u>	<u>170,977</u>	<u>5,592</u>	<u>593,861</u>
Cash and Cash Equivalents, End of Year	<u>\$ 697,922</u>	<u>\$ 377,563</u>	<u>\$ 165,550</u>	<u>\$ 5,317</u>	<u>\$ 1,246,352</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:					
Cash and Investments	\$ 445,629	\$ 9,407	\$ -	\$ -	\$ 455,036
Restricted Assets	<u>252,293</u>	<u>368,156</u>	<u>165,550</u>	<u>5,317</u>	<u>791,316</u>
Total Cash and Cash Equivalents	<u>\$ 697,922</u>	<u>\$ 377,563</u>	<u>\$ 165,550</u>	<u>\$ 5,317</u>	<u>\$ 1,246,352</u>

(Continued)

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

(Concluded)

	Business-type Activities - Enterprise Fund				Totals
	Electric System	Water and Sewer	Golf Course	Sanitation	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 1,433,712	\$ (122,973)	\$ 11,344	\$ (25,919)	\$ 1,296,164
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	150,754	908,788	68,186	60,084	1,187,812
Change in Assets/Liabilities:					
Receivables, Net	27,711	(11,831)	20,171	(2,643)	33,408
Prepaid Items	45,826	-	-	-	45,826
Accounts Payable	106,581	29,119	(19,238)	(721)	115,741
Accrued Wages and Benefits	-	2,625	(2,607)	4,259	4,277
Intergovernmental Payable	(10,805)	430	1,593	-	(8,782)
Compensated Absences	-	22,239	(1,760)	3,977	24,456
Customer Deposits Payable	16,540	(2,024)	-	-	14,516
Net Cash Provided (Used) for Operating Activities	<u>\$ 1,770,319</u>	<u>\$ 826,373</u>	<u>\$ 77,689</u>	<u>\$ 39,037</u>	<u>\$ 2,713,418</u>

Noncash Investing, Capital and Financing Activities

Electric System Fund:

\$5,680 of issuance costs were amortized during the year.

Water and Sewer Fund:

\$5,319 of issuance costs were amortized during the year.

Golf Course Fund:

\$4,600 of issuance costs were amortized during the year.

Sanitation Fund:

\$150 of issuance costs were amortized during the year.

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	Firemen's Pension
Assets	
Cash and Cash Equivalents	\$ 347,213
Total Assets	\$ 347,213
Net Assets	
Held In Trust for Pension Benefits	\$ 347,213

See accompanying Notes to Basic Financial Statements.

**CITY OF WILLIAMS, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Firemen's Pension
Additions	
Contributions	
Employer	\$ 8,910
Employee	23,076
State Fire Premium	11,592
Total Contributions	43,578
Investment Earnings (Loss)	
Interest	5,979
Investment Expense	(4,413)
Net Increase in the Fair Value of Investments	41,573
Total Investment Earnings (Loss)	43,139
Total Additions	86,717
 Deductions	
Benefits	70,051
 Change in Net Assets	16,666
Net Assets, Beginning of Year	330,547
Net Assets, End of Year	\$ 347,213

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Williams, Arizona (City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the 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 City of Williams, Arizona 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 "moral obligation" for the repayment of the MDA's bonds. 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. For financial reporting purposes, transactions of the MDA are combined together and included as if they were part of the City's operations.

Discretely Presented Component Unit

The Williams Housing Authority is a public benefit corporation created by the City to provide subsidized 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.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally 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 the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, intergovernmental grants and aid, 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 government.

The City reports the following major governmental funds:

Major Governmental Funds

General Fund

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

Highway User Revenue Fund

The Highway User Revenue Fund accounts for the City's share of motor fuel tax revenues and lottery proceeds which are set aside for the maintaining, repairing, and upgrading of streets.

Grants Fund

The Grants Fund accounts for the federal and state grants and contributions that are restricted for specific use.

Debt Service Fund

The Debt Service Fund accounts for the servicing of long-term debt not being financed by proprietary funds.

The City reports the following major proprietary funds:

Major Proprietary Funds

Electric System Fund

The Electric System Fund accounts for the activities of the City's electric operations.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Water and Sewer Fund

The Water and Sewer Fund accounts for the activities of the City's water and sewer operations.

Golf Course Fund

The Golf Course Fund accounts for the activities of the City's golf course operations.

Sanitation Fund

The Sanitation Fund accounts for the activities of the City's sanitation operations.

Additionally, the government reports the following fund types:

Pension Trust Fund

The Pension Trust Fund accounts for the activities of the Volunteer Firefighters' Relief and Pension Fund, which accumulates resources for pension benefit payments to qualified firemen.

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 the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

Coconino County levies real property taxes on or before the third Monday in August that 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. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Short-Term Interfund Receivables/Payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Inventories and Prepaid Items (Continued)

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

5. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Customer deposits are also classified as restricted assets because their use is limited.

6. Capital Assets

Capital assets, which include property, plant, infrastructure, furniture, equipment and vehicles are reported in the governmental and business-type activities column in the government-wide financial statements as applicable and in the proprietary fund statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Property, plant, furniture, equipment and vehicles purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	25-50 Years
Improvements	10-20 Years
Equipment	3-10 Years
Water and Sewer Lines	20-40 Years
Distribution System	50 Years
Infrastructure	20 Years

The City capitalized all of its existing infrastructure at estimated historical cost after adoption of GASB Statement 34.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Compensated Absences

The liability for compensated absences reported in the proprietary fund financial statements and the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. 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 governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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.

9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other 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 City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, HURF, and Grant Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Maintenance	\$ 7,663
Airport	75,705
Fire	35,386
Tourism Promotion	6,359
HURF Fund	6,681

Fund balance was available to meet the overexpenditures above.

C. Compliance

The City is required to maintain reserves for future debt service payments and repairs and maintenance related to its Water Infrastructure and Finance Authority Loans in the amount of \$2,229,394. At June 30, 2010, the City's reserve balance totaled \$8,450 resulting in a deficiency of \$2,220,944. The City is considering refinancing some of its current debt in order to restructure future debt payments as a means to ease current cashflow shortfalls.

D. Deficit Fund Equity

Deficit net assets in the amount of \$116,260 was reported in the Golf Course Enterprise Fund. The deficit has accumulated over several years prior to June 30, 2010. 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 the next several years. The General Fund provided a \$100,000 operating transfer to the Golf Course Fund during the fiscal year.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 750
Cash in Bank	665,190
Investments:	
Cash on Deposit with Trustee	1,158,758
Pension Trust Mutual Funds	332,437
State Treasurer's Investment Pool	<u>1,202,836</u>
Total Deposits and Investments	3,359,971
Restricted Assets	(1,274,398)
Fiduciary Funds	<u>(347,213)</u>
Total Cash and Cash Equivalents	<u>\$ 1,738,360</u>

Deposits

The City's deposits at June 30, 2010, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Investments

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the pension trust mutual fund is not subject to custodial credit risk. Cash on deposit with trustee is held in trust for the City under a Trust Agreement with Wells Fargo Bank. The funds held in trust are invested in money market funds, are valued at cost, and are invested in cash and cash equivalents and U.S. Treasury Bills. The funds are not subject to credit risk or interest rate risk. The City's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national agency.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the average maturity of investments to less than one year.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy in regards to custodial credit risk. However, the City’s investments are not subject to custodial credit risk.

Cash and investments of the Williams Housing Authority Component Unit at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 50
Cash in Bank	147,951
Total Deposits	<u>\$ 148,001</u>

The carrying value of the component unit’s deposits at June 30, 2010 was \$150,247 which was entirely covered by federal depository insurance.

2. Restricted Assets

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Future Debt Service	\$ 483,082	\$ 684,830	\$ 1,167,912
Customer Deposits	-	106,486	106,486
	<u>\$ 483,082</u>	<u>\$ 791,316</u>	<u>\$ 1,274,398</u>

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable
Delinquent Property Taxes Receivable: (General Fund)	\$ 13,694
Special Assessments Not Yet Due (Debt Service Fund)	376,884
Total Deferred Revenue	\$ 390,578

4. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 257,978	\$ -	\$ -	\$ 257,978
Capital Assets, Being Depreciated:				
Land Improvements	17,081,134	753,811	-	17,834,945
Buildings and Improvements	7,685,658	59,617	(129,653)	7,615,622
Infrastructure	32,636,037	136,738	-	32,772,775
Furniture, Machinery and Equipment	4,305,761	95,398	(114,219)	4,286,940
Total Capital Assets, Being Depreciated	61,708,590	1,045,564	(243,872)	62,510,282
Accumulated Depreciation for:				
Land Improvements	(5,805,008)	(809,406)	-	(6,614,414)
Buildings and Improvements	(1,504,864)	(203,408)	55,646	(1,652,626)
Infrastructure	(25,785,670)	(836,393)	-	(26,622,063)
Furniture, Machinery and Equipment	(2,744,028)	(280,880)	103,844	(2,921,064)
Total Accumulated Depreciation	(35,839,570)	(2,130,087)	159,490	(37,810,167)
Total Capital Assets, Being Depreciated, Net	25,869,020	(1,084,523)	(84,382)	24,700,115
Governmental Activities Capital Assets, Net	\$ 26,126,998	\$ (1,084,523)	\$ (84,382)	\$ 24,958,093

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,080,834	\$ 200,286	\$ -	\$ 1,281,120
Construction in Progress	8,334	12,440	(20,774)	-
Total Capital Assets, Not Being Depreciated	1,089,168	212,726	(20,774)	1,281,120
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,292,240	-	(10,210)	4,282,030
System and Other Improvements	41,354,786	323,286	(270,287)	41,407,785
Furniture, Equipment and Vehicles	2,762,950	67,428	(62,592)	2,767,786
Total Capital Assets, Being Depreciated	48,409,976	390,714	(343,089)	48,457,601
Accumulated Depreciation for:				
Buildings and Improvements	(474,073)	(97,498)	10,210	(561,361)
System and Other Improvements	(7,806,627)	(922,698)	264,857	(8,464,468)
Furniture, Equipment and Vehicles	(1,477,101)	(167,616)	52,438	(1,592,279)
Total Accumulated Depreciation	(9,757,801)	(1,187,812)	327,505	(10,618,108)
Total Capital Assets, Being Depreciated, Net	38,652,175	(797,098)	(15,584)	37,839,493
Business-Type Activities Capital Assets, Net	<u>\$ 39,741,343</u>	<u>\$ (584,372)</u>	<u>\$ (36,358)</u>	<u>\$ 39,120,613</u>

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit, Housing Authority				
Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 481,979	\$ -	\$ -	\$ 481,979
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,815,873	73,034	-	1,888,907
Other Improvements	194,440	17,667	-	212,107
Furniture, Equipment and Vehicles	134,010	1,487	-	135,497
Total Capital Assets, Being Depreciated	2,144,323	92,188	-	2,236,511
Accumulated Depreciation for:				
Buildings and Improvements	(729,782)	(53,605)	-	(783,387)
Other Improvements	(106,740)	(13,036)	-	(119,776)
Furniture, Equipment and Vehicles	(105,765)	(6,687)	-	(112,452)
Total Accumulated Depreciation	(942,287)	(73,328)	-	(1,015,615)
Total Capital Assets, Being Depreciated, Net	1,202,036	18,860	-	1,220,896
Component Unit Capital Assets, Net	\$ 1,684,015	\$ 18,860	\$ -	\$ 1,702,875

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 937,483
Public Safety	143,571
Highways and Streets	925,428
Culture and Recreation	121,447
Health and Welfare	1,808
Economic Development	350
Total Depreciation Expense, Governmental Activities	<u>\$ 2,130,087</u>
Business-Type Activities:	
Electric System	\$ 150,754
Water and Sewer	908,788
Golf Course	68,186
Sanitation	60,084
Total Depreciation Expense, Business-Type Activities	<u>\$ 1,187,812</u>
Component Unit:	
Williams Housing Authority	<u>\$ 73,328</u>

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables and Payables and Transfers

As of June 30, 2010 interfund receivables and payables were as follows:

Due To	Due From				Total
	General Fund	Grants Fund	Golf Course Fund	Sanitation Fund	
Capital Projects Fund	\$ 134,654	\$ 60,007	\$ -	\$ -	\$ 194,661
Water and Sewer Fund	-	-	1,928,296	79,621	2,007,917
Total	\$ 134,654	\$ 60,007	\$ 1,928,296	\$ 79,621	\$ 2,202,578

Interfund receivables and payable were due to cash shortfalls at year-end.

Interfund transfers for the year ended June 30, 2010 consisted of the following:

Transfers To	Transfers From				Total
	General Fund	Nonmajor Governmental Funds	Electric System Fund	Water and Sewer Fund	
HURF Fund	\$ 511,690	\$ -	\$ -	\$ -	\$ 511,690
Debt Service Fund	182,245	94,066	-	-	276,311
Water and Sewer Fund	-	-	1,090,247	-	1,090,247
Golf Course Fund	100,000	-	-	-	100,000
Sanitation Fund	-	-	-	12,439	12,439
Total	\$ 793,935	\$ 94,066	\$ 1,090,247	\$ 12,439	\$ 1,990,687

Transfers were made for operations in the applicable fund.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases

Capital Leases

The City has entered into lease agreements as a lessee for financing the acquisition of various furniture, equipment and vehicle items for its governmental activities. The City has also entered into lease agreements as a lessee for financing the acquisition of a fairway mower and other various capital items for its business-type activities. These lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Furniture, Equipment and Vehicles	\$ 806,747	\$ 901,565
Less: Accumulated Depreciation	(278,959)	(318,147)
Total	\$ 527,788	\$ 583,418

Amortization expense has been included in depreciation expense.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

	Governmental Activities	Business-type Activities
<u>Year Ending June 30,</u>		
2011	\$ 157,740	\$ 76,403
2012	126,096	57,302
2013	31,161	-
2014	31,161	-
2015	7,790	-
Total Minimum Lease Payments	353,948	133,705
Less: Amount Representing Interest	(20,680)	(4,958)
Present Value of Minimum Lease Payments	\$ 333,268	\$ 128,747

D. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund. Capital leases are paid by the applicable fund where the vehicles and equipment purchased will be used.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged revenue derived from an annual assessment and levy of taxes upon the real property of the Northside Sewer District Number 2 to repay \$1,150,000 in improvement bonds issued October 1994. Special assessment districts are created only by petition of the City council by property owners within the District areas. Proceeds of the bonds were used to construct a sewer line through the District. The bonds are payable solely from assessments on the property owners and are payable through 2018. The total principal remaining to be paid on the bonds is \$295,000. Principal and interest paid for the current year and total assessments billed were both \$94,066.

The City has pledged future excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$5,480,000 in Municipal Development Authority Facilities Refunding Revenue Bonds issued in 2002. Proceeds from these bonds were used to acquire various capital equipment items and make infrastructure improvements in the General Fund, Electric System, Utility System, and Golf Course. Annual principal and interest payments on the bonds are expected to require less than 4 percent of net revenues. The total principal and interest to be paid on the bonds is \$1,613,508. Principal and interest paid for the current year and total pledged revenues were \$401,891 and \$8,016,455, respectively.

The City has pledged future excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$3,590,000 in Greater Arizona Development Authority Infrastructure Revenue Bonds in 2003. Proceeds from these bonds were used to upgrade the water plant and build a new City Court Building. Annual principal and interest payments on the bonds are expected to require less than 3 percent of net revenues. The total principal and interest to be paid on the bonds is \$4,709,933. Principal and interest paid for the current year and total pledged revenues were \$263,660 and \$8,016,455, respectively.

The City has pledged future excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$1,500,000 in Greater Arizona Development Authority Infrastructure Revenue Bonds in 2005. Proceeds from these bonds were used to rebuild Cataract Road and Franklin Avenue. Annual principal and interest payments on the bonds are expected to require less than 1 percent of net revenues. The total principal and interest to be paid on the bonds is \$1,687,344. Principal and interest paid for the current year and total pledged revenues were \$113,981 and \$8,016,455, respectively.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged future Water and Sewer Fund revenues, excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$2,500,000 in Water Infrastructure and Finance Authority Loan proceeds issued in 1998. Proceeds from this loan were used to rebuild the wastewater collection system. Annual principal and interest payments on the bonds are expected to require less than 2 percent of net revenues. The total principal and interest to be paid on the bonds is \$1,254,873. Principal and interest paid for the current year and total pledged revenues were \$177,329 and \$10,024,757, respectively.

The City has pledged future Water and Sewer Fund revenues, excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$3,000,000 in Water Infrastructure and Finance Authority Loan proceeds issued in 2000. Proceeds from this loan were used to drill deep water wells and related infrastructure. Annual principal and interest payments on the bonds are expected to require less than 2 percent of net revenues. The total principal and interest to be paid on the bonds is \$2,308,478. Principal and interest paid for the current year and total pledged revenues were \$230,848 and \$10,024,757, respectively.

The City has pledged future Water and Sewer Fund revenues, excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$1,600,000 in Water Infrastructure and Finance Authority Loan issued in 2006. Proceeds from this loan were used to rebuild the water treatment plant. Annual principal and interest payments on the bonds are expected to require less than 1 percent of net revenues. The total principal and interest to be paid on the bonds is \$1,756,716. Principal and interest paid for the current year and total pledged revenues were \$109,795 and \$10,024,757, respectively.

The City has pledged future Water and Sewer Fund revenues, excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$8,250,000 in Water Infrastructure and Finance Authority Loan issued in 2006. Proceeds from this loan were used to construct phase I of the waste water treatment plant. Annual principal and interest payments on the bonds are expected to require less than 5 percent of net revenues. The total principal and interest to be paid on the bonds is \$9,632,411. Principal and interest paid for the current year and total pledged revenues were \$277,332 and \$10,024,757, respectively.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged future Water and Sewer Fund revenues, excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$7,529,561 in Water Infrastructure and Finance Authority Loan issued in 2007. Proceeds from this loan were used to construct phase II of the waste water treatment plant. Annual principal and interest payments on the bonds are expected to require less than 5 percent of net revenues. The total principal and interest to be paid on the bonds is \$9,484,986. Principal and interest paid for the current year and total pledged revenues were \$240,293 and \$10,024,757, respectively.

The City has pledged future excise tax revenues, which include the City's sales and transaction privilege tax, franchise fees, licenses and permit fees and fines and forfeitures as well as Electric System Revenues to repay \$2,995,000 in Greater Arizona Development Authority Infrastructure Revenue Bonds in 2007. Proceeds from these bonds were used to rebuild Country Club Road and the I-40 Frontage Road. Annual principal and interest payments on the bonds are expected to require less than 1 percent of net revenues. The total principal and interest to be paid on the bonds is \$4,408,127. Principal and interest paid for the current year and total pledged revenues were \$236,306 and \$8,016,455, respectively.

Bonds currently outstanding are as follows:

Purpose	Interest Rates (%)	Original Issue Amount	Amount Outstanding
Governmental Activities:			
<i>General Obligation Bonds:</i>			
City of Williams Municipal Development Authority Facilities Refunding Revenue Bonds, Series 2002	2.75-4.8	\$ 1,106,960	\$ 278,586
<i>Improvement Bonds:</i>			
Northside Sewer Improvement Bonds	8.75	\$ 1,150,000	\$ 295,000
<i>Revenue Bonds:</i>			
Greater Arizona Development Authority Revenue Bonds, Series 2003A	3.0-5.0	\$ 249,864	\$ 214,386
Greater Arizona Development Authority Revenue Bonds, Series 2005B	3.0-5.0	1,500,000	1,225,000
Greater Arizona Development Authority Revenue Bonds, Series 2008A	4.0-5.0	2,995,000	2,825,000
Total Revenue Bonds		\$ 4,744,864	\$ 4,264,386
<i>Notes Payable:</i>			
Zion's Bank	4.5	\$ 669,957	\$ 669,957

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

<u>Purpose</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding</u>
Business-Type Activities:			
<i>Revenue Bonds:</i>			
Greater Arizona Development Authority Revenue Bonds, Series 2003A	3.0-5.0	<u>\$ 3,340,136</u>	<u>\$ 2,865,701</u>
<i>General Obligation Bonds:</i>			
City of Williams Municipal Development Authority Facilities Refunding Revenue Bonds, Series 2002	2.75-4.89	<u>\$ 4,373,040</u>	<u>\$ 1,101,415</u>
<i>Loans Payable:</i>			
Wastewater Infrastructure Authority of Arizona, issued in 1997-98	3.48	\$ 2,500,000	\$ 1,097,345
Wastewater Infrastructure Authority of Arizona, issued in 2001-02	4.125	3,000,000	1,860,785
Wastewater Infrastructure Authority of Arizona, issued in 2005-06	3.225	1,600,000	1,355,716
Wastewater Infrastructure Authority of Arizona, issued in 2005-06	3.44	8,250,000	7,313,886
Wastewater Infrastructure Authority of Arizona, issued in 2007-08	3.312	<u>7,529,561</u>	<u>6,810,064</u>
Total Loans Payable		<u>\$ 22,879,561</u>	<u>\$ 18,437,796</u>
<i>Notes Payable:</i>			
Zion's Bank	4.5	<u>\$ 430,043</u>	<u>\$ 430,043</u>

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 344,236	\$ -	\$ (65,650)	\$ 278,586	\$ 67,670
Improvement Bonds	360,000	-	(65,000)	295,000	60,000
Revenue Bonds	4,437,042	-	(172,656)	4,264,386	177,660
Notes Payable	-	669,957	-	669,957	-
Total Bonds and Notes Payable	<u>5,141,278</u>	<u>669,957</u>	<u>(303,306)</u>	<u>5,507,929</u>	<u>305,330</u>
Other Liabilities:					
Capital Leases	474,012	-	(140,744)	333,268	146,364
Compensated Absences	208,985	196,118	(100,236)	304,867	211,636
Total Governmental Activities	<u>\$ 5,824,275</u>	<u>\$ 866,075</u>	<u>\$ (544,286)</u>	<u>\$ 6,146,064</u>	<u>\$ 663,330</u>
Business-Type Activities:					
Bonds and Loans Payable:					
Revenue Bonds	\$ 2,968,000	\$ -	\$ (102,299)	\$ 2,865,701	\$ 102,340
General Obligation Bonds	1,360,765	-	(259,350)	1,101,415	267,330
Loans Payable	18,584,584	228,677	(375,465)	18,437,796	1,022,787
Notes Payable	-	430,043	-	430,043	-
Less: Difference Between Reacquisition Price and Carrying Amount of Old Debt	<u>(64,939)</u>	<u>-</u>	<u>17,778</u>	<u>(47,161)</u>	<u>(17,778)</u>
Total Bonds, Loans and Notes Payable	22,848,410	658,720	(719,336)	22,787,794	1,374,679
Other Liabilities:					
Capital Leases	198,564	-	(69,817)	128,747	72,521
Compensated Absences	66,881	72,116	(24,642)	114,355	72,650
Total Business-Type Activities	<u>\$ 23,113,855</u>	<u>\$ 730,836</u>	<u>\$ (813,795)</u>	<u>\$ 23,030,896</u>	<u>\$ 1,519,850</u>

Debt service requirements on long-term debt at June 30, 2010 are as follows:

Years	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 305,330	\$ 257,248	\$ 1,392,457	\$ 846,721
2012	318,038	241,896	1,444,314	795,703
2013	351,992	225,755	1,336,898	741,587
2014	369,360	207,340	1,387,337	692,206
2015	331,809	190,168	1,439,011	640,770
2016-2020	1,688,932	731,710	7,242,328	2,387,080
2021-2025	1,447,860	381,867	6,310,238	1,151,440
2026-2029	694,608	70,563	2,282,369	142,216
Totals	<u>\$ 5,507,929</u>	<u>\$ 2,306,547</u>	<u>\$ 22,834,952</u>	<u>\$ 7,397,723</u>

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2010, the amount of defeased debt outstanding but removed from the City's financial statements was \$2,039,328.

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Williams, Arizona, is exposed to various risks of loss related 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 Fund for potential worker related accidents.

B. Contingent Liabilities

Lawsuits

The City is a defendant in various lawsuits. In the opinion of the City's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

C. Related Party Transactions

The City incurred expenses of \$26,600 during the year from a business owned by the Mayor.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans

Arizona State Retirement System

Plan Description

The City contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. 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) 240-2000 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2010, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 9.40 percent (7.97 percent retirement, 1.03 percent for health insurance premiums, and .40 percent long-term disability) of the members' annual covered payroll.

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	\$ 218,370	\$ 28,221	\$ 10,960
2009	239,135	31,105	15,124
2008	218,460	28,415	13,817

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description

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

Funding Policy

Covered employees are required to contribute 8.00 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 12.48 percent of annual covered payroll. In addition, the health insurance subsidy was determined to be 1.09 percent.

Annual Pension Cost and Other Post Employment Benefit (OPEB) Obligations

During the year ended June 30, 2010, the City of Williams, Arizona's annual pension cost of \$73,565 was equal to the City of Williams, Arizona's required and actual contributions. OPEB costs (health insurance subsidy payments) were determined to be \$7,151 and were equal to the City of Williams, Arizona's required and actual contributions.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual pension and OPEB cost information for the current and 2 preceding years follows.

Three-Year Trend Information			
Police			
<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 88,578	100%	\$ -
2009	89,071	100	-
2010	73,565	100	-
<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 5,014	100%	\$ -
2009	6,615	100	-
2010	7,151	100	-

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases ranging from 5.5-8.5% (including inflation at 5.5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress

As of June 30, 2010, the plan was 98.3% funded. The actuarial accrued liability for benefits was \$1.47 million, and the actuarial value of assets was \$1.45 million, resulting in an unfunded actuarial accrued liability of (UAAL) of \$24,903. The covered payroll (annual payroll of active employees covered by the plan) was \$589,450, and the ratio of the UAAL to the covered payroll was 4.2%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The actuarial value of the City of Williams, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Williams, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 26 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

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.

Firefighters' Relief and Pension Fund

The Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters. There are twenty current members of the plan. Financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed \$150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

**CITY OF WILLIAMS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Firefighters' Relief and Pension Fund (Continued)

Under the plan provisions, the volunteer firefighters voluntarily make contributions to the plan which are equally matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2010, the City's required and actual contributions amounted to \$8,910, the firefighters' contributions amounted to \$23,076; and the State's contributions totaled \$11,592.

No pension provision changes occurred during the year that affected the required contributions made by the City or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WILLIAMS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2008	\$ 1,141,587	\$ 1,202,023	95.0%	\$ (60,436)	\$ 545,028	-11.1%
2009	1,331,496	1,373,398	96.9%	(41,902)	612,748	-6.8%
2010	1,449,544	1,474,487	98.3%	(24,943)	589,450	-4.2%

Police – Other Postemployment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2008	\$ -	\$ 22,573	0.0%	\$ (22,573)	\$ 545,028	-4.1%
2009	-	29,139	0.0%	(29,139)	612,748	-4.8%
2010	-	34,313	0.0%	(34,313)	589,450	-5.8%

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SINGLE AUDIT ACT REPORTS SECTION

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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 the City Council
City of Williams, Arizona
Williams, Arizona

We have audited 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 (City) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Williams, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Williams, Arizona'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 first paragraph of this section 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 schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a material weakness.

The Honorable Mayor and the City Council
City of Williams, Arizona

Compliance and Other Matters

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

The City of Williams, Arizona's written response to the finding identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management of the City, 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.



LarsonAllen LLP

Mesa, Arizona
February 22, 2011

**INDEPENDENT AUDITORS' 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**

The Honorable Mayor and the City Council
City of Williams, Arizona
Williams, Arizona

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the City of Williams, Arizona (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Williams, Arizona's major federal programs are identified in the summary of auditor's 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 on City of Williams, Arizona's compliance with those requirements.

In our opinion, the City of Williams, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control over Compliance

Management of 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 City of Williams, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 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.

Schedule of Expenditures of Federal Awards

We have audited the 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, 2010, and have issued our report thereon dated February 22, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Honorable Mayor and the City Council
City of Williams, Arizona

This report is intended solely for the information and use of the City Council, 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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 22, 2011

**CITY OF WILLIAMS, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X 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 Circular A-133, Section .510(a)? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
20.106	Airport Improvement Program

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

Auditee qualified as low-risk auditee? yes X no

**CITY OF WILLIAMS, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION II - FINANCIAL STATEMENT FINDINGS

2009-1: Oversight of the Financial Reporting Process

Condition: The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

The audit firm proposed and the City posted to its general ledger accounts, journal entries to record debt service allocations, compensated absences accruals and the GASB34 conversion entries. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the City's ability to provide accrual basis financial information.

Cause: The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The City relies on the audit firm to prepare the annual financial statements, related footnote disclosures, and to verify balances are correct at year-end. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP. Additionally, we recommend that the City review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

Management's Response: The City concurs with this recommendation and will continue to evaluate its internal controls over year-end closing procedures and the preparation of financial statements and related disclosures.

**CITY OF WILLIAMS, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted.

**CITY OF WILLIAMS, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Low Rent	14.850	N/A	\$ 112,321
Section 8 Housing Choice Vouchers	14.871	N/A	315,278
Public Housing Capital Fund	14.872	N/A	51,509
ARRA Capital Fund Recovery Grants	14.872	N/A	66,019
Passed through Arizona Department of Commerce Community Development Block Grant	14.218	R-016-10-64	<u>7,334</u>
Total U.S. Department of Housing and Urban Development			<u>552,461</u>
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607	N/A	949
Assistance to Rural Law Enforcement to Combat Crime and and Drugs Competitive Grant Program - ARRA	16.810	N/A	<u>14,776</u>
Total U.S. Department of Justice			<u>15,725</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106	3-04-0050-19	9,278
Airport Improvement Program	20.106	3-04-0050-22	667,766
Passed through Arizona Department of Transportation Arizona State Railroad Museum	20.Unknown	TEA-WIL-O-002A	<u>26,748</u>
Total U.S. Department of Transportation			<u>703,792</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,271,978</u>

Note: This schedule was prepared on the modified accrual basis of accounting.

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