

CITY OF ELOY, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ELOY, ARIZONA

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HINTON BURDICK

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Independent Auditors' Report on Financial Statements

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The Honorable Mayor and
City Council
City of Eloy, Arizona

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Eloy as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the City of Eloy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and analysis, budgetary comparison schedules, and the public safety retirement system information, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eloy, Arizona's basic financial statements. The nonmajor combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Eloy, Arizona. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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

Michael K. Spilker, CPA
December 3, 2010

CITY OF ELOY, ARIZONA
Management's Discussion and Analysis Section

As management of the City of Eloy, Arizona (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2010. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, (4) identify any material deviations from the financial plan (the approved annual budget), and (5) identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for 2010 as follows:

- The assets of the City of Eloy exceeded its liabilities at the close of the most recent fiscal year by \$35,435,245 (net assets). Of this amount, \$1,891,711 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Eloy governmental funds reported combined ending fund balances of \$17,760,852, a decrease of \$2,990,278 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8,009,884 or 95% of the total general fund expenditures.
- As of June 30, 2010, Capital Assets for the City of Eloy were \$36,112,052, an increase of \$3,346,858 from the prior year. Governmental activities increased by \$2,409,171 while business-type activities increased by \$937,687.
- General Fund revenues exceeded expenditures by \$260,819 before transfers. After transfers of (\$307,046), a positive change in fund balance occurred of \$55,466. This positive change was due to conservative budgeting and fiscal constraints in spending.
- Total business-type operating expenses exceeded total business-type operating revenues by (\$4,324,517) due to an increase in closure and post-closure expenses in the sanitation fund along with higher than anticipated depreciation expenses in water and sewer.
- The current year net loss before transfers in the HURF Fund was (\$2,761,832).
- The City includes a separate legally entity in its report – a Municipal Property Corporation. Although legally separate, this “component unit” is important because the City is financially accountable for it. A description of this component unit is available in Note 1 on page 25. Separate financial statements are not available for this entity.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements

Government-wide reporting – while governments have traditionally focused reporting on groupings of funds (i.e. General Fund, Special Revenue Funds, Capital Project Funds, etc.), the new model also contains financial statements on a government-wide basis.

Fund financial statements – the new model maintains governmental, proprietary and fiduciary fund financial statements, but the focus is on major funds within each fund.

New focus of governmental activities – in the government-wide financial statements all activities, including the governmental activities, are reported using the economic resources measurement focus and accrual basis of accounting. The traditional current financial resources focus and modified accrual basis of accounting are maintained for the governmental fund and financial statements in the new model.

Infrastructure reporting – the new model requires governments to report the value of infrastructure assets of governmental activities (roads, bridges, storm drainage systems, parks, street lighting, etc.). These assets are reported in the governmental-wide financial statements.

Changes in budgetary reporting – the new model requires the display of both the original adopted budget and the amended budget in the budgetary comparison schedules. These schedules are only required for the general fund and major special revenue funds, although they may be presented for other funds as additional information.

Required narrative analysis – The new model requires that the financial statements be accompanied by narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide Financial Statements

The government-wide financial statements (see pages 17-18) are designed to provide a broad overview of the City's finances in a manner similar to those used by private businesses. All of the activities of the City, except those of a fiduciary nature, are included in these statements.

The activities of the City are broken into two columns on these statements – governmental activities and business-type activities. A total column for the City is also provided.

The *governmental activities* include the basic services of the City including general government, culture and recreation, public safety, airport, and highway and streets. Taxes and general revenues generally support these activities.

The *business-type activities* include the private sector activities such as water, sewer, and sanitation. User charges and fees primarily support these activities.

The *statement of net assets* presents information on all of the City's assets and liabilities, both current and long-term, with the difference between the two reported as net assets. The focus of net assets is designed to be similar to the emphasis for businesses. Over time any increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, other indicators, including non-financial indicators like the City's infrastructure condition should be considered.

The *statement of activities* presents information showing how the City's net assets changed over the most recent fiscal year. Since full accrual is used for the government-wide financial statements, all changes to net assets are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also focuses on both the gross and net costs of the various functions of the City, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general taxes and revenues for support.

Fund Financial Statements

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for most of the City's basic services. Unlike the governmental activities column on the government-wide financial statements, these fund financial statements (pages 19-20) focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in looking at the City's near-term financing requirements.

Since the governmental fund financial statements focus on near-term spendable resources, while the government activities on the government-wide financial statements have a long-term focus, a reconciliation of the differences between the two is provided with the fund financial statements and also in Note 2 (page 30).

Proprietary funds – Proprietary funds are used to account for business-type activities of the City. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. Enterprise funds are used for activities that primarily serve customers outside the governmental unit for which fees are charged. The City has three enterprise funds: The sewer, water and sanitation funds. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Notes to the financial statements - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-48 of this report.

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 or as required supplementary information after the notes. The City has chosen to present these budgetary statements as part of the required supplementary information after the notes. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information starting with Note 10 (page 45) of the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2010.

Net Assets

The following table reflects the condensed Statement of Net Assets as of June 30, 2010.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$21,966,420	\$25,696,608	\$ 1,611,503	\$ 1,344,133	\$23,577,923	\$ 27,040,741
Capital Assets						
Non-depreciable	5,466,313	5,466,313	347,468	347,468	5,813,781	5,813,781
Depreciable (net)	12,058,371	11,120,686	18,249,900	15,830,729	30,308,271	26,951,415
Total Assets	<u>39,491,104</u>	<u>42,283,607</u>	<u>20,208,871</u>	<u>17,522,330</u>	<u>59,699,975</u>	<u>59,805,937</u>
Other Liabilities	4,187,256	4,995,303	7,343,782	3,657,379	11,531,038	8,652,682
Non-current liabilities						
Due within one year	1,118,818	1,022,118	540,971	499,972	1,525,789	1,522,090
Due in more than one year	2,750,469	4,707,578	8,323,434	8,059,738	11,207,903	12,767,316
Total Liabilities	<u>8,056,543</u>	<u>10,724,999</u>	<u>16,208,187</u>	<u>12,217,089</u>	<u>24,264,730</u>	<u>22,942,088</u>
Net Assets:						
Invested in Capital Assets,						
Net of related debt	16,151,406	13,325,913	9,775,100	7,665,730	25,926,506	20,991,643
Restricted	7,273,444	10,268,206	343,584	379,454	7,617,028	10,647,660
Unrestricted	8,009,711	7,964,489	(6,118,000)	(2,739,943)	1,891,711	5,224,546
Total Net Assets	<u>\$31,434,561</u>	<u>\$31,558,608</u>	<u>\$ 4,000,684</u>	<u>\$ 5,305,241</u>	<u>\$35,435,245</u>	<u>\$ 36,863,849</u>

For fiscal year 2010, net assets for the City decreased by (\$1,428,604) or -3.8%. Of this decrease, (\$1,304,557) was in the business-type activities, while governmental activities decreased (\$124,047).

Net assets consist of two components. The largest portion of net assets, \$25,926,506 or 73%, reflects the City's investment in capital assets net of accumulated depreciation and any related outstanding debt used to acquire or construct those assets. The City uses these capital assets to provide services to its citizens; consequently, it is not the City's intention to sell these assets and they are therefore not available for future spending.

The second portion of the City's net assets, \$7,617,028 or 21%, represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$1,891,711 or 6% may be used to meet the City's ongoing obligations to the citizens and creditors.

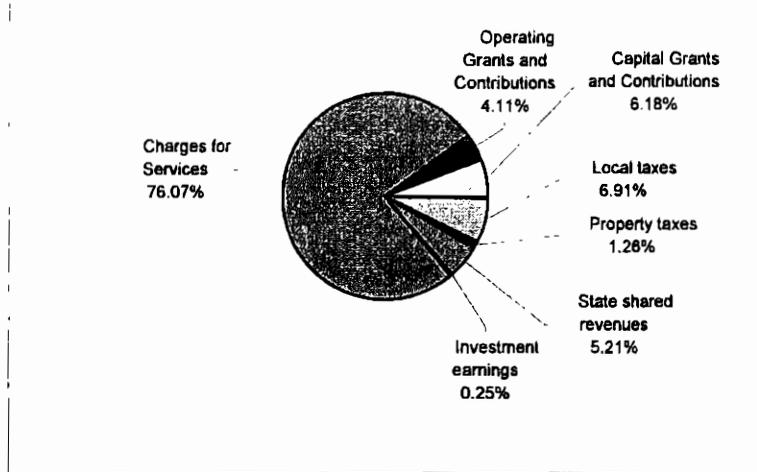
Changes in Net Assets

The City's total revenue for the year ended June 30, 2010 was \$56,571,354. The total cost of all programs and services was \$57,999,958. The following table presents a summary of the changes in net assets for the year ended June 30, 2010.

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Charges for Services	\$38,782,877	\$38,796,567	\$4,253,000	\$4,193,174	\$43,035,877	\$42,989,741
Operating Grants and Contributions	2,324,873	2,398,640	-	-	2,324,873	2,398,640
Capital Grants and Contributions	674,887	3,103,924	2,821,830	2,905,695	3,496,717	6,009,619
General Revenue:						
Local taxes	3,909,441	6,575,930	-	-	3,909,441	6,575,930
Property taxes	713,073	648,196	-	-	713,073	648,196
State shared revenues	2,949,746	3,279,161	-	-	2,949,746	3,279,161
Gain on sale of assets	-	-	-	-	-	-
Investment earnings	137,475	232,870	4,152	76,715	141,627	309,385
Total Revenues	49,492,372	55,035,088	7,078,982	7,175,584	56,571,354	62,210,672
EXPENSES						
Government Activities:						
General Government	41,557,237	40,977,710	-	-	41,557,237	40,977,710
Public Safety	4,574,432	4,591,751	-	-	4,574,432	4,591,751
Public Works/Streets	1,797,012	3,170,470	-	-	1,797,012	3,170,470
Culture and recreation	1,178,876	1,303,247	-	-	1,178,876	1,303,247
Health and Welfare	18,618	84,934	-	-	18,618	84,934
Interest on long-term debt	93,818	175,834	-	-	93,818	175,834
Business-Type Activities:						
Water	-	-	1,938,888	2,027,750	1,938,888	2,027,750
Sanitation	-	-	1,442,414	1,476,568	1,442,414	1,476,568
Sewer	-	-	5,398,863	1,178,667	5,398,863	1,178,667
Total Expenses	49,219,793	50,303,946	8,780,165	4,682,985	57,999,958	54,986,931
Change in net assets before transfers	272,579	4,731,142	(1,701,183)	2,492,599	(1,428,604)	7,223,741
Special items	-	-	-	-	-	-
Transfer In (Out)	(396,626)	(802,846)	396,626	802,846	0	0
Increase (Decrease) in Net Assets	-124,047	3,928,296	-1,304,557	3,295,445	-1,428,604	7,223,741
Net assets at beginning of year	31,558,608	27,630,312	5,305,241	2,600,885	36,863,849	30,231,197
Prior period Adjustment	-	-	-	-	-	-
Net assets at the end of year	\$ 31,434,561	\$ 31,558,608	\$ 4,000,684	\$ 5,305,241	\$ 35,435,245	\$ 36,863,849

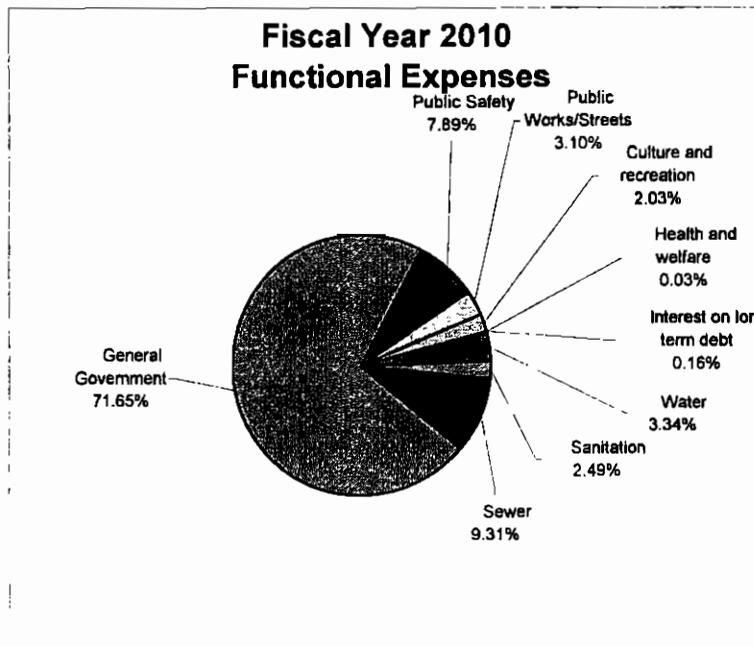
As seen in the following graph, the largest financing source for the City is charges for services (76.07%) primarily because this is the major funding source of the governmental activities. The major funding sources of the governmental activities are local taxes (6.91%), Capital Grants and Contributions (6.18%) and state shared revenue (5.21%).

Fiscal Year 2010 Revenue Sources

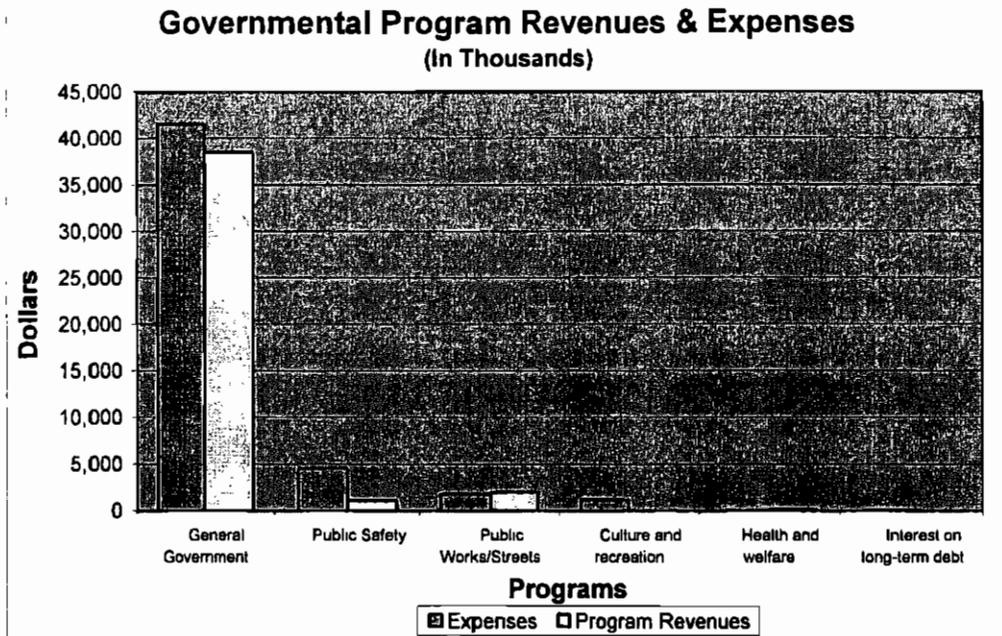


The largest user of resources, for the City as a whole, is the governmental activities (84.86%). For the governmental activities, the largest users of resources are general government (71.65%), public safety (7.89%), and public works/streets (3.10%). For the business-type activities, the largest users of resources are sewer (9.31%), water (3.34%), and sanitation (2.49%).

Fiscal Year 2010 Functional Expenses



The following graph shows the functional revenue and expenses of governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this is not intended to represent full cost allocation to these functions. General revenues of the City cover expenses not covered by direct program revenues.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds

The focus of the City's governmental fund financial statements (19-20) is to provide information on near-term inflows, outflows, and balances of spendable resources. 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 Fund, Capital Projects Funds and the Permanent Fund.

For fiscal year ending June 30, 2010, the governmental funds reflect a combined fund balance of \$17,760,852, a decrease of (\$2,990,278) compared to last fiscal year. Approximately 45% of this total amount, \$8,009,884, constitutes general fund balance, which is available for contribution to designated, undesignated, and reserved fund balance.

At fiscal year ended June 30, 2010 fund balances were as follows:

Fund	F. Y. 2009-2010 Balance	Increase (Decrease) from 2008-2009
General Fund	\$ 8,009,884	\$ 55,466
HURF Fund	5,118,874	(2,562,754)
Grants Fund	144,963	(8,848)
Non-Major Governmental Funds	4,487,131	(474,142)

The General fund is the principal operating fund of the City and accounts for many functions of the government, including public safety, culture and recreation, and general government. The general fund revenues total \$8,599,100 for fiscal year ending June 30, 2010. The expenditures before other financing sources and uses totaled \$8,338,281.

The net change of fund balance for the General Fund had an increase of \$55,466 during the current fiscal year. This positive change was due to fiscal spending constraints and conservative budgeting forecasts.

The Highway User Revenue Fund is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments and required to be used for transportation purposes. Revenues in this fund totaled \$1,698,068, while expenses totaled \$4,459,900 for the fiscal year ending June 30, 2010. The net change of fund balance for the HURF Fund, prior to transfers, was a negative (\$2,761,832).

The fund balance for the Grants Fund decreased by (\$8,848) due to the City completing grants which the funds were received in prior years.

Other major governmental funds of the City include the Airport Fund, LTAF Fund, Impact Fee Fund, JCEF Fund, Court Recovery Fund, Cemetery Fund, and Capital Projects Fund. All non-major funds of the City are combined into one column on the governmental fund statements. The fund balance for all other major governmental funds decreased by (\$474,142), primarily from capital projects being completed from prior years.

Proprietary Funds

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

Net assets of the Proprietary Funds were \$4,000,684 as of June 30, 2010. Operating revenues in fiscal year 2010 were \$4,232,039, while operating expenses totaled \$8,556,556, resulting in a (\$4,324,517) operating loss.

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 54-55. These statements compare the original adopted budget, the budget as amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see Note 3 on pages 31-32 for more information on budget policies). No amendments increasing the City's total adopted budget of \$89,495,410 occurred during fiscal year 2010. Budget amendments between funds or from budgeted contingencies into operational expense/expenditures accounts did not occur.

Budgetary comparison highlights for the major governmental funds are as follows:

- General fund expenditures of \$8,338,281 were only 84% of budgeted expenditures. Reduced expenditures and unfunded capital projects resulted from unspent budget items.
- In the Highway User Revenue Fund, expenditures were 29% under budget yielding a \$1,823,375 positive variance primarily due to lower than anticipated street maintenance expenditures and infrastructure improvements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010, the City had invested \$25,926,506 in various capital assets, net of accumulated depreciation and related debt. The capital assets of the City (net of depreciation, but not capital debt) are \$36,112,052. This is a net increase of \$3,356,858. Of this increase, \$937,687 resulted from governmental activities while \$2,419,171 resulted from business-type activities.

Major additions to capital assets during the fiscal year included the following:

- The City purchased 3 police vehicles for \$79,812.
- The City installed new ground water wells and equipment at the Landfill for \$106,437.
- The City purchased new equipment for dispatch for \$86,208.
- The City refurbished Toltec Park for \$147,295.
- The City completed the construction of Sunshine Blvd for \$1,151,227.
- The City purchased 3 new servers for a total of \$19,532.
- The City installed new water meters and water line for \$1,957,678.

The following table provides a breakdown of capital assets of the City at June 30, 2010 and 2009. Additional information on the City's capital assets may be found on Note 5 on pages 34-35.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land and Improvements	\$ 5,466,313	\$ 5,466,313	\$ 347,468	\$ 347,468	\$ 5,813,781	\$ 5,813,781
Land Improvements	\$ 143,613	\$ -	\$ -	\$ -	\$ 143,613	\$ -
Construction In Progress	61,421	1,455,331	1,263,429	5,158,787	1,324,850	6,614,118
Buildings and Improvements	4,769,557	4,795,915	1,984	2,074	4,771,541	4,797,989
Infrastructure	5,625,448	1,541,310	-	-	5,625,448	1,541,310
Furniture, equipment and vehicles	1,458,332	3,328,128	1,114,363	1,273,186	2,572,695	4,601,314
Sewer lines and equipment	-	-	9,740,241	4,837,441	9,740,241	4,837,441
Water lines and equipment	-	-	6,119,883	4,559,241	6,119,883	4,559,241
Total	\$ 17,524,684	\$ 16,586,997	\$ 18,587,368	\$ 16,178,197	\$ 36,112,052	\$ 32,765,194

Long-term Debt

The City's outstanding long-term debt, including bonds, notes, leases, and compensated absences, was \$12,733,690 at June 30, 2010. Of this total, \$3,869,287 was in governmental activities. Of the outstanding debt, \$230,000 is MPC bonds collateralized by the City's excise tax stream. All other outstanding debt is secured by pledges of specific revenue sources of the City.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2010 and 2009. Further details can be found in Note 7 on pages 38-43.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Municipal Property Corporation Bonds	\$ 176,179	\$ 333,208	\$ 53,821	\$ 101,792	\$ 230,000	\$ 435,000
Revenue Bonds	-	-	732,845	826,585	732,845	826,585
Notes Payable	2,076,403	3,711,329	8,023,437	7,548,401	10,099,840	11,259,730
Capital Leases	1,149,118	1,295,853	12,163	35,687	1,161,281	1,331,540
Compensated absences	487,587	389,306	42,137	47,243	509,724	436,549
	\$ 3,869,287	\$ 5,729,696	\$ 8,864,403	\$ 8,559,709	\$ 12,733,690	\$ 14,289,405

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's officials have considered many factors during the process of developing the budget for fiscal year 2010-2011. Three primary factors that were considered were the increasing cost to conduct business, reduction in state revenue and the unstable economy. Also, considered in the development of the budget was the local economy. The adopted fiscal year 2010-2011 budget expects general fund revenues to decrease (\$1,743,355) due to a decreases in city sales tax, building permits, charges for services and intergovernmental revenues. The overall budget is expected to decrease by \$14,136,485 due to less special projects, capital projects, and loss of revenue. The City is expected to increase population at approximately 1.0%. Inflation of the surrounding area is below the national average of 1.14%. The unemployment rate in Eloy is 11.90% which is above the national average of 10.20%. These indicators were considered when adopting the budget for fiscal year 2010-2011.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the City of Eloy, Arizona's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to the City 's Finance Director at the following address: City of Eloy, Brian Wright, 624 North Main Street, Eloy, AZ 85131.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,480,792	\$ 1,086,206	\$ 7,566,998
Receivables (net of allowance)	4,324,195	1,399,637	5,723,832
Prepaid expenses	-	20,000	20,000
Inventory	-	181,591	181,591
Internal balances	1,419,515	(1,419,515)	-
Temporarily restricted assets:			
Cash and cash equivalents	9,741,918	343,584	10,085,502
Capital assets (net of accumulated depreciation):			
Land	5,466,313	347,468	5,813,781
Land improvements	143,613	-	143,613
Buildings	4,769,557	1,984	4,771,541
Distribution systems	-	15,870,124	15,870,124
Infrastructure/Roads	5,625,448	-	5,625,448
Furniture, equipment & vehicles	1,458,332	1,114,363	2,572,695
Construction in progress	61,421	1,263,429	1,324,850
Total assets	<u>39,491,104</u>	<u>20,208,871</u>	<u>59,699,975</u>
Liabilities			
Accounts payable and other current liabilities	4,016,093	764,559	4,780,652
Deferred revenue	-	6,691	6,691
Interest payable	59,792	-	59,792
Landfill closure and postclosure payable	-	6,571,927	6,571,927
Other current liabilities	111,371	605	111,976
Noncurrent liabilities:			
Due within one year	1,118,818	540,971	1,659,789
Due in more than one year	2,750,469	8,323,434	11,073,903
Total liabilities	<u>8,056,543</u>	<u>16,208,187</u>	<u>24,264,730</u>
Net Assets			
Invested in capital assets, net of related debt	16,151,406	9,775,100	25,926,506
Restricted for:			
Debt service	124,473	202,246	326,719
Highways and streets	2,701,142	-	2,701,142
Other purposes	4,447,829	141,338	4,589,167
Unrestricted	8,009,711	(6,118,000)	1,891,711
Total Net Assets	<u>\$ 31,434,561</u>	<u>\$ 4,000,684</u>	<u>\$ 35,435,245</u>

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

CITY OF ELOY, ARIZONA
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 41,557,237	\$ 38,389,247	\$ -	\$ 77,426	\$ (3,090,564)	\$ -	\$ (3,090,564)
Public safety	4,574,432	282,085	606,495	219,894	(3,465,958)	-	(3,465,958)
Public works/streets	1,797,012	89,682	1,655,148	271,993	219,811	-	219,811
Culture and recreation	1,178,676	21,863	1,770	2,409	(1,152,634)	-	(1,152,634)
Health and welfare	18,618	-	61,460	103,165	146,007	-	146,007
Interest on long-term debt	93,818	-	-	-	(93,818)	-	(93,818)
Total governmental activities	49,219,793	38,782,877	2,324,873	674,887	(7,437,156)	-	(7,437,156)
Business-type activities:							
Water	1,938,888	1,867,418	-	2,813,242	-	2,741,772	2,741,772
Sewer	1,442,414	1,053,803	-	8,588	-	(380,023)	(380,023)
Sanitation	5,398,863	1,331,779	-	-	-	(4,067,084)	(4,067,084)
Total business-type activities	8,780,165	4,253,000	-	2,821,830	-	(1,705,335)	(1,705,335)
Total primary government:	\$ 57,999,958	\$ 43,035,877	\$ 2,324,873	\$ 3,496,717			
General Revenues:							
City sales tax					3,787,899	-	3,787,899
State sales tax					816,412	-	816,412
Auto lieu tax					696,980	-	696,980
State sales taxes - revenue sharing					1,436,354	-	1,436,354
Property taxes					713,073	-	713,073
Franchise taxes					121,542	-	121,542
Unrestricted investment earnings					137,475	4,152	141,627
Transfers					(396,626)	396,626	-
Total general revenues & transfers					7,313,109	400,778	7,713,887
Change in net assets					(124,047)	(1,304,557)	(1,428,604)
Net assets - beginning					31,558,608	5,305,241	36,863,849
Net assets - ending					\$ 31,434,561	\$ 4,000,684	\$ 35,435,245

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

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

Assets	General	HURF	Grants	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 6,480,792	-	\$ -	\$ -	\$ 6,480,792
Receivables:					
Other	2,808	13	-	21,712	24,533
Intergovernmental	658,906	142,081	3,495,213	3,462	4,299,662
Due from Other Funds	1,529,739	-	-	-	1,529,739
Restricted Cash and Investments	71,518	5,013,937	-	4,656,463	9,741,918
Total Assets	\$ 8,743,763	\$ 5,156,031	\$ 3,495,213	\$ 4,681,637	\$ 22,076,644
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 210,535	\$ 23,560	\$ 3,238,225	\$ 193,568	\$ 3,665,888
Accrued Wages and Benefits	333,865	13,597	1,801	938	350,201
Deferred revenue	78,108	-	-	-	78,108
Due to Other Funds	-	-	110,224	-	110,224
Other current liabilities	111,371	-	-	-	111,371
Total Liabilities	733,879	37,157	3,350,250	194,506	4,315,792
Fund Balances:					
Reserved	-	5,118,874	144,963	4,304,062	9,567,899
Unreserved/Undesignated	8,009,884	-	-	183,069	8,192,953
Total fund balances	8,009,884	5,118,874	144,963	4,487,131	17,760,852
Total Liabilities and fund balances	\$ 8,743,763	\$ 5,156,031	\$ 3,495,213	\$ 4,681,637	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 17,524,684

Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds. 78,108

Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds. (3,929,083)

Net assets of governmental activities \$ 31,434,561

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

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

REVENUES	General	HURF	Grants	Nonmajor Governmental Funds	Total Governmental Funds
Taxes	\$ 7,555,102	\$ -	\$ -	\$ -	\$ 7,555,102
Licenses, Permits and Fees	306,128	5,124	-	-	311,252
Intergovernmental Revenue	273,286	1,655,149	1,052,643	71,361	3,052,439
Charges for Services	36,872	-	-	81,411	118,283
Capacity Charges	-	-	-	110,755	110,755
Fines and Forfeitures	255,973	-	-	36,294	292,267
Interest	82,784	37,795	-	16,896	137,475
CCA Passthrough	-	-	37,738,433	-	37,738,433
Other Revenues	88,955	-	-	70,256	159,211
Total Revenues	<u>8,599,100</u>	<u>1,698,068</u>	<u>38,791,076</u>	<u>386,973</u>	<u>49,475,217</u>
EXPENDITURES					
Current:					
General Government	2,518,136	-	-	70,303	2,588,439
Public Safety	3,547,688	-	170,024	-	3,717,712
Public Works/Streets	721,991	1,621,545	-	57,576	2,401,112
Health and Welfare	-	-	18,587	-	18,587
Culture and Recreation	1,239,954	-	-	-	1,239,954
CCA Passthrough	-	-	37,738,433	-	37,738,433
Capital Outlay	-	1,151,227	881,345	248,570	2,281,142
Debt Service:					
Principal	225,758	1,685,000	-	85,850	1,996,608
Interest	84,754	2,128	-	-	86,882
Total Expenditures	<u>8,338,281</u>	<u>4,459,900</u>	<u>38,808,389</u>	<u>462,299</u>	<u>52,068,869</u>
Excess of Revenues Over (Under) Expenditures	<u>260,819</u>	<u>(2,761,832)</u>	<u>(17,313)</u>	<u>(75,326)</u>	<u>(2,593,652)</u>
Other Financing Sources (Uses):					
Transfers In	101,693	199,078	8,465	47,968	357,204
Transfers Out	<u>(307,046)</u>	<u>-</u>	<u>-</u>	<u>(446,784)</u>	<u>(753,830)</u>
Total Other Financing Sources (Uses)	<u>(205,353)</u>	<u>199,078</u>	<u>8,465</u>	<u>(398,816)</u>	<u>(396,626)</u>
Net change in fund balances	55,466	(2,562,754)	(8,848)	(474,142)	(2,990,278)
Fund Balance, Beginning of Year	<u>7,954,418</u>	<u>7,681,628</u>	<u>153,811</u>	<u>4,961,273</u>	<u>20,751,130</u>
Fund Balance, End of Year	<u>\$ 8,009,884</u>	<u>\$ 5,118,874</u>	<u>\$ 144,963</u>	<u>\$ 4,487,131</u>	<u>\$ 17,760,852</u>

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

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

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

Net change in fund balances - total governmental funds	\$ (2,990,278)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	937,687
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,938,684
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Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.	50,982
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Revenues that do not provide current financial resources are not reported as revenues in the funds. This represents the change in unearned revenues for property taxes and assessments receivable that have previously been deferred in the funds.	17,159
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Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(78,281)
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Change in net assets of governmental activities	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ (124,047)</td> </tr> </table>	\$ (124,047)
\$ (124,047)		

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

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

	Water	Sewer	Sanitation	Totals
Assets				
Current Assets:				
Cash	\$ 748,865	\$ -	\$ 337,341	\$ 1,086,206
Receivables (net of allowance)	310,288	88,107	96,779	495,174
Due from other governments	-	904,463	-	904,463
Inventory	181,591	-	-	181,591
Total Current Assets	<u>1,240,744</u>	<u>992,570</u>	<u>434,120</u>	<u>2,667,434</u>
Noncurrent Assets:				
Restricted cash and investments	281,552	62,032	-	343,584
Prepaid expenses	20,000	-	-	20,000
Land	-	347,468	-	347,468
Buildings and improvements	32,704	-	-	32,704
Collection and distribution systems	9,769,104	13,567,910	-	23,337,014
Furniture, equipment and vehicles	570,547	485,994	1,484,823	2,541,364
Construction in progress	1,099,296	57,696	106,437	1,263,429
Accumulated depreciation	(4,140,723)	(4,186,316)	(597,573)	(8,924,612)
Total Noncurrent Assets	<u>7,632,480</u>	<u>10,334,784</u>	<u>993,687</u>	<u>18,960,951</u>
Total Assets	<u>\$ 8,873,224</u>	<u>\$ 11,327,354</u>	<u>\$ 1,427,807</u>	<u>\$ 21,628,385</u>
Liabilities				
Current Liabilities:				
Accounts payable	\$ 163,550	\$ 426,032	\$ 10,178	\$ 599,760
Accrued wages and benefits	11,929	4,325	7,208	23,462
Customer deposits	141,338	-	-	141,338
Deferred revenue	6,691	-	-	6,691
Due to other funds	-	1,419,515	-	1,419,515
Current portion of capital leases	-	-	12,163	12,163
Current portion of bonds payable	153,422	-	-	153,422
Current portion of loans payable	46,283	319,103	-	365,386
Current portion of compensated absences	4,700	1,800	3,500	10,000
Landfill closure and postclosure payable	-	-	6,571,927	6,571,927
Other current liabilities	604	-	-	604
Total Current Liabilities	<u>528,517</u>	<u>2,170,775</u>	<u>6,604,976</u>	<u>9,304,268</u>
Noncurrent liabilities (net of current portion):				
Compensated absences	22,762	601	8,774	32,137
Loans payable	379,212	7,278,839	-	7,658,051
Bonds payable	633,245	-	-	633,245
Total Noncurrent Liabilities	<u>1,035,219</u>	<u>7,279,440</u>	<u>8,774</u>	<u>8,323,433</u>
Total Liabilities	<u>1,563,736</u>	<u>9,450,215</u>	<u>6,613,750</u>	<u>17,627,701</u>
Net Assets				
Invested in capital assets, net of related debt	6,118,766	2,674,810	981,524	9,775,100
Restricted	281,552	62,032	-	343,584
Unrestricted	909,170	(859,703)	(6,167,467)	(6,118,000)
Total net assets	<u>\$ 7,309,488</u>	<u>\$ 1,877,139</u>	<u>\$ (5,185,943)</u>	<u>\$ 4,000,684</u>

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

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

	Water	Sewer	Sanitation	Totals
Operating Revenues				
Charges for Services	\$ 1,845,719	\$ 1,034,761	\$ 1,325,265	\$ 4,205,745
Rent and Other Revenues	738	19,042	6,514	26,294
Total Operating Revenues	<u>1,846,457</u>	<u>1,053,803</u>	<u>1,331,779</u>	<u>4,232,039</u>
Operating Expenses				
Salaries	398,595	160,850	302,542	861,987
Employee Benefits	200,588	74,644	139,287	414,519
Service, Supplies and Other	763,423	379,459	744,960	1,887,842
Landfill Closure and Postclosure Expense	-	-	4,110,654	4,110,654
Depreciation	534,783	651,364	95,407	1,281,554
Total Operating Expenses	<u>1,897,389</u>	<u>1,266,317</u>	<u>5,392,850</u>	<u>8,556,556</u>
Operating Income (Loss)	<u>(50,932)</u>	<u>(212,514)</u>	<u>(4,061,071)</u>	<u>(4,324,517)</u>
Non-operating Revenues (Expenses)				
Interest Income	2,448	1,704	-	4,152
Interest Expense and Fiscal Charges	(41,499)	(176,097)	(6,013)	(223,609)
Grant revenue	2,800,000	-	-	2,800,000
Impact Fees	13,242	8,588	-	21,830
Connection Fees	20,961	-	-	20,961
Total Non-Operating Revenue (Expense)	<u>2,795,152</u>	<u>(165,805)</u>	<u>(6,013)</u>	<u>2,623,334</u>
Income (loss) before contributions and transfers	2,744,220	(378,319)	(4,067,084)	(1,701,183)
Contributions and Transfers:				
Transfers In	<u>10,782</u>	<u>223,766</u>	<u>162,078</u>	<u>396,626</u>
Change in net assets	2,755,002	(154,553)	(3,905,006)	(1,304,557)
Total net assets, Beginning of Year	<u>4,554,486</u>	<u>2,031,692</u>	<u>(1,280,937)</u>	<u>5,305,241</u>
Total net assets, End of Year	<u>\$ 7,309,488</u>	<u>\$ 1,877,139</u>	<u>\$ (5,185,943)</u>	<u>\$ 4,000,684</u>

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

CITY OF ELOY, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Water	Sewer	Sanitation	Totals
Cash Flows From Operating Activities:				
Cash received from customers, service fees	\$ 1,780,712	\$ 1,613,467	\$ 1,316,162	\$ 4,710,341
Cash received from customers, other	738	19,042	6,514	26,294
Cash paid to suppliers	(877,679)	(815,543)	(753,393)	(2,446,615)
Cash paid to employees	(609,920)	(240,502)	(448,742)	(1,299,164)
Net cash flows from operating activities	<u>293,851</u>	<u>576,464</u>	<u>120,541</u>	<u>990,856</u>
Cash Flows From Noncapital Financing Activities:				
Proceeds/Payments (to)/from other funds	-	(146,254)	-	(146,254)
Transfers (to)/from other funds	10,782	223,766	162,078	396,626
Net cash flows from noncapital financing activities	<u>10,782</u>	<u>77,512</u>	<u>162,078</u>	<u>250,372</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from capital debt	470,713	362,390	-	833,103
Purchase of capital assets	(3,056,973)	(537,313)	(106,437)	(3,700,723)
Principal paid on notes, leases and bonds	(206,676)	(313,102)	(23,524)	(543,302)
Interest paid	(41,499)	(176,097)	(6,013)	(223,609)
Capital grants	2,800,000	-	-	2,800,000
Connection & impact fees	34,204	8,588	-	42,792
Net cash flows from capital and related financing activities	<u>(231)</u>	<u>(655,534)</u>	<u>(135,974)</u>	<u>(791,739)</u>
Cash Flows From Investing Activities:				
Interest on investments	2,448	1,704	-	4,152
Net change in Cash and Cash Equivalents	306,850	146	146,645	453,641
Cash and cash equivalents, including restricted cash, beginning of year	723,567	61,886	190,696	976,149
Cash and cash equivalents, including restricted cash, end of year	<u><u>\$ 1,030,417</u></u>	<u><u>\$ 62,032</u></u>	<u><u>\$ 337,341</u></u>	<u><u>\$ 1,429,790</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Net Operating Income (Loss)	\$ (50,932)	\$ (212,514)	\$ (4,061,071)	\$ (4,324,517)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation/amortization	534,783	651,364	95,407	1,281,554
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(65,007)	578,706	(9,103)	504,596
(Increase)/Decrease in inventory	(152,069)	-	-	(152,069)
Increase/(Decrease) in payables	32,293	(432,869)	1,709	(398,867)
Increase/(Decrease) in accrued wages and benefits	(10,737)	(5,008)	(6,913)	(22,658)
Increase/(Decrease) in accrued liabilities & deposits	5,520	(3,215)	4,100,512	4,102,817
Net cash flows from operating activities	<u><u>\$ 293,851</u></u>	<u><u>\$ 576,464</u></u>	<u><u>\$ 120,541</u></u>	<u><u>\$ 990,856</u></u>
Supplemental Schedule of Non-cash Financing and Investing Activities:				
Capital asset contributions	\$ -	\$ -	\$ -	\$ -

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

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

Note 1. Summary of Significant Accounting Policies

General

The accounting policies of the City of Eloy, Arizona (the City) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The government is a municipal corporation governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year end. The following is a brief summary of the component units included in defining the City's reporting entity.

Blended Component Unit: Eloy Municipal Property Corporation (MPC). The MPC board of directors consists of six members which are appointed by the City of Eloy, Arizona City Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the MPC's bonds. For financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the City's operations.

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

Note 1. Summary of Significant Accounting Policies, Continued

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

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

Property taxes, sales taxes, state shared revenues, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **Highway User Special Revenue Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.

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

The City reports the following major proprietary funds:

The **Water Fund** accounts for the activities related to the City's water storage and distribution system.

The **Sewer Fund** accounts for the activities related to the City's sewer collection and treatment operations.

The **Sanitation Fund** accounts for the activities related to the City's garbage collection and treatment operations.

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

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

Note 1. Summary of Significant Accounting Policies, Continued

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

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

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

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

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

Deposits and Investments

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

Receivables and Payables

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Note 1. Summary of Significant Accounting Policies, Continued

General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. Those assets are not required to be retroactively stated in accordance with GASB Statement 34.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Improvements other than buildings	5 - 50 years
Water and sewer plants	50 years
Furniture, equipment and vehicles	5-20 years
Infrastructure (roads, runways, etc.)	10 - 50 years

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Long-term Obligations

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

Estimates

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

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

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows.

Bonds payable	\$ 176,179
Capital leases payable	1,149,118
Compensated absences	467,587
Notes Payable	2,076,403
Accrued interest	<u>59,796</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ 3,929,083</u></u>

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

Note 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

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

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

Capital outlay	\$ 1,580,289
Depreciation expense	<u>(642,602)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 937,687</u>

Note 3. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

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 public 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).

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

Note 3. Stewardship, Compliance, and Accountability, Continued

4. The City follows a voter-approved alternative expenditure limitation that was adopted on November 17, 2005.
5. Expenditures may not legally exceed the expenditure limitation 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.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue 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 Cities and Towns. This law does not permit the City to spend more than budgeted revenues plus the carry-over 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 made during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2010, if any.

Taxes

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

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

Note 4. Deposits and Investments

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

	<u>Carrying Amount-Fair Value</u>
Deposits:	
Cash on hand	\$ 9,407
Cash in bank	17,219,246
Cash with paying agent	236,850
Investments:	
State Treasurer's Investment Pool	<u>186,997</u>
Total Cash and Investments	<u><u>\$ 17,652,500</u></u>

A reconciliation of cash and investments as shown on the financial statements follows:

Cash and cash equivalents	\$ 7,596,051
Restricted cash and cash equivalents	<u>10,056,449</u>
Total	<u><u>\$ 17,652,500</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. At June 30, 2010 cash on hand was \$9,407 and the carrying amount of the City's deposits was \$17,456,503. As of June 30, 2010, \$10,372,756 of the City's bank balance of \$19,052,449 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

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

Note 4. Deposits and Investments, Continued

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

As of June 30, 2010 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State Treasurer's Investment Pool	186,997	186,997	-	-	-
	<u>\$ 186,997</u>	<u>\$ 186,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

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

Credit risk

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

At June 30, 2010 the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State Treasurer's Investment Pool	186,997	-	-	-	186,997
Total Fair Value	<u>\$ 186,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186,997</u>

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

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets, not being depreciated:				
Land	\$ 5,466,313	\$ -	\$ -	\$ 5,466,313
Construction in progress	1,455,331	16,979	(1,410,889)	61,421
Total capital assets, not being depreciated	6,921,644	16,979	(1,410,889)	5,527,734
Capital assets, being depreciated:				
Buildings and improvements	6,406,339	143,175	-	6,549,514
Furniture, equipment & vehicles	4,479,214	239,408	(88,300)	4,630,322
Land improvements	-	147,295	-	147,295
Infrastructure	3,996,057	2,444,321	-	6,440,378
Total capital assets, being depreciated	14,881,610	2,974,199	(88,300)	17,767,509
Less accumulated depreciation for:				
Buildings and improvements	(1,610,424)	(169,533)	-	(1,779,957)
Furniture, equipment & vehicles	(2,937,904)	(322,386)	88,300	(3,171,990)
Land improvements	-	(3,682)	-	(3,682)
Infrastructure	(667,929)	(147,001)	-	(814,930)
Total accumulated depreciation	(5,216,257)	(642,602)	88,300	(5,770,559)
Total capital assets, being depreciated, net	9,665,353	2,331,597	-	11,996,950
Governmental activities capital assets, net	\$ 16,586,997	\$ 2,348,576	\$ (1,410,889)	\$ 17,524,684

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

Governmental Activities:	
General government	\$ 54,074
Public safety	180,142
Public works/streets	315,075
Culture & recreation	93,311
Total depreciation expense - governmental activities	\$ 642,602

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

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets not being depreciated:				
Land and water rights	\$ 347,468	\$ -	\$ -	\$ 347,468
Construction in progress	5,158,787	1,263,429	(5,158,787)	1,263,429
Total capital assets, not being depreciated	5,506,255	1,263,429	(5,158,787)	1,610,897
Capital assets being depreciated:				
Water system	7,723,605	2,045,499	-	9,769,104
Sewer system	8,017,326	5,550,584	-	13,567,910
Buildings and improvements	32,704	-	-	32,704
Furniture, Equipment & Vehicles	2,541,364	-	-	2,541,364
Total capital assets, being depreciated	18,314,999	7,596,083	-	25,911,082
Less accumulated depreciation for:				
Water system	(3,164,364)	(484,857)	-	(3,649,221)
Sewer system	(3,179,885)	(637,784)	-	(3,817,669)
Buildings and improvements	(30,630)	(90)	-	(30,720)
Furniture, Equipment & Vehicles	(1,268,178)	(158,823)	-	(1,427,001)
Total accumulated depreciation	(7,643,057)	(1,281,554)	-	(8,924,612)
Total capital assets, being depreciated, net	10,671,942	6,314,529	-	16,986,470
Business-type activities capital assets, net	\$ 16,178,197	\$ 7,577,958	\$(5,158,787)	\$ 18,597,368

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

Business-Type Activities:	
Water	\$ 534,783
Sewer	651,364
Sanitation	95,407
Total depreciation expense - business-type activities	\$ 1,281,554

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

Note 6. Capital Leases Payable

The City has entered into lease agreements which are considered capital leases in accordance with Financial Accounting Standard Board statement number 13. The leases are for the purchase of street lights, library facilities, park facilities, building improvements, airport improvements, and other various capital items with varying annual payments through May 2025, including interest at 3.25% to 6% and are shown as Governmental, Sewer fund, and Sanitation fund debt. Equipment and improvements capitalized under the capitalized leases are shown below. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ending June 30:

Year Ended June 30,	Governmental Activities	Business-Type Activities		
		Sewer Fund	Sanitation Fund	Total Business-Type
2011	\$ 145,249	\$ -	\$ 12,368	\$ 12,368
2012	145,249	-	-	-
2013	120,904	-	-	-
2014	120,904	-	-	-
2015	108,220	-	-	-
2016-2020	477,682	-	-	-
2021-2025	477,682	-	-	-
Total remaining lease payments	1,595,891	-	12,368	12,368
Less amount representing interest	(446,773)	-	(205)	(205)
Present value of net remaining minimum lease payments	<u>\$ 1,149,118</u>	<u>\$ -</u>	<u>\$ 12,163</u>	<u>\$ 12,163</u>

A summary of assets acquired through capital leases follows:

	Governmental Activities	Business-type Activities
Asset:		
Buildings and Improvements	\$ 715,836	\$ -
Furniture, Equipment and vehicles	1,015,227	820,265
Less: accumulated depreciation	(1,118,900)	(773,036)
Total	<u>\$ 612,163</u>	<u>\$ 47,229</u>

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

Note 7. Long-Term Debt

Bonds and other long-term obligations consist of the following at June 30, 2010:

Municipal Property Corporation Refunding Bonds, Series 1992, bearing interest at 6.40% to 7.0% due in semiannual principal and interest installments, maturing July 1, 2011.	\$ 40,000 *
Municipal Property Corporation Refunding Bonds, Series 1999, bearing interest at 4.25% to 4.5% due in semiannual principal and interest installments, maturing July 1, 2011.	<u>190,000 *</u>
Total Municipal Property Corporation bonds payable	230,000
Less current portion	<u>(230,000)</u>
Total Municipal Property Corporation bonds payable, net of current portion	<u><u>\$ -</u></u>

* The Municipal Property Corporation Refunding Bonds were used by both the general government and the water enterprise fund and are allocated across the funds as follows:

Governmental Activities	\$ 176,179
Business-type Activities	<u>53,821</u>
	<u><u>\$ 230,000</u></u>

Municipal Property Corporation bond debt service maturities are as follows:

Year Ended June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	176,179	8,694	184,873	53,821	2,656	56,477
Total	<u>\$ 176,179</u>	<u>\$ 8,694</u>	<u>\$ 184,873</u>	<u>\$ 53,821</u>	<u>\$ 2,656</u>	<u>\$ 56,477</u>

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

Note 7. Long-Term Debt, Continued

Revenue Bonds:

Water Revenue Bond, bearing interest at 5% due in semiannual principal and interest installments, maturing July 1, 2011.	\$ 80,000
Water Revenue Bonds, Series 1997A, bearing interest at 4.5% due in semiannual principal and interest installments, maturing January 1, 2031.	259,506
Water Revenue Bonds, Series 1997B, bearing interest at 4.5% due in semiannual principal and interest installments, maturing January 1, 2031.	<u>393,339</u>
Total revenue bonds payable	732,845
Less current portion	<u>(99,601)</u>
Total revenue bonds, net of current portion	<u><u>\$ 633,244</u></u>

Revenue bond debt service maturities are as follows:

June 30,	Principal	Interest	Total
2011	\$ 99,601	\$ 32,937	\$ 132,538
2012	20,501	28,035	48,536
2013	21,443	27,091	48,534
2014	22,428	26,104	48,532
2015	23,459	25,071	48,530
2016-2020	134,484	108,132	242,616
2021-2025	168,347	74,200	242,546
2026-2030	210,736	31,725	242,460
2031	<u>31,846</u>	<u>717</u>	<u>32,562</u>
Total	<u><u>\$ 732,845</u></u>	<u><u>\$ 354,011</u></u>	<u><u>\$ 1,086,856</u></u>

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

Note 7. Long-Term Debt, Continued

Notes Payable:

Water Infrastructure Finance Authority (WIFA), bearing interest at 2.312% to 3.24% due in semiannual principal and interest installments, maturing July 1, 2021. \$ 6,552,503

Water Infrastructure Finance Authority (WIFA), bearing interest at 2.933% due in semiannual principal and interest installments. \$1,200,000 has been authorized by WIFA however, at June 30, 2010 the City had only drawn \$470,459 of this amount. The City repaid \$44,964 during fiscal year 2010 leaving an outstanding balance of \$425,495 at June 30, 2010. The debt is currently scheduled to mature on July 1, 2029, however, the repayment schedule is subject to change based on the actual amount of authorized funding the City utilizes. 425,495

United States Department of Agriculture (USDA), bearing interest at 4.125% due in annual principal and interest installments beginning September 1, 2008, maturing September 1, 2045. 1,045,439

Great Western Bank, bearing interest at 5.115%, due in monthly principal and interest installments, maturing October 1, 2022. 485,054

Arizona Department of Transportation (ADOT) Highway Expansion and Extension Loan Program (H.E.L.P.), bearing interest at 3.5% due in annual principal and interest installments beginning August 15, 2009, maturing August 15, 2013. 1,591,349

Total notes payable 10,099,840

Less current portion (1,032,734)

Total notes payable, net of current portion \$ 9,067,106

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

Note 7. Long-Term Debt, Continued

Notes payable debt service maturities are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,032,734	\$ 266,504	\$ 1,299,238
2012	1,045,049	234,585	1,279,634
2013	724,764	202,402	927,166
2014	423,482	201,807	625,289
2015	433,832	191,314	625,146
2016-2020	2,237,617	837,314	3,074,931
2021-2025	2,165,989	528,311	2,694,300
2026-2030	1,392,444	228,711	1,621,155
2031-2035	162,176	120,753	282,928
2036-2040	199,253	84,371	283,624
2041-2045	244,808	39,671	284,479
2046	37,692	1,709	39,401
Total	<u>\$10,099,840</u>	<u>\$ 2,937,451</u>	<u>\$ 13,037,291</u>

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

Note 7. Long-Term Debt, Continued

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

Governmental Activities:	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010	Current Portion
Accrued Compensated Absences	\$ 389,306	\$ 262,985	\$ (184,704)	\$ 467,587	\$ 185,000
Notes Payable	3,711,329	-	(1,634,926)	2,076,403	667,348
Capital Leases	1,295,853	-	(146,735)	1,149,118	90,291
Total other long-term debt	5,396,488	262,985	(1,966,365)	3,693,108	942,639
General Obligation:					
USDA Bonds - Series 1989, 1992, 1999	333,208	-	(157,029)	176,179	176,179
Governmental Activity Long-Term Liabilities	\$ 5,729,696	\$ 262,985	\$ (2,123,394)	\$ 3,869,287	\$ 1,118,818
Business-type Activities:					
General Obligation:					
USDA Bonds - Series 1989, 1992, 1999	\$ 101,792	\$ -	\$ (47,971)	\$ 53,821	\$ 53,821
Revenue Bonds:					
USDA Water Bonds - Series 1991, 1997	826,585	-	(93,740)	732,845	99,601
Loans Payable:					
Water Infrastructure Finance Authority (WIFA)					
Loan # 910103-09	6,490,127	362,390	(300,014)	6,552,503	306,016
Loan # 92A150-10	-	470,713	(45,218)	425,495	46,283
USDA Loan 92-12	1,058,274	-	(12,835)	1,045,439	13,087
Total loans payable	7,548,401	833,103	(358,067)	8,023,437	365,386
Other:					
Capital Leases	35,687	-	(23,524)	12,163	12,163
Compensated Absences	47,243	23,376	(28,482)	42,137	10,000
Total other long-term debt	82,930	23,376	(52,006)	54,300	22,163
Business-Type Activity Long-Term Liabilities	\$ 8,559,709	\$ 856,479	\$ (551,783)	\$ 8,864,405	\$ 540,971

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

Note 7. Long-Term Debt, Continued

Landfill Closure and Postclosure Payable

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense annually. The \$6,571,927 reported as landfill closure and postclosure care liability at June 30, 2010 represents the cumulative amount of closure and postclosure costs reported to date. These amounts are based on a 2010 engineer's estimate of what it would have cost to perform all closure and postclosure care at that time. These figures are adjusted annually for inflation. The City expects to close the landfill in the year 2015. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City will record the remaining estimated cost of closure and postclosure care annually as the liability is adjusted for inflation. The City has utilized a local government guarantee rather than establishing a trust fund or other financial mechanism to demonstrate financial responsibility for closure and postclosure care costs.

Note 8. Interfund Receivables, Payables and Transfers

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

	Due From		
Due To	Sewer Fund	Grants Fund	Total
General Fund	\$ 1,419,515	\$ 110,224	\$ 1,529,739
	\$ 1,419,515	\$ 110,224	\$ 1,529,739

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances. The terms for repayment of the interfund balances will be determined by the City Council and any amounts expected to be repaid within one year have not been determined as of the date of the financial statements.

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

Note 8. Interfund Receivables, Payables and Transfers, Continued

Interfund transfers that took place during fiscal year 2010 consist of the following:

Transfers Out	Transfers In						Total	
	General Fund	Highway User Fund	Grants Fund	Water Fund	Sewer Fund	Sanitation Fund		Nonmajor Governmental Funds
General Fund	\$ -	\$ 199,078	\$ -	\$ -	\$ 60,000	\$ -	\$ 47,968	\$ 307,046
Nonmajor Funds	101,693	-	8,465	10,782	163,766	162,078	446,784	893,568
	<u>\$ 101,693</u>	<u>\$ 199,078</u>	<u>\$ 8,465</u>	<u>\$ 10,782</u>	<u>\$ 223,766</u>	<u>\$ 162,078</u>	<u>\$ 494,752</u>	<u>\$ 1,200,614</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in certain funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 9. Equity Classifications

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

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

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

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

Note 10. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	\$ 313,597	\$ 43,613	\$ 20,768
2009	322,545	42,071	20,034
2010	311,757	40,664	19,364

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

Note 10. Retirement and Pension Plans, Continued

Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 12.32 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.58 percent of covered payroll

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

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

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information on page 50 provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Note 10. Retirement and Pension Plans, Continued

Annual Pension/OPEB Cost – During the year ended June 30, 2009, the City’s annual pension cost of \$207,919 and the annual OPEB cost of \$19,816 was equal to the City’s required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2008	\$ 149,353	100%	\$ -
	2009	222,451	100%	-
	2010	209,792	100%	-
Health Insurance	2008	\$ 14,505	100%	\$ -
	2009	18,956	100%	-
	2010	17,143	100%	-

Additional historical trend information for the City’s PSPRS is disclosed on page 50. Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Note 11. Segment Information – Enterprise Funds

The City maintains three enterprise funds which provide water, sewer, and sanitation utility services to its citizens. Since these utility funds are major funds, detailed or segment information for the funds are provided in the basic financial statements.

Note 12. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City’s insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

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

Note 12. Risk Management , Continued

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The City is insured by Municipal Workers Compensation for potential worker related accidents.

Note 13. Commitments and Contingencies

The City is involved in various matters of litigation. Any pending or threatened litigation is not measurable and can not be estimated as of the date of the financial statements. It is the opinion of City officials that none of these cases would have a material effect on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

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

Public Safety Personnel Retirement System - Police

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

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(a)/(b) Percent Funded	(b)-(a) Unfunded AAL	[c] Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2003	2,617,697	2,270,516	115.29%	(347,181)	1,354,951	0.0%
2004	3,016,100	2,767,281	108.99%	(248,819)	1,484,827	0.0%
2005	3,303,931	3,363,599	98.23%	59,668	1,489,555	4.0%
2006	3,704,776	3,946,424	93.88%	241,648	1,669,780	14.5%
2007	4,022,900	4,924,981	81.68%	902,081	1,772,801	50.9%
2008	4,253,067	4,806,428	88.49%	553,361	1,648,344	33.6%
2009	4,970,269	5,852,455	84.93%	882,186	1,798,333	49.1%
2010	4,827,060	6,056,756	79.70%	1,229,696	1,807,403	68.0%

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

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2006	-	143,858	143,858	0.0%	1,669,780	8.6%
2007	-	195,651	195,651	0.0%	1,772,801	11.0%
2008	-	156,160	156,160	0.0%	1,648,344	9.5%
2009 *	-	141,877	141,877	0.0%	1,798,333	7.9%
2010 *	-	141,898	141,898	0.0%	1,807,403	7.9%

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

CITY OF ELOY, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

MAJOR GOVERNMENTAL FUNDS:

General Fund

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

Special Revenue Funds

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

- **Highway User Revenue Fund** – This fund is used to account for the City’s share of motor fuel tax revenues and lottery proceeds which are set aside for the maintaining, repairing, and upgrading of streets.
- **Grants Special Revenue Fund** – This fund is used to account for federal and state grants and other contributions that are restricted for specific use.

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

CITY OF ELOY, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

REVENUES:	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Taxes:				
Property taxes	\$ 682,465	\$ 682,465	\$ 695,914	\$ 13,449
Sales and use taxes	4,775,000	4,775,000	3,787,899	(987,101)
State Sales Taxes	855,295	855,295	816,413	(38,882)
State Revenue Sharing	1,436,310	1,436,310	1,436,354	44
Auto Lieu Tax	700,750	700,750	696,980	(3,770)
Franchise taxes	130,250	130,250	121,542	(8,708)
Total Taxes	8,580,070	8,580,070	7,555,102	(1,024,968)
Licenses, Permits and Fees:				
Building Permits	544,750	544,750	254,262	(290,488)
Business and Other Licenses	47,250	47,250	51,866	4,616
Total Licenses, Fees and Permits	592,000	592,000	306,128	(285,872)
Intergovernmental:				
Intergovernmental revenues	706,100	706,100	273,286	(432,814)
Total Intergovernmental	706,100	706,100	273,286	(432,814)
Charges for Services:				
Administrative Fees	19,730	19,730	18,689	(1,041)
Park, Swimming Pool & Recreation Fees	19,250	19,250	18,183	(1,067)
Total Charges for Services	38,980	38,980	36,872	(2,108)
Fines and Forfeitures:				
Fines & Forfeitures	310,000	310,000	255,973	(54,027)
Total Fines and Forfeitures	310,000	310,000	255,973	(54,027)
Interest				
Interest Income	145,000	145,000	82,784	(62,216)
Total Interest	145,000	145,000	82,784	(62,216)
Other Revenues:				
Rents	6,250	6,250	7,616	1,366
Insurance Recoveries	52,000	52,000	58,924	6,924
Miscellaneous	15,150	15,150	22,415	7,265
Total Other Revenues	73,400	73,400	88,955	15,555
TOTAL REVENUES	10,445,550	10,445,550	8,599,100	(1,846,450)

(continued)

CITY OF ELOY, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010 (Continued)

EXPENDITURES	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
General Government:				
Mayor and Council	427,180	427,180	421,415	5,765
Legal and Professional	210,640	210,640	209,025	1,615
Magistrate	353,150	353,150	353,069	81
Town Clerk	431,635	431,635	421,144	10,491
Finance	475,790	475,790	471,159	4,631
Vehicle Maintenance	194,900	194,900	165,221	29,679
Facilities Maintenance	284,510	284,510	237,965	46,545
Contingency	947,000	947,000	239,138	707,862
Total General Government	<u>3,324,805</u>	<u>3,324,805</u>	<u>2,518,136</u>	<u>806,669</u>
Public safety:				
Law Enforcement	3,804,430	3,804,430	3,547,688	256,742
Total Public Safety	<u>3,804,430</u>	<u>3,804,430</u>	<u>3,547,688</u>	<u>256,742</u>
Public Works/Streets:				
Community Development	585,295	585,295	558,653	26,642
Building Inspection/Administration	439,470	439,470	163,338	276,132
Total Public Works/Streets	<u>1,024,765</u>	<u>1,024,765</u>	<u>721,991</u>	<u>302,774</u>
Culture & Recreation:				
Parks and Recreation				
Park Maintenance	274,335	274,335	268,753	5,582
Recreation	737,355	737,355	701,074	36,281
Library	280,300	280,300	270,127	10,173
Total Culture and Recreation	<u>1,291,990</u>	<u>1,291,990</u>	<u>1,239,954</u>	<u>52,036</u>
Debt Service:				
Principal	374,560	374,560	225,758	148,802
Interest	85,000	85,000	84,754	246
Total Debt Service	<u>459,560</u>	<u>459,560</u>	<u>310,512</u>	<u>149,048</u>
TOTAL EXPENDITURES	<u>9,890,550</u>	<u>9,890,550</u>	<u>8,338,281</u>	<u>1,567,269</u>
Excess of Revenues Over (Under) Expenditures	<u>555,000</u>	<u>555,000</u>	<u>260,819</u>	<u>(294,181)</u>
Other Financing Sources (Uses):				
Transfers In	-	-	101,693	101,693
Transfers Out	(1,360,000)	(1,360,000)	(307,046)	1,052,954
Total Other Financing Sources (Uses)	<u>(1,360,000)</u>	<u>(1,360,000)</u>	<u>(205,353)</u>	<u>1,154,647</u>
Net change in fund balance	(805,000)	(805,000)	55,466	860,466
Fund Balance, Beginning of Year	<u>7,954,418</u>	<u>7,954,418</u>	<u>7,954,418</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 7,149,418</u>	<u>\$ 7,149,418</u>	<u>\$ 8,009,884</u>	<u>\$ 860,466</u>

CITY OF ELOY, ARIZONA
HIGHWAY USER REVENUE SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenue:				
Highway User Revenues	\$ 892,700	\$ 892,700	\$ 924,219	\$ 31,519
County 1/2 cent sales tax	950,000	950,000	730,930	(219,070)
Total Intergovernmental	<u>1,842,700</u>	<u>1,842,700</u>	<u>1,655,149</u>	<u>(187,551)</u>
Other revenue:				
Plan check fees	200,000	200,000	5,124	(194,876)
Interest Income	30,000	30,000	37,795	7,795
Miscellaneous	500	500	-	(500)
Total Revenue	<u>2,073,200</u>	<u>2,073,200</u>	<u>1,698,068</u>	<u>(375,132)</u>
EXPENDITURES:				
Public Works:				
Salaries	575,360	575,360	488,269	87,091
Employee benefits	272,725	272,725	238,178	34,547
Services, supplies, and other	1,453,650	1,453,650	895,098	558,552
Debt service	781,540	781,540	1,687,128	(905,588)
Capital outlay	3,200,000	3,200,000	1,151,227	2,048,773
Total Expenditures	<u>6,283,275</u>	<u>6,283,275</u>	<u>4,459,900</u>	<u>1,823,375</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(4,210,075)</u>	<u>(4,210,075)</u>	<u>(2,761,832)</u>	<u>1,448,243</u>
Other Financing Sources (Uses):				
Transfers In	258,075	258,075	199,078	(58,997)
Total Other Financing Sources (Uses):	<u>258,075</u>	<u>258,075</u>	<u>199,078</u>	<u>(58,997)</u>
Net change in fund balance	(3,952,000)	(3,952,000)	(2,562,754)	1,389,246
Fund Balance, Beginning of Year	<u>7,681,628</u>	<u>7,681,628</u>	<u>7,681,628</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 3,729,628</u>	<u>\$ 3,729,628</u>	<u>\$ 5,118,874</u>	<u>\$ 1,389,246</u>

CITY OF ELOY, ARIZONA
GRANTS SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenue:				
Grants and contributions	\$ 5,904,245	\$ 5,904,245	\$ 1,052,643	\$ (4,851,602)
Other revenue:				
CCA pass through	<u>50,000,000</u>	<u>50,000,000</u>	<u>37,738,433</u>	<u>(12,261,567)</u>
Total revenues	<u>55,904,245</u>	<u>55,904,245</u>	<u>38,791,076</u>	<u>(17,113,169)</u>
EXPENDITURES:				
Public Safety:				
Salaries	117,420	117,420	114,731	2,689
Employee benefits	47,310	47,310	46,326	984
Services, supplies, and other	37,250	37,250	8,967	28,283
Health and Welfare				
Services, supplies, and other	38,410	38,410	18,587	19,823
CCA pass through	50,000,000	50,000,000	37,738,433	12,261,567
Capital outlay	<u>5,663,855</u>	<u>5,663,855</u>	<u>881,345</u>	<u>4,782,510</u>
Total Expenditures	<u>55,904,245</u>	<u>55,904,245</u>	<u>38,808,389</u>	<u>17,095,856</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(17,313)</u>	<u>(17,313)</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>8,465</u>	<u>8,465</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>8,465</u>	<u>8,465</u>
Net change in fund balance	-	-	(8,848)	(8,848)
Fund Balance, Beginning of Year	<u>153,811</u>	<u>153,811</u>	<u>153,811</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 153,811</u>	<u>\$ 153,811</u>	<u>\$ 144,963</u>	<u>\$ (8,848)</u>

CITY OF ELOY, ARIZONA
Combining and Individual Fund
Financial Statements

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

- **Airport fund** – This fund is used to account for fuel sales, charges for services and related costs and expenses for operation of the City airport.
- **Local Transportation Assistance Fund (LTAF)** – This fund is used to account for the City’s share of lottery proceeds which are set aside for transportation costs and the maintaining, repairing, and upgrading of streets.
- **Impact Fee** – This fund is used to account for the collection of impact fees and the various infrastructure projects they fund.
- **Judicial Collection Enhancement Fund (JCEF)** – This fund accounts for monies received to improve the city’s court operations.
- **Court Recovery** – This fund is used to account for court enhancement fee revenues and the capital outlays funded by these revenues.
- **Cemetery** – This fund is used to account for the activities of the city’s cemetery.

Capital Projects Fund

Capital Projects Funds are used to account for the construction and acquisition of capital assets.

- **Capital Projects** – This fund is used to account for the construction and acquisition of capital assets to be utilized by the City’s governmental funds.

CITY OF ELOY, ARIZONA
Combining and Individual Fund
Financial Statements

NONMAJOR GOVERNMENTAL FUNDS

Debt Service Fund

Debt service funds are used to account for the accumulation of resources for, and the payment of current and future debt service requirements for governmental debt principal and interest.

- **Municipal Property Corporation (MPC)** – This fund is used for assisting the city in obtaining financing for various projects of the city and for the accumulation of resources for the payment of related debt service.

Permanent Fund

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

- **Perpetual Care Permanent Fund** – This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

CITY OF ELOY, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue Funds					
	Airport	LTAF	Impact Fee	JCEF	Court Recovery	Cemetery
ASSETS						
Cash	\$ 121,836	\$ 279,931	\$ 2,049,624	\$ 37,831	\$ 58,925	\$ 43,961
Accounts receivable	19,672	-	-	-	-	2,040
Due from other governments	-	-	-	506	2,956	-
Total Assets	\$ 141,508	\$ 279,931	\$ 2,049,624	\$ 38,337	\$ 61,881	\$ 46,001
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 1,129	\$ 7,725	\$ -	\$ 614	\$ 4,404	\$ 2,373
Accrued wages and benefits	104	-	-	-	-	834
Total Liabilities	1,233	7,725	-	614	4,404	3,207
Fund Balance:						
Reserved by Statute or for Specific Use	-	272,206	2,049,624	37,723	57,477	-
Unreserved	140,275	-	-	-	-	42,794
Total Fund Balance	140,275	272,206	2,049,624	37,723	57,477	42,794
Total Liabilities and Fund Balance	\$ 141,508	\$ 279,931	\$ 2,049,624	\$ 38,337	\$ 61,881	\$ 46,001

<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Projects</u>	<u>Municipal Property Corporation</u>	<u>Perpetual Care</u>	
\$ 1,774,624	\$ 184,265	\$ 105,466	\$ 4,656,463
-	-	-	21,712
-	-	-	3,462
<u>\$ 1,774,624</u>	<u>\$ 184,265</u>	<u>\$ 105,466</u>	<u>\$ 4,681,637</u>
\$ 177,323	\$ -	\$ -	\$ 193,568
-	-	-	938
<u>177,323</u>	<u>-</u>	<u>-</u>	<u>194,506</u>
1,597,301	184,265	105,466	4,304,062
-	-	-	183,069
<u>1,597,301</u>	<u>184,265</u>	<u>105,466</u>	<u>4,487,131</u>
<u>\$ 1,774,624</u>	<u>\$ 184,265</u>	<u>\$ 105,466</u>	<u>\$ 4,681,637</u>

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

	Special Revenue Funds					
	Airport	LTAF	Impact Fee	JCEF	Court Recovery Fund	Cemetery
REVENUES:						
Intergovernmental revenue	\$ -	\$ 61,460	\$ -	\$ 9,901	\$ -	\$ -
Charges for services	20,856	-	-	-	-	57,841
Capacity Charges	-	-	110,755	-	-	-
Fines and Forfeitures	-	-	-	-	36,294	-
Interest revenue	840	900	14,637	-	-	-
Donations and other	63,702	-	-	-	-	6,554
Total Revenue	85,398	62,360	125,392	9,901	36,294	64,395
EXPENDITURES:						
General Government	-	-	-	-	-	70,303
Public Works	22,520	35,056	-	-	-	-
Capital Outlay	-	-	24,990	2,345	-	-
Debt Service	33,000	-	-	-	52,850	-
Total Expenditures	55,520	35,056	24,990	2,345	52,850	70,303
Excess of Revenues Over (Under) Expenditures	29,878	27,304	100,402	7,556	(16,556)	(5,908)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	16,556	-
Transfers out	(3,874)	-	(4,592)	-	-	-
Total Other Financing Sources (Uses):	(3,874)	-	(4,592)	-	16,556	-
Net change in fund balances	26,004	27,304	95,810	7,556	-	(5,908)
Fund Balance, Beginning of Year	114,271	244,902	1,953,814	30,167	57,477	48,702
Fund Balance, End of Year	\$ 140,275	\$ 272,206	\$ 2,049,624	\$ 37,723	\$ 57,477	\$ 42,794

<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Projects</u>	<u>Municipal Property Corporation</u>	<u>Perpetual Care</u>	
\$ -	\$ -	\$ -	\$ 71,361
-	-	2,714	81,411
-	-	-	110,755
-	-	-	36,294
-	-	519	16,896
-	-	-	70,256
-	-	3,233	386,973
-	-	-	70,303
-	-	-	57,576
221,235	-	-	248,570
-	-	-	85,850
221,235	-	-	462,299
(221,235)	-	3,233	(75,326)
31,412	-	-	47,968
(336,625)	(101,693)	-	(446,784)
(305,213)	(101,693)	-	(398,816)
(526,448)	(101,693)	3,233	(474,142)
2,123,749	285,958	102,233	4,961,273
<u>\$ 1,597,301</u>	<u>\$ 184,265</u>	<u>\$ 105,466</u>	<u>\$ 4,487,131</u>

CITY OF ELOY, ARIZONA
AIRPORT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Rents	\$ 72,500	\$ 72,500	\$ 63,702	\$ (8,798)
Charges for services	8,110	8,110	20,856	12,746
Interest	1,880	1,880	840	(1,040)
Total revenues	<u>82,490</u>	<u>82,490</u>	<u>85,398</u>	<u>2,908</u>
EXPENDITURES:				
Public Works:				
Salaries	3,340	3,340	2,965	375
Employee benefits	1,245	1,245	1,176	69
Services, supplies, and other	46,265	46,265	18,379	27,886
Debt Service	31,640	31,640	33,000	(1,360)
Capital outlay	10,000	10,000	-	10,000
Total Expenditures	<u>92,490</u>	<u>92,490</u>	<u>55,520</u>	<u>36,970</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(10,000)</u>	<u>(10,000)</u>	<u>29,878</u>	<u>39,878</u>
Other Financing Sources (Uses):				
Transfers out	-	-	(3,874)	(3,874)
Transfers in	10,000	10,000	-	(10,000)
Total Other Financing Sources (Uses):	<u>10,000</u>	<u>10,000</u>	<u>(3,874)</u>	<u>(10,000)</u>
Net change in fund balance	-	-	26,004	29,878
Fund Balance, Beginning of Year	<u>114,271</u>	<u>114,271</u>	<u>114,271</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 114,271</u>	<u>\$ 114,271</u>	<u>\$ 140,275</u>	<u>\$ 29,878</u>

CITY OF ELOY, ARIZONA
LTAf SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenue	\$ 95,505	\$ 95,505	\$ 61,460	\$ (34,045)
Interest revenue	1,500	1,500	900	(600)
Total Revenue	<u>97,005</u>	<u>97,005</u>	<u>62,360</u>	<u>(34,045)</u>
EXPENDITURES:				
Public Works	<u>97,005</u>	<u>97,005</u>	<u>35,056</u>	<u>61,949</u>
Total Expenditures	<u>97,005</u>	<u>97,005</u>	<u>35,056</u>	<u>61,949</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>27,304</u>	<u>27,304</u>
Net change in fund balance	-	-	27,304	27,304
Fund Balance, Beginning of Year	<u>244,902</u>	<u>244,902</u>	<u>244,902</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 244,902</u>	<u>\$ 244,902</u>	<u>\$ 272,206</u>	<u>\$ 27,304</u>

CITY OF ELOY, ARIZONA
IMPACT FEE SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Capacity Charges	\$ 495,000	\$ 495,000	\$ 110,755	\$ (384,245)
Interest revenue	37,750	37,750	14,637	(23,113)
Total Revenue	<u>532,750</u>	<u>532,750</u>	<u>125,392</u>	<u>(407,358)</u>
EXPENDITURES:				
Capital Outlay	<u>1,017,750</u>	<u>1,017,750</u>	<u>24,990</u>	<u>992,760</u>
Total Expenditures	<u>1,017,750</u>	<u>1,017,750</u>	<u>24,990</u>	<u>992,760</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(485,000)</u>	<u>(485,000)</u>	<u>100,402</u>	<u>585,402</u>
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>-</u>	<u>(4,592)</u>	<u>(4,592)</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>(4,592)</u>	<u>(4,592)</u>
Net change in fund balance	(485,000)	(485,000)	95,810	580,810
Fund Balance, Beginning of Year	<u>1,953,814</u>	<u>1,953,814</u>	<u>1,953,814</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,468,814</u>	<u>\$ 1,468,814</u>	<u>\$ 2,049,624</u>	<u>\$ 580,810</u>

CITY OF ELOY, ARIZONA
JCEF SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenue	\$ 10,670	\$ 10,670	\$ 9,901	\$ (769)
Total Revenue	<u>10,670</u>	<u>10,670</u>	<u>9,901</u>	<u>(769)</u>
EXPENDITURES:				
Capital Outlay	<u>10,670</u>	<u>10,670</u>	<u>2,345</u>	<u>8,325</u>
Total Expenditures	<u>10,670</u>	<u>10,670</u>	<u>2,345</u>	<u>8,325</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>7,556</u>	<u>7,556</u>
Net change in fund balance	-	-	7,556	7,556
Fund Balance, Beginning of Year	<u>30,167</u>	<u>30,167</u>	<u>30,167</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 30,167</u>	<u>\$ 30,167</u>	<u>\$ 37,723</u>	<u>\$ 7,556</u>

CITY OF ELOY, ARIZONA
COURT RECOVERY SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Fines and Forfeitures	\$ 50,000	\$ 50,000	\$ 36,294	\$ (13,706)
Total Revenue	<u>50,000</u>	<u>50,000</u>	<u>36,294</u>	<u>(13,706)</u>
EXPENDITURES:				
Debt Service	<u>65,000</u>	<u>65,000</u>	<u>52,850</u>	<u>12,150</u>
Total Expenditures	<u>65,000</u>	<u>65,000</u>	<u>52,850</u>	<u>12,150</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(15,000)</u>	<u>(15,000)</u>	<u>(16,556)</u>	<u>(1,556)</u>
Other Financing Sources (Uses):				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>16,556</u>	<u>1,556</u>
Total Other Financing Sources (Uses):	<u>15,000</u>	<u>15,000</u>	<u>16,556</u>	<u>1,556</u>
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	<u>57,477</u>	<u>57,477</u>	<u>57,477</u>	-
Fund Balance, End of Year	<u>\$ 57,477</u>	<u>\$ 57,477</u>	<u>\$ 57,477</u>	<u>\$ -</u>

CITY OF ELOY, ARIZONA
CEMETERY SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Charges for services	\$ 69,685	\$ 69,685	\$ 57,841	\$ (11,844)
Donations and other	9,250	9,250	6,554	(2,696)
Total Revenue	<u>78,935</u>	<u>78,935</u>	<u>64,395</u>	<u>(14,540)</u>
EXPENDITURES:				
General Government	<u>78,935</u>	<u>78,935</u>	<u>70,303</u>	<u>8,632</u>
Total Expenditures	<u>78,935</u>	<u>78,935</u>	<u>70,303</u>	<u>8,632</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(5,908)</u>	<u>(5,908)</u>
Net change in fund balance	-	-	(5,908)	(5,908)
Fund Balance, Beginning of Year	<u>48,702</u>	<u>48,702</u>	<u>48,702</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 48,702</u>	<u>\$ 48,702</u>	<u>\$ 42,794</u>	<u>\$ (5,908)</u>

**CITY OF ELOY, ARIZONA
CAPITAL PROJECTS FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010**

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Donations and other	\$ -	\$ -	\$ -	\$ -
Total Revenue	-	-	-	-
EXPENDITURES:				
Capital Outlay	2,723,925	2,723,925	221,234	2,502,691
Total Expenditures	2,723,925	2,723,925	221,234	2,502,691
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(2,723,925)	(2,723,925)	(221,234)	2,502,691
Other Financing Sources (Uses):				
Transfers in	1,016,925	1,016,925	31,412	(985,513)
Transfers out	-	-	(336,626)	(336,626)
Total Other Financing Sources (Uses):	1,016,925	1,016,925	(305,214)	(1,322,139)
Net change in fund balance	(1,707,000)	(1,707,000)	(526,448)	1,180,552
Fund Balance, Beginning of Year	2,123,749	2,123,749	2,123,749	-
Fund Balance, End of Year	\$ 416,749	\$ 416,749	\$ 1,597,301	\$ 1,180,552

CITY OF ELOY, ARIZONA
MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Total Revenue	-	-	-	-
EXPENDITURES:				
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Other Financing Sources (Uses):				
Transfers out	-	-	(101,693)	(101,693)
Total Other Financing Sources (Uses):	-	-	(101,693)	(101,693)
Net change in fund balance	-	-	(101,693)	(101,693)
Fund Balance, Beginning of Year	285,958	285,958	285,958	-
Fund Balance, End of Year	<u>\$ 285,958</u>	<u>\$ 285,958</u>	<u>\$ 184,265</u>	<u>\$ (101,693)</u>

CITY OF ELOY, ARIZONA
PERPETUAL CARE PERMANENT FUND
Schedule of Revenues, Expenses, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Charges for services	\$ 3,430	\$ 3,430	\$ 2,714	\$ (716)
Interest revenue	1,000	1,000	519	(481)
Total Revenue	<u>4,430</u>	<u>4,430</u>	<u>3,233</u>	<u>(1,197)</u>
EXPENDITURES:				
General Government	-	-	-	-
Capital Outlay	4,430	4,430	-	4,430
Total Expenditures	<u>4,430</u>	<u>4,430</u>	<u>-</u>	<u>4,430</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>3,233</u>	<u>3,233</u>
Net change in fund balance	-	-	3,233	3,233
Fund Balance, Beginning of Year	<u>102,233</u>	<u>102,233</u>	<u>102,233</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 102,233</u></u>	<u><u>\$ 102,233</u></u>	<u><u>\$ 105,466</u></u>	<u><u>\$ 3,233</u></u>

FEDERAL AND STATE REPORTS

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MEMBERS:

CHAD B. ATKINSON, CPA	TODD R. HESS, CPA
KRIS J. BRAUNBERGER, CPA	KENNETH A. HINTON, CPA
DEAN R. BURDICK, CPA	MORRIS J. PEACOCK, CPA
ROBERT S. COX, CPA	PHILLIP S. PEINE, CPA
TODD B. FELTYNER, CPA	MICHAEL K. SPILKER, CPA
K. MARK FROST, CPA	KEVIN L. STEPHENS, CPA
BRENT R. HALL, CPA	MARK E. TICHENOR, CPA

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Mayor and
City Council
City of Eloy, Arizona

We have audited the basic financial statements of the City of Eloy, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the schedule of findings and recommendations dated December 3, 2010 that we consider to be significant deficiencies in internal control over financial reporting.

10-1 Stale Outstanding Checks
07-5 Journal Entries

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of Eloy City in the schedule of findings and recommendations dated December 3, 2010.

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



Michael K. Spilker, CPA
December 3, 2010



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

MEMBERS:

CHAD B. ATKINSON, CPA	TODD R. HESS, CPA
KRIS J. BRAUNBERGER, CPA	KENNETH A. HINTON, CPA
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BRENT R. HALL, CPA	MARK E. TICHENOR, CPA

The Honorable Mayor and
 City Council
 Eloy, Arizona

We have audited the basic financial statements of the City of Eloy, Arizona for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. Our audit also included test work on the City of Eloy's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Eloy is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The City of Eloy has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Eloy pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Eloy complied, in all material respects, with the requirements identified above for the year ended June 30, 2010.

Michael K. Spilker, CPA
 December 3, 2010

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