

City of Show Low



COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

CITY OF SHOW LOW, ARIZONA

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City of Show Low

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December 15, 2009

Citizens of the City of Show Low and
Honorable Mayor and Council
Show Low, Arizona

The Comprehensive Annual Financial Report for the City of Show Low (City) for the fiscal year ended June 30, 2009, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. Management asserts that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The CAFR has been prepared using the new financial reporting requirements as prescribed by Government Accounting Standard Board (GASB) Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB 34). GASB 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

Profile of the City of Show Low

The City of Show Low, with a present population estimated at 12,400, is located in the southern portion of Navajo County, approximately 175 miles northeast of the City of Phoenix and 195 miles north of the City of Tucson, and encompasses an area of approximately 41.0 square miles.

The City was established in 1870 and incorporated in 1953. Under a Council-Manager form of government, the seven-member Council is elected at large on a staggered basis and consists of a Mayor and six Council members. The Mayor is directly elected and serves a four-year term. The Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations.

The City provides a full range of services for its citizens. The services include police, public transportation, library, parks and recreation, planning and development, street improvements and lighting, and general administration. The City also operates sewer and water utilities, provides for refuse collection, and has an airport

Economic Conditions

The City currently is experiencing a slowing economic environment, and local indicators point to continued slow growth during 2010. The City serves as a regional trade and services center for the southern part of Navajo County and a portion of Apache County. Tourism and recreation also contribute to the City's economy, with many recreational opportunities in the White Mountains area. Attractions include fishing, camping, horseback riding, golf, and big game hunting. Other points of interest include the Apache Sitgreaves National Forest, the Mogollon Rim, and the Sunrise Park Ski Resort, which is located on the White Mountain Apache Indian Reservation.

Financial Information

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of the control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

Article IX, Section 20(1) of the Arizona Constitution sets out limits on the City's legal budget capacity. In general, the Mayor and Council cannot authorize expenditures of local revenues in excess of the expenditure limitation determined annually by the State of Arizona's Economic Estimates Commission. This limitation is based on the City's actual expenditures incurred during 1979-1980, adjusted to reflect subsequent inflation and population growth.

On March 11, 2008, in accordance with state statutes, the voters of Show Low passed, and the City adopted, the Home Rule (Alternative Expenditure Limitation) Option, which released the City from the state-imposed limitation. The effect of the Home Rule option is to set the City's expenditure limitation at the adopted budget. The Home Rule option is in effect for four consecutive years (Fiscal Years 2008-2012).

As a condition of the Home Rule Option, the City must maintain a reserve of at least one million dollars before any expenditure can be authorized. See the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual, General Fund (Pages 18 and 19) for the budgeted reserve.

Cash Management

Cash not held with fiscal agents is invested on a pooled basis with the Arizona State Treasurer's Office in the Local Governments Investment Pool. Investment income is allocated to the funds monthly, on the basis of cash provided for investment. The average yield on investments held with the State Treasurer was 1.3368% for fiscal year 2008-09.

Risk Management

The City is a member in the Arizona Risk Retention Pool along with approximately 60 other members. The Pool provides coverage for claims to a maximum of \$2 million for each insured event. The City has had comparable insurance coverage for the past 20 years and has had no claims exceeding its insurance coverage.

The City is covered by the State Workman's Compensation Fund. The City carries commercial insurance for its airport activities.

Other Information

Independent Audit

The accounting firm of HintonBurdick was selected by the City to perform the annual independent audit. The annual audit is designed to meet the requirements of the Single Audit Act of 1984 and OMB Circular A-133. The independent auditor's report and federal compliance reports are included in the Financial and the Single Audit Sections of this report.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the team has our sincere appreciation for his or her contributions made in the preparation of this report.

Respectfully submitted,

Ray Herbel
Accounting Manager

CITY OF SHOW LOW OFFICIALS

MAYOR

Rick Fernau

CITY COUNCIL

Rennie Crittenden, Vice Mayor

Michael Allsop

Gene Kelley

Jack Latham

Daryl Seymore

Gerry Whipple

CITY MANAGER AND STAFF

Ed Muder, City Manager

Ray Herbel, Accounting Manager

Justen Tregaskes, Planning and Zoning Director

Morgan Brown, City Attorney

Ann Kurasaki, City Clerk

Jeffrey Smythe, Police Chief

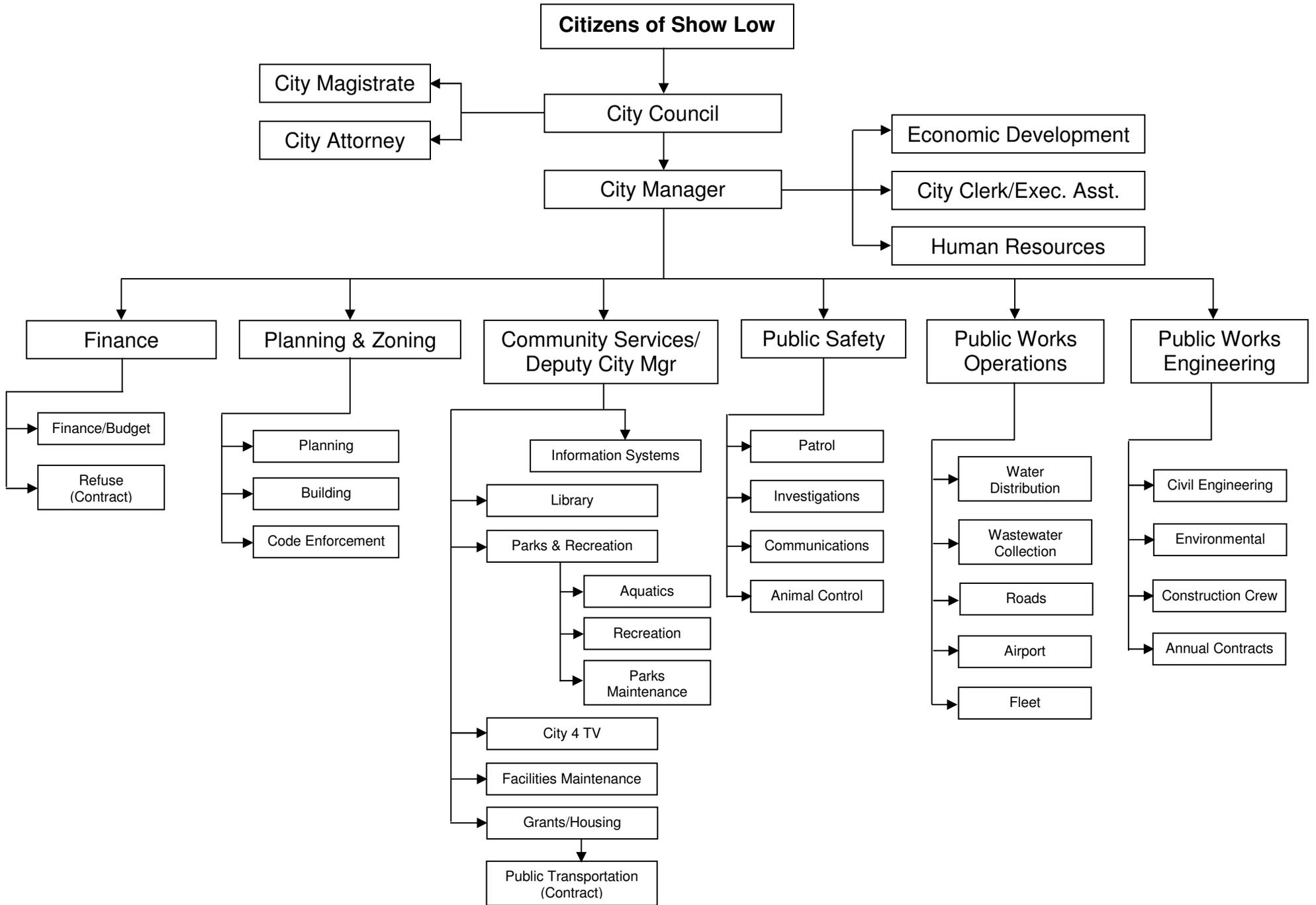
Connie Kakavas, Human Resources Director

Joel Weeks, Community Services Director

Ken Patterson, Public Works Operations Director

Bill Kopp, Public Works Engineering Director

City of Show Low Organizational Chart



FINANCIAL SECTION



Independent Auditors' Report

The Honorable Mayor and
 City Council
 Show Low, 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 Show Low, Arizona, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Show Low'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 basic 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 Show Low as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and highway user special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2009, on our consideration of the City of Show Low'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 and the Public Safety Retirement System information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Show Low, Arizona. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other information included in this report, designated as the “Introductory Section” and the “Statistical Section” in the table of contents, have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, appearing to read "Michael K. Spilker", with a long horizontal flourish extending to the right.

Michael K. Spilker, CPA
October 24, 2009

**CITY OF SHOW LOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009**

As management of the City of Show Low, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- City Sales tax revenue decreased by 17.4 percent over last year and still is the single largest revenue in the budget. Given the slowing national economy, staff felt this decrease is consistent with the experience of many other cities in Arizona.
- The City purchased the Senior Citizens Center and completed two major capital projects (Old Linden Road and Whipple Road) this year. The completion of the construction of a new library and renovation of the existing library into a city hall is anticipated next year.
- The City approved a conservative budget for fiscal year 2009 and conducted monthly financial reviews so overall results for the year ending June 30, 2009 were within management's projections.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

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

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

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

- Government activities – All of the City’s basic services are considered to be governmental activities, including general government, public safety, public works/streets, economic development, culture and recreation, and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended to cover all or most of the cost of the services provided for water, wastewater, airport, refuse and the family aquatic center.

Reporting the City’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City’s two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Reporting the City’s Fiduciary Responsibilities

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, donations for a specific purpose and others. These fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City’s other financial statements because the assets cannot be used to finance operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$116.7 million as of June 30, 2009 as shown in the following condensed statement of net assets. The City has chosen to account for its water, sewer and sanitation operations in an enterprise fund which is shown as Business Activities.

City of Show Low Statement of Net Assets

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 24,110,459	\$ 30,520,938	\$ 9,523,317	\$ 10,325,610	\$ 33,633,776	\$ 40,846,548
Capital assets	45,823,799	37,502,804	61,707,988	62,493,668	107,531,787	99,996,472
Total assets	<u>69,934,258</u>	<u>68,023,742</u>	<u>71,231,305</u>	<u>72,819,278</u>	<u>141,165,563</u>	<u>140,843,020</u>
Long-term liabilities outstanding	18,994,755	18,398,785	2,168,054	2,168,054	21,162,809	20,566,839
Other liabilities	2,933,622	4,463,880	386,169	1,226,649	3,319,791	5,690,529
Total liabilities	<u>21,928,377</u>	<u>22,862,665</u>	<u>2,554,223</u>	<u>3,394,703</u>	<u>24,482,600</u>	<u>26,257,368</u>
Net assets:						
Invested in capital assets, net of related debt	26,842,932	17,649,736	59,558,080	59,791,861	86,401,012	77,441,597
Restricted	2,406,492	3,613,847	6,825,104	6,101,282	9,231,596	9,715,129
Unrestricted	18,756,457	23,897,494	2,293,898	3,531,432	21,050,355	27,428,926
Total net assets	<u>\$ 48,005,881</u>	<u>\$ 45,161,077</u>	<u>\$ 68,677,082</u>	<u>\$ 69,424,575</u>	<u>\$ 116,682,963</u>	<u>\$ 114,585,652</u>

Governmental Activities

The City has \$141,165,563 in total assets, with \$107,531,787 in capital assets (net of depreciation). Funds included in the Business-type activities column are the City's enterprise funds operation, which are Airport, Wastewater, Water, Refuse and Family Aquatic Center. These operations are capital intensive, using a large portion of their resources to maintain and replace major equipment and facilities.

The City's programs include: General Government, Public Safety, Public Works/Streets, Economic Development, Culture and Recreation, Water, Wastewater, Airport, Refuse and the Family Aquatic Center. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

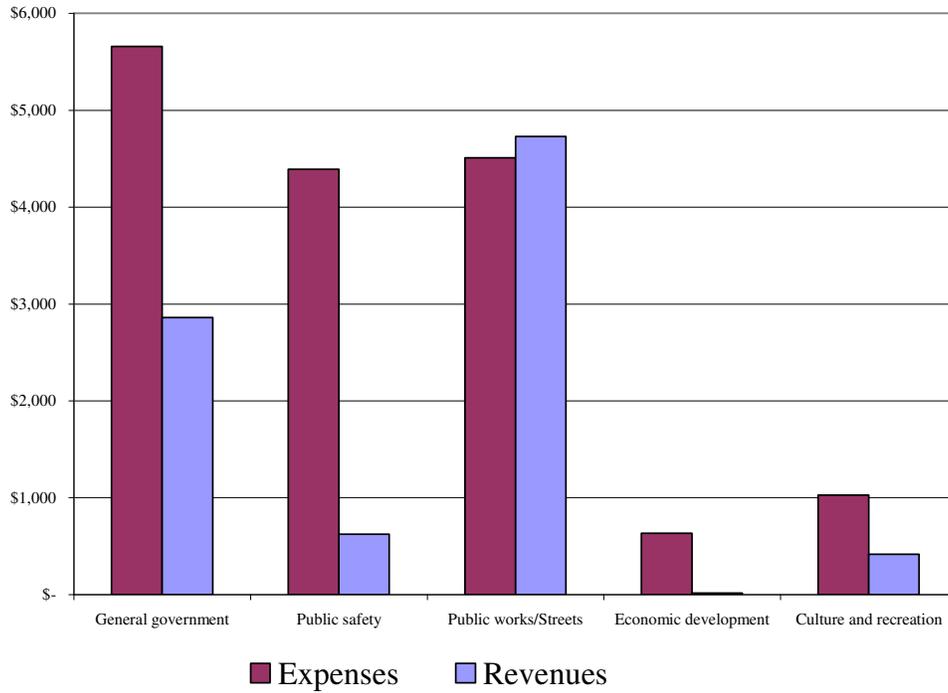
**City of Show Low
Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Revenues:						
Program revenues:						
Charges for services	\$ 3,566,565	\$ 2,753,806	\$ 5,817,930	\$ 6,897,897	\$ 9,384,495	\$ 9,651,703
Operating grants and contributions	2,269,955	-	-	-	2,269,955	-
Capital grants and contributions	2,808,785	3,013,594	1,280,860	6,023,858	4,089,645	9,037,452
General revenues:						
Taxes	10,943,797	12,837,723	-	-	10,943,797	12,837,723
State revenue sharing	1,459,297	1,514,108	-	-	1,459,297	1,514,108
Grants and contributions not restricted to specific programs	-	3,139,681	-	-	-	3,139,681
Other revenue/(expense)	170,039	2,304,162	239,763	670,822	409,802	2,974,984
Total revenues	<u>21,218,438</u>	<u>25,563,074</u>	<u>7,338,553</u>	<u>13,592,577</u>	<u>28,556,991</u>	<u>39,155,651</u>
Expenses:						
General government	5,658,484	4,884,207	-	-	5,658,484	4,884,207
Public safety	4,389,665	4,270,497	-	-	4,389,665	4,270,497
Public works/Streets	4,507,493	4,051,944	-	-	4,507,493	4,051,944
Culture and recreation	631,619	973,501	-	-	631,619	973,501
Economic development	1,026,732	-	-	-	1,026,732	-
Interest on long-term debt	1,277,768	755,375	-	-	1,277,768	755,375
Water	-	-	2,791,811	2,264,614	2,791,811	2,264,614
Wastewater	-	-	2,712,337	2,482,065	2,712,337	2,482,065
Airport	-	-	2,301,370	2,297,975	2,301,370	2,297,975
Refuse	-	-	660,355	586,308	660,355	586,308
Family aquatic	-	-	502,044	481,478	502,044	481,478
Total expenses	<u>17,491,761</u>	<u>14,935,524</u>	<u>8,967,917</u>	<u>8,112,440</u>	<u>26,459,678</u>	<u>23,047,964</u>
Increase (Decrease) in net assets before transfers	3,726,677	10,627,550	(1,629,364)	5,480,137	2,097,313	16,107,687
Transfers	(881,872)	(2,665,190)	881,872	2,665,190	-	-
Increase (Decrease) in net assets	2,844,805	7,962,360	(747,492)	8,145,327	2,097,313	16,107,687
Net assets, beginning	45,161,076	37,198,717	69,424,574	61,279,248	114,585,650	98,477,965
Net assets, ending	<u>\$ 48,005,881</u>	<u>\$ 45,161,077</u>	<u>\$ 68,677,082</u>	<u>\$ 69,424,575</u>	<u>\$ 116,682,963</u>	<u>\$ 114,585,652</u>

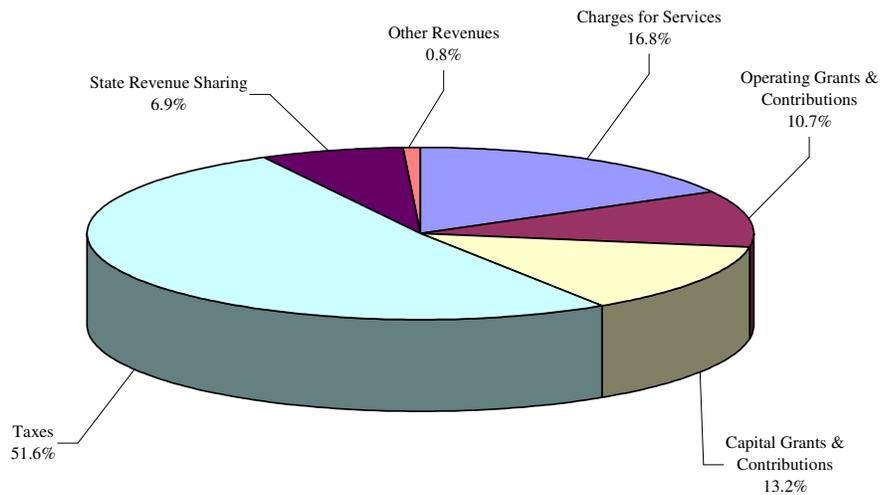
Total resources available during the year to finance governmental operations were \$21.30 million consisting of Net assets at July 1, 2008 of \$45.2 million, program revenues of \$8.65 million and General Revenues of \$12.57 million. Total Governmental Activities during the year were \$17.49 million; thus Governmental Net Assets were increased by \$2,844,805 to \$48.0 million.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



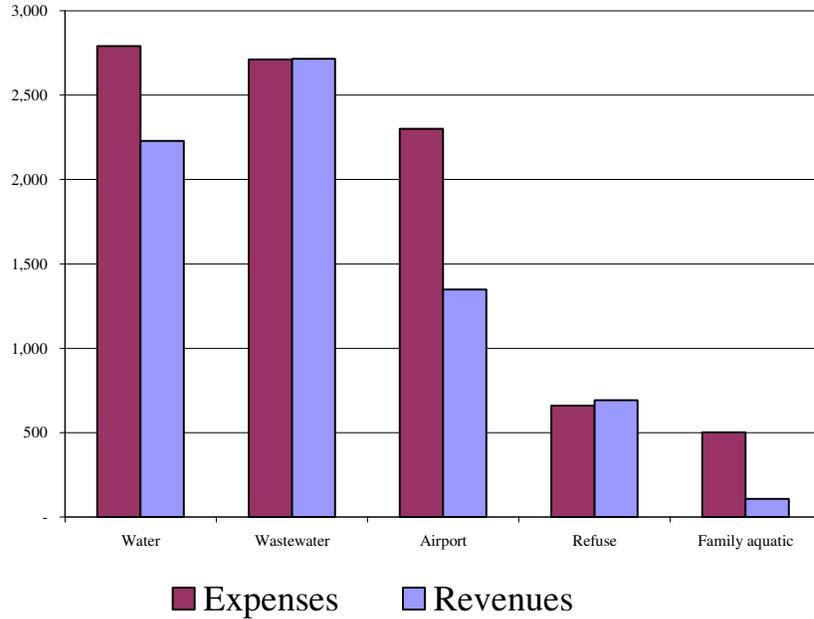
Revenue By Source - Governmental Activities



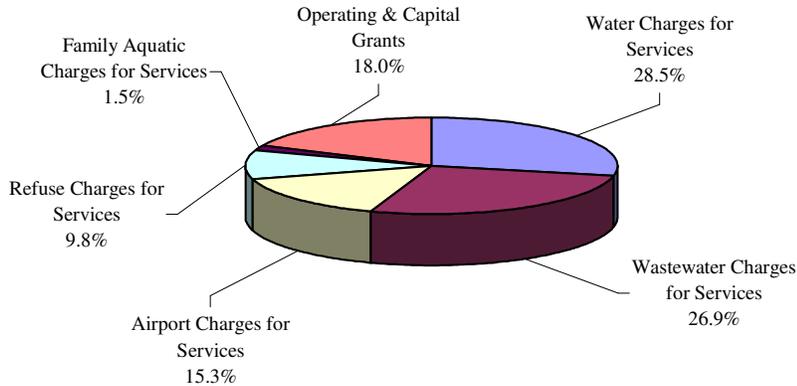
Business Type Activities

Net assets of the Business Type activities at June 30, 2009, as reflected in the Statement of Net Assets were \$68.7 million. The cost of providing all Proprietary (Business Type) activities this year was \$9.0 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$5.8 million and there was \$1.3 million subsidized by capital grants and contributions. Interest earnings and other revenues were \$239,763. The Net Assets decreased by \$747,492.

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



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Show Low's governmental funds reported combined ending fund balances of \$13,662,252, a decrease of \$5,107,377 in comparison with the prior year. Approximately, 82% of this total amount, \$11,197,997 constitutes unreserved, undesignated fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is reserved or designated because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Show Low. At the end of the current fiscal year, unreserved, undesignated fund balance in the general fund was \$11,068,630, while total fund balance is \$11,126,393. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 84.9% of total general fund expenditures, while total fund balance represents 85.5% of the same amount.

During the year, the City of Show Low's general fund balance decreased by \$2,212,192. Key factors in this decrease are as follows:

- Transfers to other major and non-major funds.

The Highway User Revenue Fund has a total fund balance of \$112,863, all of which is reserved for road and street construction and improvements. The net decrease in the fund balance during the current year was \$2,973,830. The decrease in the fund balance resulted from the GADA 2006B loan funds being utilized in city street improvements.

The Improvement District #5 and #6 debt service funds fund balance increased by \$142,537 primarily due to receipts of Principal and interest payments exceeding the debt service obligations.

The Show Low Bluff Communities Facilities District debt service fund experienced a \$2,507 change in fund balance for 2009.

General Fund Budgetary Highlights

Tax revenues have a positive variance of nearly one million dollars. Miscellaneous revenue is budgeted of unanticipated grants, gifts, or donations that the City may receive. The Finance department variance of \$9,633,769 is for unanticipated expenditures related to unanticipated revenues. Arizona does not allow expenditures that are not budgeted.

Differences between the original budget and the final amended budget were relatively minor. There was no increase in appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2009, net capital assets of the government activities totaled \$45.8 million and the net capital assets of the business-type activities totaled \$61.5 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$19 million in governmental type debt, and \$2.2 million in proprietary debt. The debt is a liability of the government and amounts to \$1,721 per capita. During the current fiscal year, the City's total debt decreased by \$1,869,363. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City of Show Low is experiencing slower economic growth due to the national recession. As a result, the City has reduced expenditures in order to match revenues. The City serves as a regional trade and services center for the southern part of Navajo County and a portion of Apache County. The City of Show Low remains a favorite place for retired people to build a summer home. The City is at 6,412 feet elevation and enjoys summer time temperatures that are in the mid-eighties. Winters in Show Low are generally mild with temperature extremes being minor compared to other parts of the country.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director, City of Show Low, 180 North 9th Street, Suite B, Show Low, Arizona 85901.

BASIC FINANCIAL STATEMENTS

CITY OF SHOW LOW, ARIZONA
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,112,744	\$ 1,322,348	\$ 12,435,092
Receivables (net of allowance)	9,256,131	692,882	9,949,013
Prepaid items/Inventory	806,679	254,788	1,061,467
Deferred charges	-	18,146	18,146
Temporarily restricted assets:			
Cash and cash equivalents	2,934,905	7,235,153	10,170,058
Capital assets (net of accumulated depreciation):			
Land	4,704,430	3,348,551	8,052,981
Buildings	3,330,652	6,283,405	9,614,057
Improvements	1,974,272	-	1,974,272
System improvements	-	46,070,343	46,070,343
Machinery and equipment	2,966,193	2,851,792	5,817,985
Infrastructure/Roads	23,639,724	-	23,639,724
Construction in progress	9,208,528	3,153,897	12,362,425
Total assets	<u>69,934,258</u>	<u>71,231,305</u>	<u>141,165,563</u>
Liabilities			
Accounts payable and other current liabilities	2,597,572	351,914	2,949,486
Interest payable	336,050	34,255	370,305
Noncurrent liabilities:			
Due within one year	2,230,362	563,054	2,793,416
Due in more than one year	16,764,393	1,605,000	18,369,393
Total liabilities	<u>21,928,377</u>	<u>2,554,223</u>	<u>24,482,600</u>
Net Assets			
Invested in capital assets, net of related debt	26,842,932	59,558,080	86,401,012
Restricted for:			
Highways and streets	140,611	-	140,611
Debt service	2,265,881	-	2,265,881
Capital projects and other	-	6,825,104	6,825,104
Unrestricted	18,756,457	2,293,898	21,050,355
Total net assets	<u>\$ 48,005,881</u>	<u>\$ 68,677,082</u>	<u>\$ 116,682,963</u>

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

CITY OF SHOW LOW, ARIZONA
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 5,658,484	\$ 2,787,815	\$ 71,691	\$ -	\$ (2,798,978)	\$ -	\$ (2,798,978)
Public safety	4,389,665	210,524	163,527	250,007	(3,765,607)	-	(3,765,607)
Public works/Streets	4,507,493	423,820	1,911,133	2,395,048	222,508	-	222,508
Economic development	631,619	16,257	-	-	(615,362)	-	(615,362)
Culture and recreation	1,026,732	128,149	123,604	163,730	(611,249)	-	(611,249)
Interest on long-term debt	1,277,768	-	-	-	(1,277,768)	-	(1,277,768)
Total governmental activities	17,491,761	3,566,565	2,269,955	2,808,785	(8,846,456)	-	(8,846,456)
Business-type activities:							
Water	2,791,811	2,020,118	-	210,268	-	(561,425)	(561,425)
Wastewater	2,712,337	1,912,187	-	804,841	-	4,691	4,691
Airport	2,301,370	1,083,344	-	265,751	-	(952,275)	(952,275)
Refuse	660,355	692,644	-	-	-	32,289	32,289
Family aquatic	502,044	109,637	-	-	-	(392,407)	(392,407)
Total business-type activities	8,967,917	5,817,930	-	1,280,860	-	(1,869,127)	(1,869,127)
Total primary government	\$ 26,459,678	\$ 9,384,495	\$ 2,269,955	\$ 4,089,645			
General Revenues:							
Taxes:							
City sales tax					9,038,647	-	9,038,647
State sales tax					786,482	-	786,482
Property tax					142,188	-	142,188
Auto lieu tax					560,171	-	560,171
Franchise tax					416,309	-	416,309
State sales taxes - revenue sharing (unrestricted)					1,459,297	-	1,459,297
Unrestricted investment earnings					157,504	235,930	393,434
Gain on sale of capital assets					12,535	3,833	16,368
Transfers					(881,872)	881,872	-
Total general revenues & transfers					11,691,261	1,121,635	12,812,896
Change in net assets					2,844,805	(747,492)	2,097,313
Net assets - beginning					45,161,076	69,424,574	114,585,650
Net assets - ending					\$ 48,005,881	\$ 68,677,082	\$ 116,682,963

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

CITY OF SHOW LOW, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2009

Assets	<u>General</u>	<u>Highway User Revenue Fund</u>	<u>Debt Service</u>	
			<u>Improvement District #5</u>	<u>Improvement District #6</u>
Cash and cash equivalents	\$ 10,922,795	\$ -	\$ -	\$ -
Receivables:				
Taxes	1,037,892	-	-	-
Interest	40,153	-	11,543	14,172
Other	30,882	-	-	-
Assessments	-	-	2,185,310	2,854,974
Intergovernmental	340,664	120,323	-	-
Inventories	-	-	-	-
Prepaid items	57,763	-	-	-
Restricted cash and investments	74,927	644,137	268,071	365,081
Total assets	<u>\$ 12,505,076</u>	<u>\$ 764,460</u>	<u>\$ 2,464,924</u>	<u>\$ 3,234,227</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 478,237	\$ 644,223	\$ 3,036	\$ 3,222
Accrued wages and benefits	608,368	7,374	-	-
Accrued liabilities	59,160	-	-	-
Deposits held	232,918	-	-	-
Deferred revenue	-	-	2,172,708	2,834,487
Total liabilities	<u>1,378,683</u>	<u>651,597</u>	<u>2,175,744</u>	<u>2,837,709</u>
Fund Balances:				
Reserved for:				
Road and highways	-	112,863	-	-
Debt service	-	-	289,180	396,518
Prepaid items	57,763	-	-	-
Unreserved, undesignated reported in:				
General fund	11,068,630	-	-	-
Special revenue funds	-	-	-	-
Total fund balances	<u>11,126,393</u>	<u>112,863</u>	<u>289,180</u>	<u>396,518</u>
Total Liabilities and fund balances	<u>\$ 12,505,076</u>	<u>\$ 764,460</u>	<u>\$ 2,464,924</u>	<u>\$ 3,234,227</u>

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

Show Low Bluff Communities Facilities District	Non-major Funds	Total Governmental Funds
\$ 134,355	\$ 55,594	\$ 11,112,744
-	5,463	1,043,355
8,227	2,493	76,588
-	-	30,882
1,910,121	554,787	7,505,192
-	138,696	599,683
-	-	-
-	748,916	806,679
156,223	527,019	2,035,458
<u>\$ 2,208,926</u>	<u>\$2,032,968</u>	<u>\$ 23,210,581</u>

\$ -	\$ 53,268	\$ 1,181,986
-	-	615,742
-	-	59,160
-	-	232,918
1,897,387	553,941	7,458,523
<u>1,897,387</u>	<u>607,209</u>	<u>9,548,329</u>

-	27,748	140,611
311,539	1,268,644	2,265,881
-	-	57,763
-	-	11,068,630
-	129,367	129,367
<u>311,539</u>	<u>1,425,759</u>	<u>13,662,252</u>
<u>\$ 2,208,926</u>	<u>\$2,032,968</u>	<u>\$ 23,210,581</u>

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CITY OF SHOW LOW, ARIZONA
Reconciliation of Total Governmental Fund Balance
To Net Assets of Governmental Activities
June 30, 2009

Total governmental fund balances		\$ 13,662,252
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 57,886,402	
Less accumulated depreciation	<u>(12,062,603)</u>	45,823,799
<p>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.</p>		
Notes payable	\$ (10,076,946)	
Bonds payable	(465,000)	
Special assessment bonds	(8,013,000)	
Landfill monitoring costs	(26,988)	
Leases payable	(6,167)	
Retainage payable	(392,766)	
Compensated absences	<u>(406,654)</u>	(19,387,521)
<p>Interest payable on long-term debt does not require current financial resources and therefore, is not reported as a liability in the governmental funds balance sheet.</p>		
		(336,050)
<p>Assessment revenues are deferred in the governmental fund financial statements but recognized when earned in the statement of activities</p>		
		7,458,523
<p>Internal service funds are used by management to charge costs of certain activities to individual funds. This amount represents the assets and liabilities of the internal service funds reported as governmental activities</p>		
		<u>784,878</u>
Total net assets of governmental activities		<u><u>\$ 48,005,881</u></u>

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

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

REVENUES	General	Highway User Revenue Fund	Debt Service	
			Improvement District #5	Improvement District #6
Taxes	\$ 9,454,956	\$ -	\$ -	\$ -
Licenses, permits and fees	175,143	-	-	-
Intergovernmental revenue	3,495,679	1,402,165	-	-
Charges for services	236,118	-	-	-
Fines and forfeitures	204,703	-	10,137	9,557
Interest	88,282	25,496	3,060	3,758
Impact fees	-	63,109	-	-
Special assessments	-	-	580,800	554,342
Other revenues	1,047,273	18,048	-	-
Total revenues	<u>14,702,154</u>	<u>1,508,818</u>	<u>593,997</u>	<u>567,657</u>
EXPENDITURES				
Current:				
General government	4,433,502	-	-	-
Public safety	4,392,538	-	-	-
Public works/Streets	1,555,581	899,577	-	-
Economic development	1,627,498	-	-	-
Culture and recreation	1,018,389	-	-	-
Capital outlay	-	5,332,125	-	-
Debt service				
Principal	-	-	370,000	270,000
Interest and fiscal charges	-	-	172,230	206,887
Total expenditures	<u>13,027,508</u>	<u>6,231,702</u>	<u>542,230</u>	<u>476,887</u>
Excess of revenues				
Over (Under) Expenditures	<u>1,674,646</u>	<u>(4,722,884)</u>	<u>51,767</u>	<u>90,770</u>
Other Financing Sources (Uses):				
Debt issued	250,000	-	-	-
Sale of Assets	8,695	3,839	-	-
Transfers out	(4,145,533)	-	-	-
Transfers in	-	1,745,215	-	-
Total other financing Sources (Uses)	<u>(3,886,838)</u>	<u>1,749,054</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(2,212,192)	(2,973,830)	51,767	90,770
Fund balance, beginning of year	<u>13,338,585</u>	<u>3,086,693</u>	<u>237,413</u>	<u>305,748</u>
Fund balance, end of year	<u>\$ 11,126,393</u>	<u>\$ 112,863</u>	<u>\$ 289,180</u>	<u>\$ 396,518</u>

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

Show Low Bluff Communities Facilities District	Non-major Funds	Totals (Memorandum Only)
\$ -	\$ 142,186	\$ 9,597,142
-	-	175,143
-	856,297	5,754,141
-	-	236,118
774	-	225,171
1,890	27,538	150,024
-	-	63,109
238,098	127,917	1,501,157
-	40,551	1,105,872
<u>240,762</u>	<u>1,194,489</u>	<u>18,807,877</u>
-	-	4,433,502
-	-	4,392,538
-	582,117	3,037,275
-	-	1,627,498
-	-	1,018,389
42,125	873,667	6,247,917
60,000	822,234	1,522,234
<u>140,724</u>	<u>496,722</u>	<u>1,016,563</u>
<u>242,849</u>	<u>2,774,740</u>	<u>23,295,916</u>
<u>(2,087)</u>	<u>(1,580,251)</u>	<u>(4,488,039)</u>
-	-	250,000
-	-	12,534
-	-	(4,145,533)
-	1,518,446	3,263,661
<u>-</u>	<u>1,518,446</u>	<u>(619,338)</u>
(2,087)	(61,805)	(5,107,377)
<u>313,626</u>	<u>1,487,564</u>	<u>18,769,629</u>
<u>\$ 311,539</u>	<u>\$ 1,425,759</u>	<u>\$ 13,662,252</u>

CITY OF SHOW LOW, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
To The Statement of Activities
For the Year Ended June 30, 2009

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

Net change in fund balances - total governmental funds		\$ (5,107,377)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay	\$ 8,454,650	
Depreciation expense	<u>(2,111,306)</u>	6,343,344
<p>Governmental funds do not report contributions of capital assets as revenue, unless the assets will be held for sale. However, in the statement of activities, the donation of capital assets is reported as revenue.</p>		
		1,584,885
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of current year payments on assessments.</p>		
		(892,028)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.</p>		
		(250,000)
<p>Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		1,541,955
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		5,054
<p>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.</p>		
		(280,926)
<p>The net revenues of certain activities of the internal service fund is reported with governmental activities.</p>		
		<u>(100,102)</u>
Change in net assets of governmental activities		<u><u>\$ 2,844,805</u></u>

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

CITY OF SHOW LOW, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
City sales tax	\$10,750,000	\$10,750,000	\$ 9,038,647	\$ (1,711,353)
Franchise taxes	359,000	359,000	416,309	57,309
Total taxes	<u>11,109,000</u>	<u>11,109,000</u>	<u>9,454,956</u>	<u>(1,654,044)</u>
Licenses and permits	492,850	492,850	175,143	(317,707)
Intergovernmental revenues:				
State sales tax	894,074	894,074	786,482	(107,592)
Auto lieu tax	590,500	590,500	560,171	(30,329)
Urban revenue sharing	1,607,194	1,607,194	1,459,297	(147,897)
Grant revenues	-	-	689,729	689,729
Total intergovernmental	<u>3,091,768</u>	<u>3,091,768</u>	<u>3,495,679</u>	<u>403,911</u>
Charges for services	166,500	166,500	236,118	69,618
Fines and forfeitures	115,000	115,000	204,703	89,703
Interest earnings	350,000	350,000	88,282	(261,718)
Other revenues:				
Cemetery plot sales and services	34,500	34,500	34,100	(400)
Development fees	253,000	253,000	31,661	(221,339)
Charges for administrative services	45,000	45,000	758,004	713,004
Miscellaneous revenues	10,316,950	10,316,950	223,508	(10,093,442)
Total other revenues	<u>10,649,450</u>	<u>10,649,450</u>	<u>1,047,273</u>	<u>(9,602,177)</u>
Total revenues	<u>25,974,568</u>	<u>25,974,568</u>	<u>14,702,154</u>	<u>(11,272,414)</u>
Expenditures				
Current:				
General government:				
City council	335,977	335,977	586,937	(250,960)
Finance	10,704,613	10,704,613	556,910	10,147,703
City magistrate	142,957	142,957	144,163	(1,206)
City attorney	322,029	322,029	277,020	45,009
City manager	421,508	421,508	380,127	41,381
Planning and zoning	801,501	801,501	588,349	213,152
Public information	332,845	332,845	264,952	67,893
Information systems	478,800	478,800	385,854	92,946
Human resources	608,374	608,374	568,846	39,528
Community services administration	1,422,925	1,422,925	666,871	756,054
Cemetery	-	-	13,473	(13,473)
Total general government	<u>15,571,529</u>	<u>15,571,529</u>	<u>4,433,502</u>	<u>11,138,027</u>

(Continued)

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

CITY OF SHOW LOW, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2009 (Continued)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Public safety	3,361,836	3,361,836	3,512,416	(150,580)
Animal control	160,108	160,108	156,690	3,418
Communications	937,047	937,047	723,432	213,615
Total public safety	<u>4,458,991</u>	<u>4,458,991</u>	<u>4,392,538</u>	<u>66,453</u>
Public works:				
Public works	284,379	284,379	261,655	22,724
Maintenance	1,093,930	1,093,930	772,437	321,493
Facilities				
City engineer	682,740	682,740	521,489	161,251
Total public works	<u>2,061,049</u>	<u>2,061,049</u>	<u>1,555,581</u>	<u>505,468</u>
Economic development/promo programs:				
Economic development	9,566,648	9,566,648	1,440,248	8,126,400
City 4 cable TV	213,980	213,980	187,250	26,730
Total economic development	<u>9,780,628</u>	<u>9,780,628</u>	<u>1,627,498</u>	<u>8,153,130</u>
Culture and recreation:				
Parks and recreation	1,067,549	1,067,549	466,394	601,155
Library	606,426	606,426	551,995	54,431
Total culture and recreation	<u>1,673,975</u>	<u>1,673,975</u>	<u>1,018,389</u>	<u>655,586</u>
Total expenditures	<u>33,546,172</u>	<u>33,546,172</u>	<u>13,027,508</u>	<u>20,518,664</u>
Excess of revenues over expenditures	<u>(7,571,604)</u>	<u>(7,571,604)</u>	<u>1,674,646</u>	<u>9,246,250</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(4,145,533)	(4,145,533)
Debt proceeds	-	-	250,000	250,000
Sale of capital assets	5,000	5,000	8,695	3,695
Total other financing sources and (uses)	<u>5,000</u>	<u>5,000</u>	<u>(3,886,838)</u>	<u>(3,891,838)</u>
Net change in fund balance	(7,566,604)	(7,566,604)	(2,212,192)	5,354,412
Fund balance - beginning	<u>13,338,585</u>	<u>13,338,585</u>	<u>13,338,585</u>	-
Fund balance - ending	<u><u>5,771,981</u></u>	<u><u>5,771,981</u></u>	<u><u>11,126,393</u></u>	<u><u>5,354,412</u></u>

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

CITY OF SHOW LOW, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Highway User Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 1,580,487	\$ 1,580,487	\$ 1,402,165	\$ (178,322)
Interest	100,000	100,000	25,496	(74,504)
Impact fees	-	-	63,109	63,109
Other revenues	-	-	18,048	18,048
Total revenues	<u>1,680,487</u>	<u>1,680,487</u>	<u>1,508,818</u>	<u>(171,669)</u>
EXPENDITURES				
Current:				
Public works/Streets	1,436,362	1,436,362	899,577	536,785
Capital outlay	<u>6,594,379</u>	<u>6,594,379</u>	<u>5,332,125</u>	<u>1,262,254</u>
Total expenditures	<u>8,030,741</u>	<u>8,030,741</u>	<u>6,231,702</u>	<u>1,799,039</u>
Excess of revenues				
Over (Under) expenditures	<u>(6,350,254)</u>	<u>(6,350,254)</u>	<u>(4,722,884)</u>	<u>1,627,370</u>
Other Financing Sources (Uses):				
Sale of Assets	1,000	1,000	3,839	2,839
Transfers in	<u>3,992,379</u>	<u>3,992,379</u>	<u>1,745,215</u>	<u>(2,247,164)</u>
Total other financing Sources (Uses)	<u>3,993,379</u>	<u>3,993,379</u>	<u>1,749,054</u>	<u>(2,244,325)</u>
Net change in fund balances	(2,356,875)	(2,356,875)	(2,973,830)	(616,955)
Fund balance, beginning of year	<u>3,086,693</u>	<u>3,086,693</u>	<u>3,086,693</u>	<u>-</u>
Fund balance, end of year	<u>\$ 729,818</u>	<u>\$ 729,818</u>	<u>\$ 112,863</u>	<u>\$ (616,955)</u>

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

CITY OF SHOW LOW, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other Enterprise	Totals	Internal Service Health Insurance
Assets						
Current Assets:						
Cash	\$ 1,162,196	\$ -	\$ 200	\$ 159,952	\$ 1,322,348	\$ 899,447
Receivables (net of allowance)	321,743	166,735	10,086	62,011	560,575	431
Inventories	53,681	40,175	45,559	-	139,415	-
Due from other governments	-	27,800	104,507	-	132,307	-
Prepaid items	-	-	115,373	-	115,373	-
Total current assets	1,537,620	234,710	275,725	221,963	2,270,018	899,878
Noncurrent Assets:						
Restricted cash and investments	1,147,449	5,964,269	123,435	-	7,235,153	-
Deferred charges	-	4,807	13,339	-	18,146	-
Land	112,355	895,496	2,340,700	-	3,348,551	-
Buildings	74,054	-	6,329,398	2,141,948	8,545,400	-
System improvements	24,360,112	33,960,855	12,622,572	76,882	71,020,421	-
Machinery and equipment	1,522,510	1,116,672	1,583,313	133,412	4,355,907	-
Construction in progress	33,984	2,440,675	679,238	-	3,153,897	-
Accumulated depreciation	(7,102,680)	(12,597,236)	(8,020,724)	(995,548)	(28,716,188)	-
Total noncurrent assets	20,147,784	31,785,538	15,671,271	1,356,694	68,961,287	-
Total Assets	21,685,404	32,020,248	15,946,996	1,578,657	71,231,305	899,878
Liabilities						
Current liabilities:						
Accounts payable	61,257	46,492	5,118	71,803	184,670	115,000
Accrued wages and benefits	5,924	3,674	1,671	3,226	14,495	-
Accrued liabilities	-	-	18,854	-	18,854	-
Compensated absences	24,904	31,520	11,186	9,315	76,925	-
Deferred revenue	9,493	-	-	-	9,493	-
Interest payable	-	1,397	32,858	-	34,255	-
Customer deposits	47,477	-	-	-	47,477	-
Notes payable - current portion	-	352,500	210,554	-	563,054	-
Total current liabilities	149,055	435,583	280,241	84,344	949,223	115,000
Noncurrent liabilities:						
Notes payable, net of current portion	-	-	1,605,000	-	1,605,000	-
Total noncurrent liabilities	-	-	1,605,000	-	1,605,000	-
Total liabilities	149,055	435,583	1,885,241	84,344	2,554,223	115,000
Net Assets						
Invested in capital assets, net of related debt	19,000,335	25,468,769	13,732,282	1,356,694	59,558,080	-
Restricted for developer fees	1,099,972	5,725,132	-	-	6,825,104	-
Unrestricted	1,436,042	390,764	329,473	137,619	2,293,898	784,878
Total net assets	\$ 21,536,349	\$ 31,584,665	\$ 14,061,755	\$ 1,494,313	\$ 68,677,082	\$ 784,878

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

CITY OF SHOW LOW, ARIZONA
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other	Totals	Internal Service Health Insurance
				Enterprise		
Operating Revenues						
Charges for services	\$ 2,015,737	\$ 1,878,423	\$ 1,078,421	\$ 802,281	\$ 5,774,862	\$ -
Premiums	-	-	-	-	-	1,697,687
Other revenues	4,381	33,764	4,923	-	43,068	-
Total operating revenues	<u>2,020,118</u>	<u>1,912,187</u>	<u>1,083,344</u>	<u>802,281</u>	<u>5,817,930</u>	<u>1,697,687</u>
Operating Expenses						
Cost of goods sold	-	-	694,254	-	694,254	-
Salaries, wages and benefits	499,141	570,716	324,983	293,591	1,688,431	-
Administration/legal/contract services	505,958	273,268	50,395	606,066	1,435,687	1,805,269
Field supplies	71,786	28,156	6,119	58,414	164,475	-
Repairs and maintenance	570,882	576,094	82,864	31,419	1,261,259	-
Utilities	329,414	213,050	55,585	82,408	680,457	-
Risk management	-	-	12,657	-	12,657	-
Miscellaneous	6,852	9,951	45,428	1,490	63,721	-
Bad debt expense	25,976	11,128	-	7,250	44,354	-
Depreciation	781,802	991,783	935,407	81,761	2,790,753	-
Total operating expenses	<u>2,791,811</u>	<u>2,674,146</u>	<u>2,207,692</u>	<u>1,162,399</u>	<u>8,836,048</u>	<u>1,805,269</u>
Operating income (loss)	<u>(771,693)</u>	<u>(761,959)</u>	<u>(1,124,348)</u>	<u>(360,118)</u>	<u>(3,018,118)</u>	<u>(107,582)</u>
Non-operating Revenues (Expenses)						
Interest income	98,301	131,935	2,967	2,727	235,930	7,480
Interest expense and fiscal charges	-	(38,191)	(93,678)	-	(131,869)	-
Intergovernmental	-	293,508	265,751	-	559,259	-
Impact fees/Investment fees	40,678	173,598	-	-	214,276	-
Gain (loss) on sale of assets	703	3,130	-	-	3,833	-
Total non-operating revenue (expense)	<u>139,682</u>	<u>563,980</u>	<u>175,040</u>	<u>2,727</u>	<u>881,429</u>	<u>7,480</u>
Income before contributions and transfers	(632,011)	(197,979)	(949,308)	(357,391)	(2,136,689)	(100,102)
Capital contributions - developers	169,590	337,735	-	-	507,325	-
Transfers in	-	313,011	264,200	304,661	881,872	-
Change in net assets	(462,421)	452,767	(685,108)	(52,730)	(747,492)	(100,102)
Total net assets, beginning of year	<u>21,998,770</u>	<u>31,131,898</u>	<u>14,746,863</u>	<u>1,547,043</u>	<u>69,424,574</u>	<u>884,980</u>
Total net assets, end of year	<u>\$ 21,536,349</u>	<u>\$ 31,584,665</u>	<u>\$ 14,061,755</u>	<u>\$ 1,494,313</u>	<u>\$ 68,677,082</u>	<u>\$ 784,878</u>

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

CITY OF SHOW LOW, ARIZONA
Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other Enterprise	Totals	Internal Service Health Insurance
Cash Flows From Operating Activities:						
Cash received from customers, service fees	\$ 2,036,218	\$ 1,872,107	\$ 1,354,718	\$ 806,147	\$ 6,069,190	\$ 1,697,821
Cash received from customers, other	4,381	33,764	4,923	-	43,068	-
Cash paid to suppliers	(1,561,853)	(1,184,095)	(1,002,152)	(783,624)	(4,531,724)	(1,784,663)
Cash paid to employees	(521,427)	(583,044)	(403,054)	(291,335)	(1,798,860)	-
Cash flows from operating activities	<u>(42,681)</u>	<u>138,732</u>	<u>(45,565)</u>	<u>(268,812)</u>	<u>(218,326)</u>	<u>(86,842)</u>
Cash Flows From Noncapital and Related Financing Activities:						
Grant proceeds	-	-	265,751	-	265,751	-
Transfers	-	313,011	264,200	304,661	881,872	-
Cash flows from noncapital and related financing activities	<u>-</u>	<u>313,011</u>	<u>529,951</u>	<u>304,661</u>	<u>1,147,623</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:						
Purchase of capital assets	(603,717)	(698,895)	(195,136)	-	(1,497,748)	-
Proceeds from sale of capital assets	5,927	7,938	-	-	13,865	-
Principal paid on long term debt	-	(335,000)	(198,753)	-	(533,753)	-
Interest paid	-	(38,191)	(93,678)	-	(131,869)	-
Grant proceeds	-	293,508	-	-	293,508	-
Connection & impact fees	40,678	173,598	-	-	214,276	-
Cash flows from capital and related financing activities	<u>(557,112)</u>	<u>(597,042)</u>	<u>(487,567)</u>	<u>-</u>	<u>(1,641,721)</u>	<u>-</u>
Cash Flows From Investing Activities:						
Interest on investments	98,301	131,935	2,967	2,727	235,930	7,480
Net change in cash and cash equivalents	(501,492)	(13,364)	(214)	38,576	(476,494)	(79,362)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>2,811,137</u>	<u>5,977,633</u>	<u>123,849</u>	<u>121,376</u>	<u>9,033,995</u>	<u>978,809</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u>\$ 2,309,645</u>	<u>\$ 5,964,269</u>	<u>\$ 123,635</u>	<u>\$ 159,952</u>	<u>\$ 8,557,501</u>	<u>\$ 899,447</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:						
Net operating income/(loss)	\$ (771,693)	\$ (761,959)	\$ (1,124,348)	\$ (360,118)	\$ (3,018,118)	\$ (107,582)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:						
Depreciation/amortization	781,802	991,783	935,407	81,761	2,790,753	-
Changes in operating assets and liabilities:						
(Increase)/Decrease in receivables	20,481	(6,316)	276,297	3,865	294,327	134
(Increase)/Decrease in prepaid items	-	-	(12)	-	(12)	-
(Increase)/Decrease in inventory	1,896	(17,344)	42,121	-	26,673	-
Increase/(Decrease) in payables	(52,881)	(55,104)	(96,959)	3,423	(201,521)	20,606
Increase/(Decrease) in accrued liabilities & deposits	(22,286)	(12,328)	(78,071)	2,256	(110,429)	-
Net cash flows from operating activities	<u>\$ (42,681)</u>	<u>\$ 138,732</u>	<u>\$ (45,565)</u>	<u>\$ (268,813)</u>	<u>\$ (218,327)</u>	<u>\$ (86,842)</u>
Supplemental Schedule of Non-cash Financing and Investing Activities:						
Capital asset contributions	\$ 169,590	\$ 337,735	\$ -	\$ -	\$ 507,325	\$ -

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

CITY OF SHOW LOW, ARIZONA
Statement Fiduciary Net Assets
Agency Fund
June 30, 2009

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 7,691
Total assets	<u>\$ 7,691</u>
 LIABILITIES	
Accounts payable	\$ 732
Scuba Crew #384	1,757
Slovakian/Sister Cities	2,478
Swim Team	(264)
Veterans Memorial	<u>2,988</u>
Total liabilities	<u>\$ 7,691</u>

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

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

Note 1. Summary of Significant Accounting Policies

General

The accompanying financial statements include all activities of the City of Show Low, Arizona (the City). The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The City was incorporated May 20, 1953, under the provisions of Article 13, Sections 1 through 6, of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The City operates under a Council-Manager form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The financial statements include all funds that account for activities over which the City's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component units included in defining the City's reporting entity. There are no discretely presented component units and two blended component units.

Blended component units included within the reporting entity:

The City of Show Low Municipal Property Corporation's (SMPC) board of directors consists of not less than three members which are appointed by the Show Low City Council. The SMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the purpose of assisting the City in obtaining financing for various projects of the City. All related receivables and payables between the City and the SMPC have been eliminated. The SMPC has a June 30 year end and is reported within the governmental fund financial statements.

The Show Low Bluff Community Facilities District (CFD) board of directors consists of seven members which are appointed by the Show Low City Council. The CFD is a special service district for purposes of Article IX, Section 19, Constitution of Arizona, a tax levying public improvement district for purposes of Article XIII, Section 7, and a municipal corporation for all purposes of Title 35, Chapter 3, Articles 3, 3.1, 3.2, 4 and 5 of the Arizona Revised Statutes as amended, and is considered a municipal corporation separate and apart from the municipality. The CFD was formed for the purpose of assisting the City with the financing and development of various improvements located within the CFD boundaries. The CFD is authorized to levy ad valorem tax on the assessed value of all real and personal property in the district. All related receivables and payables between the City and the CFD have been eliminated. The CFD has a June 30 year end and is reported within the governmental fund financial statements.

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

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. Exceptions to this general rule occur when elimination of charges between funds would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected

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

Note 1. Summary of Significant Accounting Policies, Continued

within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

The **General Fund** is the 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 Revenue Special Revenue Fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.

The **Debt Service Improvement District #5 and # 6 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.

The **Show Low Bluff Community Facilities District** is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for CFD debt principal and interest.

The City reports the following major proprietary funds:

The **Water and Wastewater Funds** account for the activities of pumping, treating and distribution of water and wastewater collection and treatment.

The **Airport Fund** accounts for the operation of the municipal airport and the administration of leases of airport property.

Additionally, the City reports the following fund types:

The **Internal Service Fund** accounts for employee health insurance coverage.

The **Agency Fund** holds assets in trust for the following entities: Scuba Crew, Slovakian Sister Cities Fund, Swim Team and Veterans Memorial. Agency funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments.

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

Note 1. Summary of Significant Accounting Policies, Continued

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

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

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, obligations of the U. S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

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 "Internal balances" in the Statement of Net Assets and as "Due to" or "Due from" other funds in the fund financial statements. All trade accounts receivable in the General Fund and proprietary funds are shown net of an allowance for doubtful accounts.

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

Note 1. Summary of Significant Accounting Policies, Continued

Taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Navajo County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments on October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date. The County also levies various personal property taxes during the year. A lien against property assessed attaches on the first day of January preceding the assessment and levy.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories for the proprietary funds consist principally of materials used in the repair of the distribution, collection and treatment systems and are valued at the lower of cost (first-in, first-out) or market.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Infrastructure is capitalized when it exceeds \$15,000 and has a useful life of more than one year. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	20 to 30 years
Treatment facilities and improvements	20 to 50 years
Machinery and equipment	3 to 15 years
Vehicles	5 to 15 years
Streets, sidewalks & other infrastructure	30 to 50 years

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

Note 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements unless they have matured, for example, as a result of employee resignations and retirements. 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 SHOW LOW, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 2. 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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The City follows a voter-approved alternative expenditure limitation that was adopted on March 11, 2008.
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. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Debt Service, Internal Service and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the 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.

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

Note 2. Stewardship, Compliance, and Accountability, Continued

No Supplementary budgetary appropriations were necessary during the year.

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.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual report on pages 21-23, 54-56, 60-64 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2009, if any.

Highway User Revenue Funds

Highway user revenue fund monies received by the City pursuant to title 28, chapter 18, article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized transportation purposes.

Note 3. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net assets is as follows:

Cash and cash equivalents	\$ 12,435,092
Restricted cash and cash equivalents	10,170,058
Agency fund monies	7,691
	<u>\$ 22,612,841</u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2009, the City's deposits were insured up to \$250,000 and collateralized with securities held by the City's custodial bank in the City's name. As of June 30, 2009, none of the City's bank balance of \$1,694,587 was exposed to custodial credit risk because it was insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

Note 3. Deposits and Investments, Continued

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.

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, 2009 the City had the following deposits and investments:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Cash on deposit	\$ 1,417,090	N/A	N/A
Cash on hand	1,850	N/A	N/A
Local Governments Investment Pool	20,239,901	N/A	N/A
Bank of New York Mellon	954,000	N/A	N/A
	<u>\$ 22,612,841</u>		

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

(2) Interest Rate Risk is estimated using the weighted average days to maturity.

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). A.R.S. 35-323 requires that the City’s investment portfolio maturities do not exceed five years from the time of purchase.

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

Note 3. Deposits and Investments, Continued

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). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 4. Restricted Assets

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

Governmental Activities:

General Fund:

Reserve for arbitrage - GADA 2006 \$ 74,927

Debt Service Funds:

Reserved for debt service ID Bonds 633,152
Reserved for debt service CFD Bonds 156,223
Reserved for debt service COPs and GADA 2006 499,271

Special Revenue Funds:

Reserved for Highways and Streets 644,137
Reserved for LTAF funds 27,748

Internal Service Fund:

Reserved for self-insured medical 899,447

Total Governmental Activities \$ 2,934,905

Business-Type Activities:

Water Fund:

Reserved for capital outlay - investment fees \$ 1,099,972
Customer security deposits 47,477

Wastewater Fund:

Reserved for capital outlay - investment fees 5,612,269
Reserved for debt service 1997 COP 352,000

Airport Fund:

Airport capital projects 123,435

Total Governmental Activities \$ 7,235,153

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

Note 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2008	Additions	Reclass	Deletions	Balance 6/30/2009
Capital assets, not being depreciated:					
Land	\$ 4,584,625	\$ -	\$ 119,805	\$ -	\$ 4,704,430
Construction in progress	6,077,882	7,115,994	(3,295,268)	(690,080)	9,208,528
Total capital assets, not being depreciated	<u>10,662,507</u>	<u>7,115,994</u>	<u>(3,175,463)</u>	<u>(690,080)</u>	<u>13,912,958</u>
Capital assets, being depreciated:					
Buildings	3,782,044	330,000	479,218		4,591,262
Improvements other than buildings	5,335,700	801,542	(2,911,999)		3,225,243
Machinery and equipment	6,009,270	592,860	(7,808)	(118,703)	6,475,619
Infrastructure	21,783,283	2,281,985	5,616,052		29,681,320
Total capital assets, being depreciated	<u>36,910,297</u>	<u>4,006,387</u>	<u>3,175,463</u>	<u>(118,703)</u>	<u>43,973,444</u>
Less accumulated depreciation for:					
Buildings	(1,060,660)	(199,950)	-	-	(1,260,610)
Improvements other than buildings	(1,086,968)	(164,003)	-	-	(1,250,971)
Machinery and equipment	(3,033,631)	(594,498)	-	118,703	(3,509,426)
Infrastructure	(4,888,741)	(1,152,855)	-	-	(6,041,596)
Total accumulated depreciation	<u>(10,070,000)</u>	<u>(2,111,306)</u>	<u>-</u>	<u>118,703</u>	<u>(12,062,603)</u>
Total capital assets, being depreciated, net	<u>26,840,297</u>	<u>1,895,081</u>	<u>3,175,463</u>	<u>-</u>	<u>31,910,841</u>
Governmental activities capital assets, net	<u>\$ 37,502,804</u>	<u>\$ 9,011,075</u>	<u>\$ -</u>	<u>\$ (690,080)</u>	<u>\$ 45,823,799</u>

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

Governmental Activities:	
General government	\$ 142,418
Public safety	307,507
Public works/streets	1,512,505
Culture & recreation	148,876
Economic development	-
Total depreciation expense - governmental activities	<u>\$ 2,111,306</u>

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

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 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets not being depreciated:				
Land	\$ 3,348,551	\$ -	\$ -	\$ 3,348,551
Construction in progress	4,007,378	51,706	(905,186)	3,153,898
Total capital assets, not being depreciated	<u>7,355,929</u>	<u>51,706</u>	<u>(905,186)</u>	<u>6,502,449</u>
Capital assets being depreciated:				
Buildings	8,442,112	103,288	-	8,545,400
Improvements other than buildings	68,655,722	2,364,699	-	71,020,421
Machinery and equipment	4,021,797	390,569	(56,459)	4,355,907
Total capital assets, being depreciated	<u>81,119,631</u>	<u>2,858,556</u>	<u>(56,459)</u>	<u>83,921,728</u>
Less accumulated depreciation for:				
Buildings	(1,931,653)	(330,342)	-	(2,261,995)
Improvements other than buildings	(22,765,410)	(2,184,668)	-	(24,950,078)
Machinery and equipment	(1,284,829)	(275,744)	56,459	(1,504,114)
Total accumulated depreciation	<u>(25,981,892)</u>	<u>(2,790,754)</u>	<u>56,459</u>	<u>(28,716,187)</u>
Total capital assets, being depreciated, net	<u>55,137,739</u>	<u>67,802</u>	<u>-</u>	<u>55,205,541</u>
Business-type activities capital assets, net	<u>\$ 62,493,668</u>	<u>\$ 119,508</u>	<u>\$ (905,186)</u>	<u>\$ 61,707,990</u>

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

Business-Type Activities:	
Airport	\$ 935,408
Wastewater	991,783
Water	781,802
Aquatic Center	81,761
Total depreciation expense - business-type activities	<u>\$ 2,790,754</u>

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

Note 6. Long-Term Debt

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

	Balance 6/30/2008	Additions	Retirements	Balance 6/30/2009	Current Portion
Governmental Activities:					
Accrued compensated absences	437,419	371,501	(402,266)	406,654	370,000
Capital leases	9,875	-	(3,708)	6,167	4,416
Landfill monitoring costs	26,988	-	-	26,988	-
Total Other	<u>474,282</u>	<u>371,501</u>	<u>(405,974)</u>	<u>439,809</u>	<u>374,416</u>
Special assessment bonds					
Improvement District #5	2,745,000	-	(370,000)	2,375,000	395,000
Improvement District #6	3,425,000	-	(270,000)	3,155,000	290,000
Improvement District #7	600,000	-	(47,000)	553,000	49,000
Bluff Community Facilities District	1,975,000	-	(45,000)	1,930,000	50,000
Total Special Assessment Bonds	<u>8,745,000</u>	<u>-</u>	<u>(732,000)</u>	<u>8,013,000</u>	<u>784,000</u>
General obligation bonds					
Bluff Community Facilities					
District bonds - Series 2007	480,000	-	(15,000)	465,000	10,000
Total General Obligation	<u>480,000</u>	<u>-</u>	<u>(15,000)</u>	<u>465,000</u>	<u>10,000</u>
Certificates of Participation					
Certificates of Participation - Series 1997	687,500	-	(335,000)	352,500	352,500
Certificates of Participation - Series 2000	330,693	-	(161,247)	169,446	169,446
Total Certificates of Participation	<u>1,018,193</u>	<u>-</u>	<u>(496,247)</u>	<u>521,946</u>	<u>521,946</u>
Loans payable					
Senior Center Note	-	250,000	-	250,000	-
GADA Bonds Series - Series 2006B	6,415,000	-	(295,000)	6,120,000	305,000
GADA Bonds Series - Series 2008A	3,185,000	-	-	3,185,000	235,000
Total Loans Payable	<u>9,600,000</u>	<u>250,000</u>	<u>(295,000)</u>	<u>9,555,000</u>	<u>540,000</u>
Total Governmental Debt	<u>\$ 20,317,475</u>	<u>\$ 621,501</u>	<u>\$ (1,944,221)</u>	<u>\$ 18,994,755</u>	<u>\$ 2,230,362</u>
Business-Type Activities:					
Accrued compensated absences	\$ 89,816	\$ 79,889	\$ (92,779)	\$ 76,926	\$ 76,926
Total Other	<u>89,816</u>	<u>79,889</u>	<u>(92,779)</u>	<u>76,926</u>	<u>76,926</u>
Certificates of Participation					
Certificates of Participation - Series 1997	687,500	-	(335,000)	352,500	352,500
Certificates of Participation - Series 2000	274,307	-	(133,753)	140,554	140,554
Total Certificates of Participation	<u>961,807</u>	<u>-</u>	<u>(468,753)</u>	<u>493,054</u>	<u>493,054</u>
Loans payable					
GADA Bonds Series - Series 2006B	\$ 1,740,000	-	(65,000)	\$ 1,675,000	70,000
Total Loans Payable	<u>1,740,000</u>	<u>-</u>	<u>(65,000)</u>	<u>1,675,000</u>	<u>70,000</u>
Total Business-Type Long-Term Debt	<u>\$ 2,791,623</u>	<u>\$ 79,889</u>	<u>\$ (626,532)</u>	<u>\$ 2,244,980</u>	<u>\$ 639,980</u>
Total Long-Term Liabilities	<u>\$ 23,109,098</u>	<u>\$ 701,390</u>	<u>\$ (2,570,753)</u>	<u>\$ 21,239,735</u>	<u>\$ 2,870,342</u>

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

Note 6. Long-Term Debt, Continued

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

The following is a listing of special assessment bonds outstanding as of June 30, 2009:

Special Assessment Bonds:

Show Low Improvement District No. 5 bonds at an interest rate of 6.375% due in annual principal installments ranging from \$200,000 to \$465,000 through January 1, 2015. Interest is payable semiannually.	\$ 2,375,000
Show Low Improvement District No. 6 bonds at an interest rate of 6% due in annual principal installments ranging from \$270,000 to \$545,000 through January 1, 2015. Interest is payable semiannually.	3,155,000
Show Low Improvement District No. 7 bonds at an interest rate of 6% due in annual principal installments ranging from \$47,000 to \$75,000 through January 1, 2018. Interest is payable semiannually.	553,000
Show Low Bluff Community Facilities District bonds at an interest rate ranging from 5.2% to 5.6%, due in annual installments ranging from \$39,000 to \$160,000 through July 1, 2031. Interest is payable semiannually.	<u>1,930,000</u>
Total Special Assessment Bonds	<u><u>\$ 8,013,000</u></u>

Special Assessment debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2010	\$ 784,000	\$ 493,853	\$ 1,277,853
2011	827,000	444,791	1,271,791
2012	885,000	392,765	1,277,765
2013	938,000	337,205	1,275,205
2014	1,001,000	278,221	1,279,221
2015-2019	2,258,000	695,477	2,953,477
2020-2024	450,000	322,000	772,000
2025-2029	585,000	181,720	766,720
2030-2032	285,000	24,080	309,080
Total	<u>\$ 8,013,000</u>	<u>\$ 3,170,112</u>	<u>\$ 11,183,112</u>

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

Note 6. Long-Term Debt, Continued

The following is a listing of general obligation bonds outstanding as of June 30, 2009:

General Obligation Bonds:

Show Low Bluff Community Facilities District bonds - Series 2007 were issued in the amount of \$480,000. The bonds have an interest rate of 5.875%, due in annual principal installments from \$10,000 to \$25,000 through July 15, 2032. Interest is payable semiannually. \$ 465,000

General obligation bond debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2010	\$ 10,000	\$ 27,025	\$ 37,025
2011	10,000	26,438	36,438
2012	10,000	25,850	35,850
2013	10,000	25,263	35,263
2014	10,000	24,675	34,675
2015-2019	70,000	112,213	182,213
2020-2024	90,000	89,006	179,006
2025-2029	125,000	57,722	182,722
2030-2032	130,000	15,863	145,863
Total	\$ 465,000	\$ 404,055	\$ 869,055

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

Note 6. Long-Term Debt, Continued

The following is a listing of certificates of participation outstanding as of June 30, 2009:

Certificates of Participation	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<p>(COPS) Certificates of Participation - Series 1997 were issued to pay the cost of refinancing \$2,185,000 principal amount of Certificates of Participation, Series 1992, as well as to construct certain water, sewer, and transportation improvements. The liability and proceeds of the 1997 COPS were split equally between the Water and Sewer fund and the General fund. The annual principal installments range from \$530,000 to \$705,000 through June 1, 2010. Semiannual interest payments are at rates ranging from 4.375% to 5.0%.</p>	\$ 352,500	\$ 352,500
<p>Certificates of Participation - Series 2000 were issued in the amount of \$2,500,000 on February 1, 2000. The The 2000 COPS were issued to pay for Land Purchases in anticipation of a land exchange with the federal government and several other projects. 45.34% of the issue was for the land exchange and was recorded in the Airport fund. The remaining 54.66% was used in the Capital Projects fund.</p>	<u>169,446</u>	<u>140,554</u>
<p>Total Certificates of Participation bonds</p>	<u>\$ 521,946</u>	<u>\$ 493,054</u>

Certificates of Participation debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total	Business-Type Activities		Total
	Principal	Interest		Principal	Interest	
2010	\$ 521,946	\$ 26,733	\$ 548,679	\$ 493,054	\$ 25,180	\$ 518,234
Total	\$ 521,946	\$ 26,733	\$ 548,679	\$ 493,054	\$ 25,180	\$ 518,234

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

Note 6. Long-Term Debt, Continued

The following is a listing of loans payable outstanding as of June 30, 2009:

Loans Payable:	Governmental Activities	Business-Type Activities
GADA Bonds Series 2006B were issued November 1, 2006, in the amount of \$8,370,000. The 2006 loans were issued to finance or refinance the costs of road improvements, airport improvements and vehicles and police vehicles located in and for the City.	\$ 6,120,000	\$ 1,675,000
GADA Bonds Series 2008A were issued April 1, 2008 in the amount of \$3,185,000. The 2008 loans were issued to finance the costs of building a new library, council chambers and remodeling existing library for administrative purposes.	3,185,000	-
Note payable to Rural America Assisted Living Facilities, Inc. in the amount of \$250,000. Payable in annual installments \$50,000 plus interest at five percent. Secured by the Senior Center building.	250,000	-
Total Loans Payable	\$ 9,555,000	\$ 1,675,000

Loans payable debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2010	\$ 590,000	\$ 412,295	\$ 70,000	\$ 77,313	\$ 1,149,608
2011	570,000	399,800	75,000	74,413	1,119,213
2012	595,000	377,081	75,000	71,319	1,118,400
2013	615,000	351,731	80,000	68,025	1,114,756
2014	635,000	325,556	85,000	64,519	1,110,075
2015-2019	3,305,000	1,203,056	435,000	262,356	5,205,412
2020-2024	1,885,000	583,375	440,000	160,500	3,068,875
2025-2029	1,360,000	104,000	415,000	43,125	1,922,125
Total	\$ 9,555,000	\$ 3,756,894	\$ 1,675,000	\$ 821,570	\$ 15,808,464

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

Note 7. Capital Leases Payable

The City has entered into a lease agreement with Pitney Bowes for meter rental and subscription which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is shown in the governmental activities of the government-wide statements. The total amount of equipment capitalized under the leases is \$14,917. Amortization on capital leases is included in depreciation expense.

The following is an annual schedule of future minimum lease payments with an interest rate of 2.0 percent under the capital lease, together with the present value of the net minimum lease payments:

Year Ending June 30	
2010	\$ 4,416
2011	2,208
Total remaining minimum lease payments	<u>6,624</u>
Less amount representing interest	<u>457</u>
Present value of net remaining minimum lease payments	<u><u>\$ 6,167</u></u>

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

Note 8. Interfund Receivables, Payables and Transfers

As of June 30, 2009, there were no interfund receivables and payables between the funds.

Interfund transfers for the fiscal year ended June 30, 2009 are as follows:

	Transfers out:	
Transfers in:	General	Total
General Fund	\$ -	\$ -
Highway user	1,745,215	1,745,215
Debt Service	1,518,446	1,518,446
Nonmajor Enterprise Funds	304,661	304,661
Sewer	313,011	313,011
Airport	264,200	264,200
Total	\$ 4,145,533	\$ 4,145,533

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 the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

Note 9. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2009, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 9.45 percent of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2009, 2008, and 2007 were \$463,711, \$463,781, and \$443,028 respectively, which were equal to the required contributions for the year.

Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - For the year ended June 30, 2009, active PSPRS members were required by statute to contribute 7.65% of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 16.18% of covered compensation.

Annual Pension Cost - During the year ended June 30, 2009 the City's annual pension cost of \$271,273 was equal to the City's required and actual contributions.

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

Note 9. Retirement and Pension Plans, Continued

For the public safety personnel plans, the required contribution was determined as part of the June 30, 2009 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, and (b) projected salary increases of 5.50% to 8.50% per year compounded annually. Projected salary increases include inflation at 5.00%.

The actuarial value of the City's assets for the public safety personnel plan was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining open amortization period at June 30, 2009 is 27 years.

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

Three-Year Trend Information – PSPRS

Fiscal Year Ended <u>June 30.</u>	Annual Pension <u>Cost (APC)</u>	Percent <u>Contributed</u>	Net Pension <u>Obligation</u>
2007	\$ 160,717	100%	\$ -0-
2008	170,819	100%	-0-
2009	271,273	100%	-0-

Additional historical trend information for the City's public safety personnel plan is disclosed on page 52. Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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

Note 10. 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. In August 1987, the City joined with other cities around the State in the Arizona Municipal Risk Retention Pool, a public entity risk pool currently operating as a common risk management and insurance program for approximately 73 members. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. The Agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000 for general liability claims and \$100,000 for property claims for each insured event. The City has had comparable insurance coverage for the past 18 years, and has had no claims exceeding this insurance coverage.

Premiums are paid annually for the coverage year from August 15 to August 15 and are recorded as prepaid expenditures when paid and charged to expenditures monthly. The Arizona Municipal Risk Retention Pool is structured such that member's 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 purchases commercial insurance for other risks of loss, including airport activities, workers' compensation, and employee health and accident. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Note 11. Contingent Liabilities and Commitments

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney with respect to such litigation, such matters will not have a material adverse effect on the City's financial position at June 30, 2009.

Sick leave benefits provide for ordinary sick pay and are cumulative to a maximum of forty days. Unvested accumulated sick leave of City employees at June 30, 2009 totaled 3,252.73 days. Sick leave is forfeited upon termination of employment.

At year end, the City had the following major construction projects/commitments open:

<u>Project</u>	<u>Estimated Cost</u>	<u>Construction in Progress</u>
Old Linden Road Reconstruction	\$ 4,534,407	\$ 4,534,407
West Whipple Road Reconstruction	\$ 1,565,546	\$ 1,290,382
City Library	\$ 6,830,000	\$ 866,976

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

Note 12. Subsequent Event

On July 17, 2009, the City entered into a \$500,000 loan agreement with the Water Infrastructure Finance Authority of Arizona with \$250,000 as forgivable principal. The loan proceeds will be used for the replacement of approximately 100 manholes throughout the City. The term of the loan is for 20 years payable in semi-annual installments.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SHOW LOW, ARIZONA
Required Supplementary Information**

**Schedule of Funding Progress
PSPRS**

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL As a Percentage Of Covered Payroll</u>
2006	\$ -	\$ 118,327	\$ 118,327	0 %	\$ 1,307,500	9.05%
2007	-	169,459	169,459	0 %	1,467,953	11.54%
2008	-	132,915	132,915	0 %	1,674,273	7.94%
2009	-	187,220	187,220	0 %	1,658,183	11.29%

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Debt Service Funds

- The **Improvement District #5 Debt Service Fund** is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for Improvement District #5 governmental debt principal and interest.
- The **Improvement District #6 Debt Service Fund** is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for Improvement District #6 governmental debt principal and interest.
- The **Show Low Bluff Communities Facilities District Fund** is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for CFD debt principal and interest.

CITY OF SHOW LOW, ARIZONA
IMPROVEMENT DISTRICT #5 DEBT SERVICE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 5,500	\$ 5,500	\$ 10,137	\$ 4,637
Interest	1,000	1,000	3,060	2,060
Special assessments	650,000	650,000	580,800	(69,200)
Total revenues	<u>656,500</u>	<u>656,500</u>	<u>593,997</u>	<u>(62,503)</u>
EXPENDITURES				
Debt service				
Principal	370,000	370,000	370,000	-
Interest and fiscal charges	267,388	267,388	172,230	95,158
Total expenditures	<u>637,388</u>	<u>637,388</u>	<u>542,230</u>	<u>95,158</u>
Excess of revenues				
Over (Under) expenditures	19,112	19,112	51,767	32,655
Fund balance, beginning of year	<u>237,413</u>	<u>237,413</u>	<u>237,413</u>	<u>-</u>
Fund balance, end of year	<u>\$ 256,525</u>	<u>\$ 256,525</u>	<u>\$ 289,180</u>	<u>\$ 32,655</u>

CITY OF SHOW LOW, ARIZONA
IMPROVEMENT DISTRICT #6 DEBT SERVICE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 6,000	\$ 6,000	\$ 9,557	\$ 3,557
Interest	500	500	3,758	3,258
Special assessments	585,000	585,000	554,342	(30,658)
Total revenues	<u>591,500</u>	<u>591,500</u>	<u>567,657</u>	<u>(23,843)</u>
EXPENDITURES				
Debt service				
Principal	370,000	370,000	270,000	100,000
Interest and fiscal charges	219,200	219,200	206,887	12,313
Total expenditures	<u>589,200</u>	<u>589,200</u>	<u>476,887</u>	<u>112,313</u>
Excess of revenues				
Over (Under) expenditures	2,300	2,300	90,770	88,470
Fund balance, beginning of year	<u>305,748</u>	<u>305,748</u>	<u>305,748</u>	<u>-</u>
Fund balance, end of year	<u>\$ 308,048</u>	<u>\$ 308,048</u>	<u>\$ 396,518</u>	<u>\$ 88,470</u>

CITY OF SHOW LOW, ARIZONA
SHOW LOW BLUFF COMMUNITIES FACILITIES DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 774	\$ 774
Interest	1,000	1,000	1,890	890
Special assessments	191,879	191,879	238,098	46,219
Total revenues	<u>192,879</u>	<u>192,879</u>	<u>240,762</u>	<u>47,883</u>
EXPENDITURES				
Capital outlay	-	-	42,125	(42,125)
Debt service:				
Principal	-	-	60,000	(60,000)
Interest and fiscal charges	-	-	140,724	(140,724)
Total expenditures	<u>-</u>	<u>-</u>	<u>242,849</u>	<u>(242,849)</u>
Excess of revenues				
Over (Under) expenditures	<u>192,879</u>	<u>192,879</u>	<u>(2,087)</u>	<u>(194,966)</u>
Other Financing Sources (Uses):				
Debt issued	<u>2,345,500</u>	<u>2,345,500</u>	<u>-</u>	<u>(2,345,500)</u>
Total other financing Sources (Uses)	<u>2,345,500</u>	<u>2,345,500</u>	<u>-</u>	<u>(2,345,500)</u>
Net change in fund balances	2,538,379	2,538,379	(2,087)	(2,540,466)
Fund balance, beginning of year	<u>313,626</u>	<u>313,626</u>	<u>313,626</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,852,005</u>	<u>\$ 2,852,005</u>	<u>\$ 311,539</u>	<u>\$ (2,540,466)</u>

SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS
AND BUDGETARY COMPARISON SCHEDULES

NON-MAJOR 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.

- The **Local Transportation Assistance** fund is used to account for the City's portion of the State lottery distributions that are restricted for use for highways and streets.
- The **Street Lighting District** fund is used to account for property taxes assessed and collected for the payment of street lighting utilities, maintenance and improvements.
- The **Public Transportation** fund is used to account for charges for services and grants for the operation, maintenance and improvement of the City's rural transportation system.

Debt Service Funds

- The **Improvement District #7** debt service fund is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for Improvement District #7 governmental debt principal and interest.
- The **Other Debt Service** fund is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for other governmental debt principal and interest.

CITY OF SHOW LOW, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue			Debt Service		Total
	Local Transportation Assistance	Street Lighting District	Public Transportation	Improvement District #7	Other Debt Service	
ASSETS						
Cash	\$ -	\$ 22,079	\$ 16,397	\$ 17,118	\$ -	\$ 55,594
Receivables:						
Taxes	-	5,463	-	-	-	5,463
Interest	-	-	-	2,481	12	2,493
Assessments	-	-	-	554,787	-	554,787
Intergovernmental	-	-	138,696	-	-	138,696
Prepaid Items	-	-	-	-	748,916	748,916
Restricted Cash	27,748	-	-	-	499,271	527,019
Total assets	\$ 27,748	\$ 27,542	\$ 155,093	\$ 574,386	\$ 1,248,199	\$ 2,032,968
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ -	\$ 14,585	\$ 38,683	\$ -	\$ -	\$ 53,268
Deferred revenues	-	-	-	553,941	-	553,941
Total liabilities	-	14,585	38,683	553,941	-	607,209
Fund Balance:						
Reserved by statute or for specific use	27,748	-	-	-	-	27,748
Reserved for debt service	-	-	-	20,445	1,248,199	1,268,644
Unreserved, undesignated	-	12,957	116,410	-	-	129,367
Total fund balance	27,748	12,957	116,410	20,445	1,248,199	1,425,759
Total liabilities and fund balance	\$ 27,748	\$ 27,542	\$ 155,093	\$ 574,386	\$ 1,248,199	\$ 2,032,968

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

	Special Revenue			Debt Service		Total
	Local Transportation Assistance	Street Lighting District	Public Transportation	Improvement District #7	Other Debt Service	
REVENUES:						
Taxes	\$ -	\$ 142,186	\$ -	\$ -	\$ -	\$ 142,186
Intergovernmental	48,515	-	807,782	-	-	856,297
Investment earnings	107	165	112	5,621	21,533	27,538
Special assessments	-	-	-	127,917	-	127,917
Other revenues	-	-	39,634	917	-	40,551
Total revenues	48,622	142,351	847,528	134,455	21,533	1,194,489
EXPENDITURES:						
Public works	-	139,974	442,143	-	-	582,117
Capital outlay	30,941	4,321	322,724	515,681	-	873,667
Debt service:						
Principal	-	-	-	30,987	791,247	822,234
Interest and fiscal charges	-	-	-	49,246	447,476	496,722
Total expenditures	30,941	144,295	764,867	595,914	1,238,723	2,774,740
Excess of revenues						
Over (under) expenditures	17,681	(1,944)	82,661	(461,459)	(1,217,190)	(1,580,251)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	1,518,446	1,518,446
Total other financing sources (uses):	-	-	-	-	1,518,446	1,518,446
Net change in fund balances	17,681	(1,944)	82,661	(461,459)	301,256	(61,805)
Fund balance, beginning of year	10,067	14,901	33,749	481,904	946,943	1,487,564
Fund balance, end of year	<u>\$ 27,748</u>	<u>\$ 12,957</u>	<u>\$ 116,410</u>	<u>\$ 20,445</u>	<u>\$ 1,248,199</u>	<u>\$ 1,425,759</u>

CITY OF SHOW LOW, ARIZONA
LOCAL TRANSPORTATION ASSISTANCE
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 51,069	\$ 51,069	\$ 48,515	\$ (2,554)
Interest	2,500	2,500	107	(2,393)
Total revenues	<u>53,569</u>	<u>53,569</u>	<u>48,622</u>	<u>(4,947)</u>
EXPENDITURES				
Current:				
Public works/Streets	-	-	-	-
Capital outlay	<u>188,656</u>	<u>188,656</u>	<u>30,941</u>	<u>157,715</u>
Total expenditures	<u>188,656</u>	<u>188,656</u>	<u>30,941</u>	<u>157,715</u>
Excess of revenues				
Over (Under) expenditures	(135,087)	(135,087)	17,681	152,768
Fund balance, beginning of year	<u>10,067</u>	<u>10,067</u>	<u>10,067</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (125,020)</u></u>	<u><u>\$ (125,020)</u></u>	<u><u>\$ 27,748</u></u>	<u><u>\$ 152,768</u></u>

CITY OF SHOW LOW, ARIZONA
STREET LIGHTING DISTRICT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 140,000	\$ 140,000	\$ 142,186	\$ 2,186
Interest	250	250	165	(85)
Total revenues	<u>140,250</u>	<u>140,250</u>	<u>142,351</u>	<u>2,101</u>
EXPENDITURES				
Current:				
Public works/Streets	137,500	137,500	139,974	(2,474)
Capital outlay	<u>179,627</u>	<u>179,627</u>	<u>4,321</u>	<u>175,306</u>
Total expenditures	<u>317,127</u>	<u>317,127</u>	<u>144,295</u>	<u>172,832</u>
Excess of revenues				
Over (Under) expenditures	(176,877)	(176,877)	(1,944)	174,933
Other Financing Sources (Uses):				
Transfers in	<u>179,627</u>	<u>179,627</u>	<u>-</u>	<u>(179,627)</u>
Total other financing Sources (Uses)	<u>179,627</u>	<u>179,627</u>	<u>-</u>	<u>(179,627)</u>
Net change in fund balances	2,750	2,750	(1,944)	(4,694)
Fund balance, beginning of year	<u>14,901</u>	<u>14,901</u>	<u>14,901</u>	<u>-</u>
Fund balance, end of year	<u>\$ 17,651</u>	<u>\$ 17,651</u>	<u>\$ 12,957</u>	<u>\$ (4,694)</u>

**CITY OF SHOW LOW, ARIZONA
PUBLIC TRANSPORTATION
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 858,171	\$ 858,171	\$ 807,782	\$ (50,389)
Interest	500	500	112	(388)
Miscellaneous	100,501	100,501	39,634	(60,867)
Total revenues	<u>959,172</u>	<u>959,172</u>	<u>847,528</u>	<u>(111,644)</u>
EXPENDITURES				
Current:				
Public works/Streets	585,979	585,979	442,143	143,836
Capital outlay	<u>350,000</u>	<u>350,000</u>	<u>322,724</u>	<u>27,276</u>
Total expenditures	<u>935,979</u>	<u>935,979</u>	<u>764,867</u>	<u>171,112</u>
Excess of revenues				
Over (Under) expenditures	23,193	23,193	82,661	59,468
Fund balance, beginning of year	<u>33,749</u>	<u>33,749</u>	<u>33,749</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 56,942</u></u>	<u><u>\$ 56,942</u></u>	<u><u>\$ 116,410</u></u>	<u><u>\$ 59,468</u></u>

**CITY OF SHOW LOW, ARIZONA
IMPROVEMENT DISTRICT #7
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 917	\$ 917
Interest	2,500	2,500	5,621	3,121
Special assessments	150,000	150,000	127,917	(22,083)
Total revenues	<u>152,500</u>	<u>152,500</u>	<u>134,455</u>	<u>(18,045)</u>
EXPENDITURES				
Capital outlay	250,000	250,000	515,681	(265,681)
Debt service:				
Principal	30,988	30,988	30,987	1
Interest and fiscal charges	49,000	49,000	49,246	(246)
Total expenditures	<u>329,988</u>	<u>329,988</u>	<u>595,914</u>	<u>(265,926)</u>
Excess of revenues				
Over (Under) expenditures	(177,488)	(177,488)	(461,459)	(283,971)
Fund balance, beginning of year	<u>481,904</u>	<u>481,904</u>	<u>481,904</u>	<u>-</u>
Fund balance, end of year	<u>\$ 304,416</u>	<u>\$ 304,416</u>	<u>\$ 20,445</u>	<u>\$ (283,971)</u>

CITY OF SHOW LOW, ARIZONA
OTHER DEBT SERVICE
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 21,533	\$ 21,533
Total revenues	-	-	21,533	21,533
EXPENDITURES				
Debt service				
Principal	578,763	578,763	791,247	(212,484)
Interest and fiscal charges	68,328	68,328	447,476	(379,148)
Total expenditures	647,091	647,091	1,238,723	(591,632)
Excess of revenues				
Over (Under) expenditures	(647,091)	(647,091)	(1,217,190)	(570,099)
Other Financing Sources (Uses):				
Transfers in	740,000	740,000	1,518,446	778,446
Total other financing Sources (Uses)	740,000	740,000	1,518,446	778,446
Net change in fund balances	92,909	92,909	301,256	208,347
Fund balance, beginning of year	946,943	946,943	946,943	-
Fund balance, end of year	\$ 1,039,852	\$ 1,039,852	\$1,248,199	\$ 208,347

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS

NONMAJOR PROPRIETARY FUNDS

- The **Refuse** fund is used to account for the City's refuse collection operations.
- The **Family Aquatic** fund is used to account for activities of the City's Family Aquatic center.

CITY OF SHOW LOW, ARIZONA
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2009

	<u>Business-type Activities - Nonmajor Enterprise Funds</u>		
	<u>Refuse Fund</u>	<u>Family Aquatic</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 159,702	\$ 250	\$ 159,952
Accounts receivable	62,011	-	62,011
Total current assets	<u>221,713</u>	<u>250</u>	<u>221,963</u>
Noncurrent assets:			
Systems and improvements	-	76,882	76,882
Buildings	-	2,141,948	2,141,948
Machinery and equipment	-	133,412	133,412
Accumulated depreciation	-	(995,548)	(995,548)
Total noncurrent assets	<u>-</u>	<u>1,356,694</u>	<u>1,356,694</u>
Total assets	<u>\$ 221,713</u>	<u>\$ 1,356,944</u>	<u>\$ 1,578,657</u>
Liabilities			
Accounts payable	\$ 57,984	\$ 13,819	\$ 71,803
Accrued wages and benefits	-	3,226	3,226
Compensated absences	-	9,315	9,315
Total liabilities	<u>57,984</u>	<u>26,360</u>	<u>84,344</u>
Net Assets:			
Invested in capital assets, net of related debt	-	1,356,694	1,356,694
Unrestricted	<u>163,729</u>	<u>(26,110)</u>	<u>137,619</u>
Total net assets	<u>\$ 163,729</u>	<u>\$ 1,330,584</u>	<u>\$ 1,494,313</u>

CITY OF SHOW LOW, ARIZONA
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Nonmajor Enterprise Funds		
	Refuse Fund	Family Aquatic	Total
Operating Revenues			
Charges for services:	\$ 692,644	\$ 109,637	\$ 802,281
Total revenue	<u>692,644</u>	<u>109,637</u>	<u>802,281</u>
Operating Expenses			
Salaries, wages and benefits	30,000	263,591	293,591
Contract services	600,944	5,122	606,066
Field supplies	22,161	36,253	58,414
Repairs and maintenance	-	31,419	31,419
Utilities	-	82,408	82,408
Miscellaneous	-	1,490	1,490
Bad debt expense	7,250	-	7,250
Depreciation	-	81,761	81,761
Total operating expenses	<u>660,355</u>	<u>502,044</u>	<u>1,162,399</u>
Operating income (loss)	<u>32,289</u>	<u>(392,407)</u>	<u>(360,118)</u>
Non-operating Revenues (Expenses)			
Interest income	2,727	-	2,727
Total non-operating revenue (expense)	<u>2,727</u>	<u>-</u>	<u>2,727</u>
Income (loss) before transfers	35,016	(392,407)	(357,391)
Transfers in	-	304,661	304,661
Change in net assets	35,016	(87,746)	(52,730)
Total net assets, beginning of year	<u>128,713</u>	<u>1,418,330</u>	<u>1,547,043</u>
Total net assets, end of year	<u><u>163,729</u></u>	<u><u>1,330,584</u></u>	<u><u>1,494,313</u></u>

CITY OF SHOW LOW, ARIZONA
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2009

	<u>Business-type Activities -Nonmajor Enterprise Funds</u>		
	<u>Refuse</u>	<u>Family Aquatic</u>	<u>Totals</u>
Cash Flows From Operating Activities:			
Cash received from customers, service fees	\$ 696,509	\$ 109,638	\$ 806,147
Cash paid to suppliers	(630,660)	(152,964)	(783,624)
Cash paid to employees	(30,000)	(261,335)	(291,335)
Cash flows from operating activities	<u>35,849</u>	<u>(304,661)</u>	<u>(268,812)</u>
Cash Flows From Noncapital Financing Activities:			
Transfers	-	304,661	304,661
Cash flows from noncapital and related financing activities	<u>-</u>	<u>304,661</u>	<u>304,661</u>
Cash Flows From Investing Activities:			-
Interest on investments	2,727	-	2,727
Net change in cash and cash equivalents	38,576	-	38,576
Cash and cash equivalents, beginning of year	<u>121,126</u>	<u>250</u>	<u>121,376</u>
Cash and Cash Equivalents, End of Year	<u>\$ 159,702</u>	<u>\$ 250</u>	<u>\$ 159,952</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:			
Net operating income/(loss)	\$ 32,289	\$ (392,407)	\$ (360,118)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	-	81,761	81,761
Changes in operating assets and liabilities:			
(Increase)/Decrease in receivables	3,865	-	3,865
Increase/(Decrease) in payables	(305)	3,728	3,423
Increase/(Decrease) in accrued liabilities & deposits	-	2,256	2,256
Net cash flows from operating activities	<u>\$ 35,849</u>	<u>\$ (304,662)</u>	<u>\$ (268,813)</u>

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF SHOW LOW, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2009 and 2008

	2009	2008
Capital assets:		
Land	\$ 4,704,430	\$ 4,584,625
Buildings and Improvements	4,591,262	3,782,044
Improvements	3,225,243	5,335,700
Furniture, Equipment and Vehicles	6,475,619	6,009,270
Infrastructure/Streets	29,681,320	21,783,283
Construction in Progress	9,208,528	6,077,882
	\$ 57,886,402	\$47,572,804
 Investment in capital assets by source:		
Investment in property acquired by all sources excluding donations	\$ 55,812,892	\$47,572,804
Donations *	2,073,510	-
	\$ 57,886,402	\$47,572,804

* The donations listed for fiscal year 2009 were for 2009 additions only. The prior years' balance is not available.

CITY OF SHOW LOW, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2009

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furniture, Equipment and Vehicles</u>	<u>Infrastructure/ Streets</u>	<u>Construction in Progress</u>	<u>Total</u>
General Government	\$ 2,646,188	\$ 1,571,029	\$ 469,845	\$ 701,258	\$ -	\$ 795,059	\$ 6,183,379
Highways and Streets	726,975	657,893	880,020	2,323,007	29,681,320	7,438,371	41,707,586
Public Safety	21,000	888,660	-	2,123,432	-	-	3,033,092
Public Works	307,081	377,885	645,760	894,887	-	40,310	2,265,923
Economic Development	-	-	-	76,615	-	-	76,615
Culture and Recreation	1,003,186	1,095,795	1,229,618	356,420	-	934,788	4,619,807
Totals	<u>\$ 4,704,430</u>	<u>\$ 4,591,262</u>	<u>\$ 3,225,243</u>	<u>\$ 6,475,619</u>	<u>\$ 29,681,320</u>	<u>\$ 9,208,528</u>	<u>\$ 57,886,402</u>

CITY OF SHOW LOW, ARIZONA
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended June 30, 2009

	Capital Assets <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	Capital Assets <u>June 30, 2009</u>
<u>Function and Activity</u>				
General Government	\$ 5,556,908	\$ 659,851	\$ (33,380)	\$ 6,183,379
Highways and Streets	33,706,896	8,690,770	(690,080)	41,707,586
Public Safety	2,573,375	497,317	(37,600)	3,033,092
Public Works	1,998,348	267,575	-	2,265,923
Economic Development	61,201	63,137	(47,723)	76,615
Culture and Recreation	3,676,076	943,731	-	4,619,807
Totals	<u>\$ 47,572,804</u>	<u>\$ 11,122,381</u>	<u>\$ (808,783)</u>	<u>\$ 57,886,402</u>

STATISTICAL SECTION

This part of the City of Show Low’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends	74
<i>These schedules contain trend information to help the reader understand how the government’s financial performance and well being have changed over time.</i>	
Revenue Capacity	79
<i>These schedules contain information to help the reader assess the government’s property taxes and the most significant local revenues source, the sales tax.</i>	
Debt Capacity	86
<i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	89
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information	92
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i>	

CITY OF SHOW LOW, ARIZONA
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities										
Invested in capital assets, net of related debt	N/A	N/A	N/A	\$ 3,268,520	\$ 5,047,274	\$ 8,025,270	\$11,108,140	\$10,495,243	\$ 17,649,736	\$ 26,842,932
Restricted				10,449,679	9,833,472	8,719,606	8,366,723	2,014,571	3,613,847	2,406,492
Unrestricted				3,756,812	5,180,212	6,020,782	8,969,170	24,688,903	23,897,494	18,756,457
Total governmental activities net assets	\$ -	\$ -	\$ -	\$17,475,011	\$20,060,958	\$22,765,658	\$28,444,033	\$37,198,717	\$ 45,161,077	\$ 48,005,881
Business-type activities										
Invested in capital assets, net of related debt	N/A	N/A	N/A	\$39,637,789	\$42,473,129	\$43,445,397	\$46,176,330	\$51,406,630	\$ 59,791,861	\$ 59,558,080
Restricted				3,850,746	8,819,520	3,909,842	3,909,842	5,985,776	6,101,282	6,825,104
Unrestricted				394,501	(6,181,546)	1,075,383	2,478,312	3,696,002	3,531,432	2,293,898
Total Business-type activities net assets	\$ -	\$ -	\$ -	\$43,883,036	\$45,111,103	\$48,430,622	\$52,564,484	\$61,088,408	\$ 69,424,575	\$ 68,677,082
Primary government										
Invested in capital assets, net of relate debt	N/A	N/A	N/A	\$42,906,309	\$47,520,403	\$51,470,667	\$57,284,470	\$61,901,873	\$ 77,441,597	\$ 86,401,012
Restricted	-	-	-	14,300,425	18,652,992	12,629,448	12,276,565	8,000,347	9,715,129	9,231,596
Unrestricted	-	-	-	4,151,313	(1,001,334)	7,096,165	11,447,482	28,384,905	27,428,926	21,050,355

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF SHOW LOW, ARIZONA
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)

Expenses	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities:										
General government				\$ 3,921,783	\$ 4,104,054	\$ 4,002,302	\$ 3,989,285	\$ 4,779,683	\$ 4,884,207	\$ 5,658,484
Public safety				2,266,130	2,844,624	3,005,895	3,759,395	4,061,614	4,270,497	4,389,665
Public works				2,766,797	2,872,362	2,872,918	3,077,390	4,261,420	4,051,944	4,507,493
Economic development *				-	-	-	-	-	-	631,619
Culture and recreation				597,382	704,400	845,588	849,871	985,496	973,501	1,026,732
Interest on long-term debt				781,075	725,521	929,135	603,688	826,485	755,375	1,277,768
Total governmental activities expenses	-	-	-	10,333,167	11,250,961	11,655,838	12,279,629	14,914,698	14,935,524	17,491,761
Business-type activities:										
Water				2,763,342	1,579,290	1,928,857	1,992,474	2,088,639	2,264,614	2,791,811
Wastewater				-	1,467,116	1,742,718	2,066,814	1,659,410	2,482,065	2,712,337
Airport				1,497,573	1,359,784	1,926,814	1,764,740	2,129,881	2,297,975	2,301,370
Family Aquatic				478,869	520,308	456,557	468,936	463,100	481,478	660,355
Refuse				456,713	537,815	559,758	645,161	506,854	586,308	502,044
Total business-type activities expenses	-	-	-	5,196,497	5,464,313	6,614,704	6,938,125	6,847,884	8,112,440	8,967,917
Total primary government expenses	\$ -	\$ -	\$ -	\$ 15,529,664	\$ 16,715,274	\$ 18,270,542	\$ 19,217,754	\$ 21,762,582	\$ 23,047,964	\$ 26,459,678
Program Revenues										
Governmental activities:										
Charges for services:										
General government				651,232	272,940	998,298	456,815	608,541	509,708	2,787,815
Culture and recreation				74,501	82,630	104,526	78,507	1,017,628	674,822	128,149
Other activities				117,315	79,052	82,312	895,774	1,593,626	1,569,276	650,640
Operating grants and contributions				427,430	216,550	654,087	152,870	-	-	2,269,916
Capital grants and contributions				960,209	382,948	379,539	333,283	6,210,914	3,013,594	2,808,785
Total governmental activities program revenues	-	-	-	2,230,687	1,034,120	2,218,762	1,917,249	9,430,709	5,767,400	8,645,305
Business-type activities:										
Charges for services:										
Water				2,271,808	1,800,949	2,189,915	2,030,071	2,365,512	2,373,304	2,020,118
Wastewater					1,668,035	1,938,463	2,270,913	2,686,146	2,547,067	1,912,187
Airport				872,047	767,773	930,197	1,040,160	1,898,709	1,240,029	1,083,344
Family Aquatic Center				96,147	99,982	131,190	98,166	100,440	102,547	109,637
Refuse				465,194	512,061	577,425	661,289	522,023	634,950	692,644
Operating grants and contributions				322,620	-	-	-	20,000	-	-
Capital grants and contributions				7,473,762	952,107	3,472,317	3,544,000	5,654,682	6,023,858	1,280,860
Total business-type activities program revenues	-	-	-	11,501,578	5,800,907	9,239,507	9,644,599	13,247,512	12,921,755	7,098,790
Total primary government program revenues	\$ -	\$ -	\$ -	\$ 13,732,265	\$ 6,835,027	\$ 11,458,269	\$ 11,561,848	\$ 22,678,221	\$ 18,689,155	\$ 15,744,095

* Economic Development is reported with General Government previous to 2009

(continued)

CITY OF SHOW LOW, ARIZONA
Changes in Net Assets
Last Ten Fiscal Years
(Continued)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net (expense)/revenue										
Governmental activities	\$ -	\$ -	\$ -	\$ (8,102,480)	\$ (10,216,841)	\$ (9,437,076)	\$ (10,362,380)	\$ (5,483,989)	\$ (9,168,124)	\$ (8,846,456)
Business-type activities	-	-	-	6,305,081	336,594	2,624,803	2,706,474	6,399,628	4,809,315	(1,869,127)
Total primary government net expense	\$ -	\$ -	\$ -	\$ (1,797,399)	\$ (9,880,247)	\$ (6,812,273)	\$ (7,655,906)	\$ 915,639	\$ (4,358,809)	\$ (10,715,583)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes:										
Sales taxes	\$ -	\$ -	\$ -	\$ 6,882,454	\$ 7,685,555	\$ 8,544,891	\$ 9,924,958	10,964,955	\$ 10,942,341	\$ 9,038,647
Franchise taxes				218,654	250,610	283,449	301,769	349,826	397,091	416,309
State sales taxes				601,809	647,382	712,867	830,093	939,542	908,471	786,482
Urban revenue sharing				808,564	694,977	715,536	831,807	1,029,042	1,514,108	1,459,297
Auto-in-lieu				421,988	426,779	440,379	498,645	590,144	589,820	560,171
Other				1,547,858	3,616,225	2,171,592	4,262,883	779,170	3,139,681	142,188
Investment earnings				110,061	78,058	172,331	337,177	828,583	489,904	157,504
Gain (Loss) on sales of assets				54,777	(67,670)	-	-	-	1,416,206	12,535
Miscellaneous				19,185	91,976	29,165	263,448	471,063	398,052	-
Transfers				(801,285)	(621,104)	(928,434)	(1,210,025)	(1,713,652)	(2,665,190)	(881,872)
Total governmental activities	-	-	-	9,864,065	12,802,788	12,141,776	16,040,755	14,238,673	17,130,484	11,691,261
Business-type activities:										
Investment earnings	-	-	-	104,387	100,665	146,124	212,550	408,605	660,278	235,930
Gain (Loss) on sales of assets				(69,781)	169,704	1,178	4,813	2,039	10,544	3,833
Transfers	-	-	-	801,285	621,104	928,434	1,210,025	1,713,652	2,665,190	881,872
Total business-type activities	-	-	-	835,891	891,473	1,075,736	1,427,388	2,124,296	3,336,012	1,121,635
Total Primary government	\$ -	\$ -	\$ -	\$ 10,699,956	\$ 13,694,261	\$ 13,217,512	\$ 17,468,143	\$ 16,362,969	\$ 20,466,496	\$ 12,812,896
Change in Net Asset										
Governmental activities	\$ -	\$ -	\$ -	\$ 1,761,585	\$ 2,585,947	\$ 2,704,700	\$ 5,678,375	\$ 8,754,684	\$ 7,962,360	\$ 2,844,805
Business-type activities	-	-	-	7,140,972	1,228,067	3,700,539	4,133,862	8,523,924	8,145,327	(747,492)
Total primary government	\$ -	\$ -	\$ -	\$ 8,902,557	\$ 3,814,014	\$ 6,405,239	\$ 9,812,237	\$ 17,278,608	\$ 16,107,687	\$ 2,097,313

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF SHOW LOW, ARIZONA
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund										
Reserved	\$ -	\$ -	\$ -	\$ 124,721	\$ 382,809	\$ 457,619	\$ 780,003	\$ 488,534	\$ 487,576	\$ 57,763
Unreserved	-	-	-	3,382,850	4,581,623	5,174,543	8,036,445	10,874,318	12,851,009	11,068,630
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,507,571</u>	<u>\$ 4,964,432</u>	<u>\$ 5,632,162</u>	<u>\$ 8,816,448</u>	<u>\$ 11,362,852</u>	<u>\$ 13,338,585</u>	<u>\$ 11,126,393</u>
 All other governmental funds										
Reserved:										
Debt service	\$ -	\$ -	\$ -	\$ 789,581	\$ 619,181	\$ 650,680	\$ 714,149	\$ 852,413	\$ 2,285,635	\$ 2,265,881
Other	-	-	-	-	-	-	-	-	-	140,611
Unreserved, reported in:										
Special revenue funds	-	-	-	311,208	229,119	251,762	230,371	7,848,236	3,145,410	129,367
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100,789</u>	<u>\$ 848,300</u>	<u>\$ 902,442</u>	<u>\$ 944,520</u>	<u>\$ 8,700,649</u>	<u>\$ 5,431,045</u>	<u>\$ 2,535,859</u>

CITY OF SHOW LOW, ARIZONA
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes				\$ 9,080,535	\$ 11,044,732	\$ 12,085,009	\$ 13,846,075	\$ 15,586,015	\$ 15,921,108	\$ 9,597,142
Licenses and permits				367,881	529,895	623,009	1,192,968	1,043,028	697,482	175,143
Intergovernmental				1,724,474	735,695	1,032,926	1,531,190	1,534,809	1,355,159	5,754,141
Charges for services				321,800	400,102	449,387	736,688	583,141	487,048	236,118
Fines				224,176	202,023	122,958	126,915	131,878	167,787	225,171
Special assessments				1,122,373	1,134,646	1,165,709	1,133,569	1,162,670	1,401,906	1,501,157
Investment earnings				110,061	78,058	166,180	337,177	828,583	489,904	150,024
Miscellaneous				479,939	400,531	298,768	263,448	564,102	398,052	1,168,981
Total Revenues	\$ -	\$ -	\$ -	\$ 13,431,239	\$ 14,525,682	\$ 15,943,946	\$ 19,168,030	\$ 21,434,226	\$ 20,918,446	\$ 18,807,877
Expenditures										
Current:										
General government	\$ -	\$ -	\$ -	\$ 3,634,851	\$ 3,333,143	\$ 3,668,296	\$ 3,752,094	\$ 4,577,097	\$ 5,094,448	\$ 4,433,502
Public safety				2,058,233	2,366,808	2,660,077	3,295,460	3,719,234	3,841,165	4,392,538
Public works				2,060,795	2,190,291	2,586,569	2,890,444	3,454,781	2,951,496	3,037,275
Public health				87,799	94,295	97,796	135,214	143,046	159,532	1,627,498
Capital outlay				1,903,744	1,977,143	2,614,386	2,124,818	3,378,240	9,977,641	6,247,917
Debt service:										
Principal				1,575,574	1,389,866	1,232,146	1,080,052	1,175,440	1,332,048	1,522,234
Interest and fiscal charges				784,515	725,521	680,594	603,688	805,199	951,412	1,016,563
Total expenditures	-	-	-	12,105,511	12,077,067	13,539,864	13,881,770	17,253,037	24,307,742	22,277,527
Revenues over (under) expenditure:	-	-	-	1,325,728	2,448,615	2,404,082	5,286,260	4,181,189	(3,389,296)	(3,469,650)
Other finance sources (Uses)										
Sale of Assets									1,416,206	12,534
Bond Proceeds								8,658,917	4,265,000	250,000
Transfers in (out)				(801,285)	(621,104)	(915,672)	(1,210,025)	(1,713,652)	(2,665,190)	(881,872)
Total other finance sources (uses)	-	-	-	(801,285)	(621,104)	(915,672)	(1,210,025)	6,945,265	3,016,016	(619,338)
Net change in fund balances	\$ -	\$ -	\$ -	\$ 524,443	\$ 1,827,511	\$ 1,488,410	\$ 4,076,235	\$ 11,126,454	\$ (373,280)	\$ (4,088,988)
Debt service as a percentage of noncapital expenditures				30.10%	26.49%	21.22%	16.72%	16.65%	18.96%	18.82%

CITY OF SHOW LOW, ARIZONA
Assessed, Limited and Full Cash Value of Taxable Property
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Net Assessed Value</u>	<u>Total Value</u>	<u>Ratio of Net Assessed to Cash Values</u>
1999-00	55,684,672	384,666,941	14%
2000-01	61,707,039	431,486,151	14%
2001-02	68,519,289	485,129,057	14%
2002-03	78,807,745	560,847,052	14%
2003-04	89,338,936	634,210,704	14%
2004-05	94,162,089	677,090,505	14%
2005-06	103,182,998	767,788,032	13%
2006-07	115,815,162	882,912,270	13%
2007-08	144,656,369	1,124,883,712	13%
2008-09	178,635,620	1,420,838,131	13%
2009-10	183,337,696	1,599,217,618	11%

Source: Arizona Department of Revenue

CITY OF SHOW LOW, ARIZONA
Property Tax Rates - Direct and Overlapping Governments
(Inclusive of Primary & Secondary Tax Rates)
Per \$100 of Assessed Value
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>City of Show Low</u>	<u>State of Arizona</u>	<u>Navajo County</u>	<u>Northland Pioneer College</u>	<u>Show Low Unified School District</u>	<u>Total</u>
1999-00	-	-	0.5656	1.4850	6.9547	9.0053
	-	-	0.5833	1.4904	6.9274	9.0011
2000-01	-	-	0.6381	1.4106	6.2283	8.2770
2001-02	-	-	0.6506	1.4164	6.5555	8.6225
2002-03	-	-	0.6909	1.4542	6.3946	8.5397
2003-04	-	-	0.4772	1.4406	5.9103	7.8281
2004-05	-	-	0.6316	1.5092	5.4816	7.6224
2005-06	-	-	0.6337	1.5200	5.0497	7.2034
2006-07	-	-	0.6229	1.4858	4.8494	6.9581
2007-08	-	-	0.6041	1.4206	4.3062	6.3309
2008-09	-	-	0.5594	1.1352	4.5665	6.2611

Source: Navajo County Assessor's Office

CITY OF SHOW LOW, ARIZONA
Street Lighting Levies and Collections
Last Ten Fiscal Years (unaudited)

Fiscal Year	Original Real Property Assessments	Collected to June 30th, End of Tax Fiscal Year		Delinquent Taxes Receivable
		Amount	Percent of Original Levy	
1999-00	\$ 79,487	\$ 72,346	91%	\$ 7,141
2000-01	94,295	93,376	99%	7,447
2001-02	91,652	82,485	90%	9,167
2002-03	92,173	84,973	92%	7,200
2003-04	90,012	84,563	94%	5,449
2004-05	94,154	88,634	94%	5,520
2005-06	92,668	90,037	97%	2,631
2006-07	96,404	94,583	98%	1,820
2007-08	142,968	136,158	95%	6,593
2008-09 - *	140,459	779	1%	139,680

Source: Navajo County Treasurer's Office

* - Collected through November 30

CITY OF SHOW LOW, ARIZONA
Special Assessment Billings and Collections
Last Ten Fiscal Years

Fiscal Year	Current Assessments Billed	Total Current Assessments Collected	Ratio of Collections to Amount Due	Total Current Outstanding Assessments	Prepaid	Total Outstanding Assessments
1997-1998						
1999-2000	\$ 630,501	\$ 628,856	99.74%	\$ 1,645	\$ 9,794	\$ 1,645
2000-2001	630,263	624,777	99.13%	5,486	2,419	7,942
2001-2002	781,885	778,030	99.51%	3,855	54,846	7,987
2002-2003	723,159	708,055	97.91%	15,104	351,663	17,813
2003-2004	1,131,847	1,125,566	99.45%	6,281	175,732	14,408
2004-2005	882,039	850,548	96.43%	31,491	151,069	69,844
2005-2006	674,957	616,469	91.33%	58,488	213,114	139,138
2006-2007	728,623	663,231	91.03%	65,392	289,024	168,527
2007-2008	882,407	849,756	96.30%	32,651	382,089	81,676
2008-2009	830,682	767,807	92.43%	62,875	582,222	128,897

Source: City of Show Low Finance Department

CITY OF SHOW LOW, ARIZONA
Sales Tax Revenue
Last Ten Fiscal Years

Fiscal Year	Construction	Utilities	Wholesale	Retail	Restaurants	Real Estate	Services	Others	Total	
1999-2000	\$ 653,405	\$ 305,235	\$ 113,757	\$ 4,191,938	\$ 283,238	\$ 142,016	\$ 328,873	\$186,559	\$ 6,205,021	114.09%
2000-2001	597,918	399,661	116,329	4,325,608	308,686	158,633	369,365	169,586	6,445,786	103.88%
2001-2002	549,505	439,266	121,925	4,483,143	321,439	159,348	343,534	199,100	6,617,259	102.66%
2002-2003	652,773	287,999	123,471	4,730,725	353,551	168,737	366,706	198,492	6,882,454	104.01%
2003-2004	895,577	137,473	134,455	5,213,135	375,041	195,926	332,265	401,685	7,685,556	111.67%
2004-2005	1,000,458	107,850	205,425	5,665,592	444,885	414,040	203,978	502,663	8,544,891	111.18%
2005-2006	1,471,231	144,500	265,074	6,277,525	540,826	473,152	191,733	560,920	9,924,958	116.15%
2006-2007	1,725,329	184,492	305,802	6,680,442	577,688	680,273	170,973	639,955	10,964,954	110.48%
2007-2008	1,819,140	245,124	255,190	6,652,414	553,708	648,069	152,106	616,590	10,942,341	99.79%
2008-2009	1,819,135	225,178	264,864	6,669,648	553,706	644,317	138,752	626,739	10,942,339	100.00%

Source: Arizona Department of Revenue

CITY OF SHOW LOW, ARIZONA

Taxable Retail Sales, City Transaction Privilege (Sales) Tax Rates by Category

Last Ten Fiscal Years

(modified accrual basis of accounting)

TAXABLE SALES (1)

City of Show Low (1)

Fiscal Year	Amount
1999-2000	\$ 311,340,189
2000-2001	323,224,715
2001-2002	330,862,950
2002-2003	344,122,700
2003-2004	384,277,800
2004-2005	427,244,550
2005-2006	496,247,922
2006-2007	548,247,700
2007-2008	547,117,050
2008-2009	451,930,450

Navajo County (1)

Taxable Retail Sales

Year	Amount
2000	\$ 556,907,867
2001	557,901,659
2002	578,071,060
2003	609,720,330
2004	615,673,414
2005	669,120,354
2006	756,087,523
2007	786,854,498
2008	818,594,217
2009	788,925,825

CITY TRANSACTION PRIVILEGE (SALES) TAX RATES BY CATEGORY (1)

Category	Rate
Services	2%
Manufacturing	2%
Construction	2%
Hotel\Other Lodging	2%
Restaurants and Bars	2%
Retail (including food sales)	2%
Transportation/Communications/	
Utilities	2%
Mining	1%
Feed-Wholesale	2%
Real Property Rental	2%
All other	2%

(1) Source: Arizona Department of Revenue, Econometrics Division; City of Show Low.

CITY OF SHOW LOW, ARIZONA
Actual Excise Tax Collections
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>Privilege & Use Tax</u>	<u>State Shared Sales Tax</u>	<u>Urban Revenue Share</u>	<u>Franchise Tax</u>	<u>Vehicle License Tax</u>	<u>Total</u>
2000	\$ 6,205,021	\$ 613,813	\$ 777,593	\$ 196,423	\$ 224,348	\$ 8,017,198
2001	6,445,786	637,044	811,933	195,055	269,195	8,359,013
2002	6,617,259	592,980	803,944	228,800	318,630	8,561,613
2003	6,882,454	601,809	808,564	218,654	421,988	8,933,469
2004	7,685,555	647,382	694,977	250,610	426,779	9,705,303
2005	8,544,891	712,867	715,536	283,449	440,379	10,697,122
2006	9,924,958	830,093	831,807	301,769	498,646	12,387,273
2007	10,964,955	939,542	1,029,042	349,826	590,144	13,873,509
2008	10,942,341	908,471	1,514,108	397,091	589,820	14,351,831
2009	9,180,835	786,482	1,459,297	416,309	560,171	12,403,093

Source: City of Show Low Finance Department

CITY OF SHOW LOW, ARIZONA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities							Business-Type Activities				Total Primary Government
	Special Assessment Bonds	Landfill Monitoring Costs	Compensated Absences	Show Low Bluffs CFD Bonds	Certificates of Participation	GADA Bonds	Loans Payable	Certificates of Participation	Compensated Absences	GADA Bonds	Loans Payable	
2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2001	-	-	-	-	-	-	-	-	-	-	-	-
2002	9,905,000	26,988	48,349	-	3,622,796	-	1,133,668	3,262,204	37,933	-	231,422	18,268,360
2003	9,310,000	26,988	216,809	-	3,167,142	-	758,169	2,992,858	29,129	-	177,533	16,678,628
2004	8,665,000	26,988	216,161	-	2,776,424	-	304,021	2,623,576	47,683	-	351,688	15,011,541
2005	8,045,000	26,988	312,371	-	2,367,740	-	238,608	2,237,260	51,351	-	380,504	13,659,822
2006	7,445,000	26,988	328,060	-	1,941,090	-	126,259	1,833,910	55,155	-	102,551	11,859,013
2007	6,775,000	26,988	356,888	2,014,000	1,491,241	6,630,000	12,478	1,408,759	60,932	1,740,000	46,649	20,562,935
2008	6,770,000	26,988	411,707	2,455,000	1,018,193	9,600,000	9,875	961,807	89,816	1,740,000	-	23,083,386
2009	6,083,000	26,988	406,654	2,395,000	521,946	9,305,000	256,167	493,054	76,926	1,675,000	-	21,239,735

CITY OF SHOW LOW, ARIZONA
Computation of Direct and Overlapping Debt
June 30, 2009

Jurisdiction	Net Debt Outstanding	Percentage Applicable to the City of Show Low	Amount Applicable to the City of Show Low
Show Low School District #10 - 1997A	\$ 7,485,000	71.80%	\$ 5,374,230
Show Low School District #10 - 2003B	6,380,000	71.80%	4,580,840
			\$ 9,955,070

Source: Navajo County Finance Department

CITY OF SHOW LOW, ARIZONA
Debt Limitations and Computation of Legal Debt Margin

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 178,635,620	\$ 178,635,620
Total assessed value	<u>\$ 178,635,620</u>	<u>\$ 178,635,620</u>
Legal debt margin:		
Debt limitation	\$ 35,727,124	\$ 10,718,137
Debt applicable to limitation:		
Total bonded debt	-	-
Total debt applicable to limitation	-	-
Legal debt margin	<u>\$ 35,727,124</u>	<u>\$ 10,718,137</u>

CITY OF SHOW LOW, ARIZONA
Building Permits and New Housing Starts
Last Ten Fiscal Years (unaudited)

Year	BUILDING PERMITS (1)			NEW HOUSING STARTS (1)
	Residential	Commercial	Total	
1999-00	\$ 15,455,181	\$ 3,467,062	\$ 18,922,243	126
2000-01	12,061,427	2,490,735	14,552,162	102
2001-02	17,720,298	1,865,025	19,585,323	133
2002-03	24,283,620	6,053,793	30,337,413	197
2003-04	35,182,390	4,968,208	40,150,598	275
2004-05	51,129,536	5,272,341	56,401,877	310
2005-06	71,314,455	10,525,607	81,840,062	406
2006-07	52,835,280	34,688,175	87,523,455	268
2007-08	46,335,727	9,905,825	56,241,552	202
2008-09	10,467,757	6,731,048	17,198,805	44

(1) Source: City of Show Low Building Department

CITY OF SHOW LOW, ARIZONA

Demographic Statistics - Population Statistics, Unemployment Averages

POPULATION STATISTICS (1)

Year	City of Show Low
2000 (Census)	7,695
2001 (Estimated)	8,084
2002 (Estimated)	8,557
2003 (Estimated)	8,785
2004 (Estimated)	9,365
2005 (Estimated)	9,786
2006 (Estimated)	9,885
2007 (Estimated)	10,555
2008 (Estimated)	11,473
2009 (Estimated)	12,400

UNEMPLOYMENT AVERAGES (2)

Year	City of Show Low	Navajo County	State of Arizona
2000	3.5%	4.7%	4.0%
2001	3.7%	7.7%	4.7%
2002	4.1%	8.4%	6.0%
2003	4.1%	8.5%	5.7%
2004	4.0%	8.4%	4.8%
2005	3.8%	8.5%	4.7%
2006	3.5%	7.3%	4.1%
2007	3.0%	6.4%	3.8%
2008	4.4%	9.2%	5.5%
2009	6.6%	13.4%	8.3%

(1) Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security.

(2) Source: Arizona Department of Economic Security, Research Administration.

CITY OF SHOW LOW, ARIZONA
Full Time Employees by Department
Last Ten Fiscal Years

	Full-time Equivalent Employees as of June 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Airport	5	5	5	6	5	5	5	5	5	5
Animal Control	2	2	2	2	2	2	2	2	2	2
Aquatic Center	4	4	4	3	5	3	2	2	2	2
City 4 TV	1	2	2	2	2	2	2	3	3	3
City Attorney	0	0	0	0	2	2	2	2	2	1
City Magistrate	3	3	3	2	2	2	2	3	2	2
City Manager	1	2	1	1	1	1	1	1	2	2
Communications	10	10	10	11	10	12	12	12	10	9
Community Development	9	9	9	8	10	11	11	11	1	1
Community Services Admin	1	1	1	1	1	1	1	1	8	8
Engineering	5	6	6	6	5	5	6	8	10	10
Finance	10	11	10	9	8	8	8	8	3	2
Human Resources	2	2	2	3	3	4	3	2	3	3
Information Systems	2	3	3	3	3	3	3	3	8	7
Library	6	7	8	9	8	8	7	6	3	3
Parks Maintenance									4	4
Facilities Maintenance	4	4	4	7	7	7	5	9	3	3
Parks & Recreation	2	2	2	2	2	3	3	2	31	31
Police	25	25	25	25	26	29	29	30	14	14
Public Information Services	2	3	3	3	2	2	3	3	4	3
Public Works Administration	5	4	4	3	4	4	3	3	3	3
Streets	9	9	9	6	10	10	10	9	9	9
Wastewater	0	0	0	10	10	9	9	9	11	11
Water	18	18	18	10	6	7	7	10	10	10
Total Employees	126	132	131	132	134	140	136	144	153	148

* Information not available

CITY OF SHOW LOW, ARIZONA
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Police										
Arrests	1,247	1,260	1,499	1,782	2,045	2,028	2,094	2,071	2,160	1,852
Citations	6,128	7,089	8,050	7,365	5,855	5,063	5,331	4,971	6,896	7,467
Traffic Stops	6,746	7,633	7,409	7,967	6,400	5,948	6,452	5,977	9,510	10,362
Officer Reports	3,176	3,197	3,468	3,856	4,190	4,036	4,116	3,929	4,164	3,735
Calls for Service	14,213	12,936	14,141	14,590	15,602	17,803	18,841	19,022	20,176	19,985
Highways & Streets										
Street resurfacing (miles)	*	*	*	*	*	*	12	15	15	27
Potholes repaired	*	*	*	*	*	*	214	258	312	359
Street sweeping (miles)	*	*	*	*	*	*	3,000	3,000	3,000	1,670
Water										
New Connections	*	*	*	*	*	*	463	273	150	36
Line Breaks	*	*	*	*	*	*	16	56	133	65
Average Daily Consumption	*	*	*	*	*	*	987,103	1,286,236	1,145,174	285,073
Wastewater										
Average Daily Sewage Treatment (thousands of gallons)	*	*	*	*	*	*	741,000	837,000	971,000	956,739
Line cleaning (feet)	*	*	*	*	*	*	303,996	325,600	340,000	204,033
Line Plugs	*	*	*	*	*	*	9	32	43	26
Recreation & Aquatics										
Aquatic center admissions	4,296	61,526	61,967	69,398	69,323	67,826	68,599	61,197	56,860	64,797

* Not available

CITY OF SHOW LOW, ARIZONA
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	14	14	14	15	15	15	15	15	20	23
Highways and streets										
Streets (miles)	*	*	*	*	*	*	92	95	96	97
Streetlights	*	*	*	*	*	*	625	650	665	675
Water										
Water mains (miles)	*	*	*	*	*	*	102	109	111	119
Fire hydrants	*	*	*	*	*	*	815	815	815	815
Maximum daily consumption (thousands of gallons)										
Sewer										
Sanitary Sewer (miles)	*	*	*	*	*	*	120	127	131	139
Maximum daily treatment capacity (thousands of gallons)	*	*	*	*	*	*	1,420	1,420	1,420	1,420
Recreation and aquatics										
Parks acreage	20	20	20	20	20	20	20	20	20	20
Number of Parks	9	9	9	9	9	9	9	9	9	9
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	2	2	2	2	2	2	2	2	2	2
Ball fields	3	3	3	3	3	3	3	3	3	3
Community centers	1	1	1	1	1	1	1	1	1	1

* Not available

FEDERAL AND STATE REPORTS



**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
 Show Low, Arizona

We have audited the basic financial statements of the City of Show Low, Arizona as of and for the year ended June 30, 2009, and have issued our report thereon dated October 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiencies described in the schedule of findings and recommendations dated October 24, 2009 to be significant deficiencies in internal control over financial reporting.

- 09-1 Year End Accounting
- 09-2 Segregation of Duties
- 09-3 Fraud Risk Management Program
- 09-4 Capital Asset Accounting

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

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the City in the schedule of findings and recommendations dated October 24, 2009.

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 parties. However, this report is a matter of public record and its distribution is not limited.



Michael K. Spilker, CPA
October 24, 2009



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

The Honorable Mayor and
 City Council
 Show Low, Arizona

We have audited the basic financial statements of the City of Show Low, Arizona for the year ended June 30, 2009, and have issued our report thereon dated October 24, 2009. Our audit also included test work on the City of Show Low'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 Show Low 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 Show Low 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 Show Low 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 Show Low complied, in all material respects, with the requirements identified above for the year ended June 30, 2009.

Michael K. Spilker, CPA
 October 24, 2009

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CITY OF SHOW LOW, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Passed through Arizona Department of Lands:			
Cooperative Forestry Assistance	10.664	CCC 08-003 and SFA 5-3	\$ 62,375
U.S. Department of Transportation			
Passed through Arizona Department of Transportation:			
Airport Improvement Program	20.106	3-04-0035-15	60,081
Airport Improvement Program	20.106	3-04-0035-16	18,325
Airport Improvement Program	20.106	3-04-0035-17	14,358
Airport Improvement Program	20.106	3-04-0035-18	54,671
			<u>147,435</u>
Section 18	20.509	AZ-18-0023	167,987
Section 18	20.509	AZ-18-0024	8,813
Section 18	20.509	AZ-18-0025	38,802
Section 18	20.509	AZ-18-0026	134,951
Section 18	20.509	AZ-18-0027	198,593
			<u>549,146</u>
Passed through Governor's Office of Highway Safety:			
State and Community Highway Safety	20.600	2008-OP-010	3,588
State and Community Highway Safety	20.600	2009-OP-023	8,859
State and Community Highway Safety	20.600	2009-OP-0228	4,414
			<u>16,861</u>
Total U.S. Department of Transportation			<u>713,442</u>
U.S. Department of Homeland Security			
Passed through Arizona Division of Emergency Management:			
Homeland Security Grant	97.067	444112-01	57,000
Homeland Security Grant	97.067	444112-02	81,700
Homeland Security Grant	97.067	444112-03	77,455
Homeland Security Grant	97.067	2007-GE-T7-006	24,993
			<u>241,148</u>
Law Enforcement Officer Grant	97.090	HSTS0208HSLR349	19,870
Total U.S. Department of Homeland Security			<u>261,018</u>
Total expenditure of federal awards			<u>\$ 1,036,835</u>

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

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**Report on Compliance with Requirements
 Applicable to Each Major Program
 and on Internal Control over Compliance
 in Accordance with OMB Circular A-133**

The Honorable Mayor and
 City Council
 Show Low, Arizona

Compliance

We have audited the compliance of the City of Show Low, Arizona, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Show Low, Arizona’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Show Low, Arizona’s management. Our responsibility is to express an opinion on the City of Show Low, Arizona’s compliance based on our audit.

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

In our opinion, the City of Show Low, Arizona, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Show Low, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Show Low, Arizona’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Show Low, Arizona’s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

We did not audit the City of Show Low, Arizona's response to the findings identified in our audit and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Michael K. Spilker, CPA
October 24, 2009

CITY OF SHOW LOW, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

- Material weakness (es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

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

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

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other than Urbanized Areas
97.067	Homeland Security Grant Program

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

Auditee qualified as low-risk auditee? yes no

CITY OF SHOW LOW, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II - Financial Statement Findings

Significant Deficiencies:

09-01. Year End Accounting

Finding

During our audit, we noted a few significant accounting adjustments that were not initially identified by the City's internal control. Statement on Auditing Standards No. 112 (SAS 112) indicates that the identification by the auditor of such a misstatement in the financial statements may be a material weakness in the City's internal controls. Overall management has done a good job at reconciling accounts and getting journal entries posted in a timely manner. Nevertheless, current audit standards require that we report audit adjustments as a deficiency. Due to the nature of the misstatements listed above and the response by management, we do not consider this control deficiency to be a material weakness.

Recommendation

Management has reviewed the journal entries and has discussed them with us to ensure that the City agrees with the entries, and understands the purpose and underlying accounting principals associated with each entry. We recommend that management continue to follow procedures to reduce the number of entries again for next year.

Response

The City will strive to reduce the number of audit adjustments in future years. Our goal is to have no audit adjustments, which may take several years to accomplish.

09-02. Segregation of Duties

Finding

The City lacks a complete segregation of duties in various areas. The same individual who reconciles the bank accounts also has signing authority on checks, posts the direct deposit request report to the bank and records journal entries in the general ledger. The City utilizes Posi-Pay for notification of unauthorized checks, but the individual uploading approved checks has signing authority and reconciles the bank accounts. At the airport, the same individual prepares invoices, receipts the payments and records transactions in the accounting software. At the court, the same individual receives cash receipts, records transactions in the accounting software and reconciles the court bank account. Other mitigating controls such as purchase orders, financial statement and

CITY OF SHOW LOW, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II - Financial Statement Findings, Continued

budget to actual report reviews by department heads and the council, review of airport sales reports and court Aztec software report reviews mitigate this weakness such that it is not deemed to be a material weakness. We choose to mention proper segregation in order to remind management of its importance until such time as the City can fully segregate custody of assets and recording functions. Proper segregation of duties provides important safeguards and controls to ensure the proper accounting, deposit and disposition of the City's funds.

Recommendation

The Council and management should consider ways that segregation of duties can be achieved within the accounting and administrative functions as the City continues to grow and additional staff are considered necessary. The City should consider having someone independent of the above mentioned accounting functions review and initial the bank reconciliations on a monthly or quarterly basis and consider implementation of other mitigating controls.

Response

The City realizes the need for a greater segregation of duties in certain areas of the City. The ideal solution would require additional staffing. Due to the economic conditions and the budgetary concerns, adding staff would not be prudent at this time. Management will consider implementation of other actions to obtain greater segregation of duties.

09-3. Fraud Risk Management Program

The City has apparently not formally developed a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Recommendations

We recommend that the City formally develop and adopt a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Response

The City is currently reviewing fraud risk management programs from other municipalities. After developing a program for the City, the City Council will be asked to approve the fraud risk management program by formal resolution.

CITY OF SHOW LOW, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II - Financial Statement Findings, Continued

09-4. Capital Asset Accounting

Overall the City did a good job accounting for capital assets and maintaining the capital asset schedules; however, the capital asset management software was inefficient and the schedules did not reconcile to the prior year audited financial statement and/or the general ledger. Many of the differences were related to construction in progress. We noted that there may be some studies that are currently capitalized as CIP that may not be capitalizable projects. We also noted that not all capital assets have been tagged.

Recommendations

We recommend that the City consider the benefits of replacing the existing capital asset management software and at a minimum, we recommend that construction in progress items not be accounted for in the capital asset management software but be maintained in a separate schedule until placed in service. We recommend that management consider tagging capital assets in order to facilitate inventories and to improve controls over safeguarding the City's assets.

Response

The City schedules a physical inventory of all Capital Assets every three years. Spring of 2010 is the next scheduled physical inventory of Capital Assets. Adjustments will be made in the Asset Management module, as well as the General Ledger module of the accounting software, to match the physical inventory.

Section III - Federal Award Findings and Questioned Costs

No significant matters were noted.

CITY OF SHOW LOW, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section IV – Summary of Prior Year Findings and Questioned Costs

Finding 08-3 Performance of tests to verify that program income is properly determined and recorded in the accounting records.

CFDA number: 20.509

Program: Formula Grants for Other than Urbanized Areas

Agency: U.S. Department of Transportation

Questioned Costs: N/A

Status: Resolved