

*City of Show Low, Arizona
Comprehensive Annual Financial Report*



*Year-ended June 30, 2012
With Report of Certified Public Accountants*

City of Show Low, Arizona
Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2012



With Report of Certified Public Accountants

Prepared by City Staff

Doug Sandstrom, Administrative Services Director
Ray Herbel, Accounting Manager

CITY OF SHOW LOW, ARIZONA

Table of Contents

Introductory Section:	<u>Page</u>
Letter of Transmittal.....	i
GFOA Certificate of Achievement.....	iv
List of Principal Official’s.....	v
Organizational Chart	vi
 Financial Section:	
Report of Certified Public Accountants	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balance	
To Net Position of Governmental Activities.....	17
Statement of Revenues, Expenditures, and Changes in	
Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes	
in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in	
Fund Balance – General Fund - Budget and Actual.....	21
Statement of Revenues, Expenditures, and Changes in	
Fund Balance – Highway User Revenue Fund - Budget and Actual	23
Statement of Revenues, Expenditures, and Changes in	
Fund Balance – Airport Special Revenue Fund - Budget and Actual	24
Statement of Net Position - Proprietary Funds.....	25
Statement of Revenues, Expenses and Changes	
in Net Position - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27
Statement of Fiduciary Net Position – Agency Fund	28
Notes to Financial Statements.....	29
Required Supplemental Information – Public Safety Retirement System	54
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget	
and Actual – Improvement District #5 Debt Service	56
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget	
and Actual – Improvement District #6 Debt Service	57
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget	
and Actual – Show Low Bluff Communities Facilities District.....	58
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	60
Combining Statement of Revenues, Expenditures and Changes in	
Fund Balances – Nonmajor Governmental Funds.....	62

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Local Transportation Assistance Fund.....	64
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Street Lighting District Fund	65
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Public Transportation Fund.....	66
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Family Aquatic Center Fund.....	67
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Grants Fund.....	68
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Improvement District #7 Fund.....	69
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Other Debt Service Fund.....	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Open Spaces Impact Fee Fund.....	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Recreation Impact Fee Fund	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Parks Development Impact Fee Fund	73
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Library Development Impact Fee Fund	74
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Transportation Development Impact Fee Fund.....	75

Statistical Section:

Financial Trends	
Net Position by Component.....	77
Changes in Net Position.....	78
Fund Balances of Governmental Funds.....	80
Changes in Fund Balance of Governmental Funds.....	81
Revenue Capacity	
Principal Sales Tax Remitters.....	82
Taxable Retail Sales, City Transaction Privilege (Sales) Tax Rates by Category	83
Actual Excise Tax Collections.....	84
Sales Tax Revenues	85
Assessed, Limited and Full Cash Value of Taxable Property.....	86
Property Tax Rates – Direct and Overlapping Governments.....	87
Street Lighting Levies and Collections.....	88
Special Assessment Billings and Collections	89
Debt Capacity	
Ratios of Outstanding Debt by Type	90
Ratios of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	91
Direct and Overlapping Governmental Activities Debt.....	92
Debt Limitations and Computation of Legal Debt Margin.....	93
Schedule of Water and Wastewater Revenue Bond Coverage	94
Pledged Revenue Coverage	95
Demographic and Economic Information	
Demographic Statistics, Population Statistics, Unemployment Averages.....	96
Principal Employers.....	97
Authorized Full Time Employee by Department.....	98

Operating Information	
Operating Indicators by Function	99
Building Permits and New Housing Starts	100
Capital Asset Statistics by Function	101

Federal and State Reports:

Report on Compliance with Federal Laws and Regulations and Internal Control Structure	105
Report on Compliance with State Laws and Regulations	107
Schedule of Expenditures of Federal Awards	109
Report on Compliance Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	111
Summary of Auditors' Results	113
Financial Statement Findings	114
Federal Award Findings and Questioned Costs	115
Summary of Prior Year Findings and Questioned Costs.....	115



City of Show Low

Administrative Services Department

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www.showlowaz.gov

November 28, 2012

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, 2012, 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 11,100, 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 65.0 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

Along with the rest of the state and nation, the City has experienced a slowed economic environment, and local indicators point to very slow growth during 2013. The City serves as a regional trade and services center for the southern part of Navajo County and a portion of Apache County, as such retail sales tax collections have rebounded. Tourism and recreation also contribute to the City's economy, with many recreational opportunities in the White Mountains area. Attractions include fishing, camping, hiking, 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, but not service expansion.

On March 13, 2012, 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 2013-2016). Management generally has the ability to transfer funds within a department and within a fund. Transfers between funds require City Council approval.

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 financial statement footnote 11 on page 51 for the restricted reserve balance. In addition to this one million dollar reserve the Council has directed that an additional one million dollars also be maintained in 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 1.65% for fiscal year 2011-12.

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 also covered by the Arizona Risk Retention Pool for worker's compensation. 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,



Doug Sandstrom
Administrative Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Show Low
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

CITY OF SHOW LOW OFFICIALS

MAYOR

Daryl Seymore

CITY COUNCIL

John Leech Jr., Vice Mayor

Michael Allsop

Gene Kelley

Connie Kakavas

Rennie Crittenden

Gerry Whipple

CITY MANAGER AND STAFF

Ed Muder, City Manager

Joel Weeks, Community Services Director

Doug Sandstrom, Administrative Services Director

Ray Herbel, Accounting Manager

Justen Tregaskes, Planning and Zoning Director

Morgan Brown, City Attorney

Ann Kurasaki, City Clerk

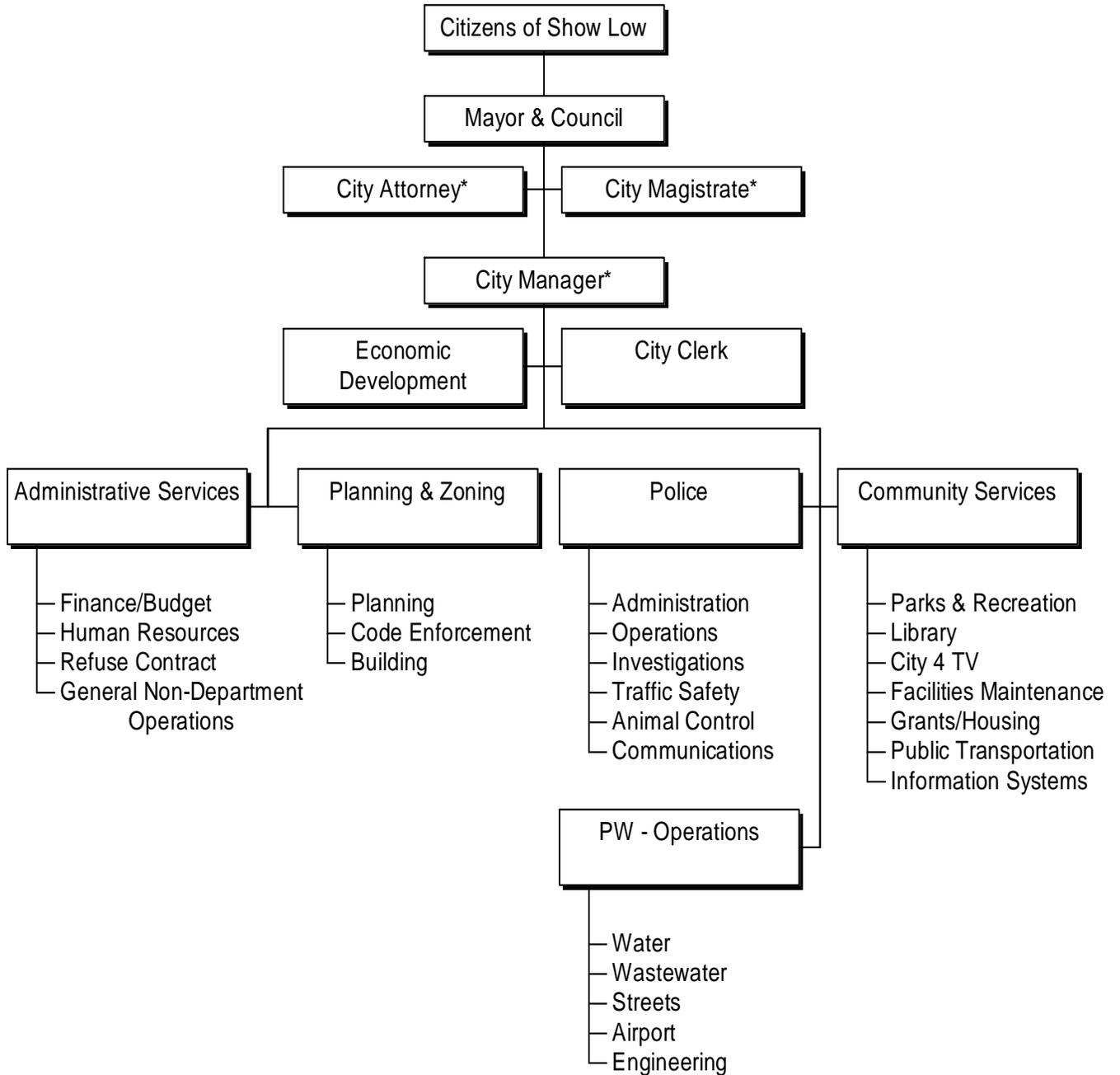
Jeffrey Smythe, Police Chief

Bill Kopp, Public Works Director



City of Show Low, Arizona

Organizational Chart



*Appointed by Council

FINANCIAL SECTION

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Show Low's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund, Highway User Revenue Fund, and Airport 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 November 28, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the public safety retirement system information on pages 3 through 10 and page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



HintonBurdick, PLLC

November 28, 2012

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

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, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- City Sales tax revenue continues to rise for the second year after three years of decline, collections rose by 5.74% over last year and remains the single largest revenue in the budget. This trend is similar to that being seen across the state and nation as the economy begins to improve. Although overall sales tax revenue has decreased by 19.2% since FY2007, retail sales tax revenue has nearly rebounded to FY2007 levels.
- At year end the City had completed the purchase of one private water company and was finalizing the purchase of two more. The acquisition of these three systems adds approximately 2,500 customers to our water system. These acquisitions position the City to be the water provider for approximately 99% of all city residents.
- The City approved a conservative budget for fiscal year 2012, as such monthly financial reviews showed that no programmatic adjustments were not needed during the year, overall results for the year ending June 30, 2012 were within management's revised 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 Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

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

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

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

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

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

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 Position 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 Position 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 Position. 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 position may serve over time as a useful indicator of the City’s financial position. The City’s combined assets exceed liabilities by \$118.4 million as of June 30, 2012 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer and refuse operations in enterprise funds which are shown as Business Activities.

**City of Show Low
Statement of Net Position**

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 18,269,777	\$ 17,047,870	\$ 11,197,068	\$ 10,079,957	\$ 29,466,845	\$ 27,127,827
Capital assets	66,751,897	67,096,224	46,516,049	46,701,206	113,267,946	113,797,430
Total assets	<u>85,021,674</u>	<u>84,144,094</u>	<u>57,713,117</u>	<u>56,781,163</u>	<u>142,734,791</u>	<u>140,925,257</u>
Long-term liabilities outstanding	18,187,268	17,815,986	3,336,133	2,440,566	21,523,401	20,256,552
Other liabilities	1,976,449	1,690,898	668,981	570,609	2,645,430	2,261,507
Total liabilities	<u>20,163,717</u>	<u>19,506,884</u>	<u>4,005,114</u>	<u>3,011,175</u>	<u>24,168,831</u>	<u>22,518,059</u>
Net position:						
Net investment in capital assets	49,319,010	49,802,236	43,255,726	44,340,440	92,574,736	94,142,676
Restricted	2,741,846	1,793,086	4,630,387	1,470,312	7,372,233	3,263,398
Unrestricted	12,797,101	13,041,888	5,821,890	7,959,236	18,618,991	21,001,124
Total net position	<u>\$ 64,857,957</u>	<u>\$ 64,637,210</u>	<u>\$ 53,708,003</u>	<u>\$ 53,769,988</u>	<u>\$ 118,565,960</u>	<u>\$ 118,407,198</u>

Governmental Activities

The City has \$142,734,845 in total assets, with \$113,267,946 in capital assets (net of depreciation). Funds included in the Business-type activities column are the City's enterprise funds operation, which are Wastewater, Water, and Refuse. 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.

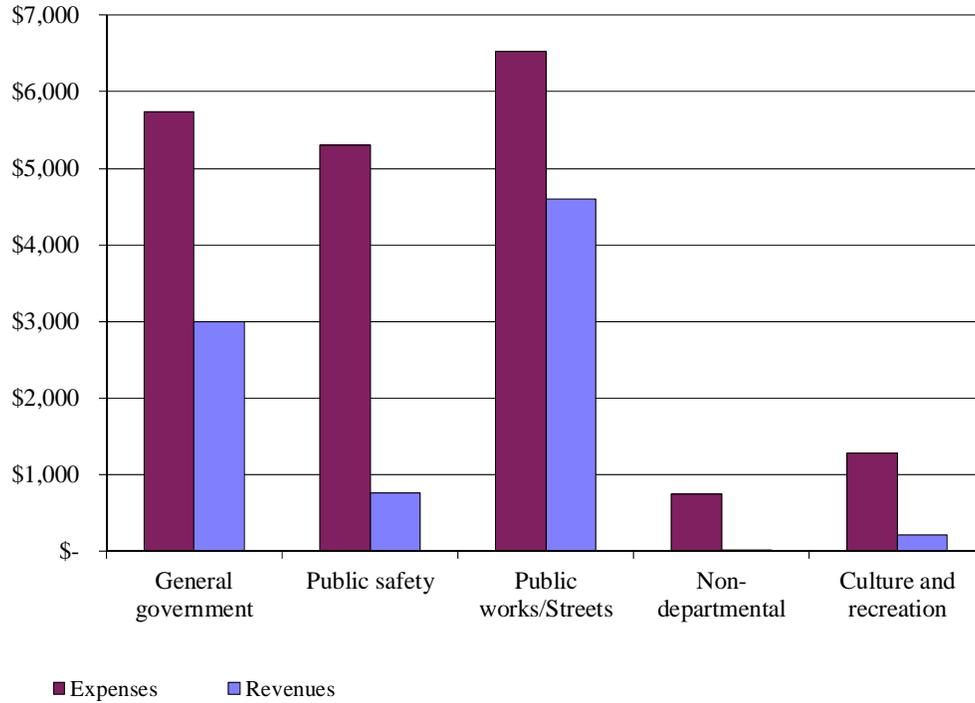
**City of Show Low
Changes in Net Position**

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 5,057,635	\$ 4,360,170	\$ 5,804,830	\$ 4,902,099	\$ 10,862,465	\$ 9,262,269
Operating grants and contributions	1,997,735	2,972,526	-	-	1,997,735	2,972,526
Capital grants and contributions	1,539,014	824,743	242,189	236,198	1,781,203	1,060,941
General revenues:						
Taxes	10,736,890	10,525,867	-	-	10,736,890	10,525,867
Urban revenue sharing	915,474	956,935	-	-	915,474	956,935
Other revenue/(expense)	137,663	113,005	73,926	136,625	211,589	249,630
Total revenues	<u>20,384,411</u>	<u>19,753,246</u>	<u>6,120,945</u>	<u>5,274,922</u>	<u>26,505,356</u>	<u>25,028,168</u>
Expenses:						
General government	5,738,988	4,426,519	-	-	5,738,988	4,426,519
Public safety	5,301,285	5,301,924	-	-	5,301,285	5,301,924
Public works/Streets	6,529,143	6,550,314	-	-	6,529,143	6,550,314
Economic development	745,924	623,313	-	-	745,924	623,313
Culture and recreation	1,281,887	1,463,546	-	-	1,281,887	1,463,546
Interest on long-term debt	860,185	975,981	-	-	860,185	975,981
Water	-	-	2,534,172	2,255,641	2,534,172	2,255,641
Wastewater	-	-	2,458,078	2,233,567	2,458,078	2,233,567
Refuse	-	-	896,932	675,893	896,932	675,893
Total expenses	<u>20,457,412</u>	<u>19,341,597</u>	<u>5,889,182</u>	<u>5,165,101</u>	<u>26,346,594</u>	<u>24,506,698</u>
Increase (Decrease) in net position before transfers	(73,001)	411,649	231,763	109,821	158,762	521,470
Transfers	293,748	195,000	(293,748)	(195,000)	-	-
Increase (Decrease) in net position	220,747	606,649	(61,985)	(85,179)	158,762	521,470
Net position, beginning	64,637,210	64,030,561	53,769,988	53,855,167	118,407,198	117,885,728
Net position, ending	<u>\$ 64,857,957</u>	<u>\$ 64,637,210</u>	<u>\$ 53,708,003</u>	<u>\$ 53,769,988</u>	<u>\$ 118,565,960</u>	<u>\$ 118,407,198</u>

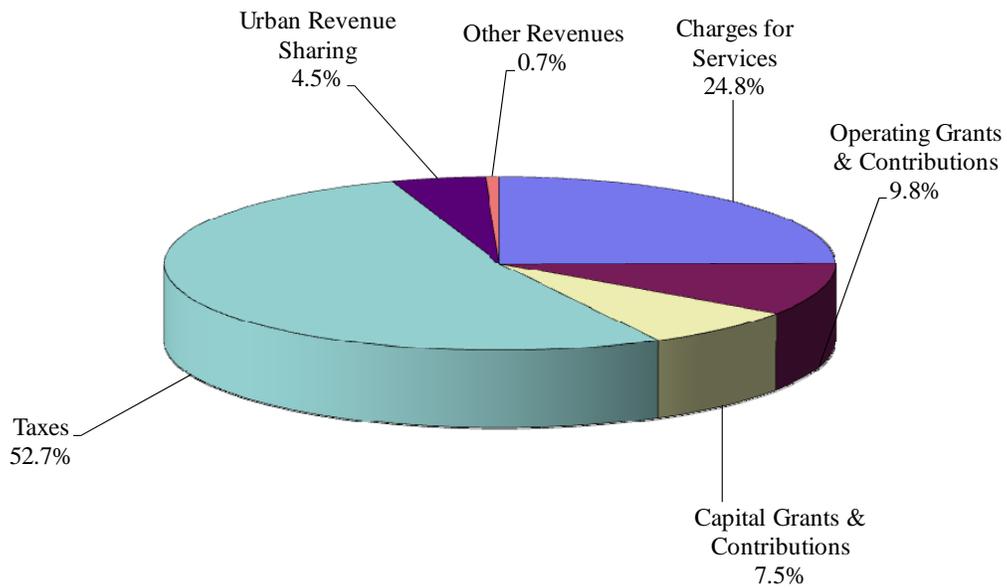
Total resources available during the year to finance governmental operations were \$85.0 million consisting of Net Position at July 1, 2011 of \$64.6 million, program revenues of \$8.6 million and General Revenues of \$11.8 million. Total Governmental Activities during the year were \$20.5 million; thus Governmental Net Position was increased by \$220,747 to \$64.9 million.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



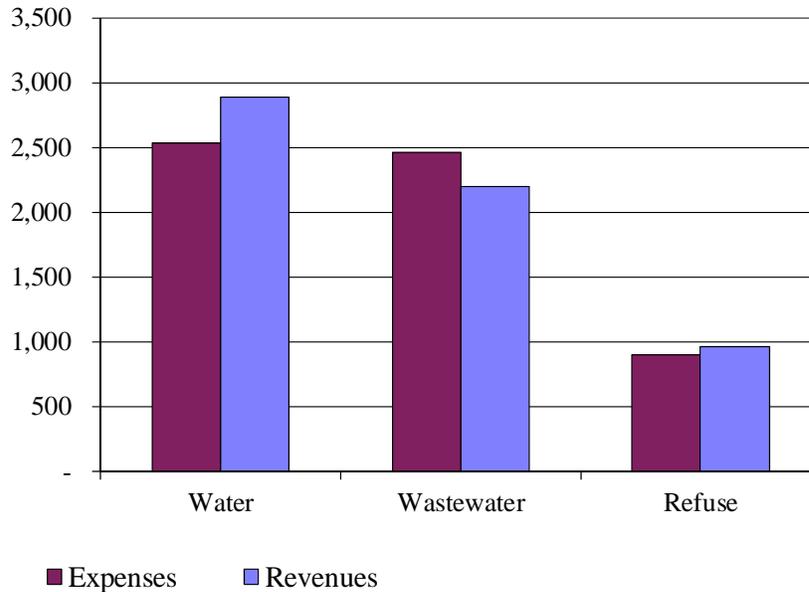
Revenue By Source - Governmental Activities



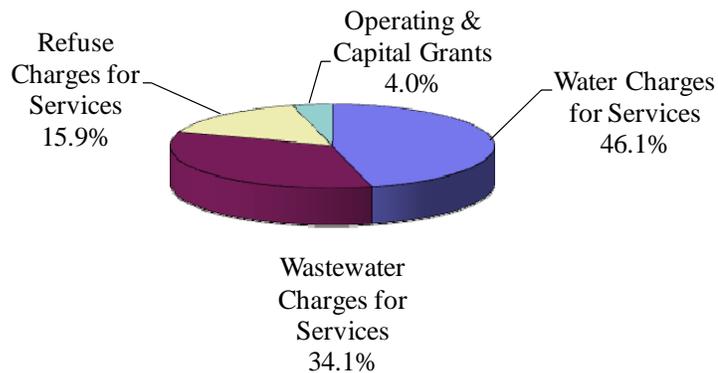
Business Type Activities

Net Position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position was \$53.7 million. The cost of providing all Proprietary (Business Type) activities this year was \$5.9 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$5.8 million and there was \$242,189 subsidized by capital grants and contributions. Interest earnings and other revenues were \$73,926. The Net Position decreased by \$61,985.

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 \$11,125,886, an increase of \$1,903,583 in comparison with the prior year. Approximately, 82% of this total amount, \$4,975,549 constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is non-spendable, restricted, committed or assigned in accordance with GASB 54.

The general fund is the chief operating fund of the City of Show Low. At the end of the current fiscal year, unassigned fund balance in the general fund was \$4,992,131, while total fund balance is \$5,143,226. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). Unassigned fund balance represents 35.5% of total general fund expenditures, while total fund balance represents 36.6% of the same amount.

During the year, the City of Show Low's general fund balance decreased by \$73,570. Key factors in this stabilization are as follows:

- Transfers to other major and non-major funds.
- Completion of Large Capital Improvement Projects
- Increasing revenue collections

The Highway User Revenue Fund has a total fund balance of \$1,760,601, all of which is assigned to road and street construction and improvements. The net increase in the fund balance during the current year was \$557,634 representing transfers from the general fund for the city's portion of several federally funded street projects which will be completed in future fiscal years.

The Airport Fund has a total fund balance of \$177,936 made up entirely of jet fuel inventory and pre-paid insurance. An unassigned fund balance of (\$1,253) offsets this inventory amount slightly.

Improvement District #5 is a debt service fund. The fund balance of this fund decreased by \$65,024 primarily due to the early receipt of principal and interest payments in prior years, thus decreasing collections in the current year.

Improvement District #6 is a debt service fund. The fund balance of this fund increased by \$8,463 primarily due to interest earnings on existing fund balance and assessed fines.

The Show Low Bluff Communities Facilities District debt service fund experienced a \$340,802 change in fund balance for 2012 primarily due to the District cashing a \$300,000 letter of credit due to the inability of the developer to renew the letter of credit. As this letter of credit was to protect the District against future revenue shortfalls, there are no restrictions on its use by the District. The additional increase is due to receipts of property taxes, principal and interest payments exceeding the debt service obligations.

General Fund Budgetary Highlights

Tax revenues have a positive variance of \$799,352 mainly due to stronger than budgeted sales tax collections. Intergovernmental revenues also have a positive variance due to the City's practice of budgeting 95% of the estimates provided by the state. Fines and forfeitures are \$119,308 less than budgeted due to reduced photo enforcement fines. Photo enforcement fine revenue pays for the City's traffic safety program which was reduced by the same amount.

On the expenditure side, the City Council Actual was less than budgeted due to little use of council contingencies which makes up the majority of the council budget. Community Services Administration contained a budget for a program that was never implemented. The non-departmental/economic development budget also contains two contingency line items for development opportunity incentives and for liability deductibles. As contingency accounts there is a high likelihood that these funds are not spent year to year. All other differences between the original budget and the final amended budget were not very significant representing savings in personnel related expenses, minor modifications in costs, program priorities or unfinished capital projects to be carried forward.

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 2012, net capital assets of the government activities totaled \$66.8 million and the net capital assets of the business-type activities totaled \$46.5 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 \$18.2 million in governmental type debt, and \$3.4 million in proprietary debt. The debt is a liability of the government and amounts to approximately \$1,880 per capita. During the current fiscal year, the City's total debt increased by \$1.2 million. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City of Show Low is experiencing slow economic growth due to the regional, state and national recession. As a result, the City has in past years reduced expenditures in order to match lowered 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 Administrative Services Director, City of Show Low, 180 North 9th Street, Suite B, Show Low, Arizona 85901. dsandstrom@showlowaz.gov

BASIC FINANCIAL STATEMENTS

CITY OF SHOW LOW, ARIZONA
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,512,060	\$ 5,328,967	\$ 12,841,027
Receivables (net of allowance)	6,686,511	835,139	7,521,650
Prepaid items/Inventory	984,351	245,533	1,229,884
Deferred charges	-	75,810	75,810
Temporarily restricted assets:			
Cash and cash equivalents	3,086,855	4,711,619	7,798,474
Capital assets (net of accumulated depreciation):			
Land	5,446,315	1,199,833	6,646,148
Buildings	11,084,898	51,161	11,136,059
Improvements	6,008,544	-	6,008,544
System improvements	-	42,394,060	42,394,060
Machinery and equipment	2,113,038	1,458,379	3,571,417
Vehicles	1,283,512	141,930	1,425,442
Infrastructure/Roads	36,720,053	-	36,720,053
Construction in progress	4,095,537	1,270,686	5,366,223
Total assets	<u>85,021,674</u>	<u>57,713,117</u>	<u>142,734,791</u>
Liabilities			
Accounts payable and other current liabilities	1,739,610	623,116	2,362,726
Interest payable	236,839	45,865	282,704
Noncurrent liabilities:			
Due within one year	2,560,280	150,026	2,710,306
Due in more than one year	15,626,988	3,186,107	18,813,095
Total liabilities	<u>20,163,717</u>	<u>4,005,114</u>	<u>24,168,831</u>
Net Position			
Net investment in capital assets	49,319,010	43,255,726	92,574,736
Restricted for:			
Highways and streets	871,590	-	871,590
Debt service	1,728,434	-	1,728,434
Capital projects and other	141,822	4,630,387	4,772,209
Unrestricted	12,797,101	5,821,890	18,618,991
Total net position	<u>\$ 64,857,957</u>	<u>\$ 53,708,003</u>	<u>\$ 118,565,960</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 5,738,988	\$ 2,964,534	\$ 29,933	\$ 4,073	\$ (2,740,448)	\$ -	\$ (2,740,448)
Public safety	5,301,285	245,116	311,896	203,510	(4,540,763)	-	(4,540,763)
Public works/Streets	6,529,143	1,640,274	1,645,280	1,318,479	(1,925,110)	-	(1,925,110)
Non-departmental	745,924	10,084	-	-	(735,840)	-	(735,840)
Culture and recreation	1,281,887	197,627	10,626	12,952	(1,060,682)	-	(1,060,682)
Interest on long-term debt	860,185	-	-	-	(860,185)	-	(860,185)
Total governmental activities	20,457,412	5,057,635	1,997,735	1,539,014	(11,863,028)	-	(11,863,028)
Business-type activities:							
Water	2,534,172	2,785,093	-	106,767	-	357,688	357,688
Wastewater	2,458,078	2,060,450	-	135,422	-	(262,206)	(262,206)
Refuse	896,932	959,287	-	-	-	62,355	62,355
Total business-type activities	5,889,182	5,804,830	-	242,189	-	157,837	157,837
Total primary government	\$ 26,346,594	\$ 10,862,465	\$ 1,997,735	\$ 1,781,203			
General Revenues:							
Taxes:							
City sales tax					8,779,526	-	8,779,526
Franchise tax					429,826	-	429,826
Property tax					142,745	-	142,745
Auto lieu tax (unrestricted)					551,817	-	551,817
State sales tax (unrestricted)					832,976	-	832,976
Urban revenue sharing (unrestricted)					915,474	-	915,474
Unrestricted investment earnings					137,663	271,780	409,443
Gain (loss) on sale of capital assets					-	(197,854)	(197,854)
Transfers					293,748	(293,748)	-
Total general revenues & transfers					12,083,775	(219,822)	11,863,953
Change in net position					220,747	(61,985)	158,762
Net position - beginning					64,637,210	53,769,988	118,407,198
Net position - ending					\$ 64,857,957	\$ 53,708,003	\$ 118,565,960

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

CITY OF SHOW LOW, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

Assets	General	Special Revenue		Debt Service	
		Highway User Revenue Fund	Airport	Improvement District #5	Improvement District #6
Cash and cash equivalents	\$ 4,955,100	\$ 1,691,449	\$ -	\$ -	\$ -
Receivables:					
Taxes	1,159,302	-	-	-	-
Interest	42,702	-	-	5,148	8,849
Other	76,090	-	-	-	-
Assessments	-	-	-	979,268	1,784,743
Intergovernmental	69,349	109,980	55,357	-	-
Due from other funds	23,970	-	-	-	-
Inventories	-	-	57,993	-	-
Prepaid items	31,408	-	121,196	-	-
Restricted cash and investments	76,980	-	-	172,106	484,854
Total assets	\$ 6,434,901	\$ 1,801,429	\$ 234,546	\$ 1,156,522	\$ 2,278,446
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 201,499	\$ 25,732	\$ 11,864	\$ -	\$ -
Accrued wages and benefits	331,658	15,096	4,139	-	-
Accrued liabilities	116,629	-	16,637	-	-
Deposits held	641,889	-	-	-	-
Deferred revenue	-	-	-	969,024	1,769,798
Due to other funds	-	-	23,970	-	-
Total liabilities	1,291,675	40,828	56,610	969,024	1,769,798
Fund Balances:					
Nonspendable:					
Inventories and prepaids	31,408	-	179,189	-	-
Restricted for:					
Public safety	-	-	-	-	-
Public works/streets	-	-	-	-	-
Non-departmental	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Debt service	76,980	-	-	187,498	508,648
Committed to:					
Cemetery	42,707	-	-	-	-
Public transportation	-	-	-	-	-
Assigned to:					
Public works/streets	-	1,760,601	-	-	-
Unassigned	4,992,131	-	(1,253)	-	-
Total fund balances	5,143,226	1,760,601	177,936	187,498	508,648
Total Liabilities and fund balances	\$ 6,434,901	\$ 1,801,429	\$ 234,546	\$ 1,156,522	\$ 2,278,446

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

Show Low Bluff Communities Facilities District	Non-major Funds	Total Governmental Funds
\$ 36,804	\$ 190,055	\$ 6,873,408
82,686	3,012	1,245,000
7,291	1,260	65,250
18,522	-	94,612
1,696,260	281,994	4,742,265
-	295,358	530,044
-	-	23,970
-	-	57,993
-	773,754	926,358
750,627	1,602,288	3,086,855
<u>\$ 2,592,190</u>	<u>\$ 3,147,721</u>	<u>\$ 17,645,755</u>
\$ 46	\$ 286,338	\$ 525,479
-	7,995	358,888
-	-	133,266
-	-	641,889
1,783,411	314,144	4,836,377
-	-	23,970
<u>1,783,457</u>	<u>608,477</u>	<u>6,519,869</u>
-	773,754	984,351
-	59,486	59,486
-	203,486	203,486
-	138,680	138,680
-	984,793	984,793
808,733	223,555	1,805,414
-	-	42,707
-	170,819	170,819
-	-	1,760,601
-	(15,329)	4,975,549
<u>808,733</u>	<u>2,539,244</u>	<u>11,125,886</u>
<u>\$ 2,592,190</u>	<u>\$ 3,147,721</u>	<u>\$ 17,645,755</u>

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

Total governmental fund balances	\$	11,125,886
<p>Amounts reported for governmental activities in the statement of net position 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	\$ 97,331,791	
Less accumulated depreciation	<u>(30,579,894)</u>	66,751,897
<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	\$ (9,255,000)	
Bonds payable	(885,000)	
Special assessment bonds	(5,562,000)	
Landfill monitoring costs	(26,988)	
Leases payable	(1,703,899)	
Compensated absences	<u>(754,381)</u>	(18,187,268)
<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>		
		(236,839)
<p>Assessment revenues are deferred in the governmental fund financial statements but recognized when earned in the statement of activities</p>		
		4,836,377
<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>567,904</u>
Total net position of governmental activities	\$	<u><u>64,857,957</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, 2012

REVENUES	General	Special Revenue		Debt Service	
		Highway User Revenue Fund	Airport	Improvement District #5	Improvement District #6
Taxes	\$ 9,209,352	\$ -	\$ -	\$ -	\$ -
Licenses, permits and fees	144,466	-	-	-	-
Intergovernmental revenue	2,670,518	1,069,192	477,623	-	-
Charges for services	306,634	-	1,261,130	-	-
Fines and forfeitures	701,592	-	-	9,903	5,611
Interest	82,189	19,707	364	3,430	7,997
Impact fees	-	-	-	-	-
Special assessments	-	-	-	479,928	480,618
Other revenues	227,586	4,242	11,080	-	-
Total revenues	13,342,337	1,093,141	1,750,197	493,261	494,226
EXPENDITURES					
Current:					
General government	2,616,281	-	-	-	3,489
Public safety	4,800,917	-	-	-	-
Public works/Streets	1,253,671	901,446	1,228,812	-	-
Non-departmental	986,957	-	-	-	-
Culture and recreation	725,975	-	-	-	-
Capital outlay	-	1,065,608	632,770	-	-
Debt service					
Principal	-	-	75,000	450,000	325,000
Interest and fiscal charges	-	-	71,400	98,285	147,274
Total expenditures	10,383,801	1,967,054	2,007,982	548,285	475,763
Excess of revenues					
Over (Under) Expenditures	2,958,536	(873,913)	(257,785)	(55,024)	18,463
Other Financing Sources (Uses):					
Debt issued	-	-	-	-	-
Sale of assets	6,034	3,694	3,034	-	-
Transfers out	(3,672,434)	-	-	(10,000)	(10,000)
Transfers in	634,294	1,427,853	278,410	-	-
Total other financing Sources (Uses)	(3,032,106)	1,431,547	281,444	(10,000)	(10,000)
Net change in fund balances	(73,570)	557,634	23,659	(65,024)	8,463
Fund balances, beginning of year	5,216,796	1,202,967	154,277	252,522	500,185
Fund balances, end of year	\$ 5,143,226	\$ 1,760,601	\$ 177,936	\$ 187,498	\$ 508,648

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

Show Low Bluff Communities Facilities District	Non-major Funds	Totals (Memorandum Only)
\$ -	\$ 142,745	\$ 9,352,097
-	-	144,466
-	1,031,982	5,249,315
-	90,045	1,657,809
13,776	-	730,882
8,827	13,081	135,595
-	32,394	32,394
266,404	139,733	1,366,683
300,000	92,128	635,036
<u>589,007</u>	<u>1,542,108</u>	<u>19,304,277</u>
16,083	525,512	3,161,365
-	197,950	4,998,867
-	140,674	3,524,603
-	-	986,957
-	359,823	1,085,798
-	1,509,665	3,208,043
65,000	650,000	1,565,000
157,122	406,389	880,470
<u>238,205</u>	<u>3,790,013</u>	<u>19,411,103</u>
<u>350,802</u>	<u>(2,247,905)</u>	<u>(106,826)</u>
-	1,703,899	1,703,899
-	-	12,762
(10,000)	(346,074)	(4,048,508)
-	2,001,699	4,342,256
<u>(10,000)</u>	<u>3,359,524</u>	<u>2,010,409</u>
340,802	1,111,619	1,903,583
467,931	1,427,625	9,222,303
<u>\$ 808,733</u>	<u>\$ 2,539,244</u>	<u>\$ 11,125,886</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, 2012

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

Net change in fund balances - total governmental funds		\$ 1,903,583
<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 depreciation exceeded capital outlay in the current period.</p>		
Capital outlay		\$ 3,416,595
Depreciation expense		<u>(3,452,862)</u>
		(36,267)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., disposals) is to decrease net position</p>		
		(525,560)
<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>		
		217,500
<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>		
		(915,250)
<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 position.</p>		
		(1,703,899)
<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 position.</p>		
		1,565,000
<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>		
		(232,383)
<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>		
		20,285
<p>The net revenues of certain activities of the internal service fund is reported with governmental activities.</p>		
		<u>(72,262)</u>
Change in net position of governmental activities		<u><u>\$ 220,747</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
City sales tax	\$ 8,000,000	\$ 8,000,000	\$ 8,779,526	\$ 779,526
Franchise taxes	410,000	410,000	429,826	19,826
Total taxes	<u>8,410,000</u>	<u>8,410,000</u>	<u>9,209,352</u>	<u>799,352</u>
Licenses and permits	174,500	174,500	144,466	(30,034)
Intergovernmental revenues:				
State sales tax	766,200	766,200	832,976	66,776
Auto lieu tax	525,700	525,700	551,817	26,117
Urban revenue sharing	854,800	854,800	915,474	60,674
Grant revenues	252,800	308,000	370,251	62,251
Total intergovernmental	<u>2,399,500</u>	<u>2,454,700</u>	<u>2,670,518</u>	<u>215,818</u>
Charges for services	241,200	241,200	306,634	65,434
Fines and forfeitures	820,900	820,900	701,592	(119,308)
Interest earnings	20,500	20,500	82,189	61,689
Other revenues:				
Cemetery plot sales and services	25,000	25,000	31,600	6,600
Charges for administrative services	5,000	5,000	22,976	17,976
Rent income	18,000	18,000	33,652	15,652
Miscellaneous revenues	117,100	121,200	139,358	18,158
Total other revenues	<u>165,100</u>	<u>169,200</u>	<u>227,586</u>	<u>58,386</u>
Total revenues	<u>12,231,700</u>	<u>12,291,000</u>	<u>13,342,337</u>	<u>1,051,337</u>
Expenditures				
Current:				
General government:				
City council	332,000	162,300	79,256	83,044
Finance	584,600	584,600	525,271	59,329
City magistrate	257,800	182,800	176,848	5,952
City attorney	241,000	241,000	218,447	22,553
City manager	317,000	317,000	314,188	2,812
Planning and zoning	369,800	369,800	343,873	25,927
Public information	243,900	243,900	228,203	15,697
Information systems	290,000	296,900	286,314	10,586
Human resources	221,600	221,600	175,316	46,284
Community services administration	292,700	271,700	197,331	74,369
Cemetery	65,300	78,800	71,234	7,566
Total general government	<u>3,215,700</u>	<u>2,970,400</u>	<u>2,616,281</u>	<u>354,119</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, 2012 (Continued)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Public safety	4,964,300	5,139,900	4,800,917	338,983
Total public safety	4,964,300	5,139,900	4,800,917	338,983
Public works:				
Maintenance	762,600	787,700	798,020	(10,320)
City engineer	486,700	486,700	455,651	31,049
Total public works	1,249,300	1,274,400	1,253,671	20,729
Non-departmental				
Non-departmental	893,800	1,066,900	843,365	223,535
City 4 cable TV	146,100	146,100	143,592	2,508
Total non-departmental	1,039,900	1,213,000	986,957	226,043
Culture and recreation:				
Parks and recreation	337,400	337,400	306,780	30,620
Library	450,000	450,000	419,195	30,805
Total culture and recreation	787,400	787,400	725,975	61,425
Total expenditures	11,256,600	11,385,100	10,383,801	1,001,299
Excess of revenues over expenditures	975,100	905,900	2,958,536	2,052,636
Other financing sources (uses)				
Sale of capital assets	2,500	2,500	6,034	3,534
Transfers out	(3,498,000)	(3,639,800)	(3,672,434)	(32,634)
Transfers in	420,100	639,500	634,294	(5,206)
Total other financing sources and (uses)	(3,075,400)	(2,997,800)	(3,032,106)	(34,306)
Net change in fund balance	(2,100,300)	(2,091,900)	(73,570)	2,018,330
Fund balance, beginning of year	5,216,796	5,216,796	5,216,796	-
Fund balance, end of year	<u>\$ 3,116,496</u>	<u>\$ 3,124,896</u>	<u>\$ 5,143,226</u>	<u>\$ 2,018,330</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 Revenue Fund
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 3,216,200	\$ 4,009,600	\$ 1,069,192	\$ (2,940,408)
Interest	500	500	19,707	19,207
Other revenues	1,000	1,000	4,242	3,242
Total revenues	<u>3,217,700</u>	<u>4,011,100</u>	<u>1,093,141</u>	<u>(2,917,959)</u>
EXPENDITURES				
Current:				
Public works/Streets	942,200	942,200	901,446	40,754
Capital outlay	<u>5,258,100</u>	<u>5,564,600</u>	<u>1,065,608</u>	<u>4,498,992</u>
Total expenditures	<u>6,200,300</u>	<u>6,506,800</u>	<u>1,967,054</u>	<u>4,539,746</u>
Excess of revenues				
Over (Under) expenditures	<u>(2,982,600)</u>	<u>(2,495,700)</u>	<u>(873,913)</u>	<u>1,621,787</u>
Other Financing Sources (Uses):				
Sale of Assets	2,000	2,000	3,694	1,694
Transfers in	<u>1,454,000</u>	<u>1,454,000</u>	<u>1,427,853</u>	<u>(26,147)</u>
Total other financing Sources (Uses)	<u>1,456,000</u>	<u>1,456,000</u>	<u>1,431,547</u>	<u>(24,453)</u>
Net change in fund balance	(1,526,600)	(1,039,700)	557,634	1,597,334
Fund balance, beginning of year	<u>1,202,967</u>	<u>1,202,967</u>	<u>1,202,967</u>	<u>-</u>
Fund balance, end of year	<u>\$ (323,633)</u>	<u>\$ 163,267</u>	<u>\$ 1,760,601</u>	<u>\$ 1,597,334</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
Airport Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 1,295,800	\$ 1,518,200	\$ 477,623	\$ (1,040,577)
Charges for services	1,009,500	1,009,500	1,261,130	251,630
Interest	-	-	364	364
Other revenues	<u>5,000</u>	<u>5,000</u>	<u>11,080</u>	<u>6,080</u>
Total revenues	<u>2,310,300</u>	<u>2,532,700</u>	<u>1,750,197</u>	<u>(782,503)</u>
EXPENDITURES				
Current:				
Public works/Streets	1,020,700	1,019,200	1,228,812	(209,612)
Capital outlay	1,378,700	1,720,300	632,770	1,087,530
Debt service				
Principal	75,000	75,000	75,000	-
Interest and fiscal charges	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>-</u>
Total expenditures	<u>2,545,800</u>	<u>2,885,900</u>	<u>2,007,982</u>	<u>877,918</u>
Excess of revenues				
Over (Under) expenditures	<u>(235,500)</u>	<u>(353,200)</u>	<u>(257,785)</u>	<u>95,415</u>
Other Financing Sources (Uses):				
Sale of Assets	-	-	3,034	3,034
Transfers in	<u>171,900</u>	<u>286,900</u>	<u>278,410</u>	<u>(8,490)</u>
Total other financing Sources (Uses)	<u>171,900</u>	<u>286,900</u>	<u>281,444</u>	<u>(5,456)</u>
Net change in fund balance	(63,600)	(66,300)	23,659	89,959
Fund balance, beginning of year	<u>154,277</u>	<u>154,277</u>	<u>154,277</u>	<u>-</u>
Fund balance, end of year	<u>\$ 90,677</u>	<u>\$ 87,977</u>	<u>\$ 177,936</u>	<u>\$ 89,959</u>

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

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

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse	Totals	Internal Service Health Insurance
Assets					
Current Assets:					
Cash	\$ 1,952,479	\$ 3,186,913	\$ 189,575	\$ 5,328,967	\$ 638,652
Receivables (net of allowance)	544,452	174,605	87,467	806,524	9,340
Inventories	194,044	40,562	-	234,606	-
Due from other governments	28,615	-	-	28,615	-
Prepaid items	10,927	-	-	10,927	-
Total current assets	<u>2,730,517</u>	<u>3,402,080</u>	<u>277,042</u>	<u>6,409,639</u>	<u>647,992</u>
Noncurrent Assets:					
Restricted cash and investments	250,596	4,461,023	-	4,711,619	-
Deferred charges	75,810	-	-	75,810	-
Land	375,355	824,478	-	1,199,833	-
Buildings	74,054	-	-	74,054	-
System improvements	28,453,078	37,928,589	-	66,381,667	-
Machinery and equipment	1,501,972	985,883	-	2,487,855	-
Vehicles	337,782	178,757	-	516,539	-
Construction in progress	1,256,326	14,360	-	1,270,686	-
Accumulated depreciation	(9,588,484)	(15,826,101)	-	(25,414,585)	-
Total noncurrent assets	<u>22,736,489</u>	<u>28,566,989</u>	<u>-</u>	<u>51,303,478</u>	<u>-</u>
Total Assets	<u>25,467,006</u>	<u>31,969,069</u>	<u>277,042</u>	<u>57,713,117</u>	<u>647,992</u>
Liabilities					
Current liabilities:					
Accounts payable	181,886	114,713	\$ 85,674	382,273	80,088
Accrued wages and benefits	11,466	11,775	-	23,241	-
Compensated absences	57,912	36,728	-	94,640	-
Deferred revenue	25,827	-	-	25,827	-
Interest payable	42,560	3,305	-	45,865	-
Customer deposits	97,135	-	-	97,135	-
Notes payable - current portion	140,044	9,982	-	150,026	-
Total current liabilities	<u>556,830</u>	<u>176,503</u>	<u>85,674</u>	<u>819,007</u>	<u>80,088</u>
Noncurrent liabilities:					
Notes payable, net of current portion	2,965,228	220,879	-	3,186,107	-
Total noncurrent liabilities	<u>2,965,228</u>	<u>220,879</u>	<u>-</u>	<u>3,186,107</u>	<u>-</u>
Total liabilities	<u>3,522,058</u>	<u>397,382</u>	<u>85,674</u>	<u>4,005,114</u>	<u>80,088</u>
Net Position					
Net investment in capital assets	19,380,621	23,875,105	-	43,255,726	-
Restricted for developer fees	153,461	4,476,926	-	4,630,387	-
Unrestricted	2,410,866	3,219,656	191,368	5,821,890	567,904
Total net position	<u>\$ 21,944,948</u>	<u>\$ 31,571,687</u>	<u>\$ 191,368</u>	<u>\$ 53,708,003</u>	<u>\$ 567,904</u>

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

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

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse	Totals	Internal Service Health Insurance
Operating Revenues					
Charges for services	\$ 2,721,659	\$ 2,059,791	\$ 959,287	\$ 5,740,737	\$ -
Premiums	-	-	-	-	1,773,721
Other revenues	63,434	659	-	64,093	2,095
Total operating revenues	<u>2,785,093</u>	<u>2,060,450</u>	<u>959,287</u>	<u>5,804,830</u>	<u>1,775,816</u>
Operating Expenses					
Salaries, wages and benefits	722,207	669,944	-	1,392,151	-
Administration/legal/contract services	35,132	18,618	859,475	913,225	1,850,146
Field supplies	130,197	59,420	28,448	218,065	-
Repairs and maintenance	178,523	267,596	-	446,119	-
Utilities	410,784	218,128	-	628,912	-
Miscellaneous	4,161	42,174	-	46,335	-
Bad debt expense	31,210	20,981	9,009	61,200	-
Depreciation	932,562	1,154,607	-	2,087,169	-
Total operating expenses	<u>2,444,776</u>	<u>2,451,468</u>	<u>896,932</u>	<u>5,793,176</u>	<u>1,850,146</u>
Operating income (loss)	<u>340,317</u>	<u>(391,018)</u>	<u>62,355</u>	<u>11,654</u>	<u>(74,330)</u>
Non-operating Revenues (Expenses)					
Interest income	150,666	119,006	2,108	271,780	2,068
Interest expense and fiscal charges	(89,396)	(6,610)	-	(96,006)	-
Impact fees/Investment fees	27,281	61,567	-	88,848	-
Capacity fees	12,156	15,855	-	28,011	-
Gain (loss) on sale of assets	(95,432)	(102,422)	-	(197,854)	-
Total non-operating revenue (expense)	<u>5,275</u>	<u>87,396</u>	<u>2,108</u>	<u>94,779</u>	<u>2,068</u>
Income (loss) before contributions and transfers	345,592	(303,622)	64,463	106,433	(72,262)
Capital contributions	67,330	58,000	-	125,330	-
Transfers out	(126,208)	(102,540)	(65,000)	(293,748)	-
Change in net position	286,714	(348,162)	(537)	(61,985)	(72,262)
Total net position, beginning of year	<u>21,658,234</u>	<u>31,919,849</u>	<u>191,905</u>	<u>53,769,988</u>	<u>640,166</u>
Total net position, end of year	<u>\$ 21,944,948</u>	<u>\$ 31,571,687</u>	<u>\$ 191,368</u>	<u>\$ 53,708,003</u>	<u>\$ 567,904</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, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse	Totals	Internal Service Health Insurance
Cash Flows From Operating Activities:					
Cash received from customers, service fees	\$ 2,619,354	\$ 2,044,383	\$ 932,650	\$ 5,596,387	\$ 1,764,391
Cash received from customers, other	52,507	659	-	53,166	2,095
Cash paid to suppliers	(834,363)	(615,845)	(877,124)	(2,327,332)	(1,850,058)
Cash paid to employees	(722,768)	(660,182)	-	(1,382,950)	-
Cash flows from operating activities	<u>1,114,730</u>	<u>769,015</u>	<u>55,526</u>	<u>1,939,271</u>	<u>(83,572)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers	(126,208)	(102,540)	(65,000)	(293,748)	-
Cash flows from noncapital financing activities	<u>(126,208)</u>	<u>(102,540)</u>	<u>(65,000)</u>	<u>(293,748)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:					
Proceeds from long term debt	909,262	-	-	909,262	-
Purchase of capital assets	(1,764,453)	(327,985)	-	(2,092,438)	-
Proceeds from sale of capital assets	95,964	21,938	-	117,902	-
Principal paid on long term debt	-	(9,705)	-	(9,705)	-
Interest paid	(46,836)	(6,749)	-	(53,585)	-
Connection, capacity & impact fees	39,437	77,422	-	116,859	-
Cash flows from capital and related financing activities	<u>(766,626)</u>	<u>(245,079)</u>	<u>-</u>	<u>(1,011,705)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Interest on investments	150,666	119,006	2,108	271,780	2,068
Net change in cash and cash equivalents	372,562	540,402	(7,366)	905,598	(81,504)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>1,830,513</u>	<u>7,107,534</u>	<u>196,941</u>	<u>9,134,988</u>	<u>720,156</u>
Cash and cash equivalents, including temporarily restricted cash , end of year	<u><u>\$ 2,203,075</u></u>	<u><u>\$ 7,647,936</u></u>	<u><u>\$ 189,575</u></u>	<u><u>\$ 10,040,586</u></u>	<u><u>\$ 638,652</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Net operating income/(loss)	\$ 340,317	\$ (391,018)	\$ 62,355	\$ 11,654	\$ (74,330)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:					
Depreciation/amortization	932,562	1,154,607	-	2,087,169	-
Changes in operating assets and liabilities:					
(Increase)/Decrease in receivables	(102,305)	(15,408)	(26,637)	(144,350)	(9,330)
(Increase)/Decrease in prepaid items	(10,927)	-	-	(10,927)	-
(Increase)/Decrease in inventory	(51,901)	(5,798)	-	(57,699)	-
Increase/(Decrease) in payables	7,545	16,870	19,808	44,223	88
Increase/(Decrease) in accrued liabilities & deposits	(561)	9,762	-	9,201	-
Net cash flows from operating activities	<u><u>\$ 1,114,730</u></u>	<u><u>\$ 769,015</u></u>	<u><u>\$ 55,526</u></u>	<u><u>\$ 1,939,271</u></u>	<u><u>\$ (83,572)</u></u>
Supplemental Schedule of Non-cash Financing and Investing Activities:					
Capital asset contributions	\$ 67,330	\$ 58,000	\$ -	\$ 125,330	\$ -

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

CITY OF SHOW LOW, ARIZONA
Statement Fiduciary Net Position
Agency Fund
June 30, 2012

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 12,426
Total assets	<u>\$ 12,426</u>
LIABILITIES	
Slovakian/Sister Cities	\$ 2,562
Police Citizens Academy	209
Police Department Evidence	<u>9,655</u>
Total liabilities	<u>\$ 12,426</u>

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

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

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, 2012

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 position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. 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, 2012

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 Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.

The **Airport Fund** accounts for the operation of the municipal airport. Revenues and other resources included in this fund include fuel sales, lease revenue, parking and other fees, and grants restricted for the airport.

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.

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: Slovakian Sister Cities Fund and Police Department Evidence. Agency funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve only the receipt,

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

Note 1. Summary of Significant Accounting Policies, Continued

temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments.

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.

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 Position 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, 2012

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 \$10,000 and an estimated useful life in excess of three years. Capitalized assets are recorded at 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	40 years
Machinery and equipment	5 to 15 years
Vehicles	5 to 15 years
Streets, sidewalks & other infrastructure	40 years

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

Note 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, amounts of vested or accumulated paid time off leave that is not expected to be liquidated with expendable available financial resources is reported as a liability in the government-wide statement of net position and as an expense 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 paid time off leave in the proprietary fund is 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 position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

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

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

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

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

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

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

NOTE 1. Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

Estimates

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

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

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 a resolution. 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 Council has adopted a budget transfer policy and all amendments must be done in accordance with this policy.
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, 2012

Note 2. Stewardship, Compliance, and Accountability, Continued

Supplementary budgetary appropriations were made in during the year ended June 30, 2012.

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 for future years, 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 21-24, 56-58, 64-75 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2012, 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 position is as follows:

Cash and cash equivalents	\$ 12,841,027
Restricted cash and cash equivalents	7,798,474
Agency fund monies	12,426
	<u>\$ 20,651,927</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, 2012, none of the City's bank balance of \$1,904,116 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.

Investments

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP) with no regulatory oversight. The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

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

Note 3. Deposits and Investments, Continued

Investments, Continued

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, 2012 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	\$ 1,472,179	N/A	N/A
Cash on hand	2,100	N/A	N/A
Local Governments Investment Pool 5 *	4,873,358	AAAF/S1+	26 days
Local Governments Investment Pool 7 *	1,331,255	AA+	29 days
Local Governments Investment Pool 500 *	7,860,922	AA	1.32 years
Local Governments Investment Pool 700 *	5,112,113	AA+	.93 years
	<u>\$ 20,651,927</u>		

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

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

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

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). 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, 2012

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, 2012:

Governmental Activities:

General Fund:

Reserve for arbitrage - GADA 2006 \$ 76,980

Debt Service Funds:

Restricted for debt service ID Bonds 778,619

Restricted for debt service CFD Bonds 750,627

Special Revenue Funds:

Restricted for Street Lighting District 24,846

Restricted for grant proceeds 923,529

Restricted for Family Aquatic Center 389,631

Capital Project Funds:

Restricted for capital outlay - investment fees 142,623

Total Governmental Activities \$ 3,086,855

Business-Type Activities:

Water Fund:

Restricted for capital outlay - investment fees \$ 153,461

Customer security deposits 97,135

Wastewater Fund:

Restricted for capital outlay - investment fees 4,461,023

Total Business-Type Activities \$ 4,711,619

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

Note 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 5,772,884	\$ 111,965	\$ (438,534)	\$ 5,446,315
Construction in progress	2,964,526	1,297,971	(166,960)	4,095,537
Total capital assets, not being depreciated	<u>8,737,410</u>	<u>1,409,936</u>	<u>(605,494)</u>	<u>9,541,852</u>
Capital assets, being depreciated:				
Buildings	16,149,832	-	-	16,149,832
Improvements other than buildings	9,882,877	546,738	(50,738)	10,378,877
Machinery and equipment	4,064,538	554,580	(162,817)	4,456,301
Infrastructure	51,783,632	955,170	-	52,738,802
Vehicles	3,824,057	334,631	(92,561)	4,066,127
Total capital assets, being depreciated	<u>85,704,936</u>	<u>2,391,119</u>	<u>(306,116)</u>	<u>87,789,939</u>
Less accumulated depreciation for:				
Buildings	(4,856,400)	(208,534)	-	(5,064,934)
Improvements other than buildings	(3,870,433)	(550,509)	50,609	(4,370,333)
Machinery and equipment	(2,188,813)	(230,370)	75,920	(2,343,263)
Infrastructure	(13,946,416)	(2,072,333)	-	(16,018,749)
Vehicles	(2,484,060)	(391,116)	92,561	(2,782,615)
Total accumulated depreciation	<u>(27,346,122)</u>	<u>(3,452,862)</u>	<u>219,090</u>	<u>(30,579,894)</u>
Total capital assets, being depreciated, net	<u>58,358,814</u>	<u>(1,061,743)</u>	<u>(87,026)</u>	<u>57,210,045</u>
Governmental activities capital assets, net	<u>\$ 67,096,224</u>	<u>\$ 348,193</u>	<u>\$ (692,520)</u>	<u>\$ 66,751,897</u>

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

Governmental Activities:	
General government	\$ 161,277
Public safety	254,156
Public works/streets	2,661,645
Culture & recreation	375,784
Non-departmental	-
Total depreciation expense - governmental activities	<u>\$ 3,452,862</u>

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

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 6/30/2011	Adjustments	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated:					
Land	\$ 1,089,833	-	\$ -	\$ -	\$ 1,089,833
Water rights	-	-	110,000	-	110,000
Construction in progress	129,547	-	1,232,916	(91,777)	1,270,686
Total capital assets, not being depreciated	<u>1,219,380</u>	<u>-</u>	<u>1,342,916</u>	<u>(91,777)</u>	<u>2,470,519</u>
Capital assets being depreciated:					
Buildings	74,054	-	-	-	74,054
Improvements other than buildings	65,992,926	-	453,866	(65,125)	66,381,667
Machinery and equipment	2,449,707	-	375,513	(337,365)	2,487,855
Vehicles	511,850	-	45,472	(40,783)	516,539
Total capital assets, being depreciated	<u>69,028,537</u>	<u>-</u>	<u>874,851</u>	<u>(443,273)</u>	<u>69,460,115</u>
Less accumulated depreciation for:					
Buildings	(17,477)	-	(5,416)	-	(22,893)
Improvements other than buildings	(22,142,653)	-	(1,844,953)	-	(23,987,606)
Machinery and equipment	(1,035,520)	51,591	(173,969)	180,012	(977,886)
Vehicles	(351,061)	(51,591)	(62,831)	39,283	(426,200)
Total accumulated depreciation	<u>(23,546,711)</u>	<u>-</u>	<u>(2,087,169)</u>	<u>219,295</u>	<u>(25,414,585)</u>
Total capital assets, being depreciated, net	<u>45,481,826</u>	<u>-</u>	<u>(1,212,318)</u>	<u>(223,978)</u>	<u>44,045,530</u>
Business-type activities capital assets, net	<u>\$ 46,701,206</u>	<u>\$ -</u>	<u>\$ 130,598</u>	<u>\$ (315,755)</u>	<u>\$ 46,516,049</u>

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

Business-Type Activities:	
Wastewater	1,154,607
Water	932,562
Total depreciation expense - business-type activities	<u>\$ 2,087,169</u>

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

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Governmental Activities:					
Accrued compensated absences	\$ 521,998	\$ 739,268	\$ (506,885)	\$ 754,381	\$ 754,381
Capital leases	-	1,703,899	-	1,703,899	97,899
Landfill monitoring costs	26,988	-	-	26,988	-
Total Other	<u>548,986</u>	<u>2,443,167</u>	<u>(506,885)</u>	<u>2,485,268</u>	<u>852,280</u>
Special assessment bonds					
Improvement District #5	1,560,000	-	(450,000)	1,110,000	480,000
Improvement District #6	2,605,000	-	(325,000)	2,280,000	345,000
Improvement District #7	452,000	-	(55,000)	397,000	58,000
Community Facilities District	1,830,000	-	(55,000)	1,775,000	55,000
Total Special Assessment Bonds	<u>6,447,000</u>	<u>-</u>	<u>(885,000)</u>	<u>5,562,000</u>	<u>938,000</u>
General obligation bonds					
Community Facilities					
District bonds - Series 2007	445,000	-	(10,000)	435,000	10,000
District bonds - Series 2011	450,000	-	-	450,000	15,000
Total General Obligation	<u>895,000</u>	<u>-</u>	<u>(10,000)</u>	<u>885,000</u>	<u>25,000</u>
Loans payable					
Senior Center Note	150,000	-	(50,000)	100,000	100,000
GADA Bonds Series - Series 2006B	7,105,000	-	(330,000)	6,775,000	345,000
GADA Bonds Series - Series 2008A	2,670,000	-	(290,000)	2,380,000	300,000
Total Loans Payable	<u>9,925,000</u>	<u>-</u>	<u>(670,000)</u>	<u>9,255,000</u>	<u>745,000</u>
Total Governmental Debt	<u>\$ 17,815,986</u>	<u>\$ 2,443,167</u>	<u>\$ (2,071,885)</u>	<u>\$ 18,187,268</u>	<u>\$ 2,560,280</u>
Business-Type Activities:					
Accrued compensated absences	\$ 69,997	\$ 105,471	\$ (80,827)	\$ 94,641	\$ 94,641
Total Other	<u>69,997</u>	<u>105,471</u>	<u>(80,827)</u>	<u>94,641</u>	<u>94,641</u>
Loans payable					
WIFA Loan - Water	2,200,000	905,272	-	3,105,272	140,044
WIFA Loan - Sewer	240,566	-	(9,705)	230,861	9,982
Total Loans Payable	<u>2,440,566</u>	<u>905,272</u>	<u>(9,705)</u>	<u>3,336,133</u>	<u>150,026</u>
Total Business-Type Long-Term Debt	<u>\$ 2,510,563</u>	<u>\$ 1,010,743</u>	<u>\$ (90,532)</u>	<u>\$ 3,430,774</u>	<u>\$ 244,667</u>
Total Long-Term Liabilities	<u>\$ 20,326,549</u>	<u>\$ 3,453,910</u>	<u>\$ (2,162,417)</u>	<u>\$ 21,618,042</u>	<u>\$ 2,804,947</u>

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

Note 6. Long-Term Debt, Continued

A description of other long-term liabilities is as follows:

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

Due to requirements placed on Navajo County Lone Pine Landfill by Federal and State regulatory agencies (e.g. EPA and ADEQ) in 1995, the landfill was closed and must be monitored for thirty years. Landfill monitoring costs are the Town's share of total estimated costs of closing and monitoring the Lone Pine Landfill. The remaining post-closure costs have been estimated based on engineering studies and will be revised each year based on inflation/deflation and/or technology changes. No changes were made during the fiscal year ending June 30, 2012.

The following is a listing of special assessment bonds outstanding as of June 30, 2012:

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.	\$ 1,110,000
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, 2018. Interest is payable semiannually.	2,280,000
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.	397,000
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>1,775,000</u>
Total Special Assessment Bonds	<u><u>\$ 5,562,000</u></u>

Special Assessment debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2013	\$ 938,000	\$ 301,412	1,239,412
2014	1,001,000	242,427	1,243,427
2015	634,000	193,148	827,148
2016	548,000	158,613	706,613
2017	581,000	125,928	706,928
2018-2022	795,000	381,831	1,176,831
2023-2027	525,000	242,200	767,200
2028-2031	540,000	77,560	617,560
Total	<u>\$ 5,562,000</u>	<u>\$ 1,723,119</u>	<u>\$ 7,285,119</u>

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

Note 6. Long-Term Debt, Continued

The following is a listing of general obligation bonds outstanding as of June 30, 2012:

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.	\$ 435,000
Show Low Bluff Community Facilities District bonds - Series 2011 were issued in the amount of \$450,000. The bonds have an interest rate of 7.75%, due in annual principal installments from \$15,000 to \$55,000 through July 15, 2023. Interest is payable semiannually.	<u>450,000</u>
Total General Obligation Bonds	<u><u>\$ 885,000</u></u>

General obligation bond debt service maturities are as follows:

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2013	\$ 25,000	\$ 59,556	\$ 84,556
2014	35,000	57,419	92,419
2015	40,000	54,700	94,700
2016	45,000	51,641	96,641
2017	50,000	48,241	98,241
2018-2022	290,000	183,081	473,081
2023-2027	215,000	79,713	294,713
2028-2032	150,000	33,487	183,487
2033	35,000	1,028	36,028
Total	<u>\$ 885,000</u>	<u>\$ 568,866</u>	<u>\$ 1,453,866</u>

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

Note 6. Long-Term Debt, Continued

The following is a listing of loans payable outstanding as of June 30, 2012:

Loans Payable:	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
GADA Bonds Series 2006B were issued November 1, 2006, in the amount of \$8,370,000, bearing interest ranging from 4% to 5% with an average rate of 4.558%. 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.	\$ 6,775,000	\$ -
GADA Bonds Series 2008A were issued April 1, 2008 in the amount of \$3,185,000, bearing interest ranging from 3% to 5% with an average rate of 4.53%. The 2008 loans were issued to finance the costs of building a new library, council chambers and remodeling existing library for administrative purposes.	2,380,000	-
Note payable to Rural America Assisted Living Facilities, Inc. in the amount of \$250,000. Payable in annual installments of \$50,000 plus interest at five percent. Secured by the Senior Center building	100,000	
Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.863%, maturing July 2029. This loan was approved in July 2009 with a maximum principal balance of \$500,000. On the date of the loan closing, \$250,000 of the principal amount of the loan was forgiven by the Authority in the form of a grant to the City.	-	230,861
Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 3.096%, maturing July 2031. This loan was approved in Januray 2011 with a maximum principal balance of \$3,800,000. As of June 30, 2012 the outstanding principal balance to be drawn down was \$694,729.	-	3,105,272
Total Loans Payable	<u><u>\$ 9,255,000</u></u>	<u><u>\$ 3,336,133</u></u>

Loans payable debt service maturities are as follows:

Year Ended <u>June 30,</u>	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 745,000	\$ 414,756	\$ 150,026	121,947	\$ 1,431,729
2014	670,000	387,575	154,648	117,254	1,329,477
2015	695,000	359,363	159,412	112,417	1,326,192
2016	725,000	326,875	164,323	107,430	1,323,628
2017	755,000	293,150	169,385	102,290	1,319,825
2018-2022	2,905,000	1,002,525	928,487	428,630	5,264,642
2023-2027	2,645,000	371,625	1,080,599	274,175	4,371,399
2028-2032	115,000	2,875	1,223,982	95,361	1,437,218
less undrawn amounts	-	-	(694,729)	-	(694,729)
Total	<u><u>\$ 9,255,000</u></u>	<u><u>\$ 3,158,744</u></u>	<u><u>\$ 3,336,133</u></u>	<u><u>\$ 1,359,504</u></u>	<u><u>\$ 17,109,381</u></u>

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

Note 6. Long-Term Debt, Continued

The City has entered into a lease agreement which is considered a capital lease in accordance with Generally Accepted Accounting Principles. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the fiscal years ending June 30:

Fiscal Year Ending June 30,	Governmental Activities
2013	\$ 166,053
2014	262,525
2015	261,854
2016	264,989
2017	268,629
2018-2022	517,306
2023-2027	427,323
2028	43,121
Total remaining minimum lease payments	2,211,800
Less amount representing interest	507,901
Present value of net remaining minimum lease payments	<u>\$ 1,703,899</u>

The assets acquired through capital leases that meet the City's capitalization threshold are as follows:

	Governmental Activities
Machinery and equipment	\$ 140,961
Construction in progress	1,136,025
Less: Accumulated depreciation	(2,472)
Total	<u>\$ 1,274,514</u>

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

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

Due To:	Due From:	
	Airport Fund	Total
General Fund	\$ 23,970	\$ 23,970
Total	\$ 23,970	\$ 23,970

The interfund receivables and payables were recorded to eliminate short-term deficit pooled cash balances in the various funds.

Interfund transfers for the fiscal year ended June 30, 2012 are as follows:

Transfers out:	Transfers in:				Total
	General	Highway User Revenue Fund	Airport Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 1,427,853	\$ 278,410	\$ 1,966,171	\$ 3,672,434
Improvement District #5	10,000	-	-	-	10,000
Improvement District #6	10,000	-	-	-	10,000
Show Low Bluff	10,000	-	-	-	10,000
Nonmajor Governmental Funds	310,546	-	-	35,528	346,074
Water Fund	126,208	-	-	-	126,208
Wastewater Fund	102,540	-	-	-	102,540
Nonmajor Enterprise Funds	65,000	-	-	-	65,000
Total	\$ 634,294	\$ 1,427,853	\$ 278,410	\$ 2,001,699	\$ 4,342,256

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, 2012

Note 8. 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 current fiscal year, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	\$ 341,482	\$ 27,024	\$ 16,378
2011	354,531	23,216	9,837
2012	381,219	24,333	9,270

Public Safety Personnel Retirement System (PSPRS)

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

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

Note 8. Retirement and Pension Plans, Continued

Funding Policy - For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 16.24 percent of covered compensation. The health insurance premium portion of the contribution rate was actuarially set at 1.45 percent of covered payroll.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The PSPRS contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions include (a) 8.0 percent investment rate of return and (b) projected salary increases of 5.0 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability and 20 years for excess.

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

Annual Pension/OPEB Cost - During the year ended June 30, 2012 the City's annual pension cost of \$269,316 and the annual OPEB cost of \$26,404 was equal to the City's required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2010	\$ 223,205	100%	\$ -
	2011	252,478	100%	-
	2012	269,316	100%	-
Health Insurance	2010	\$ 15,068	100%	\$ -
	2011	23,993	100%	-
	2012	26,404	100%	-

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

Note 8. Retirement and Pension Plans, Continued

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

Actuarial accrued liability (AAL)	\$ 9,371,297
Actuarial value of plan assets	<u>6,264,238</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,107,059</u>
Funded ratio (actuarial value of plan assets/AAL)	66.8%
Covered payroll (active plan members)	\$ 1,614,782
UAAL as a percentage of covered payroll	192.4%

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

Note 9. 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 and workers' compensation 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 20 years, and has had no claims exceeding this insurance coverage.

Premiums are paid annually for the coverage year from July 1 to June 30 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 and employee health and accident. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past four fiscal years.

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

Note 10. 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, 2012.

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>
Runway 6/24 Improvements	\$2,300,000	\$2,153,608
Scott Ranch Road	5,500,000	652,207
Scott Pine Meadows – Waterline Replacement	1,200,000	803,300
Pineview - PRV & Connections	400,000	20,776
Energy Efficiency Upgrades	856,700	696,566
Aquatics Center De-humidification	465,200	94,466

Note 11. Stabilization Arrangement

By resolution, the City has established a General Fund reserve policy to set aside funds that may be needed in the event of an emergency or other unknown event that may adversely affect the City's financial condition. The cash reserve of at least \$1,000,000 must be maintained before any expenditure can be authorized. An additional \$1,000,000 has been set aside as directed by the City Council. As of June 30, 2012, the total reserve is \$2,000,000 and is included in the unassigned fund balance of the General Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHOW LOW, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
PSPRS

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2003 through June 30, 2012, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	[(b)-(a)] / (c)
June 30,						
2003	\$ 2,725,236	\$ 2,736,239	11,003	99.6%	\$ 906,819	1.2%
2004	2,869,122	3,053,065	183,943	94.0%	971,896	18.9%
2005	2,996,674	3,874,909	878,235	77.3%	1,187,903	73.9%
2006	3,504,560	4,221,244	716,684	83.0%	1,307,500	54.8%
2007	3,606,495	5,086,801	1,480,306	70.9%	1,467,953	100.8%
2008	3,868,452	5,275,916	1,407,464	73.3%	1,674,273	84.1%
2009 *	5,036,852	6,395,367	1,358,515	78.8%	1,658,183	81.9%
2010 *	5,274,412	6,885,684	1,611,272	76.6%	1,636,027	98.5%
2011 *	5,849,869	8,178,477	2,328,608	71.5%	1,726,926	134.8%
2012 *	6,264,238	9,371,297	3,107,059	66.8%	1,614,782	192.4%

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

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	[(b)-(a)] / (c)
June 30,						
2006	\$ -	\$ 118,327	118,327	0.0%	\$ 1,307,500	9.05%
2007	-	169,459	169,459	0.0%	1,467,953	11.54%
2008	-	132,915	132,915	0.0%	1,674,273	7.94%
2009 *	-	187,220	187,220	0.0%	1,658,183	11.29%
2010 *	-	215,089	215,089	0.0%	1,636,027	13.15%
2011 *	-	308,081	308,081	0.0%	1,726,926	17.84%
2012 *	-	304,157	304,157	0.0%	1,614,782	18.84%

Health insurance subsidy payments reported for fiscal year 2012: \$9,820

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

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures	\$ 11,000	\$ 11,000	\$ 9,903	\$ (1,097)
Interest	2,000	2,000	3,430	1,430
Special assessments	<u>550,000</u>	<u>550,000</u>	<u>479,928</u>	<u>(70,072)</u>
Total revenues	<u>563,000</u>	<u>563,000</u>	<u>493,261</u>	<u>(69,739)</u>
EXPENDITURES				
Debt service				
Principal	450,000	450,000	450,000	-
Interest and fiscal charges	<u>352,000</u>	<u>352,000</u>	<u>98,285</u>	<u>253,715</u>
Total expenditures	<u>802,000</u>	<u>802,000</u>	<u>548,285</u>	<u>253,715</u>
Excess of revenues				
Over (Under) expenditures	(239,000)	(239,000)	(55,024)	183,976
Other Financing Sources (Uses):				
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total other financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(249,000)	(249,000)	(65,024)	183,976
Fund balance, beginning of year	<u>252,522</u>	<u>252,522</u>	<u>252,522</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,522</u>	<u>\$ 3,522</u>	<u>\$ 187,498</u>	<u>\$ 183,976</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures	\$ 11,000	\$ 11,000	\$ 5,611	\$ (5,389)
Interest	2,000	2,000	7,997	5,997
Special assessments	481,300	481,300	480,618	(682)
Total revenues	<u>494,300</u>	<u>494,300</u>	<u>494,226</u>	<u>(74)</u>
EXPENDITURES				
Current:				
General government	1,500	1,500	3,489	(1,989)
Capital outlay	466,900	466,900	-	466,900
Debt service				
Principal	325,000	325,000	325,000	-
Interest and fiscal charges	157,800	157,800	147,274	10,526
Total expenditures	<u>951,200</u>	<u>951,200</u>	<u>475,763</u>	<u>475,437</u>
Excess of revenues				
Over (Under) expenditures	(456,900)	(456,900)	18,463	475,363
Other Financing Sources (Uses):				
Transfers out	(10,000)	(10,000)	(10,000)	-
Total other financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(466,900)	(466,900)	8,463	475,363
Fund balance, beginning of year	<u>500,185</u>	<u>500,185</u>	<u>500,185</u>	<u>-</u>
Fund balance, end of year	<u>\$ 33,285</u>	<u>\$ 33,285</u>	<u>\$ 508,648</u>	<u>\$ 475,363</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 5,000	\$ 5,000	\$ 13,776	\$ 8,776
Interest	500	500	8,827	8,327
Special assessments	224,300	224,300	266,404	42,104
Other revenues	-	4,000	300,000	296,000
Total revenues	<u>229,800</u>	<u>233,800</u>	<u>589,007</u>	<u>355,207</u>
EXPENDITURES				
Current:				
General government	-	4,000	16,083	(12,083)
Capital outlay	327,800	327,800	-	327,800
Debt service:				
Principal	75,000	75,000	65,000	10,000
Interest and fiscal charges	195,900	195,900	157,122	38,778
Total expenditures	<u>598,700</u>	<u>602,700</u>	<u>238,205</u>	<u>364,495</u>
Excess of revenues				
Over (Under) expenditures	<u>(368,900)</u>	<u>(368,900)</u>	<u>350,802</u>	<u>719,702</u>
Other Financing Sources (Uses):				
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total other financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(378,900)	(378,900)	340,802	719,702
Fund balance, beginning of year	<u>467,931</u>	<u>467,931</u>	<u>467,931</u>	<u>-</u>
Fund balance, end of year	<u>\$ 89,031</u>	<u>\$ 89,031</u>	<u>\$ 808,733</u>	<u>\$ 719,702</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.
- The **Family Aquatic** fund is used to account for activities of the City's Family Aquatic center.
- The **Special Projects** fund is used to account for RICO funds, JCEF funds, Magistrate funds and other grants and debt service proceeds restricted for a specific use or project.

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.

Capital Project Funds

- The **Open Spaces Impact Fee** fund is used to account for development impact fees earmarked for open spaces development.
- The **Recreation Impact Fee** fund is used to account for development impact fees earmarked for recreation facilities.
- The **Parks Development Impact Fee** fund is used to account for development impact fees earmarked for City parks.
- The **Library Development Impact Fee** fund is used to account for development impact fees earmarked for improvement of libraries.
- The **Transportation Development Impact Fee** fund is used to account for development impact fees earmarked for improvement of transportation systems for the City.

CITY OF SHOW LOW, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue				
	Local Transportation Assistance	Street Lighting District	Public Transportation	Family Aquatic	Special Projects
ASSETS					
Cash	\$ -	\$ -	\$ 90,055	\$ -	\$ -
Receivables:					
Taxes	-	3,012	-	-	-
Interest	-	-	-	-	-
Assessments	-	-	-	-	-
Intergovernmental	-	-	123,343	-	172,015
Prepaid items	-	-	-	-	-
Restricted cash	-	24,846	-	389,631	923,529
Total assets	<u>\$ -</u>	<u>\$ 27,858</u>	<u>\$ 213,398</u>	<u>\$ 389,631</u>	<u>\$ 1,095,544</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ -	\$ 25,476	\$ 42,579	\$ 26,314	\$ 191,168
Accrued wages and salaries	-	-	-	7,995	-
Deferred revenues	-	-	-	-	32,786
Total liabilities	<u>-</u>	<u>25,476</u>	<u>42,579</u>	<u>34,309</u>	<u>223,954</u>
Fund Balance:					
Nonspendable:					
Prepaid items	-	-	-	-	-
Restricted for:					
Public safety	-	-	-	-	59,486
Public works/streets	-	2,382	-	-	201,104
Non-departmental	-	-	-	-	-
Parks and recreation	-	-	-	370,651	611,000
Debt service	-	-	-	-	-
Committed to:					
Public transportation	-	-	170,819	-	-
Unassigned	-	-	-	(15,329)	-
Total fund balance	<u>-</u>	<u>2,382</u>	<u>170,819</u>	<u>355,322</u>	<u>871,590</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 27,858</u>	<u>\$ 213,398</u>	<u>\$ 389,631</u>	<u>\$ 1,095,544</u>

Debt Service		Capital Project					Total
Improvement District #7	Other Debt Service	Open Spaces Impact Fee	Recreation Impact Fee	Parks Development Impact Fee	Library Development Impact Fee	Transportation Development Impact Fee	
\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,055
-	-	-	-	-	-	-	3,012
1,260	-	-	-	-	-	-	1,260
281,994	-	-	-	-	-	-	281,994
-	-	-	-	-	-	-	295,358
-	773,754	-	-	-	-	-	773,754
121,659	-	139,481	3,142	-	-	-	1,602,288
<u>\$ 404,913</u>	<u>\$ 873,754</u>	<u>\$ 139,481</u>	<u>\$ 3,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,147,721</u>
\$ -	\$ -	\$ 801	\$ -	\$ -	\$ -	\$ -	\$ 286,338
-	-	-	-	-	-	-	7,995
281,358	-	-	-	-	-	-	314,144
281,358	-	801	-	-	-	-	608,477
-	773,754	-	-	-	-	-	773,754
-	-	-	-	-	-	-	59,486
-	-	-	-	-	-	-	203,486
-	-	138,680	-	-	-	-	138,680
-	-	-	3,142	-	-	-	984,793
123,555	100,000	-	-	-	-	-	223,555
-	-	-	-	-	-	-	170,819
-	-	-	-	-	-	-	(15,329)
123,555	873,754	138,680	3,142	-	-	-	2,539,244
<u>\$ 404,913</u>	<u>\$ 873,754</u>	<u>\$ 139,481</u>	<u>\$ 3,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,147,721</u>

CITY OF SHOW LOW, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue				
	Local Transportation Assistance	Street Lighting District	Public Transportation	Family Aquatic Center	Special Projects
REVENUES:					
Taxes	\$ -	\$ 142,745	\$ -	\$ -	\$ -
Intergovernmental	-	-	563,924	-	457,432
Charges for services	-	-	-	90,045	-
Investment earnings	-	40	1,357	18	-
Impact fees	-	-	-	-	-
Special assessments	-	-	-	-	-
Other revenues	-	-	89,244	-	-
Total revenues	<u>-</u>	<u>142,785</u>	<u>654,525</u>	<u>90,063</u>	<u>457,432</u>
EXPENDITURES:					
Current:					
General government	-	-	525,512	-	-
Public safety	-	-	-	-	197,950
Public works/streets	-	140,674	-	-	-
Culture and recreation	-	-	-	359,823	-
Capital outlay	-	-	70,000	94,466	1,304,458
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>-</u>	<u>140,674</u>	<u>595,512</u>	<u>454,289</u>	<u>1,502,408</u>
Excess of revenues Over (under) expenditures	<u>-</u>	<u>2,111</u>	<u>59,013</u>	<u>(364,226)</u>	<u>(1,044,976)</u>
Other Financing Sources (Uses):					
Debt issued	-	-	-	465,117	1,238,782
Transfers out	(12,894)	(1,200)	(88,100)	-	-
Transfers in	-	-	81,600	254,431	601,800
Total other financing sources (uses):	<u>(12,894)</u>	<u>(1,200)</u>	<u>(6,500)</u>	<u>719,548</u>	<u>1,840,582</u>
Net change in fund balances	(12,894)	911	52,513	355,322	795,606
Fund balance, beginning of year	<u>12,894</u>	<u>1,471</u>	<u>118,306</u>	<u>-</u>	<u>75,984</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 2,382</u>	<u>\$ 170,819</u>	<u>\$ 355,322</u>	<u>\$ 871,590</u>

Debt Service		Capital Project					Total
Improvement District #7	Other Debt Service	Open Spaces Impact Fee	Recreation Impact Fee	Parks Development Impact Fee	Library Development Impact Fee	Transportation Development Impact Fee	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142,745
-	10,626	-	-	-	-	-	1,031,982
-	-	-	-	-	-	-	90,045
1,192	5,843	2,744	1,778	78	4	27	13,081
-	-	884	4,695	4,212	3,161	19,442	32,394
139,733	-	-	-	-	-	-	139,733
2,884	-	-	-	-	-	-	92,128
<u>143,809</u>	<u>16,469</u>	<u>3,628</u>	<u>6,473</u>	<u>4,290</u>	<u>3,165</u>	<u>19,469</u>	<u>1,542,108</u>
-	-	-	-	-	-	-	525,512
-	-	-	-	-	-	-	197,950
-	-	-	-	-	-	-	140,674
-	-	-	-	-	-	-	359,823
-	-	40,741	-	-	-	-	1,509,665
55,000	595,000	-	-	-	-	-	650,000
23,623	382,766	-	-	-	-	-	406,389
<u>78,623</u>	<u>977,766</u>	<u>40,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,790,013</u>
<u>65,186</u>	<u>(961,297)</u>	<u>(37,113)</u>	<u>6,473</u>	<u>4,290</u>	<u>3,165</u>	<u>19,469</u>	<u>(2,247,905)</u>
-	-	-	-	-	-	-	1,703,899
(2,000)	-	-	(202,306)	(16,940)	(3,165)	(19,469)	(346,074)
-	1,063,868	-	-	-	-	-	2,001,699
<u>(2,000)</u>	<u>1,063,868</u>	<u>-</u>	<u>(202,306)</u>	<u>(16,940)</u>	<u>(3,165)</u>	<u>(19,469)</u>	<u>3,359,524</u>
63,186	102,571	(37,113)	(195,833)	(12,650)	-	-	1,111,619
60,369	771,183	175,793	198,975	12,650	-	-	1,427,625
<u>\$ 123,555</u>	<u>\$ 873,754</u>	<u>\$ 138,680</u>	<u>\$ 3,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,539,244</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues Over (Under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers out	(12,600)	(13,000)	(12,894)	106
Total other financing Sources (Uses)	(12,600)	(13,000)	(12,894)	106
Net change in fund balances	(12,600)	(13,000)	(12,894)	106
Fund balance, beginning of year	12,894	12,894	12,894	-
Fund balance, end of year	<u>\$ 294</u>	<u>\$ (106)</u>	<u>\$ -</u>	<u>\$ 106</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 143,000	\$ 143,000	\$ 142,745	\$ (255)
Interest	300	300	40	(260)
Total revenues	<u>143,300</u>	<u>143,300</u>	<u>142,785</u>	<u>(515)</u>
EXPENDITURES				
Current:				
Public works/Streets	142,100	142,100	140,674	1,426
Total expenditures	<u>142,100</u>	<u>142,100</u>	<u>140,674</u>	<u>1,426</u>
Excess of revenues				
Over (Under) expenditures	1,200	1,200	2,111	911
Other Financing Sources (Uses):				
Transfers out	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>	<u>-</u>
Total other financing Sources (Uses)	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>	<u>-</u>
Net change in fund balance	-	-	911	911
Fund balance, beginning of year	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,471</u>	<u>\$ 1,471</u>	<u>\$ 2,382</u>	<u>\$ 911</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 642,000	\$ 642,000	\$ 563,924	\$ (78,076)
Interest	-	-	1,357	1,357
Miscellaneous	72,300	72,300	89,244	16,944
Total revenues	<u>714,300</u>	<u>714,300</u>	<u>654,525</u>	<u>(59,775)</u>
EXPENDITURES				
Current:				
General government	575,900	575,900	525,512	50,388
Capital outlay	147,000	157,700	70,000	87,700
Total expenditures	<u>722,900</u>	<u>733,600</u>	<u>595,512</u>	<u>138,088</u>
Excess of revenues				
Over (Under) expenditures	(8,600)	(19,300)	59,013	78,313
Other Financing Sources (Uses):				
Transfers out	(88,100)	(88,100)	(88,100)	-
Transfers in	81,600	81,600	81,600	-
Total other financing Sources (Uses)	<u>(6,500)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>-</u>
Net change in fund balance	(15,100)	(25,800)	52,513	78,313
Fund balance, beginning of year	<u>118,306</u>	<u>118,306</u>	<u>118,306</u>	<u>-</u>
Fund balance, end of year	<u>\$ 103,206</u>	<u>\$ 92,506</u>	<u>\$ 170,819</u>	<u>\$ 78,313</u>

CITY OF SHOW LOW, ARIZONA
FAMILY AQUATIC CENTER
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 102,900	\$ 102,900	\$ 90,045	\$ (12,855)
Interest	-	-	18	18
Total revenues	<u>102,900</u>	<u>102,900</u>	<u>90,063</u>	<u>(12,837)</u>
EXPENDITURES				
Current:				
Culture and recreation	352,900	352,900	359,823	(6,923)
Capital outlay	-	465,200	94,466	370,734
Total expenditures	<u>352,900</u>	<u>818,100</u>	<u>454,289</u>	<u>363,811</u>
Excess of revenues				
Over (Under) expenditures	(250,000)	(715,200)	(364,226)	350,974
Other Financing Sources (Uses):				
Debt issued	-	465,200	465,117	(83)
Transfers in	250,000	250,000	254,431	4,431
Total other financing Sources (Uses)	<u>250,000</u>	<u>715,200</u>	<u>719,548</u>	<u>4,348</u>
Net change in fund balance	-	-	355,322	355,322
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 355,322</u>	<u>\$ 355,322</u>

CITY OF SHOW LOW, ARIZONA
SPECIAL PROJECTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 8,774,600	\$ 4,515,700	\$ 457,432	\$ (4,058,268)
Total revenues	<u>8,774,600</u>	<u>4,515,700</u>	<u>457,432</u>	<u>(4,058,268)</u>
EXPENDITURES				
Current:				
Public safety	20,000	252,700	197,950	54,750
Culture and recreation	-	-	-	-
Grant contingencies	8,500,000	4,245,500	-	4,245,500
Capital outlay	<u>1,329,600</u>	<u>2,195,800</u>	<u>1,304,458</u>	<u>891,342</u>
Total expenditures	<u>9,849,600</u>	<u>6,694,000</u>	<u>1,502,408</u>	<u>5,191,592</u>
Excess of revenues				
Over (Under) expenditures	(1,075,000)	(2,178,300)	(1,044,976)	1,133,324
Other Financing Sources (Uses):				
Debt issued	500,000	1,238,900	1,238,782	(118)
Transfers in	<u>575,000</u>	<u>601,800</u>	<u>601,800</u>	<u>-</u>
Total other financing Sources (Uses)	<u>1,075,000</u>	<u>1,840,700</u>	<u>1,840,582</u>	<u>(118)</u>
Net change in fund balance	-	(337,600)	795,606	1,133,206
Fund balance, beginning of year	<u>75,984</u>	<u>75,984</u>	<u>75,984</u>	<u>-</u>
Fund balance, end of year	<u>\$ 75,984</u>	<u>\$ (261,616)</u>	<u>\$ 871,590</u>	<u>\$ 1,133,206</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 2,000	\$ 2,000	\$ 2,884	\$ 884
Interest	500	500	1,192	692
Special assessments	79,300	79,300	139,733	60,433
Total revenues	<u>81,800</u>	<u>81,800</u>	<u>143,809</u>	<u>62,009</u>
EXPENDITURES				
Capital outlay	103,100	103,100	-	103,100
Debt service:				
Principal	55,000	55,000	55,000	-
Interest and fiscal charges	25,300	25,300	23,623	1,677
Total expenditures	<u>183,400</u>	<u>183,400</u>	<u>78,623</u>	<u>104,777</u>
Excess of revenues				
Over (Under) expenditures	(101,600)	(101,600)	65,186	166,786
Other Financing Sources (Uses):				
Transfers out	(2,000)	(2,000)	(2,000)	-
Total other financing Sources (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,000)</u>	<u>-</u>
Net change in fund balance	(103,600)	(103,600)	63,186	166,786
Fund balance, beginning of year	<u>60,369</u>	<u>60,369</u>	<u>60,369</u>	<u>-</u>
Fund balance, end of year	<u>\$ (43,231)</u>	<u>\$ (43,231)</u>	<u>\$ 123,555</u>	<u>\$ 166,786</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ -	\$ -	\$ 10,626	\$ 10,626
Interest	-	-	5,843	5,843
Total revenues	<u>-</u>	<u>-</u>	<u>16,469</u>	<u>16,469</u>
EXPENDITURES				
Debt service				
Principal	595,000	595,000	595,000	-
Interest and fiscal charges	<u>377,100</u>	<u>377,100</u>	<u>382,766</u>	<u>(5,666)</u>
Total expenditures	<u>972,100</u>	<u>972,100</u>	<u>977,766</u>	<u>(5,666)</u>
Excess of revenues				
Over (Under) expenditures	<u>(972,100)</u>	<u>(972,100)</u>	<u>(961,297)</u>	<u>10,803</u>
Other Financing Sources (Uses):				
Transfers in	<u>988,100</u>	<u>988,100</u>	<u>1,063,868</u>	<u>75,768</u>
Total other financing Sources (Uses)	<u>988,100</u>	<u>988,100</u>	<u>1,063,868</u>	<u>75,768</u>
Net change in fund balance	16,000	16,000	102,571	86,571
Fund balance, beginning of year	<u>771,183</u>	<u>771,183</u>	<u>771,183</u>	<u>-</u>
Fund balance, end of year	<u>\$ 787,183</u>	<u>\$ 787,183</u>	<u>\$ 873,754</u>	<u>\$ 86,571</u>

CITY OF SHOW LOW, ARIZONA
OPEN SPACES IMPACT FEE
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 1,200	\$ 1,200	\$ 2,744	\$ 1,544
Impact fees	<u>5,000</u>	<u>5,000</u>	<u>884</u>	<u>(4,116)</u>
Total revenues	<u>6,200</u>	<u>6,200</u>	<u>3,628</u>	<u>(2,572)</u>
EXPENDITURES				
Capital outlay	<u>182,600</u>	<u>182,600</u>	<u>40,741</u>	<u>141,859</u>
Total expenditures	<u>182,600</u>	<u>182,600</u>	<u>40,741</u>	<u>141,859</u>
Excess of revenues				
Over (Under) expenditures	(176,400)	(176,400)	(37,113)	139,287
Fund balance, beginning of year	<u>175,793</u>	<u>175,793</u>	<u>175,793</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (607)</u></u>	<u><u>\$ (607)</u></u>	<u><u>\$ 138,680</u></u>	<u><u>\$ 139,287</u></u>

**CITY OF SHOW LOW, ARIZONA
RECREATION IMPACT FEE
CAPITAL PROJECT FUND**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interest	\$ 1,200	\$ 1,200	\$ 1,778	\$ 578
Impact fees	5,000	5,000	4,695	(305)
Total revenues	<u>6,200</u>	<u>6,200</u>	<u>6,473</u>	<u>273</u>
EXPENDITURES				
Capital outlay	<u>205,000</u>	<u>2,600</u>	<u>-</u>	<u>2,600</u>
Total expenditures	<u>205,000</u>	<u>2,600</u>	<u>-</u>	<u>2,600</u>
Excess of revenues Over (Under) expenditures	(198,800)	3,600	6,473	2,873
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>(202,400)</u>	<u>(202,306)</u>	<u>94</u>
Total other financing Sources (Uses)	<u>-</u>	<u>(202,400)</u>	<u>(202,306)</u>	<u>94</u>
Net change in fund balances	(198,800)	(198,800)	(195,833)	2,967
Fund balance, beginning of year	<u>198,975</u>	<u>198,975</u>	<u>198,975</u>	<u>-</u>
Fund balance, end of year	<u>\$ 175</u>	<u>\$ 175</u>	<u>\$ 3,142</u>	<u>\$ 2,967</u>

CITY OF SHOW LOW, ARIZONA
PARKS DEVELOPMENT IMPACT FEE
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ -	\$ -	\$ 78	\$ 78
Impact fees	<u>5,000</u>	<u>5,000</u>	<u>4,212</u>	<u>(788)</u>
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>4,290</u>	<u>(710)</u>
EXPENDITURES				
Capital outlay	<u>50,000</u>	<u>33,000</u>	<u>-</u>	<u>33,000</u>
Total expenditures	<u>50,000</u>	<u>33,000</u>	<u>-</u>	<u>33,000</u>
Excess of revenues Over (Under) expenditures	(45,000)	(28,000)	4,290	32,290
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>(17,000)</u>	<u>(16,940)</u>	<u>60</u>
Total other financing Sources (Uses)	<u>-</u>	<u>(17,000)</u>	<u>(16,940)</u>	<u>60</u>
Net change in fund balances	(45,000)	(45,000)	(12,650)	32,350
Fund balance, beginning of year	<u>12,650</u>	<u>12,650</u>	<u>12,650</u>	<u>-</u>
Fund balance, end of year	<u>\$ (32,350)</u>	<u>\$ (32,350)</u>	<u>\$ -</u>	<u>\$ 32,350</u>

CITY OF SHOW LOW, ARIZONA
LIBRARY DEVELOPMENT IMPACT FEE
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Interest	\$ -	\$ -	\$ 4	\$ 4
Impact fees	5,000	5,000	3,161	(1,839)
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>3,165</u>	<u>(1,835)</u>
EXPENDITURES				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues Over (Under) expenditures	<u>5,000</u>	<u>5,000</u>	<u>3,165</u>	<u>(1,835)</u>
Other Financing Sources (Uses):				
Transfers out	(5,000)	(5,000)	(3,165)	1,835
Total other financing Sources (Uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>(3,165)</u>	<u>1,835</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SHOW LOW, ARIZONA
TRANSPORTATION DEVELOPMENT IMPACT FEE
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Interest	\$ -	\$ -	\$ 27	\$ 27
Impact fees	5,000	19,500	19,442	(58)
Total revenues	5,000	19,500	19,469	(31)
EXPENDITURES				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues Over (Under) expenditures	5,000	19,500	19,469	(31)
Other Financing Sources (Uses):				
Transfers out	(5,000)	(19,500)	(19,469)	31
Total other financing Sources (Uses)	(5,000)	(19,500)	(19,469)	31
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

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	77
<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	82
<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	90
<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.....	96
<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	99
<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
Financial Trends
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net investment in capital assets	\$ 3,268,520	\$ 5,047,274	\$ 8,025,270	\$ 11,108,140	\$ 10,495,243	\$ 17,649,736	\$ 26,842,932	\$ 47,397,604	\$ 49,802,236	\$ 49,419,010
Restricted	10,449,679	9,833,472	8,719,606	8,366,723	2,014,571	3,613,847	2,406,492	2,343,990	1,793,086	2,741,846
Unrestricted	3,756,812	5,180,212	6,020,782	8,969,170	24,688,903	23,897,494	18,756,457	14,288,968	13,041,888	12,797,101
Total governmental activities net position	<u>\$17,475,011</u>	<u>\$20,060,958</u>	<u>\$22,765,658</u>	<u>\$28,444,033</u>	<u>\$37,198,717</u>	<u>\$ 45,161,077</u>	<u>\$ 48,005,881</u>	<u>\$ 64,030,562</u>	<u>\$ 64,637,210</u>	<u>\$ 64,957,957</u>
Business-type activities										
Net investment in capital assets	\$39,637,789	\$42,473,129	\$43,445,397	\$46,176,330	\$51,406,630	\$ 59,791,861	\$ 59,558,080	\$ 45,065,106	\$ 44,340,440	\$ 43,255,726
Restricted	3,850,746	8,819,520	3,909,842	3,909,842	5,985,776	6,101,282	6,825,104	7,170,515	1,470,312	4,630,387
Unrestricted	394,501	(6,181,546)	1,075,383	2,478,312	3,696,002	3,531,432	2,293,898	1,619,549	7,959,236	5,821,890
Total Business-type activities net position	<u>\$43,883,036</u>	<u>\$45,111,103</u>	<u>\$48,430,622</u>	<u>\$52,564,484</u>	<u>\$61,088,408</u>	<u>\$ 69,424,575</u>	<u>\$ 68,677,082</u>	<u>\$ 53,855,170</u>	<u>\$ 53,769,988</u>	<u>\$ 53,708,003</u>
Primary government										
Net investment in capital assets	\$42,906,309	\$47,520,403	\$51,470,667	\$57,284,470	\$61,901,873	\$ 77,441,597	\$ 86,401,012	\$ 92,462,710	\$ 94,142,676	\$ 92,674,736
Restricted	14,300,425	18,652,992	12,629,448	12,276,565	8,000,347	9,715,129	9,231,596	9,514,505	3,263,398	7,372,233
Unrestricted	4,151,313	(1,001,334)	7,096,165	11,447,482	28,384,905	27,428,926	21,050,355	15,908,517	21,001,124	18,618,991
	<u>\$61,358,047</u>	<u>\$65,172,061</u>	<u>\$71,196,280</u>	<u>\$81,008,517</u>	<u>\$98,287,125</u>	<u>\$114,585,652</u>	<u>\$116,682,963</u>	<u>\$117,885,732</u>	<u>\$118,407,198</u>	<u>\$118,665,960</u>

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

Expenses	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 5,513,628	\$ 4,426,519	\$ 5,738,988
Public safety	2,266,130	2,844,624	3,005,895	3,759,395	4,061,614	4,270,497	4,389,665	5,105,901	5,301,924	5,301,285
Public Works ¹	2,766,797	2,872,362	2,872,918	3,077,390	4,261,420	4,051,944	4,507,493	6,055,886	6,550,314	6,529,143
Non-departmental ²	-	-	-	-	-	-	631,619	767,177	623,313	745,924
Culture and recreation ³	597,382	704,400	845,588	849,871	985,496	973,501	1,026,732	1,573,326	1,463,546	1,281,887
Interest on long-term debt	781,075	725,521	929,135	603,688	826,485	755,375	1,277,768	974,645	975,981	860,185
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	19,990,563	19,341,597	20,457,412
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	2,378,246	2,255,641	2,534,172
Wastewater	-	1,467,116	1,742,718	2,066,814	1,659,410	2,482,065	2,712,337	2,455,025	2,233,567	2,458,078
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	653,491	675,893	896,932
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	5,486,762	5,165,101	5,889,182
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	\$ 25,477,325	\$ 24,506,698	\$ 26,346,594
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	651,232	272,940	998,298	456,815	608,541	509,708	2,787,815	2,213,490	2,424,804	2,964,534
Culture and recreation	74,501	82,630	104,526	78,507	1,017,628	674,822	128,149	289,722	218,512	245,116
Other activities	117,315	79,052	82,312	895,774	1,593,626	1,569,276	650,640	1,620,410	1,716,854	1,847,985
Operating grants and contributions	427,430	216,550	654,087	152,870	-	-	2,269,916	3,804,819	2,972,526	1,997,735
Capital grants and contributions	960,209	382,948	379,539	333,283	6,210,914	3,013,594	2,808,785	3,715,329	824,743	1,539,014
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	11,643,770	8,157,439	8,594,384
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	2,048,688	2,190,079	2,785,093
Wastewater	-	1,668,035	1,938,463	2,270,913	2,686,146	2,547,067	1,912,187	1,914,523	1,965,828	2,060,450
Airport ¹	872,047	767,773	930,197	1,040,160	1,898,709	1,240,029	1,083,344	-	-	-
Family Aquatic Center ³	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	723,717	746,192	959,287
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	1,692,976	236,198	242,189
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	6,379,904	5,138,297	6,047,019
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	\$ 18,023,674	\$ 13,295,736	\$ 14,641,403

1 Airport is reported with Public Works beginning 2010

2 Non-departmental is reported with General Government prior to 2009

3 Family Aquatic Center is reported with Culture and Recreation beginning 2010

(continued)

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</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)	\$ (8,346,793)	\$ (11,184,158)	\$ (11,863,028)
Business-type activities	6,305,081	336,594	2,624,803	2,706,474	6,399,628	4,809,315	(1,869,127)	893,142	(26,804)	157,837
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)	\$ (7,453,651)	\$ (11,210,962)	\$ (11,705,191)
General Revenues and Other Changes in Net Position										
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	\$ 8,341,697	\$ 8,695,613	\$ 8,779,526
Franchise taxes	218,654	250,610	283,449	301,769	349,826	397,091	416,309	460,863	420,157	429,826
State sales taxes	601,809	647,382	712,867	830,093	939,542	908,471	786,482	725,415	761,358	832,976
Urban revenue sharing	808,564	694,977	715,536	831,807	1,029,042	1,514,108	1,459,297	1,250,084	956,935	915,474
Auto-in-lieu	421,988	426,779	440,379	498,645	590,144	589,820	560,171	514,687	511,760	551,817
Other	1,547,858	3,616,225	2,171,592	4,262,883	779,170	3,139,681	142,188	139,867	136,979	142,745
Investment earnings	110,061	78,058	172,331	337,177	828,583	489,904	157,504	65,012	113,005	137,663
Gain (Loss) on sales of assets	54,777	(67,670)	-	-	-	1,416,206	12,535	4,700	-	-
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)	125,000	195,000	293,748
Total governmental activities	9,864,065	12,802,788	12,141,776	16,040,755	14,238,673	17,130,484	11,691,261	11,627,325	11,790,807	12,083,775
Business-type activities:										
Investment earnings	104,387	100,665	146,124	212,550	408,605	660,278	235,930	107,417	136,625	271,780
Gain (Loss) on sales of assets	(69,781)	169,704	1,178	4,813	2,039	10,544	3,833	(305,132)	-	(197,854)
Transfers	801,285	621,104	928,434	1,210,025	1,713,652	2,665,190	881,872	(125,000)	(195,000)	(293,748)
Total business-type activities	835,891	891,473	1,075,736	1,427,388	2,124,296	3,336,012	1,121,635	(322,715)	(58,375)	(219,822)
Total Primary government	\$ 10,699,956	\$ 13,694,261	\$ 13,217,512	\$ 17,468,143	\$ 16,362,969	\$ 20,466,496	\$ 12,812,896	\$ 11,304,610	\$ 11,732,432	\$ 11,863,953
Change in Net Position										
Governmental activities	\$ 1,761,585	\$ 2,585,947	\$ 2,704,700	\$ 5,678,375	\$ 8,754,684	\$ 7,962,360	\$ 2,844,805	\$ 3,280,532	\$ 606,649	\$ 220,747
Business-type activities	7,140,972	1,228,067	3,700,539	4,133,862	8,523,924	8,145,327	(747,492)	570,427	(85,179)	(61,985)
Total primary government	\$ 8,902,557	\$ 3,814,014	\$ 6,405,239	\$ 9,812,237	\$ 17,278,608	\$ 16,107,687	\$ 2,097,313	\$ 3,850,959	\$ 521,470	\$ 158,762

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

	Fiscal Year									
	2003 *	2004 *	2005 *	2006 *	2007 *	2008	2009	2010	2011	2012
General fund										
Nonspendable:										
Inventories and prepaids	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,344	\$ 57,763	\$ 44,348	\$ 14,071	\$ 31,408
Restricted for:										
Debt service	-	-	-	-	-	-	-	-	76,980	76,980
Capital outlay	124,721	382,809	457,619	780,003	488,534	443,232	-	-	-	-
Committed to:										
Cemetery	-	-	-	-	-	128,494	160,876	184,844	188,835	42,707
Unassigned	3,382,850	4,581,623	5,174,543	8,036,445	10,874,318	12,722,515	10,907,754	6,432,775	4,936,910	4,992,131
Total general fund	\$ 3,507,571	\$ 4,964,432	\$ 5,632,162	\$ 8,816,448	\$ 11,362,852	\$ 13,338,585	\$ 11,126,393	\$ 6,661,967	\$ 5,216,796	\$ 5,143,226
All other governmental funds										
Nonspendable:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 445,200	\$ 748,916	\$ 895,900	\$ 900,072	\$ 952,943
Restricted for:										
Public Safety	-	-	-	-	-	-	-	-	-	59,486
Public works/streets	-	-	-	-	-	24,967	40,705	58,079	90,349	203,486
Non-departmental	-	-	-	-	-	-	-	171,445	175,793	138,680
Parks and recreation	-	-	-	-	-	-	-	193,771	211,625	984,793
Debt service	789,581	619,181	650,680	714,149	852,413	1,840,435	1,516,965	1,212,075	1,281,007	1,728,434
Other	-	-	-	-	-	-	-	-	-	-
Committed to:										
Public transportation	-	-	-	-	-	33,749	116,410	134,102	118,306	170,819
Assigned to:										
Public works/streets	-	-	-	-	-	3,086,694	112,863	1,033,882	1,202,967	1,760,601
Debt service	-	-	-	-	-	-	-	-	35,783	-
Unassigned, reported in:										
Special revenue funds	311,208	229,119	251,762	230,371	7,848,236	-	-	(21,490)	(10,395)	(16,582)
Total all other governmental funds	\$ 1,100,789	\$ 848,300	\$ 902,442	\$ 944,520	\$ 8,700,649	\$ 5,431,045	\$ 2,535,859	\$ 3,677,764	\$ 4,005,507	\$ 5,982,660

* The City began to report fund balance classification per GASB Statement 54 in fiscal year 2011. Balances previously reported as reserved are reported as restricted and balances previously reported as unreserved are reported as unassigned. The fund balance classification per GASB Statement 54 for restricted, committed or assigned for the years 2002 through 2007 could not be determined.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 9,080,535	\$ 11,044,732	\$ 12,085,009	\$ 13,846,075	\$ 15,586,015	\$ 15,921,108	\$ 9,597,142	\$ 8,942,430	\$ 9,252,749	\$ 9,352,097
Licenses and permits	367,881	529,895	623,009	1,192,968	1,043,028	697,482	175,143	170,564	181,638	144,466
Intergovernmental	1,724,474	735,695	1,032,926	1,531,190	1,534,809	1,355,159	5,754,141	7,250,735	5,520,122	5,249,315
Charges for services	321,800	400,102	449,387	736,688	583,141	487,048	236,118	1,479,960	1,581,724	1,657,809
Fines	224,176	202,023	122,958	126,915	131,878	167,787	225,171	608,860	826,720	730,882
Special assessments	1,122,373	1,134,646	1,165,709	1,133,569	1,162,670	1,401,906	1,501,157	1,465,205	1,375,197	1,366,683
Investment earnings	110,061	78,058	166,180	337,177	828,583	489,904	150,024	63,957	114,720	135,595
Miscellaneous	479,939	400,531	298,768	263,448	564,102	398,052	1,168,981	463,964	351,183	667,430
Total Revenues	\$ 13,431,239	\$ 14,525,682	\$ 15,943,946	\$ 19,168,030	\$ 21,434,226	\$ 20,918,446	\$ 18,807,877	\$ 20,445,675	\$ 19,204,053	\$ 19,304,277
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	\$ 4,352,980	\$ 3,274,650	\$ 3,161,365
Public safety	2,058,233	2,366,808	2,660,077	3,295,460	3,719,234	3,841,165	4,392,538	4,596,844	4,761,547	4,998,867
Public works	2,060,795	2,190,291	2,586,569	2,890,444	3,454,781	2,951,496	3,037,275	3,001,780	3,382,640	3,524,603
Non-departmental/Culture and recreation	638,151	717,434	864,334	985,085	1,023,658	1,023,432	2,645,887	5,755,111	4,699,849	2,072,755
Capital outlay	1,903,744	1,977,143	2,614,386	2,124,818	3,378,240	9,977,641	6,247,917	3,345,259	2,376,881	3,208,043
Principal	1,575,574	1,389,866	1,232,146	1,080,052	1,175,440	1,332,048	1,522,234	2,071,500	1,482,000	1,565,000
Interest and fiscal charges	784,515	725,521	680,594	603,688	805,199	951,412	1,016,563	1,046,806	988,913	880,470
Total expenditures	12,655,863	12,700,206	14,306,402	14,731,641	18,133,649	25,171,642	23,295,916	24,170,280	20,966,480	19,411,103
Revenues over (under) expenditures	775,376	1,825,476	1,637,544	4,436,389	3,300,577	(4,253,196)	(4,488,039)	(3,724,605)	(1,762,427)	(106,826)
Other finance sources (Uses)										
Sale of Assets	-	-	-	-	-	1,416,206	12,534	4,696	-	12,762
Bond Proceeds	-	-	-	-	8,658,917	4,265,000	250,000	-	450,000	1,703,899
Transfers in (out)	(801,285)	(621,104)	(915,672)	(1,210,025)	(1,713,652)	(2,665,190)	(881,872)	125,000	195,000	293,748
Total other finance sources (uses)	(801,285)	(621,104)	(915,672)	(1,210,025)	6,945,265	3,016,016	(619,338)	129,696	645,000	2,010,409
Net change in fund balances	\$ (25,909)	\$ 1,204,372	\$ 721,872	\$ 3,226,364	\$ 10,245,842	\$ (1,237,180)	\$ (5,107,377)	\$ (3,594,909)	\$ (1,117,427)	\$ 1,903,583
Debt service as a percentage of noncapital expenditures	28.12%	24.58%	19.56%	15.41%	15.50%	17.69%	17.50%	17.61%	15.33%	17.78%

CITY OF SHOW LOW, ARIZONA
Revenue Capacity
Principal Sales Tax Remitters
Current Year and Nine Years Ago

<u>Tax Remitter</u>	<u>Fiscal Year 2012</u>			<u>Fiscal Year 2003</u>		
	<u>Tax Liability</u>	<u>Rank</u>	<u>Percentage of Total</u>	<u>Tax Liability</u>	<u>Rank</u>	<u>Percentage of Total</u>
	<u>\$ -</u>		<u>0.0%</u>	<u>\$ -</u>		<u>0%</u>

Note: This level of information would be a violation of the confidentiality agreement with the Arizona Department of Revenue.

CITY OF SHOW LOW, ARIZONA

Revenue Capacity

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

Last Ten Fiscal Years

(modified accrual basis of accounting)

TAXABLE RETAIL SALES (1)

City of Show Low (1)

<u>Fiscal Year</u>	<u>Amount</u>
2003	236,536,240
2004	260,656,750
2005	283,279,602
2006	313,876,233
2007	334,022,100
2008	332,620,700
2009	306,724,210
2010	297,933,456
2011	297,772,527
2012	323,196,420

Navajo County (1)

<u>Fiscal Year</u>	<u>Amount</u>
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
2010	705,557,999
2011	758,437,095
2012	819,160,593

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

<u>Category</u>	<u>Rate</u>
Services	2%
Manufacturing	2%
Construction	2%
Hotel\Other Lodging	2%
Restaurants and Bars	2%
Retail (including food sales)	2%
Transportation/Communications/ Utilities	2%
Mining	2%
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
Revenue Capacity
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>
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	9,038,612	786,482	1,459,297	416,309	560,171	12,260,871
2010	8,341,704	725,415	1,250,084	460,863	514,687	11,292,753
2011	8,383,267	761,358	956,935	420,157	511,760	11,033,477
2012	8,864,645	832,976	915,474	429,826	551,817	11,594,738

Source: City of Show Low Finance Department

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

Fiscal Year	Construction	Utilities	Wholesale	Retail	Restaurants	Real Estate	Services	Others	Total	Percentage Change from Prior Year
2002-2003	652,773	287,999	123,471	4,730,725	353,551	168,737	366,706	198,492	6,882,454	4.01%
2003-2004	895,577	137,473	134,455	5,213,135	375,041	195,926	332,265	401,685	7,685,556	11.67%
2004-2005	1,000,458	107,850	205,425	5,665,592	444,885	414,040	203,978	502,663	8,544,891	11.18%
2005-2006	1,471,231	144,500	265,074	6,277,525	540,826	473,152	191,733	560,920	9,924,958	16.15%
2006-2007	1,725,329	184,492	305,802	6,680,442	577,688	680,273	170,973	639,955	10,964,954	10.48%
2007-2008	1,819,140	245,124	255,190	6,652,414	553,708	648,069	152,106	616,590	10,942,341	-0.21%
2008-2009	801,477	219,915	165,420	6,134,484	528,757	543,947	135,887	508,726	9,038,612	-17.40%
2009-2010	436,445	288,846	123,085	5,958,669	502,095	433,503	131,006	468,055	8,341,704	-7.71%
2010-2011	451,684	269,502	178,849	5,955,451	458,669	424,060	127,555	517,498	8,383,267	0.50%
2011-2012	427,107	285,535	171,905	6,463,928	486,181	368,225	143,893	517,872	8,864,645	5.74%

Source: Arizona Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the cities privilege tax revenues.

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

<u>Tax Year</u>	<u>Net Assessed Value</u>	<u>Total Value</u>	<u>Ratio of Net Assessed to Cash Values</u>
2003	78,807,745	560,847,052	14%
2004	89,338,936	634,210,704	14%
2005	94,162,089	677,090,505	14%
2006	103,182,998	767,788,032	13%
2007	115,815,162	882,912,270	13%
2008	144,656,369	1,124,883,712	13%
2009	183,337,696	1,599,217,618	11%
2010	190,067,004	1,559,074,446	12%
2011	170,077,968	1,409,163,131	12%
2012	158,030,998	1,304,286,735	12%

Source: Arizona Department of Revenue

CITY OF SHOW LOW, ARIZONA
Revenue Capacity
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>
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
2009-10	-	-	0.5572	1.1308	4.5345	6.2225
2010-11	-	-	0.5984	1.2387	5.0214	6.8585
2011-12	-	-	0.6401	1.3515	5.1577	7.1493

Source: Navajo County Assessor's Office

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

Tax Year	Original Property Assessments	Collected to June 30th, <u>End of Tax Fiscal Year</u>		Percent of Adjusted Levy	Taxes Receivable
		Adjustments	Amount		
2003	99,937	810	99,081	100%	45
2004	100,651	967	99,641	100%	42
2005	97,986	382	97,549	100%	55
2006	101,262	26	101,165	100%	71
2007	125,990	115	125,773	100%	101
2008	142,973	276	142,469	100%	228
2009	140,460	390	139,569	100%	501
2010	138,824	589	137,163	99%	1,072
2011	142,602	211	133,299	94%	9,092
2012	143,000	-	-	0%	143,000

Source: Navajo County Treasurer's Office

CITY OF SHOW LOW, ARIZONA
Revenue Capacity
Special Assesment Billings and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Assessments Billed</u>	<u>Total Assessments Collected</u>	<u>Ratio of Collections to Amount Billed</u>	<u>Net Outstanding Assessments</u>
2002-2003	1,129,272	1,123,040	99.45%	6,231
2003-2004	1,137,258	1,148,061	100.95%	(10,803)
2004-2005	1,150,101	1,108,736	96.40%	41,365
2005-2006	1,164,262	1,199,034	102.99%	(34,772)
2006-2007	1,185,339	1,183,457	99.84%	1,881
2007-2008	1,399,158	1,437,350	102.73%	(38,192)
2008-2009	1,408,092	1,428,904	92.43%	(20,812)
2009-2010	1,398,024	1,387,109	99.22%	10,915
2010-2011	1,251,206	1,229,768	98.29%	21,438
2011-2012	1,008,039	970,211	96.25%	37,828

Source: City of Show Low Finance Department

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

Fiscal Year	Governmental Activities					Business-Type Activities				Total Primary Government	Percentage of Personal Income	Debt Per Capita
	Special Assessment Bonds	Show Low Bluffs CFD Bonds	Certificates of Participation	GADA Bonds	Loans Payable	Certificates of Participation	GADA Bonds	WIFA Bonds	Loans Payable			
2003	9,310,000	-	3,167,142	-	758,169	2,992,858	-	-	177,533	16,405,702	907.83%	1,867
2004	8,665,000	-	2,776,424	-	304,021	2,623,576	-	-	351,688	14,720,709	761.46%	1,572
2005	8,045,000	-	2,367,740	-	238,608	2,237,260	-	-	380,504	13,269,112	625.74%	1,356
2006	7,445,000	-	1,941,090	-	126,259	1,833,910	-	-	102,551	11,448,810	506.37%	1,158
2007	6,775,000	2,014,000	1,491,241	6,630,000	12,478	1,408,759	1,740,000	-	46,649	20,118,127	833.86%	1,906
2008	6,770,000	2,455,000	1,018,193	9,600,000	9,875	961,807	1,740,000	-	-	22,554,875	888.16%	1,966
2009	6,083,000	2,395,000	521,946	9,305,000	256,167	493,054	1,675,000	-	-	20,729,167	786.94%	1,672
2010	5,394,000	2,335,000	-	10,370,000	200,000	-	-	250,000	-	18,549,000	676.30%	1,740
2011	4,617,000	2,725,000	-	9,775,000	150,000	-	-	2,240,296	-	19,507,296	691.20%	1,764
2012	3,787,000	2,660,000	-	9,155,000	100,000	-	-	3,336,133	-	19,038,133	655.56%	1,663

CITY OF SHOW LOW, ARIZONA

Debt Capacity

**Ratios of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Net Assessed Value	General Obligation Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita (a)
2003	78,807,745	-	0.0%	-
2004	89,338,936	-	0.0%	-
2005	94,162,089	-	0.0%	-
2006	103,182,998	-	0.0%	-
2007	115,815,162	-	0.0%	-
2008	144,656,369	-	0.0%	-
2009	183,337,696	-	0.0%	-
2010	190,067,004	-	0.0%	-
2011	170,077,968	-	0.0%	-
2012	158,030,998	-	0.0%	-

Source: Arizona Department of Revenue and City of Show Low finance department

(a) Population information is shown on page 96

CITY OF SHOW LOW, ARIZONA
Debt Capacity
Direct and Overlapping Governmental Activities Debt
June 30, 2012

Government Unit	Net Debt Outstanding	Percentage Applicable to the City of Show Low	Amount Applicable to the City of Show Low
Navajo County	\$ -	n/a	\$ -
Northland Pioneer College	-	n/a	-
Show Low School District #10 - 2003B	4,325,000	71.80%	3,105,350
Subtotal, overlapping debt			3,105,350
City direct debt	20,642,032	100.00%	20,642,032
Total direct and overlapping debt			\$ 23,747,382
Population			11,447
Overlapping debt per capita			\$ 271
Direct and overlapping debt per capita			\$ 2,075

Source: Navajo County Finance Department

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of Show Low. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account.

CITY OF SHOW LOW, ARIZONA
Debt Capacity
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	\$ 171,336,027	\$ 171,336,027
Total assessed value	\$ 171,336,027	\$ 171,336,027
Legal debt margin:		
Debt limitation	\$ 34,267,205	\$ 10,280,162
Debt applicable to limitation:		
General Obligation Bonds	-	-
Total debt applicable to limitation	-	-
Legal debt margin	\$ 34,267,205	\$ 10,280,162
Total debt applicable to the limit as a percentage of the limit	0%	0%

Arizona's Constitution states that a municipality cannot issue general obligation bonds in excess of 6% of the assessed valuation for general municipal purposes.

Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purposes such as supplying water and sewer services and recreational and playground facilities.

CITY OF SHOW LOW, ARIZONA

Debt Capacity

Schedule of Water and Wastewater Revenue Bond Coverage

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Operating Revenues (a)	Operating Expenses (b)	Net Revenue Available for Debt Service	Revenue Bond/Loan/CFP Debt Service			
				Principal	Interest	Total	Coverage
2003	\$ 2,114,593	1,366,191	748,403	267,500	143,838	411,338	181.9%
2004	\$ 2,370,779	1,409,525	961,253	280,000	127,047	407,047	236.2%
2005	\$ 2,810,749	1,585,495	1,225,254	320,504	97,322	417,826	293.2%
2006	\$ 3,491,058	1,873,418	1,617,640	364,186	96,940	461,126	350.8%
2007	\$ 3,790,578	2,178,135	1,612,442	365,402	65,155	430,557	374.5%
2008	\$ 3,937,159	2,433,130	1,504,029	320,000	49,269	369,269	407.3%
2009	\$ 3,798,657	3,228,784	569,873	335,000	33,048	368,048	154.8%
2010	\$ 3,853,768	2,346,901	1,506,867	352,500	16,632	369,132	408.2%
2011	\$ 4,203,385	2,394,160	1,809,225	9,430	6,490	15,920	11364.1%
2012	\$ 4,845,543	2,809,075	2,036,468	9,704	92,015	101,720	2002.0%

Source: City of Show Low Finance Department

(a) Total revenues exclusive of transfers, interest, sale of assets & debt proceeds

(b) Total expenses exclusive of depreciation, bond interest and capital costs

CITY OF SHOW LOW, ARIZONA
Debt Capacity
Pledged Revenue coverage
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Special Assessment Bonds				Show Low Bluff CFD Bonds				GADA Bonds			
	Special Assessments Collected	Principal	Interest	Coverage	Bluff CFD Tax Collected	Principal	Interest	Coverage	Excise Tax Collected	Principal	Interest	Coverage
2003	\$ 1,123,040	\$ 595,000	\$ 599,072	94%	\$ -	\$ -	\$ -	0%	\$ 8,933,469	\$ -	\$ -	0%
2004	1,148,061	645,000	552,606	96%	\$ -	\$ -	\$ -	0%	\$ 9,705,303	\$ -	\$ -	0%
2005	1,108,736	626,517	517,538	97%	\$ -	\$ -	\$ -	0%	\$ 10,697,122	\$ -	\$ 28,595	37409%
2006	1,199,034	600,000	478,416	111%	\$ -	\$ -	\$ -	0%	\$ 12,387,273	\$ 215,000	\$ 386,013	2061%
2007	1,183,457	670,000	438,928	107%	\$ -	\$ -	\$ -	0%	\$ 13,873,509	\$ 360,000	\$ 374,513	1889%
2008	1,437,350	605,000	427,519	139%	\$ 150,659	\$ 39,000	\$ 122,782	93%	\$ 14,351,831	\$ 375,000	\$ 359,813	1953%
2009	1,428,904	687,000	391,587	132%	\$ 238,098	\$ 60,000	\$ 136,319	121%	\$ 12,260,871	\$ 295,000	\$ 346,013	1913%
2010	1,387,109	689,000	349,173	134%	\$ 292,735	\$ 60,000	\$ 133,245	151%	\$ 11,292,753	\$ 610,000	\$ 485,738	1031%
2011	1,229,768	777,000	303,980	114%	\$ 304,128	\$ 60,000	\$ 130,058	160%	\$ 11,033,477	\$ 595,000	\$ 464,213	1042%
2012	970,211	830,000	280,045	87%	\$ 283,747	\$ 65,000	\$ 153,261	130%	\$ 11,594,738	\$ 770,000	\$ 440,900	958%

Source: City of Show Low finance department

Special Assessment Bonds are used to finance capital improvements in specific areas of the City. Project costs are assessed to each benefiting property owner, with payments used to pay debt service. The underlying property secures the debt and may be foreclosed in the event of a default.

Show Low Bluff Community Facilities District Bonds are issued by a Community Facilities District, which is a legally separate governmental unit located within the City to finance construction or acquisition of municipal buildings and improvements which directly serve the residents of the district. The City collects special assessments for the District and the county collects property taxes levied by the District for the payment of General Obligation debt. The City has no legal obligation for the repayment of the debt of the Community Facilities District.

GADA Bonds are issued by the City to finance construction or acquisition of municipal buildings and improvements on land owned by the City. The City has pledged excise, transaction privilege and franchise taxes as collateral.

CITY OF SHOW LOW, ARIZONA
Demographic and Economic Information
Demographic Statistics - Population Statistics, Unemployment Averages

Year	City of Show Low Population (1)	Navajo County Population (1)	Personal Income Navajo County (2) (thousands)	Per Capita Income	Unemployment Averages (3)	
					Navajo County	State of Arizona
2003 (Estimated)	8,785	103,220	1,807,125	17,508	8.6%	5.7%
2004 (Estimated)	9,365	105,020	1,933,211	18,408	8.4%	5.0%
2005 (Estimated)	9,786	106,968	2,120,553	19,824	8.0%	4.7%
2006 (Estimated)	9,885	109,000	2,260,966	20,743	7.2%	4.1%
2007 (Estimated)	10,555	110,999	2,412,656	21,736	6.2%	3.7%
2008 (Estimated)	11,473	112,348	2,539,509	22,604	9.8%	6.0%
2009 (Estimated)	12,400	112,975	2,634,137	23,316	15.2%	9.9%
2010 (Census)	10,660	107,449	2,742,716	25,526	16.0%	10.5%
2011 (Estimated)	11,058	111,747	2,822,255	25,256	16.0%	9.5%
2012 (Estimated)	11,447	113,982	2,904,100	25,479	14.0%	8.3%

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

(2) Source: US Department of Commerce, Bureau of Economic Analysis Unit (2002-2009).
2010 & 2011 county data unavailable and estimated based on statewide information

(3) Source: AZSTATS.GOV

CITY OF SHOW LOW, ARIZONA
Demographic and Economic Information
Principal Employers
Current Fiscal year and Nine Years Ago

Employer	Fiscal Year 2012			Fiscal Year 2003 *		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Summit Healthcare Regional Medical Center	841	1	33.23%			
Walmart	490	2	19.36%			
Show Low Unified School District	300	3	11.85%			
Cellular One	187	4	7.39%			
Home Depot	150	5	5.93%			
City of Show Low	150	6	5.93%			
Frontier	125	7	4.94%			
Northland Pioneer College	110	7	4.35%			
Lowe's	108	8	4.27%			
Tates Automotive	70	10	2.77%			
Total Employees	<u>2,531</u>		<u>100.00%</u>	<u>-</u>		<u>0.00%</u>

Source: Show Low Chamber of Commerce

* This information is not available.

Source: City of Show Low Business Development

CITY OF SHOW LOW, ARIZONA
Demographic and Economic Information
Authorized Full Time Employees by Department
Last Ten Fiscal Years

	Full-time Equivalent Employees									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Airport	6.0	5.0	5.0	5.0	5.2	5.2	5.2	4.2	4.2	4.5
Aquatics & Recreation	15.0	17.0	16.0	15.0	15.6	15.1	14.7	14.7	14.2	14.2
City 4 TV	2.0	2.0	2.0	2.0	3.0	3.0	3.0	2.7	2.0	2.0
City Attorney	-	2.0	2.0	2.0	2.0	2.0	2.0	1.0	-	-
City Clerk	3.0	2.0	2.0	3.0	3.0	4.0	4.0	2.0	2.0	2.0
City Magistrate	2.0	2.0	2.0	2.0	3.7	2.5	2.5	4.5	4.0	3.0
City Manager	1.0	1.0	1.0	1.0	1.0	1.0	3.0	2.0	2.0	2.0
Community Services Admin	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	2.0
Engineering	6.0	5.0	5.0	6.0	11.0	11.0	11.0	5.0	5.0	5.0
Finance	9.0	8.0	8.0	8.0	8.0	10.0	9.0	6.5	-	-
Human Resources	3.0	3.0	4.0	3.0	2.0	2.0	2.0	2.0	-	-
Administrative Services	-	-	-	-	-	-	-	-	8.2	9.2
Information Systems	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0
Library	9.0	8.0	8.0	7.0	9.7	9.7	10.2	8.1	7.5	7.5
Parks & Facilities Maintenance	7.0	7.0	7.0	5.0	9.8	10.3	10.7	9.2	9.1	7.5
Planning & Zoning	8.0	10.0	11.0	11.0	13.7	12.7	11.7	6.5	5.0	4.5
Police	38.0	38.0	43.0	43.0	47.3	48.6	48.6	50.2	46.6	49.4
Public Works Administration	3.0	4.0	4.0	3.0	-	-	-	-	-	-
Streets	6.0	10.0	10.0	10.0	10.3	9.3	9.3	10.3	10.0	11.0
Wastewater	10.0	10.0	9.0	9.0	11.6	12.1	12.1	11.6	11.5	10.5
Water	10.0	6.0	7.0	7.0	8.6	11.1	11.1	11.5	10.5	13.5
Total Employees	142.0	144.0	150.0	146.0	169.5	173.6	174.1	156.0	145.8	149.8

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

Function	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police										
Arrests	1,782	2,045	2,028	2,094	2,071	2,160	1,852	1,698	1,605	1,630
Citations	7,365	5,855	5,063	5,331	4,971	6,896	7,467	5,947	4,928	3,701
Traffic Stops	7,967	6,400	5,948	6,452	5,977	9,510	10,362	8,390	10,261	6,821
Officer Reports	3,856	4,190	4,036	4,116	3,929	4,164	3,735	3,021	2,749	2,854
Photo Enforcement - Notices Printed	0	0	0	0	0	0	0	15,524	15,813	12,452
Calls for Service	14,590	15,602	17,803	18,841	19,022	20,176	19,985	19,425	17,304	19,316
Highways & Streets										
Street resurfacing (miles)	*	*	*	12	15	15	27	17	25	61
Potholes repaired	*	*	*	214	258	312	359	741	791	1,118
Street sweeping (miles)	*	*	*	3,000	3,000	3,000	1,670	2,094	965	505
Water										
New Connections	*	*	*	463	273	150	36	45	34	21
Line Breaks	*	*	*	16	56	133	65	158	128	119
Average Daily Consumption	*	*	*	987,103	1,286,236	1,145,174	1,285,073	1,652,551	1,345,038	1,429,566
Wastewater										
Average Daily Sewage Treatment (thousands of gallons)	*	*	*	741,000	837,000	971,000	956,739	830,000	867,000	892,000
Line cleaning (feet)	*	*	*	303,996	325,600	340,000	204,033	258,768	268,231	99,556
Line Plugs	*	*	*	9	32	43	26	41	53	56
Recreation & Aquatics										
Aquatic center admissions	69,398	69,323	67,826	68,599	61,197	56,860	64,797	49,352	32,164	47,880

* Not available

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

Year	BUILDING PERMITS (1)			NEW HOUSING STARTS (1)
	Residential	Commercial	Total	
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
2009-10	7,000,652	5,308,046	12,308,698	29
2010-11	8,027,334	14,095,184	22,122,518	30
2011-12	2,808,231	14,447,139	17,255,370	12

(1) Source: City of Show Low Building Department

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

Function	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	15	15	15	15	20	23	23	23	20
Highways and streets										
Streets (miles)	*	*	*	92	95	96	97	181	182	182
Streetlights	*	*	*	625	650	665	675	675	735	735
Water										
Water mains (miles)	*	*	*	102	109	111	119	124	164	164
Fire hydrants	*	*	*	815	815	815	815	810	817	1033
Sewer										
Sanitary Sewer (miles)	*	*	*	120	127	131	139	146	148	148
Maximum daily treatment capacity (thousands of gallons)	*	*	*	1,420	1,420	1,420	1,420	1,420	1,420	1,420
Recreation and aquatics										
Parks acreage	71	71	414	414	414	414	414	428	428	428
Number of Parks	7	7	9	9	9	9	9	10	10	10
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	5	5	5
Community centers	1	1	1	1	1	2	2	2	2	2

* Not available

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FEDERAL AND STATE REPORTS

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

The Honorable Mayor and
 City Council
 Show Low, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Show Low, Arizona as of and for the year ended June 30, 2012, which collectively comprise the City of Show Low, Arizona’s basic financial statements and have issued our report thereon dated November 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the schedule of findings and recommendations dated November 18, 2012 that we consider to be significant deficiencies in internal control over financial reporting.

- 09-1 Year End Accounting
- 09-2 Segregation of Duties

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 November 28, 2012.

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.



HintonBurdick, PLLC
November 28, 2012



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA

KENNETH A. HINTON, CPA
MORRIS J. PEACOCK, CPA
PHILLIP S. PEINE, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

**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, 2012, and have issued our report thereon dated November 28, 2012. 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, 2012.

HintonBurdick, PLLC
November 28, 2012

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

Grantor Agency	Federal CFDA Number	Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed through Arizona State Forestry Division			
Cooperative Forestry Assistance	10.664	WFHF 09-022	\$ 30,960
U.S. Department of Transportation			
Passed through Arizona Department of Transportation:			
Airport Improvement Program	20.106	3-04-0035-17	967
Airport Improvement Program	20.106	3-04-0035-18	11,210
Airport Improvement Program	20.106	3-04-0035-19	53,206
Airport Improvement Program	20.106	3-04-0035-20	708
Airport Improvement Program	20.106	3-04-0035-21	386,330
			<u>452,421</u>
Section 18	20.509	AZ-18-0041	82,702
Section 18	20.509	AZ-18-0045	262,887
ARRA - Section 18	20.509	AZ-86-X001	70,000
			<u>415,589</u>
Passed through Governor's Office of Highway Safety:			
State and Community Highway Safety	20.600	2011-AL-039	8,226
State and Community Highway Safety	20.600	2012-AL-015	2,974
State and Community Highway Safety	20.600	2012-OP-006	4,981
State and Community Highway Safety	20.600	2012-PT-011	10,550
			<u>26,731</u>
Total U.S. Department of Transportation			<u>894,741</u>
U.S. Department of Homeland Security			
Passed through Arizona Division of Emergency Management:			
Homeland Security Grant	97.067	555108-04	10,758
Homeland Security Grant	97.067	777113-03	120,270
Homeland Security Grant	97.067	888109-01	10,760
Homeland Security Grant	97.067	888109-02	20,691
			<u>162,479</u>
Passed through the Transportation Security Administration:			
Law Enforcement Officer Reimbursement Agreement	97.090	HSTS0208HSLR349	20,274
Total U.S. Department of Homeland Security			<u>182,753</u>

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

Environmental Protection Agency			
Passed through the Water Infrastructure Finance Authority			
of Arizona:			
Capitalization Grant for Clean Water - State Revolving Funds	66.458		<u>505,211</u>
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607	11055638	<u>761</u>
Total expenditure of federal awards			<u><u>\$ 1,614,426</u></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*.



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

The Honorable Mayor and
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 that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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, 2012.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Show Low, Arizona's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC
November 28, 2012

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

Section I - Summary of Auditors' Results

Financial Statements

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

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

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

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

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

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water – State Revolving Funds

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, 2012

Section II - Financial Statement Findings

Significant Deficiencies:

09-1. Year End Accounting – (Prior Year Reissued)

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. 115 (SAS 115) 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 principles associated with each entry. We recommend that management continue to follow procedures to reduce the number of entries for next year.

Response

As always it is the City's goal to have no audit adjustments. We have reviewed all the adjustments with the auditors and have identified areas that we will be able to minimize adjustments in the future with an ultimate goal of having no adjustments.

09-2. Segregation of Duties – (Prior Year Reworded, Reissued)

Finding

The City lacks a complete segregation of duties in various areas. 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 and records transactions in the court accounting software. Other mitigating controls such as purchase orders, financial statement and budget to actual report reviews by department heads and the council, review of airport sales reports and court Aztec software report and court bank reconciliation reviews mitigate this weakness such that it is not deemed to be a material weakness. We choose to mention proper

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

Section II - Financial Statement Findings, Continued

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.

Response

In addition to the processes listed as mitigating this weakness, the City intends to eliminate the court checking account and consolidate it with our general account. This will move the court receipts into our daily cash handling procedures, mandate reconciliation with Aztec system on a daily cash receipting basis and on a monthly basis as checks are cut to the state. It is our intent to consistently improve upon this area within the constraints of an organization of our size.

Section III - Federal Award Findings and Questioned Costs

No significant matters were noted.

Section IV – Summary of Prior Year Findings and Questioned Costs

No significant matters were noted.