

Comprehensive Annual Financial Report



City of Show Low, Arizona

Fiscal Year Ended
June 30, 2006



Comprehensive Annual Financial Report
June 30, 2006

CITY OF SHOW LOW, ARIZONA

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Comprehensive Annual

Financial Report



Fiscal Year Ended June 30, 2006
Prepared by the City of Show Low Department of Finance

How Show Low Got Its Name

In 1876, Corydon E. Cooley and Marion Clark, two ranchers who had both laid claim to, and eventually became partners in managing 100,000 acres of land at the northwest edge of the White Mountains, determined that the land could not support two families. Neither man was willing to buy the other out.

To settle the matter, Cooley and Clark engaged in a friendly game of Seven Up. The game was played at the kitchen table of Cooley's two-story home atop the hill directly south of this monument where a church now stands. As the game neared completion Cooley needed just one point to win. With nothing else to lose, Clark, holding a three, exclaimed, "show low and you win the ranch." Cooley drew the Deuce of Clubs. He renamed the ranch Show Low and the main street became known as the Deuce of Clubs.

Introductory Section

CITY OF SHOW LOW, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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August 25, 2006

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, 2006, 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.

The Comprehensive annual financial report is presented in four sections: Introductory, Financial, Statistical, and Single Audit. The Introductory section includes a list of principal officials, the City's organizational chart, and this transmittal letter. The Financial Section includes the Basic Financial Statements and Required Supplementary Information Section. The Basic Financial Statements include Management's Discussion and Analysis, Government-wide Financial Statements, Fund Financial Statement, Notes to the Financial Statement, and Required Supplementary Information, as well as the Auditor's Report. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Section includes the auditor's report and the schedule of federal expenditures on all federal grants.

Profile of the City of Show Low

The City of Show Low, with a present population estimated at 9,885, 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 34.3 square miles.

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

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

Economic Conditions

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

Financial Information

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

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

Budgetary Controls

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

On March 9, 2004, 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 2005-2008).

As a condition of the Home Rule Option, the City must maintain a reserve of at least one million dollars before any expenditure can be authorized. See the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual, General Fund (Pages 22 and 23) for the budgeted reserve.

Cash Management

Cash not held with fiscal agents is invested on a pooled basis with the Arizona State Treasurer's Office in the Local Governments Investment Pool. Investment income is allocated to the funds monthly, on the basis of cash provided for investment. The average yield on investments held with the State Treasurer was 3.9556% for fiscal year 2005-2006.

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 18 years and has had no claims exceeding its insurance coverage.

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

Other Information

Independent Audit

The accounting firm of Eide Bailly LLP 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.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Show Low for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the sixth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,



Tad Spader
Director of Finance

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, 2005

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.



A handwritten signature in black ink, appearing to read "Thomas J. Flannery".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Erwin".

Executive Director

CITY OF SHOW LOW OFFICIALS

MAYOR

Honorable
Rick Fernau

CITY COUNCIL

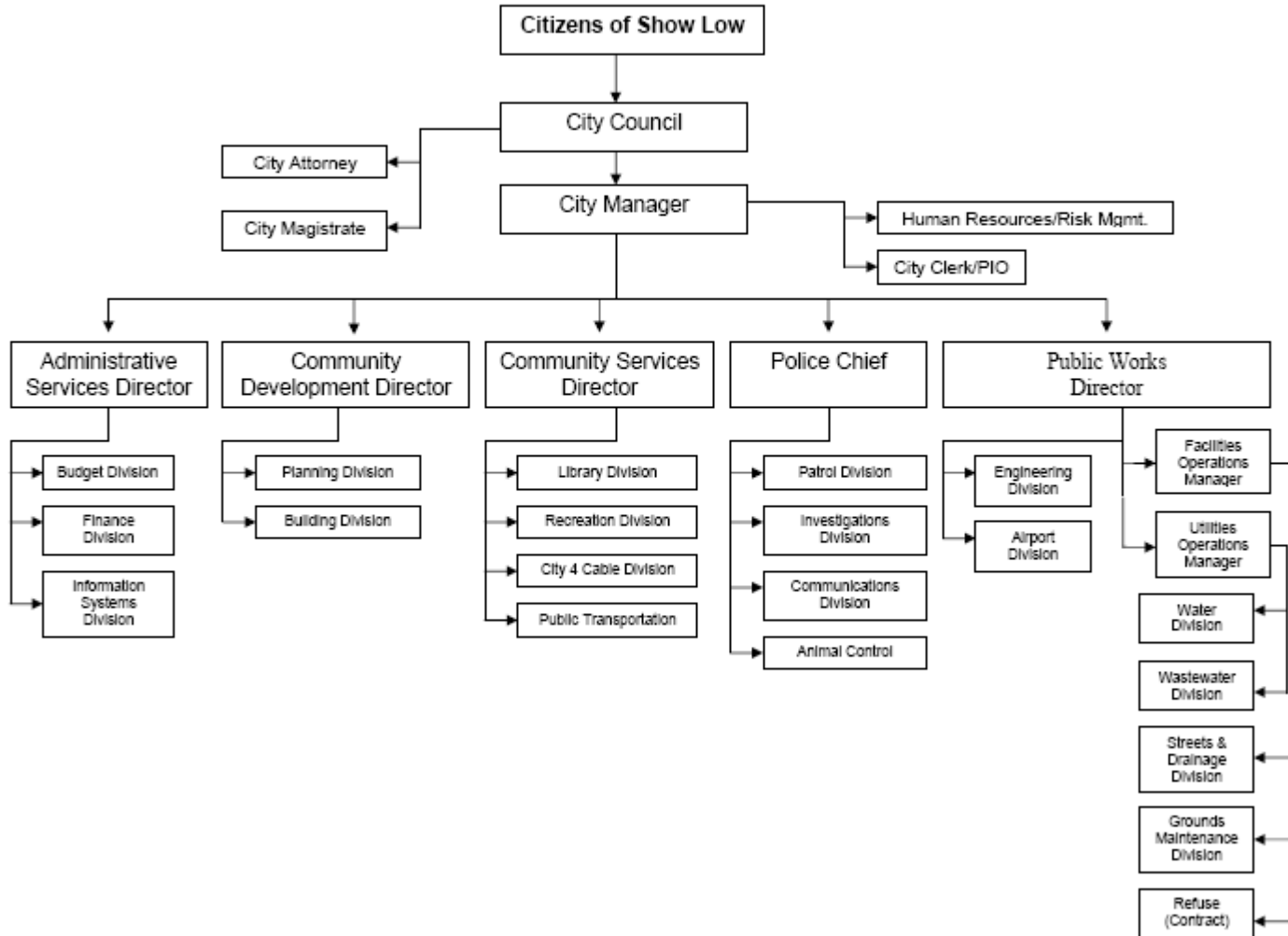
Gordon Kearl, Vice Mayor
Rennie Crittenden
Virginia Evans
Gene Kelly
Daryl Seymore
Gerry Whipple

CITY MANAGER AND CITY STAFF

Michael Maag, City Manager
Ed Muder, Community Development Director
Mike Urie, Administrative Services Director
K. Kane Graves, City Attorney
Ann Kurasaki, City Clerk
James Griffith, Police Chief
Connie Kakavas, Human Resource Director
Joel Weeks, Community Services Director
Ken Patterson, Public Works Director

City of Show Low Organizational Chart (2005 - 2006)

City of Show Low Organizational Chart



Financial Section

Financial Section

Independent Auditor's Report

Management's Discussion & Analysis

Basic Financial Statements

Combining Statements





INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Council
City of Show Low, Arizona
Show Low, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate fund information, and the budgetary information of the *City of Show Low, Arizona* (the City) as of and for the year ended June 30, 2006, 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, Arizona* management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary information of the *City of Show Low, Arizona*, at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 25, 2006 on our consideration of the City of Show Low, Arizona's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Show Low, Arizona's* basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical tables are presented for the purpose of additional analysis and are not a required part of the basic 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 basic financial statements of the *City of Show Low, Arizona*. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
August 25, 2006

Financial Section

Independent Auditors' Report

Management's Discussion & Analysis

Basic Financial Statements

Combining Statements



**CITY OF SHOW LOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

As management of the City of Show Low (the City), we offer this narrative overview and analysis of the financial activities of the City of Show Low for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages V to VII of this report.

Financial Highlights

- ☐ City sales tax revenue increased 16.2 percent over last year and is the single largest revenue in the budget.
- ☐ A new building was purchased to house City Hall on a temporary basis until a new building can be constructed to house all of the governmental office in one location.
- ☐ The police department has received several grants from the Department of Homeland Security to improve inter-agency and individual communications in the event of regional emergency. The department of Homeland Security has committed over \$250,000.00 for this purpose. This is the first step in a multi-phase regional emergency communications plan.
- ☐ Building permits were up 27% for the calendar year. Revenues from development related charges for service were \$1,178,430.44 or 57% increase from the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Show Low's basic financial statements. The City of Show Low's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Show Low's finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City of Show Low that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City of Show Low include general governments, public safety, public works, public health, debt service, culture, and recreation. The business-type activities of the City of Show Low include water and wastewater, airport, family aquatic center, and refuse.

The government-wide financial statements can be found on pages 16-17 of this report.

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The fund financial statements can be found on pages 18-30 of this report.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Show Low maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, highway user revenue fund, and two debt service funds, which are considered to be major funds. Data from the other five governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report.

The City of Show Low adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the general, special revenue, debt service, and capital project funds to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds. The City of Show Low maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City of Show Low uses the enterprise fund to account for its Airport, Wastewater, Water, Refuse, and Family Aquatic Center. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Show Low's various functions. The City of Show Low uses one internal service fund to account for its self-insured health fund. Because this fund's services predominantly benefit the governmental rather than business-type function, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport, Wastewater, and Water funds, which are considered to be major funds of the City of Show Low. Conversely, the internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 25-28 of this report.

(Continued)

MANAGEMENT’S DISCUSSION AND ANALYSIS

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Show Low’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-47 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Show Low. Required supplementary information can be found on pages 48-74 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 52-74 of this report.

Government-wide Financial Analysis

This is the fourth year that the City has presented a financial statement under the new reporting model required by Governmental Accounting Standards Board (GASB) statement number 34, and the first year of GASB 44 the new Statistical section.

The unrestricted fund balance on the government wide financials continues to grow. Unrestricted fund balance has grown from (1,001,334) at June 30, 2004 to 12,500,000 and June 30, 2006. The City has also experienced double digit increases in sales tax revenues of the past 3 years. The City has 11,000 new building lots that are in different stages of approval.

**Statement of Net Assets
As of June 30, 2006**

	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Assets:						
Current and other assets	\$ 16,319,695	\$ 20,264,229	\$ 5,558,707	\$ 7,228,086	\$ 21,878,402	\$ 27,492,315
Capital assets	18,682,618	20,620,489	46,056,805	48,103,530	64,739,423	68,724,019
Total assets	<u>35,002,313</u>	<u>40,884,718</u>	<u>51,615,512</u>	<u>55,331,616</u>	<u>86,617,825</u>	<u>96,216,334</u>
Liabilities:						
Current and other liabilities	2,313,946	3,896,406	1,126,327	1,312,331	3,440,273	5,208,737
Long-term liabilities	9,922,709	8,544,279	2,058,563	1,454,801	11,981,272	9,999,080
Total liabilities	<u>12,236,655</u>	<u>12,440,685</u>	<u>3,184,890</u>	<u>2,767,132</u>	<u>15,421,545</u>	<u>15,207,817</u>
Net assets:						
Invested in capital assets, net of related debt	8,025,270	11,108,140	43,445,397	46,176,330	51,470,667	57,284,470
Restricted	8,719,606	8,366,723	3,909,842	3,909,842	12,629,448	12,276,565
Unrestricted	6,020,782	8,969,170	1,075,383	2,478,312	7,096,165	11,447,482
Total net assets	<u>\$ 22,765,658</u>	<u>\$ 28,444,033</u>	<u>\$ 48,430,622</u>	<u>\$ 52,564,484</u>	<u>\$ 71,196,280</u>	<u>\$ 81,008,517</u>

Net Assets in the Government-wide financial statement represents all economic resources of the City net of all claims against those assets. As previously mentioned, a comparison of net assets over time is a useful tool to gauge the financial health of the City.

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City has \$96,216,334 in total assets, with \$68,724,019 in capital assets (net of depreciation). Funds included in the Business-type activities column are the City's enterprise funds operations, which are Airport, Wastewater, Water, Refuse, and Family Aquatic Center. These operations are capital intensive, using a large portion of their resources to maintain and replace major equipment and facilities.

An additional portion of the City's net assets (23 percent) represents resources that are subject to external restriction on how they may be used. The unrestricted net assets of \$4,151,313 may be used to meet the government's ongoing obligations to citizens and creditors.

General Fund Budgetary Highlights

Tax revenues have a positive million dollars variance. This increase is in direct proportion to the 16.2% increase in City sales tax. Miscellaneous revenue is budgeted of unanticipated grants, gifts, or donations that the City may receive. The Finance department variance of \$6,149,237 is for unanticipated expenditures related to unanticipated revenues. Arizona does not allow expenditures that are not budgeted.

Statement of Activities Fiscal Year Ended June 30, 2006

	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,185,136	\$ 2,727,443	\$ 5,767,190	\$ 6,100,599	\$ 6,952,326	\$ 8,828,042
Operating grants and contributions	654,087	152,870	-	-	654,087	152,870
Capital grants and contributions	379,539	333,283	3,472,317	3,544,000	3,851,856	3,877,283
General revenues:						
Sales tax	8,544,891	9,976,632	-	-	8,544,891	9,976,632
Other taxes	2,152,231	2,462,314	-	-	2,152,231	2,462,314
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	2,373,088	3,515,487	147,303	217,363	2,520,391	3,732,850
Total Revenues	<u>15,288,972</u>	<u>19,168,029</u>	<u>9,386,810</u>	<u>9,861,962</u>	<u>24,675,782</u>	<u>29,029,991</u>
Expenses:						
General government	4,002,302	3,989,285	-	-	4,002,302	3,989,285
Public safety	2,839,820	3,624,181	-	-	2,839,820	3,624,181
Public works	2,872,918	3,077,390	-	-	2,872,918	3,077,390
Public health	166,075	135,214	-	-	166,075	135,214
Culture and recreation	845,588	849,871	-	-	845,588	849,871
Interest on long-term debt	929,135	603,688	-	-	929,135	603,688
Water	-	-	1,928,857	1,992,474	1,928,857	1,992,474
Wastewater	-	-	1,742,718	2,066,814	1,742,718	2,066,814
Airport	-	-	1,926,814	1,764,740	1,926,814	1,764,740
Family aquatic	-	-	456,557	468,936	456,557	468,936
Refuse	-	-	559,759	645,161	559,759	645,161
Total Expenses	<u>11,655,838</u>	<u>12,279,629</u>	<u>6,614,705</u>	<u>6,938,125</u>	<u>18,270,543</u>	<u>19,217,754</u>
Increase in net assets before transfers	3,633,134	6,888,400	2,772,105	2,923,837	6,405,239	9,812,237
Transfers	(928,434)	(1,210,025)	928,434	1,210,025	-	-
Increase in net assets	2,704,700	5,678,375	3,700,539	4,133,862	6,405,239	9,812,237
Net assets, July 1, 2005	20,060,958	22,765,658	44,730,083	48,430,622	64,791,041	71,196,280
Net assets, June 30, 2006	<u>\$ 22,765,658</u>	<u>\$ 28,444,033</u>	<u>\$ 48,430,622</u>	<u>\$ 52,564,484</u>	<u>\$ 71,196,280</u>	<u>\$ 81,008,517</u>

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City of Show Low experienced strong growth in sales tax collection during the year. There was a 16.2% increase over the prior year. The growth had two main components: first, more residences are occupied year round, and, second, the strong growth in the whole White Mountain region.

The City of Show Low traded the building and property where City Hall was located for the National Bank building and relocated the City's administration office to the new site. The front cover of this report is a picture of the new building.

The Debt Service funds that service our special assessments are experiencing early payment of assessments. This past year Improvement District 5 paid an extra \$50,000 and Improvement District 6 paid an extra \$15,000 of principal. On June 30, 2005 both special assessment funds had received prepayments of assessments in excess of the debt service.

Proprietary funds. The City of Show Low proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Wastewater fund had an increase of \$5.00 per customer starting in September. This increase has helped with the operating loss. The transfer into the Wastewater fund this year was \$272,776. Starting July 2006 the Wastewater rate will be adjusted to a flat rate for all residential customers. The new rates will be \$26.00 for all gravity flow customers and \$36.00 for all low pressure customers. There will be adjustment in all commercial rates as well. These rate adjustments will help the Wastewater fund to become self funding.

The Water fund continues to meet its cash needs and has an investment in the LGIP (Local Governmental Investment Pool) of \$1,338,184.

The Airport and Family Aquatic Center both had transfers from the general fund that were \$668,811 and \$269,623 respectively.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. The City of Show Low's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$68,724,019 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, and roads. The total increase in the City's investment in capital assets for the current fiscal year was 1.0 percent.

(Continued)

MANAGEMENT’S DISCUSSION AND ANALYSIS

Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 2,994,725	\$ 3,347,200	\$ 2,509,895	\$ 2,509,894	\$ 5,504,620	\$ 5,857,094
Buildings and systems	2,619,129	2,563,842	420,503	1,525,703	3,039,632	4,089,545
Improvements other than buildings	1,121,549	1,076,470	37,592,343	39,353,974	38,713,892	40,430,444
Machinery and equipment	1,598,738	1,687,444	1,296,088	2,240,405	2,894,826	3,927,849
Infrastructure	10,240,592	11,047,542	-	-	10,240,592	11,047,542
Construction in progress	107,886	897,991	4,237,975	2,473,554	4,345,861	3,371,545
Total	\$ 18,682,619	\$ 20,620,489	\$ 46,056,804	\$ 48,103,530	\$ 64,739,423	\$ 68,724,019

The City accepted donations of capital assets from developers this year totaling \$3,401,043. The capital assets from the eight different development included roads, water lines, and sewer lines. Readers desiring more detailed information on capital asset activity should refer to note 6 on page 40 of this report.

Long-term Debt

At the end of the current fiscal year, the City of Show Low had a total outstanding debt of \$11,859,013. Of this amount, \$7,445,000 was in special assessment debt for which the government is liable in the event of default by the property owners covered by the assessments. The Certificates of Participation debt is also backed by the full faith and credit of the government.

The City of Show Low’s, total long term debt decreased by \$1,820,301 (9 percent) during the year. The key factor in this decrease was the prepayment of improvement district assessments and the retirement of the associated bond of \$600,000 and the prepayment of equipment leases for the airport.

Summary of Outstanding Debt
Fiscal Year Ended June 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Special Assessment	\$ 8,045,000	\$ 7,445,000	\$ -	\$ -	\$ 8,045,000	\$ 7,445,000
Landfill monitoring cost	26,988	26,988	-	-	26,988	26,988
Compensated absences	312,371	328,060	51,351	55,155	363,722	383,215
Certificates of Participation	2,367,740	1,941,090	2,237,260	1,833,910	4,605,000	3,775,000
Loans	238,608	126,259	374,148	102,551	619,112	228,811
	\$10,990,707	\$ 9,867,397	\$ 2,662,759	\$ 1,991,616	\$13,653,465	\$11,859,014

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

State statutes limit the amount of general obligation debt a governmental entity may issue to 20 percent of its total assessed valuation. The current bonded debt limitation for the City of Show Low is \$23,163,032. The City of Show Low currently has no general obligation debt.

Additional information on the City of Show Low long-term debt can be found in Note 8 on pages 43-46 of this report.

Economic Factors

The City of Show Low continues to enjoy a strong economic environment and local indicators point to a continued growth. The City serves as a regional trade and services center for the southern part of Navajo County and a portion of Apache County.

Sales tax collection for the month of January 2006 was \$931,218, which set an all-time record for a single month. 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. Building permit income has increased by \$552,462 to a total of \$890,565 for the past year.

Request for Information

This financial report is designed to provide a general overview of the finances for the City of Show Low, Arizona, and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report or requests for additional financial information should be addressed to the City's Director of Finance, City of Show Low, 200 West Cooley, Show Low, Arizona 85901.

Financial Section

Independent Auditor's Report

Management's Discussion & Analysis

Basic Financial Statements

Combining Statements



CITY OF SHOW LOW, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 843,853	\$ 43	\$ 843,896
Investments	8,568,740	1,297,614	9,866,354
Receivables (net of allowances for uncollectibles)	9,178,997	556,499	9,735,496
Due from other governments	392,516	293,665	686,181
Inventories	-	163,826	163,826
Prepays	36,136	34,190	70,326
Restricted assets:			
Cash and cash equivalents	1,243,987	564,152	1,808,139
Investments	-	4,303,621	4,303,621
Interest receivable	-	14,476	14,476
Capital assets:			
Land and construction in progress	4,245,191	4,983,448	9,228,639
Other capital assets	25,844,528	64,634,404	90,478,932
Accumulated depreciation	(9,469,230)	(21,514,322)	(30,983,552)
Total assets	40,884,718	55,331,616	96,216,334
LIABILITIES			
Accounts payable and other current liabilities	1,117,856	642,196	1,760,052
Deposits held	935,612	88,622	1,024,234
Accrued wages and benefits	238,594	44,425	283,019
Accrued interest payable	229,875	9,535	239,410
Current portion of:			
Compensated absences	233,361	41,601	274,962
Current portion of bonds payable:			
Notes payable	126,259	60,801	187,060
Bonds payable	1,014,849	425,151	1,440,000
Long-term portion of:			
Compensated absences	146,050	13,553	159,603
Notes payable	-	46,250	46,250
Bonds payable	8,371,241	1,394,998	9,766,239
Landfill monitoring costs	26,988	-	26,988
Total liabilities	12,440,685	2,767,132	15,207,817
NET ASSETS			
Invested in capital assets, net of related debt	11,108,140	46,176,330	57,284,470
Restricted for:			
Debt service	8,366,723	-	8,366,723
Developer fees	-	3,909,842	3,909,842
Unrestricted	8,969,170	2,478,312	11,447,482
Total net assets	\$ 28,444,033	\$ 52,564,484	\$ 81,008,517

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 3,989,285	\$ 456,815	\$ -	\$ -	\$ (3,532,470)	\$ -	\$ (3,532,470)
Public safety	3,624,181	116,759	152,870	333,283	(3,021,269)	-	(3,021,269)
Public works	3,077,390	776,487	-	-	(2,300,903)	-	(2,300,903)
Public health	135,214	2,528	-	-	(132,686)	-	(132,686)
Culture and recreation	849,871	78,507	-	-	(771,364)	-	(771,364)
Interest on long-term debt	603,688	-	-	-	(603,688)	-	(603,688)
	<u>12,279,629</u>	<u>1,431,096</u>	<u>152,870</u>	<u>333,283</u>	<u>(10,362,380)</u>	<u>-</u>	<u>(10,362,380)</u>
Business Type Activities							
Water	1,992,474	2,030,071	-	1,471,534	-	1,509,131	1,509,131
Wastewater	2,066,814	2,270,913	-	1,578,613	-	1,782,712	1,782,712
Airport	1,764,740	1,040,160	-	493,853	-	(230,727)	(230,727)
Family Aquatic	468,936	98,166	-	-	-	(370,770)	(370,770)
Refuse	645,161	661,289	-	-	-	16,128	16,128
	<u>6,938,125</u>	<u>6,100,599</u>	<u>-</u>	<u>3,544,000</u>	<u>-</u>	<u>2,706,474</u>	<u>2,706,474</u>
Total Primary Government	<u>\$ 19,217,754</u>	<u>\$ 7,531,695</u>	<u>\$ 152,870</u>	<u>\$ 3,877,283</u>	<u>(10,362,380)</u>	<u>2,706,474</u>	<u>(7,655,906)</u>
General revenues							
Sales taxes					9,924,958	-	9,924,958
Franchise taxes					301,769	-	301,769
Special assessment revenue					1,165,709	-	1,165,709
Investment earnings					337,177	212,550	549,727
Gain (loss) on sale of assets					-	4,813	4,813
Miscellaneous					263,448	-	263,448
Shared revenues (intergovernmental, unrestricted)							
State sales taxes					830,093	-	830,093
Urban revenue sharing					831,807	-	831,807
Auto-in lieu					498,645	-	498,645
Other					3,097,174	-	3,097,174
Transfers					(1,210,025)	1,210,025	-
Total general revenues and transfers					<u>16,040,755</u>	<u>1,427,388</u>	<u>17,468,143</u>
Increase (decrease) in net assets					5,678,375	4,133,862	9,812,237
Net Assets - beginning, as restated (Note 13)					22,765,658	48,430,622	71,196,280
Net Assets - ending					<u>\$ 28,444,033</u>	<u>\$ 52,564,484</u>	<u>\$ 81,008,517</u>

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS	General Fund	Highway User Fund	Debt Service ID #5 Fund	Debt Service ID #6 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 843,853	\$ -	\$ -	\$ -	\$ -	\$ 843,853
Investments	8,022,627	-	168,072	162,527	215,514	8,568,740
Receivables (net of allowances for uncollectibles)						
Accounts	-	-	-	-	236,136	236,136
Taxes	1,199,844	121,296	-	-	1,333	1,322,473
Interest	39,054	-	18,454	19,899	697	78,104
Special assessments	-	-	3,460,550	3,953,558	-	7,414,108
Due from other governments	392,516	-	-	-	-	392,516
Due from other funds	231,155	-	-	-	-	231,155
Prepays	36,136	-	-	-	-	36,136
Restricted assets:						
Cash and cash equivalents	-	-	-	-	501,037	501,037
Total assets	<u>\$ 10,765,185</u>	<u>\$ 121,296</u>	<u>\$ 3,647,076</u>	<u>\$ 4,135,984</u>	<u>\$ 954,717</u>	<u>\$ 19,624,258</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable and other liabilities	\$ 795,352	\$ 57,200	\$ 110,925	\$ 118,950	\$ 35,429	\$ 1,117,856
Accrued wages and benefits	217,773	20,821	-	-	-	238,594
Due to other funds	-	-	-	-	231,155	231,155
Deposits held	935,612	-	-	-	-	935,612
Deferred revenue	-	-	3,418,295	3,921,778	-	7,340,073
Total liabilities	<u>1,948,737</u>	<u>78,021</u>	<u>3,529,220</u>	<u>4,040,728</u>	<u>266,584</u>	<u>9,863,290</u>
FUND BALANCE						
Reserved for:						
Prepaid items	36,136	-	-	-	-	36,136
Debt service	-	-	117,856	95,256	501,037	714,149
Development fees	743,867	-	-	-	-	743,867
Unreserved, reported in:						
General fund	8,036,445	-	-	-	-	8,036,445
Special revenue funds	-	43,275	-	-	187,096	230,371
Total fund balance	<u>8,816,448</u>	<u>43,275</u>	<u>117,856</u>	<u>95,256</u>	<u>688,133</u>	<u>9,760,968</u>
Total liabilities and fund balance	<u>\$ 10,765,185</u>	<u>\$ 121,296</u>	<u>\$ 3,647,076</u>	<u>\$ 4,135,984</u>	<u>\$ 954,717</u>	<u>\$ 19,624,258</u>

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 9,760,968
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.		
Governmental capital assets	\$ 30,089,719	
Less accumulated depreciation	<u>(9,469,229)</u>	20,620,490
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(379,411)	
Notes payable	(126,259)	
Bonds payable	(9,386,090)	
Landfill monitoring costs	<u>(26,988)</u>	(9,918,748)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.		(229,876)
Deferred revenue is shown on the governmental funds, but is not deferred on the statement of net assets.		7,340,073
Internal service funds are used by the management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>871,126</u>
Net assets of governmental activities		<u>\$ 28,444,033</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Highway User Fund	Debt Service ID #5 Fund	Debt Service ID #6 Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 12,438,947	\$ 1,261,596	\$ -	\$ -	\$ 145,533	\$ 13,846,076
Licenses and permits	1,192,968	-	-	-	-	1,192,968
Intergovernmental	928,588	-	-	-	602,601	1,531,189
Charges for services	736,688	-	-	-	-	736,688
Fines	122,955	-	3,960	-	-	126,915
Special assessments	-	-	595,094	538,475	-	1,133,569
Investment earnings	301,437	44	2,432	1,729	31,535	337,177
Miscellaneous	205,796	34,708	-	-	22,944	263,448
Total revenues	<u>15,927,379</u>	<u>1,296,348</u>	<u>601,486</u>	<u>540,204</u>	<u>802,613</u>	<u>19,168,030</u>
EXPENDITURES						
Current						
General government	3,752,094	-	-	-	-	3,752,094
Public safety	3,295,460	-	-	-	-	3,295,460
Public works	1,448,321	1,015,643	-	-	426,480	2,890,444
Public health	135,214	-	-	-	-	135,214
Culture and recreation	849,871	-	-	-	-	849,871
Capital outlay	954,235	769,853	-	-	400,730	2,124,818
Debt service						
Principal	-	-	355,000	245,000	480,052	1,080,052
Interest and fiscal charges	-	-	233,632	246,016	124,040	603,688
Total expenditures	<u>10,435,195</u>	<u>1,785,496</u>	<u>588,632</u>	<u>491,016</u>	<u>1,431,302</u>	<u>14,731,641</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,492,184</u>	<u>(489,148)</u>	<u>12,854</u>	<u>49,188</u>	<u>(628,689)</u>	<u>4,436,389</u>
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	<u>(2,307,898)</u>	<u>452,291</u>	<u>-</u>	<u>-</u>	<u>645,582</u>	<u>(1,210,025)</u>
Total other financing sources (uses)	<u>(2,307,898)</u>	<u>452,291</u>	<u>-</u>	<u>-</u>	<u>645,582</u>	<u>(1,210,025)</u>
NET CHANGE IN FUND BALANCES	<u>3,184,286</u>	<u>(36,857)</u>	<u>12,854</u>	<u>49,188</u>	<u>16,893</u>	<u>3,226,364</u>
FUND BALANCES, beginning of year	<u>5,632,162</u>	<u>80,132</u>	<u>105,002</u>	<u>46,068</u>	<u>671,240</u>	<u>6,534,604</u>
FUND BALANCES, end of year	<u>\$ 8,816,448</u>	<u>\$ 43,275</u>	<u>\$ 117,856</u>	<u>\$ 95,256</u>	<u>\$ 688,133</u>	<u>\$ 9,760,968</u>

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds		\$ 3,226,364
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay	\$ 1,767,612	
Depreciation expense	<u>(1,083,193)</u>	684,418
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in funds. This is the amount by which capital assets increased by infrastructure from completed developments</p>		
		1,253,453
<p>Compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but not reported in the governmental fund. Therefore, long-term claims, judgments use of current financial resources. absences were not reported as expenditures payable and compensated in governmental funds.</p>		
		(67,040)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(648,721)
<p>Repayment of bond principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government -Wide Statement of Net Assets.</p>		
		1,026,650
<p>Repayment of notes payable is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government -Wide Statement of Net Assets.</p>		
		118,349
<p>Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year.</p>		
		18,666
<p>The statement of activities reports gains and losses on sale of the assets based on the proceeds received and the net book value of the assets at the time of the sale. The loss on the disposal is calculated as follows:</p>		
Cost of assets disposed	88,000	
Accumulated depreciation of assets disposed	<u>(88,000)</u>	-
<p>The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		<u>66,236</u>
Change in net assets of governmental activities		<u>\$ 5,678,375</u>

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-
	Original	Final		
REVENUES				
Taxes	\$ 11,418,900	\$ 11,418,900	\$ 12,438,947	\$ 1,020,047
Licenses and permits	545,600	545,600	1,192,968	647,368
Intergovernmental revenues	406,000	406,000	928,588	522,588
Charges for services	479,110	479,110	736,688	257,578
Fines	140,500	140,500	122,955	(17,545)
Investment earnings	51,000	51,000	301,437	250,437
Miscellaneous	10,807,122	10,807,122	205,796	(10,601,326)
Total revenues	23,848,232	23,848,232	15,927,379	(7,920,853)
EXPENDITURES				
Current				
General government				
City council	776,446	776,446	228,400	548,046
Finance	6,719,428	6,719,428	570,191	6,149,237
City magistrate	185,295	185,295	131,283	54,012
City attorney	327,701	327,701	272,494	55,207
City manager	322,116	322,116	181,003	141,113
Planning and zoning	872,448	872,448	759,684	112,764
Public information	232,600	232,600	192,346	40,254
Information systems	274,433	274,433	257,177	17,256
Human resources	642,010	642,010	545,753	96,257
City 4 cable TV	179,435	179,435	173,934	5,501
Economic development/Promo programs	365,147	365,147	287,236	77,911
Community services administration	168,257	168,257	152,593	15,664
Total general government	11,065,316	11,065,316	3,752,094	7,313,222
Public safety				
Public safety	2,743,254	2,743,254	2,614,607	128,647
Communications	788,886	788,886	680,853	108,033
Total public safety	3,532,140	3,532,140	3,295,460	236,680
Public works				
Public works	271,673	271,673	259,048	12,625
Maintenance	645,671	645,671	665,983	(20,312)
City engineer	578,492	578,492	523,290	55,202
Total public works	1,495,836	1,495,836	1,448,321	47,515
Public health				
	135,754	135,754	135,214	540
Culture and recreation				
Recreation	324,614	324,614	307,054	17,560
Library	566,744	566,744	542,817	23,927
Total culture and recreation	891,358	891,358	849,871	41,487
Capital outlay				
	3,121,188	3,121,188	954,235	2,166,953
Total expenditures	20,241,592	20,241,592	10,435,195	9,806,397

(Continued)

**STATEMENTS OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES OVER (UNDER) EXPENDITURES	<u>3,606,640</u>	<u>3,606,640</u>	<u>5,492,184</u>	<u>1,885,544</u>
OTHER FINANCING SOURCES (USES) Transfers in (out)	<u>(3,274,131)</u>	<u>(3,274,131)</u>	<u>(2,307,898)</u>	<u>(966,233)</u>
NET CHANGE IN FUND BALANCE	<u>332,509</u>	<u>332,509</u>	<u>3,184,286</u>	<u>2,851,777</u>
FUND BALANCE, beginning of the year	<u>6,875,075</u>	<u>6,875,075</u>	<u>5,632,162</u>	<u>(1,242,913)</u>
FUND BALANCE, end of the year	<u>\$ 7,207,584</u>	<u>\$ 7,207,584</u>	<u>\$ 8,816,448</u>	<u>\$ 1,608,864</u>

CITY OF SHOW LOW, ARIZONA
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HIGHWAY USERS SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-
	Original	Final		
REVENUES				
Taxes				
State-shared gas tax	\$ 1,309,274	\$ 1,309,274	\$ 1,261,596	\$ (47,678)
Sale of asset	6,294	6,294	260	(6,034.00)
Investment earnings	-	-	44	44.00
Miscellaneous	-	-	34,448	34,448
Total revenues	1,315,568	1,315,568	1,296,348	(19,220)
EXPENDITURES				
Public works				
Highway and streets	963,118	963,118	1,015,643	(52,525)
Capital outlay				
Highway and streets	2,254,342	2,254,342	769,853	1,484,489
Total expenditures	3,217,460	3,217,460	1,785,496	1,431,964
REVENUES OVER (UNDER) EXPENDITURES	(1,901,892)	(1,901,892)	(489,148)	(1,412,744)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	1,876,758	1,876,758	452,291	(1,424,467)
NET CHANGE IN FUND BALANCE	(25,134)	(25,134)	(36,857)	11,723
FUND BALANCE, beginning of the year	(1,136,010)	(1,136,010)	80,132	(1,216,142)
FUND BALANCE, end of the year	\$ (1,161,144)	\$ (1,161,144)	\$ 43,275	\$ (1,204,419)

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other Enterprise	Totals	Internal Service Health Insurance
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 43	\$ -	\$ 43	\$ 742,950
Investments	1,249,562	-	-	48,052	1,297,614	-
Receivables (net of uncollectibles)						
Accounts	213,586	149,310	22,218	67,684	452,798	128,176
Unbilled accounts	99,317	-	-	-	99,317	-
Interest	4,234	150	-	-	4,384	-
Due from other governments	-	-	293,665	-	293,665	-
Inventories	93,614	26,258	43,954	-	163,826	-
Other current assets	2,500	19,229	12,461	-	34,190	-
Total current assets	<u>1,662,813</u>	<u>194,947</u>	<u>372,341</u>	<u>115,736</u>	<u>2,345,837</u>	<u>871,126</u>
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	88,622	352,000	123,530	-	564,152	-
Investments	500,289	3,803,332	-	-	4,303,621	-
Interest receivable	1,675	12,801	-	-	14,476	-
Capital assets:						
Land	80,855	88,339	2,340,700	-	2,509,894	-
Buildings and improvements	18,104,511	25,962,919	15,361,984	2,201,597	61,631,011	-
Machinery and equipment	1,200,455	657,559	973,955	171,424	3,003,393	-
Construction in progress	15,061	2,206,461	252,032	-	2,473,554	-
Less accumulated depreciation	(4,844,547)	(10,038,072)	(5,668,502)	(963,201)	(21,514,322)	-
Total capital assets, net	<u>14,556,335</u>	<u>18,877,206</u>	<u>13,260,169</u>	<u>1,409,820</u>	<u>48,103,530</u>	<u>-</u>
Total noncurrent assets	<u>15,146,921</u>	<u>23,045,339</u>	<u>13,383,699</u>	<u>1,409,820</u>	<u>52,985,779</u>	<u>-</u>
Total assets	<u>16,809,734</u>	<u>23,240,286</u>	<u>13,756,040</u>	<u>1,525,556</u>	<u>55,331,616</u>	<u>871,126</u>

(Continued)

**COMBINING STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2006**

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other Enterprise	Totals	Internal Service Health Insurance
LIABILITIES						
Current liabilities:						
Accounts payable	160,052	274,309	139,609	68,226	642,196	-
Accrued wages and benefits	8,954	14,738	7,288	13,445	44,425	-
Accrued interest payable	-	7,352	2,183	-	9,535	-
Compensated absences	13,868	11,736	9,904	6,093	41,601	-
Certification of participation	-	305,000	120,151	-	425,151	-
ADOT and other loans	-	60,801	-	-	60,801	-
Total current liabilities	<u>182,874</u>	<u>673,936</u>	<u>279,135</u>	<u>87,764</u>	<u>1,223,709</u>	<u>-</u>
Noncurrent liabilities:						
Liabilities payable from restricted assets:						
Customer security deposits	88,622	-	-	-	88,622	-
Compensated absences	4,160	4,933	4,460	-	13,553	-
Certification of participation	-	1,007,500	387,498	-	1,394,998	-
Other loans	-	46,250	-	-	46,250	-
Total noncurrent liabilities	<u>92,782</u>	<u>1,058,683</u>	<u>391,958</u>	<u>-</u>	<u>1,543,423</u>	<u>-</u>
Total liabilities	<u>275,656</u>	<u>1,732,619</u>	<u>671,093</u>	<u>87,764</u>	<u>2,767,132</u>	<u>-</u>
NET ASSETS						
Invested in capital assets, net of related debt	14,556,335	17,457,655	12,752,520	1,409,820	46,176,330	-
Restricted for:						
Developer fees	1,094,689	2,815,153	-	-	3,909,842	-
Unrestricted	883,054	1,234,859	332,427	27,972	2,478,312	871,126
Total net assets	<u>\$ 16,534,078</u>	<u>\$ 21,507,667</u>	<u>\$ 13,084,947</u>	<u>\$ 1,437,792</u>	<u>\$ 52,564,484</u>	<u>\$ 871,126</u>

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental
	Water	Wastewater	Airport	Other	Total	Activities
						Internal Service
						Health
						Insurance
OPERATING REVENUES						
Service fees	\$ 2,030,071	\$ 2,270,913	\$ 1,040,160	\$ 759,455	\$ 6,100,599	\$ 1,393,204
OPERATING EXPENSES						
Cost of goods sold	-	-	651,244	501	651,745	-
Personnel services	281,515	566,631	282,373	250,601	1,381,120	-
Admin expenses	39,609	32,992	53,995	660,814	787,410	1,350,960
Vehicle expenses	37,464	56,414	14,797	-	108,675	-
Field supplies	5,190	6,366	-	6,051	17,607	-
Repairs and maintenance	888,311	430,823	29,675	31,948	1,380,757	-
Utilities	208,687	161,120	36,479	77,523	483,809	-
Risk management	-	-	5,715	-	5,715	-
Departmental expense	23,637	12,519	13,720	119	49,995	-
Total operating expenses	1,484,413	1,266,865	1,087,998	1,027,557	4,866,833	1,350,960
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	545,658	1,004,048	(47,838)	(268,102)	1,233,766	42,244
Depreciation expense	508,061	698,202	650,713	86,540	1,943,516	-
OPERATING INCOME (LOSS)	37,597	305,846	(698,551)	(354,642)	(709,750)	42,244
NONOPERATING REVENUES (EXPENSES)						
Investment income	88,820	119,165	4,565	-	212,550	23,992
Interest expense	-	(101,747)	(26,029)	-	(127,776)	-
Grant revenue	-	-	493,853	-	493,853	-
Gain (loss) on sale of equipment	1,250	420	2,775	368	4,813	-
Total nonoperating revenues (expense)	90,070	17,838	475,164	368	583,440	23,992
Income (Loss) before capital contributions and transfers	127,667	323,684	(223,387)	(354,274)	(126,310)	66,236
CAPITAL CONTRIBUTIONS	1,471,534	1,578,613	-	-	3,050,147	-
TRANSFERS IN (OUT)	-	272,776	668,811	268,438	1,210,025	-
CHANGE IN NET ASSETS	1,599,201	2,175,073	445,424	(85,836)	4,133,862	66,236
NET ASSETS:						
Beginning of year	14,934,877	19,332,594	12,639,523	1,523,628	48,430,622	804,890
End of year	\$ 16,534,078	\$ 21,507,667	\$ 13,084,947	\$ 1,437,792	\$ 52,564,484	\$ 871,126

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental
	Water	Wastewater	Airport	Other Enterprise	Totals	Activities
						Internal Service Health Insurance
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 2,002,349	\$ 2,239,096	\$ 858,164	\$ 759,720	\$ 5,859,329	\$ 1,320,615
Payments to suppliers	(1,094,039)	(596,292)	(774,564)	(776,418)	(3,241,313)	(1,350,960)
Payments to employees	(277,391)	(568,686)	(283,112)	(243,028)	(1,372,217)	-
Customer security deposits	20,217	-	-	-	20,217	-
Net cash provided by (used in) operating activities	651,136	1,074,118	(199,512)	(259,726)	1,266,016	(30,345)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING TRANSACTIONS						
Purchases of capital assets	(253,460)	(77,420)	(613,803)	-	(944,683)	-
Proceeds received from sale of assets	1,250	420	2,775	-	4,445	-
Capital grant revenue	-	-	493,853	-	493,853	-
Proceeds from capital debt	-	-	-	-	-	-
Principal paid on capital debt	-	(364,187)	(320,021)	-	(684,208)	-
Interest on capital debt	-	(106,024)	(26,943)	-	(132,967)	-
Net cash provided by (used in) capital and related financing transactions	(252,210)	(547,211)	(464,139)	-	(1,263,560)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	-	272,776	-	-	272,776	-
Transfers from other funds	-	-	668,811	268,438	937,249	-
Net cash provided by (used in) noncapital financing activities	-	272,776	668,811	268,438	1,210,025	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Cash received from interest and dividends	88,820	106,364	4,565	368	200,117	23,992
Net cash provided by (used in) investing activities	88,820	106,364	4,565	368	200,117	23,992
NET CHANGE IN CASH	487,746	906,047	9,725	9,080	1,412,598	(6,353)
CASH AND CASH EQUIVALENTS, Beginning of year	1,350,727	3,249,285	113,848	38,972	4,752,832	749,303
CASH AND CASH EQUIVALENTS, End of year	\$ 1,838,473	\$ 4,155,332	\$ 123,573	\$ 48,052	\$ 6,165,430	\$ 742,950

(Continued)

COMBINING STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Wastewater	Airport	Other Enterprise	Totals	Internal Service Health Insurance
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Operating income (loss)	\$ 37,597	\$ 305,846	\$ (698,551)	\$ (354,642)	\$ (709,750)	\$ 42,244
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation expense	508,061	698,202	650,713	86,540	1,943,516	-
(Increase) decrease in						
Accounts receivable	(19,596)	(41,878)	450	265	(60,759)	(72,589)
Unbilled accounts	(6,392)	-	-	-	(6,392)	-
Interest receivable	(4,234)	5,253	-	-	1,019	-
Due from other governments	-	-	(173,255)	-	(173,255)	-
Inventories	-	-	(7,449)	-	(7,449)	-
Other assets	2,500	4,808	(1,742)	-	5,566	-
Increase (decrease) in						
Accounts payable	108,859	103,942	31,061	538	244,400	-
Accrued wages	1,668	529	1,165	5,781	9,143	-
Unearned revenue	(5,923)	-	-	-	(5,923)	-
Compensated absences payable	8,379	(2,584)	(1,904)	1,792	5,683	-
Customer deposits	20,217	-	-	-	20,217	-
Due to others	-	-	-	-	-	-
Total adjustments	613,539	768,272	499,039	94,916	1,975,766	(72,589)
Net cash provided by operating activities	\$ 651,136	\$ 1,074,118	\$ (199,512)	\$ (259,726)	\$ 1,266,016	\$ (30,345)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Contributions of capital assets	\$ 1,471,534	\$ 1,578,613	\$ -	\$ -	\$ 3,050,147	\$ -
COMPONENTS OF CASH:						
Cash and cash equivalents	\$ -	\$ -	\$ 43	\$ -	\$ 43	\$ 742,950
Investments	1,249,562	-	-	48,052	1,297,614	-
Restricted cash and cash equivalents	88,622	352,000	123,530	-	564,152	-
Restricted investments	500,289	3,803,332	-	-	4,303,621	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,838,473	\$ 4,155,332	\$ 123,573	\$ 48,052	\$ 6,165,430	\$ 742,950

See Notes to Financial Statements

CITY OF SHOW LOW, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
HEALTH INSURANCE FUND
JUNE 30, 2006

	Health Insurance
ASSETS	
Investments	\$ 5,257
Interest receivable	18
	<hr/>
Total assets	<u>\$ 5,275</u>
LIABILITIES	
Slovakian fund	\$ 1,953
Police explorer post	590
Disaster relief	154
Swim team	2,393
Sister cities fund	185
	<hr/>
Total liabilities	<u>\$ 5,275</u>



CITY OF SHOW LOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Show Low (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.

The financial statements of the City of Show Low have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The more significant of the City's accounting policies are described below.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Governmental Fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented, in these statements to the net assets presented in the government-wide financial statements.

Proprietary Fund financial statements include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements. However, a portion of the internal service balances and activities has been combined with the governmental activities in the government-wide financial statements.

(Continued)

NOTES TO FINANCIAL STATEMENTS

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Franchise taxes, 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 government.

The government reports the following major governmental funds:

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

The Highway User Fund accounts for all the revenues and expenditures that the City uses to maintain the streets and sidewalks.

The Improvement District #5 and Improvement District #6 Debt Service Funds account for the resources accumulated and payment made for principal and interest on long-term general obligation debt of governmental funds.

The government reports the following major proprietary funds:

The Water and Wastewater fund accounts for the activities of pumping, treating, and distribution of water, as well as the wastewater collection and treatment plant.

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

Additionally, the government reports the following fiduciary funds:

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

Agency funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private, organizations, or other governments.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Private sector standards of account 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.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

USE OF ESTIMATES

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGETS

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

1. Prior to July 1, the City Manager submits to the Mayor and City Council a proposed operating budget for the fiscal year. The budget includes proposed operating and capital expenditures and the means of financing them.
2. Public meetings are held to review the budget and to receive public input.
3. The tentative budget is adopted prior to the third Monday in July.
4. After publication of the tentative budget, a public hearing is held on the final budget. The final budget is adopted immediately after the public hearing.
5. The legal level of control stipulated by Arizona state law provides that no expenditures may be made for a purpose not authorized in the annual budget. However, in certain circumstances, the City Council may transfer funds between budget items. The City Manager is authorized to transfer funds within a department. The final budget amounts in the financial statements include all budget transfers made during the fiscal year.

(Continued)

NOTES TO FINANCIAL STATEMENTS

6. Encumbrance accounting is a method whereby purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. All appropriations lapse at fiscal year-end and outstanding encumbrances for goods or services not yet received before the fiscal year-end are cancelled, and must be rebudgeted in the following fiscal year to be expended.
7. The following funds have legally adopted budgets: General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Internal Service Funds and Enterprise Funds.

CASH AND CASH EQUIVALENTS

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the City upon demand. Cash equivalents are defined as short-term (maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risks of changes in value because of changes in interest rates. The City considers the monies deposited in the Local Government Investment Pool to be cash equivalents.

INVESTMENTS

The City adheres to the Arizona Revised Statutes (A.R.S. Section 35-323) that govern the investment of City funds. Eligible investments include certificates of deposit in eligible depositories; interest-bearing accounts in qualified banks; repurchase agreements; pooled investments by the State Treasurer (which the City considers to be cash equivalent); bonds of the U.S. Government that are guaranteed as to principal and interest; and bonds of the State, County, City, Town, or School District. The City states investments at fair value, in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

DEVELOPMENT FEES RECEIVABLE

The City has adopted a policy allowing developers and customers to pay certain development fees, consisting of line extension charges and plant investment fees, for the water and wastewater utilities on an installment basis. These fees are receivable on a monthly basis for ten years at 12% interest and are secured by a deed of trust on the related property.

Development fee receivables are recorded in the benefiting fund when an agreement is entered into with a developer or a customer. The development fees earned are recorded as revenue in the Water and Wastewater Utility Funds.

INVENTORIES

Inventories of the proprietary funds are valued at the lower of cost (first-in, first-out) or market.

PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond the balance sheet date are recorded as prepaid expenses and are charged to expenditures (or expenses) in the accounting period for which the benefit is received.

PROPERTY, PLANT, AND EQUIPMENT

All property, plant, and equipment are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant, and equipment are valued at their estimated fair value on the date donated.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Infrastructure is capitalized when it exceeds \$15,000 and a useful life of more than one year.

Depreciation is provided using the straight-line method over estimated useful lives. Expenditures for repairs and maintenance are charged to current period operations. Major renewals and replacements that increase the properties' useful lives are capitalized. The cost of property sold or retired, and the related accumulated depreciation is removed from the appropriate accounts in the year of sale or retirement. Any resulting gain or loss is included in the operations statement of the affected fund.

The estimated useful lives of each major class of depreciable fixed assets are as follows:

Buildings	20 to 30 years
Improvements other than buildings, including wells and tanks	20 to 50 years
Movable equipment and machinery	5 to 15 years
Infrastructure	30 to 50 years

LONG-TERM LIABILITIES

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

COMPENSATED ABSENCES

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

PROPERTY TAXES

The City of Show Low levies no property taxes.

COMPARATIVE DATA

Certain comparative total data between the current year and the prior year is generally presented in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of the funds.

IMPLEMENTATION OF NEW GASB PRONOUNCEMENT

In 2005, the City implemented new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 40, *Deposit and Investment Risk Disclosures*

There were no effects on the accompanying financial statements as a result of the above.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – BUDGETARY ACCOUNTING POLICIES

Budgets for the governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 3 – CASH AND INVESTMENTS

CASH DEPOSITS

At June 30, 2006, the carrying amount of the City's deposits was \$817,467, while the balance on the bank's records was \$1,262,991. Of the bank balance, \$100,000 was covered by federal depository insurance. The balance and all cash with fiscal agent as reflected in Note 5 are covered by collateral held in the pledging financial institution's trust department.

INVESTMENTS

The City pools idle cash from all funds for the purpose of increasing income through activities. Investments are carried at fair value in accordance with GASB Pronouncement Number 31. As of June 30, 2006, the City held \$14,263,854 in the Local Government Investment Pool, valued at \$1.00 per share, which is managed by the State of Arizona Treasurer's Office. Interest income on investments is allocated on the basis of average monthly cash balances to all funds. The investments are not subject to risk categorization.

The total cash and pooled investments balance held by the City as of June 30, 2006 is \$16,827,481.

RISK DISCLOSURES

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment portfolio maturities do not exceed five years at time of purchase.

Credit Risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). The City limits its investments in these investment types to the top rating issued by NRSCOs, including raters Standard & Poor's, Fitch Ratings, and Moody's Investors Service.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTERFUND AND TRANSFER BALANCES

A summary of the interfund receivable and payable balances at June 30, 2006 is presented below. The interfund balances at June 30, 2006 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. All interfund balances outstanding are expected to be repaid within one year.

		<u>Interfund payables</u>
		<u>Nonmajor Governmental Fund</u>
Interfund receivables	General Fund	\$ 231,155

The transfers from funds are primarily debt service and operational subsidies from the General Fund. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2006.

		General	HURF Fund	Nonmajor Governmental Funds	Transfers in Enterprise Funds Wastewater	Airport	Nonmajor Enterprise Funds	Total
Transfers out	General Fund	\$ 2,307,898	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,307,898
	Enterprise funds: Water	-	452,291	645,582	272,776	668,811	268,438	2,307,898
		\$ 2,307,898	\$ 452,291	\$ 645,582	\$ 272,776	\$ 668,811	\$ 268,438	\$ -

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – RESTRICTED ASSETS

Cash and other assets as of June 30, 2006 were restricted to use as follows:

Governmental Activities:

Debt Service Funds

Cash and cash equivalents	
Reserved for debt service of 2000 Certificates of Participation	\$ 501,037
Reserved for lease payment	113
Total cash and cash equivalents	<u>501,037</u>

Internal Service Funds

Cash and cash equivalents	
Reserved for Self-Insured Medical	742,950
Total restricted	<u>\$ 1,243,987</u>

Business Activities:

Water Utility Fund

Cash and cash equivalents	
Customer security deposits	\$ 88,622
Investments	
Water plant capital projects	500,289
Total water utility fund	<u>\$ 588,911</u>

Wastewater Utility Fund

Cash and cash equivalents	
Reserved for debt service of 1997 Certificates of Participation	\$ 352,000
Investments	
Wastewater plant capital projects	3,803,332
Total cash and cash equivalents	<u>\$ 4,155,332</u>

Airport Fund

Cash and cash equivalents	
Airport capital projects	123,530
Total cash and cash equivalents	<u>\$ 123,530</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – PROPERTY, PLANT, AND EQUIPMENT

Capital asset activity for the year ended June 30, 2006 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,994,725	\$ 544,533	\$ (192,058)	\$ 3,347,200
Construction in progress	107,886	824,050	(33,945)	897,991
Total capital assets, not being depreciated	<u>3,102,611</u>	<u>1,368,583</u>	<u>(226,003)</u>	<u>4,245,191</u>
Capital assets, being depreciated:				
Buildings	3,960,401	493,174	(370,938)	4,082,637
Improvements other than buildings	2,015,919	22,000	-	2,037,919
Machinery and equipment	4,609,270	568,910	(88,119)	5,090,061
Infrastructure	13,380,454	1,253,457	-	14,633,911
Total capital assets being depreciated	<u>23,966,044</u>	<u>2,337,541</u>	<u>(459,057)</u>	<u>25,844,528</u>
Less accumulated depreciation for:				
Buildings	(1,341,272)	(177,522)	-	(1,518,794)
Improvements other than buildings	(894,371)	(67,079)	-	(961,450)
Machinery and equipment	(3,010,532)	(392,085)	-	(3,402,617)
Infrastructure	(3,139,862)	(446,507)	-	(3,586,369)
Total accumulated depreciation	<u>(8,386,037)</u>	<u>(1,083,193)</u>	<u>-</u>	<u>(9,469,230)</u>
Total capital assets, being depreciated, net	<u>15,580,007</u>	<u>1,254,348</u>	<u>(459,057)</u>	<u>16,375,298</u>
Governmental activities capital assets, net	<u>\$ 18,682,618</u>	<u>\$ 2,622,931</u>	<u>\$ (685,060)</u>	<u>\$ 20,620,489</u>
Depreciation was charged by function as follows:				
General government				\$ 221,037
Public safety				180,080
Streets/Transportation				576,795
Public works				5,106
Culture and recreation				<u>100,175</u>
Total depreciation expense - governmental activities				<u>\$ 1,083,193</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,509,894	\$ -	\$ -	\$ 2,509,894
Construction in progress	4,237,974	673,549	(2,437,969)	2,473,554
Total capital assets, not being depreciated	<u>6,747,868</u>	<u>673,549</u>	<u>(2,437,969)</u>	<u>4,983,448</u>
Capital assets, being depreciated:				
Buildings and systems	4,354,141	1,317,892	-	5,672,033
Improvements other than buildings	52,670,582	3,288,395	-	55,958,977
Machinery and equipment	1,929,811	1,148,374	(74,791)	3,003,394
Total capital assets being depreciated	<u>58,954,534</u>	<u>5,754,661</u>	<u>(74,791)</u>	<u>64,634,404</u>
Less accumulated depreciation for:				
Buildings and systems	(3,933,637)	(212,693)	-	(4,146,330)
Improvements other than buildings	(15,078,238)	(1,526,765)	-	(16,605,003)
Machinery and equipment	(633,722)	(204,058)	74,791	(762,989)
Total accumulated depreciation	<u>(19,645,597)</u>	<u>(1,943,516)</u>	<u>74,791</u>	<u>(21,514,322)</u>
Total capital assets, being depreciated, net	<u>39,308,937</u>	<u>3,811,145</u>	<u>-</u>	<u>43,120,082</u>
Business-type activities capital assets, net	<u>\$ 46,056,805</u>	<u>\$ 4,484,694</u>	<u>\$ (2,437,969)</u>	<u>\$ 48,103,530</u>
Depreciation was charged by function as follows:				
Water				\$ 508,061
Wastewater				698,202
Airport				650,713
Aquatic Center				<u>86,540</u>
Total depreciation expense - business-type activities				<u>\$ 1,943,516</u>

NOTE 7 – RETIREMENT PLANS

The City contributes to the two retirement plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health premium benefits.

The Arizona State Retirement System (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

(Continued)

NOTES TO FINANCIAL STATEMENTS

The Public Safety Personnel Retirement System (PSPRS) is an agent, multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 171 local boards according to the provisions of the A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
 3300 North Central Avenue
 P.O. Box 33910
 Phoenix, AZ 85067-3910
 (800) 621-3778

PSPRS
 1020 East Missouri Avenue
 Phoenix, AZ 85014-2613
 (602) 255-5575

FUNDING POLICY

The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate.

Cost-Sharing Plan - For the year ended June 30, 2006, active ASRS members and the City were each required to contribute at the actuarially determined rate of 2.49% (2.00 retirement and 0.49 long-term disability) of member's annual covered payroll. The City's contribution to the ASRS for the years ending June 20, 2004, June 20, 2005, and June 20, 2006, were \$336,746, \$241,994, and \$212,373, respectively, which were equal to the required contribution for the years.

Agent Plan - For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 5.70%.

ANNUAL PENSION COST

The City's pension cost for the Police Plan (PSPRS) for the year ended June 30, 2006 (the date of the most recent actuarial valuation) and related information follow:

Contribution Rate	14.83%
Annual Pension Costs	\$146,685
Contributions Made	\$146,685
Actuarial Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	Open 20 years from 7/1/01
Asset Valuation Method	4-year smoothed market
<u>Actuarial Assumptions:</u>	
Investment rate of return	8.50%
Projected salary increases (includes inflation at 5.00%)	6.00% - 9.00%

State law provides for an annual benefit increase for retirees or their survivors who are over the age 55 on the effective day of the increase and for disability retirees regardless of age. These increases are dependent upon the production of excess earnings on a portion of the system's assets and are limited to four percent of the average benefit being paid.

(Continued)

NOTES TO FINANCIAL STATEMENTS

TREND INFORMATION

Information for the Police Plan (PSPRS) for the year ended June 30, 2006 (the date of the most recent actuarial valuation) follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	59,151	100%	-
2004	83,002	100%	-
2005	105,499	100%	-

NOTE 8 – LONG-TERM OBLIGATIONS

The City has issued debt in both the government and business-type activities to provide funds for the acquisition and construction of major capital facilities. The types of debt include 1) Special Assessment Bonds that are payable from the proceeds of assessments made against the benefiting property owners, 2) Certificates of Participation that pledge general government and business-type revenues to repay bonds, and 3) loans from developers and other governmental agencies.

A description of long-term obligations outstanding at June 30, 2006 by category follows:

The special assessment bonds are payable from the proceeds of the assessments made against the benefiting property owners. Special assessment debt for which the City is contingently liable in the event the property owners’ default is included in the City's long-term debt and reported in the government-wide financials and in the Enterprise Funds for sewer related projects. In the event of default by the property owner, the City may enforce a public auction to satisfy the debt service requirements of the bonds. The following is a summary of special assessment bonds outstanding at June 30, 2006:

Show Low Improvement District No. 5 bonds at an interest rate of 6%, due in annual principal installments ranging from \$200,000 to \$465,000 through January 1, 2015. Interest is payable semiannually.	\$ 3,480,000
Show Low Improvement District No. 6 bonds at an interest rate of 6.375% due in annual principal installments ranging from \$270,000 to \$545,000 through January 1, 2015. Interest is payable semiannually.	<u>3,965,000</u>
Total Special Assessment Bonds	<u><u>\$ 7,445,000</u></u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

Certificates of Participation

On October 21, 1997, the City issued \$7,040,000 in Certificates of Participation (COPS). The 1997 COPS were issued to pay the cost of refinancing \$2,185,000 principal amount of Certificates of Participation, Series 1992, as well as to construct certain water, sewer, and transportation improvements. The liability and proceeds of the 1997 COPS were split equally between the Water and Sewer fund and the General fund. The annual principal installments range from \$530,000 to \$705,000 through June 1, 2010. Semiannual interest payments are at rates ranging from 4.375% to 5.0%.

\$ 2,625,000

On February 1, 2000, the City issued \$2,500,000 in Certificates of Participation. The 2000 COPS were issued to pay for Land Purchases in anticipation of a land exchange with the federal government and several other projects. 45.34% of the issue was for the land exchange and was recorded in the Airport fund. The remaining 54.66% was used in the Capital Projects fund.

1,150,000

Total Certificates of Participation

\$ 3,775,000

Loans Payable

On July 24, 2000, the City entered into an Intergovernmental Agreement with Navajo County for sharing costs of improving Penrod Road. The balance will be paid by the City to the County in annual installments of \$100,000.

\$ 70,668

On April 28 1997, the City entered into an agreement with McCarty Construction, Inc. to construct a water line on White Mountain Road by Fawn Brook. The cost of this construction to the City was \$120,000 to be paid in eight equal \$15,000 payments with no stated interest rate.

15,000

On August 15, 2003, the City entered into an agreement with Zions First National Bank for the purchase of a Hydro Vac truck. The loan was for \$179,242, to be paid in four yearly installments, each due in August, including interest at 2.75%.

92,051

On January 1, 2005 the City entered into an agreement with Daimler Chrysler for the purchase of a six Dodge vehicles. The loan was for \$166,864, to be repaid in 3 annual installments of \$57,870, including interest at 4.1%.

55,591

Total loans payable

\$ 233,310

(Continued)

NOTES TO FINANCIAL STATEMENTS

Long-term obligations activity for the year ended June 30, 2006 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Special assessment bonds	\$ 8,045,000	\$ -	\$ (600,000)	\$ 7,445,000	\$ 565,000
Landfill monitoring costs	26,988	-	-	26,988	-
Compensated absences	312,371	67,040	-	379,411	-
Certificates of participation	2,367,740	-	(426,650)	1,941,090	449,849
Loans payable	244,608	-	(118,349)	126,259	126,259
Long-term debt of governmental activities	<u>10,996,707</u>	<u>67,040.00</u>	<u>(1,144,999)</u>	<u>9,918,748</u>	<u>1,141,108</u>
Business-type activities:					
Certificates of participation	2,237,260	-	(417,111)	1,820,149	425,151
Compensated absences	51,350	3,804	-	55,154	-
Loans payable	374,148	-	(267,097)	107,051	532,203
Long-term debt of business-type activities	<u>2,662,758</u>	<u>3,804</u>	<u>(684,208)</u>	<u>1,982,354</u>	<u>957,354</u>
Total debt activity	<u>\$ 13,659,465</u>	<u>\$ 70,844</u>	<u>\$ (1,829,207)</u>	<u>\$ 11,901,102</u>	<u>\$ 2,098,462</u>

Annual debt service requirements to maturity for special assessment bonds, COPS and loans payable as follows:

Fiscal year ending	Principal Payments							
	Governmental Activities				Business-type Activities			
	Special Assessments Bonds	Certificates of Participation	Loans Payable	Total Governmental Activities	Certificates of Participation	Loans Payable	Total Business-type Activities	Total
2007	\$ 565,000	\$ 449,849	\$ 126,259	\$ 1,141,108	\$ 425,151	\$ 60,401	\$ 485,552	\$ 1,626,660
2008	605,000	473,048	-	1,078,048	446,952	46,650	493,602	1,571,650
2009	640,000	496,247	-	1,136,247	468,753	-	468,753	1,605,000
2010	685,000	521,946	-	1,206,946	479,293	-	479,293	1,686,239
2011	725,000	-	-	725,000	-	-	-	725,000
2012 - 2016	3,465,000	-	-	3,465,000	-	-	-	3,465,000
2017 - 2021	760,000	-	-	760,000	-	-	-	760,000
Principal payments	<u>7,445,000</u>	<u>1,941,090</u>	<u>126,259</u>	<u>9,512,349</u>	<u>1,820,149</u>	<u>107,051</u>	<u>1,927,200</u>	<u>11,439,549</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

Interest Payments

Fiscal year ending	Governmental Activities				Business-type Activities			Total
	Special Assessments Bonds	Certificates of Participation	Loans Payable	Total Governmental Activities	Certificates of Participation	Loans Payable	Total Business-type Activities	
2007	474,159	98,084	2,279	574,522	92,420	2,531	94,951	669,473
2008	437,794	76,064	-	513,858	71,684	1,283	72,967	586,825
2009	399,094	52,029	-	451,123	49,019	-	49,019	500,142
2010	357,909	26,733	-	384,642	25,180	-	25,180	409,822
2011	314,081	-	-	-	-	-	-	-
2012 - 2016	824,878	-	-	824,878	-	-	-	824,878
2017 - 2021	55,050	-	-	55,050	-	-	-	55,050
Interest payments	2,862,965	252,910	2,279	2,804,073	238,303	3,814	242,117	3,046,190
Total debt service	\$ 10,307,965	\$ 2,194,000	\$ 128,538	\$ 12,316,422	\$ 2,058,452	\$ 110,865	\$ 2,169,317	\$ 14,485,739

NOTE 9 - CONTINGENT LIABILITIES

The City is involved in litigation arising in the normal course of operations. Although the outcome of this litigation is not presently determinable, in the opinion of management, after consultation with legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City has entered into various line extension agreements with developers, whereby the developers extended water and sewer lines. Under the terms of the agreements, the City will assess a line charge on future connections to the extended lines and reimburse the developers for that portion of the cost contributed by the developers. The City is under no obligation to refund any of the extension costs other than through future connections.

NOTE 10 – COMMITMENTS

The City had planned construction projects as of June 30, 2006. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Pueblo West	\$ 210,033	\$ 305,882
Hatch Construction paving	104,526	264,250

NOTE 11 – 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; injuries to employees; and natural disasters. In August 1987, the City joined with other cities around the State in the Arizona Risk Retention Pool, a public entity risk pool currently operating, as a common risk management and insurance program for approximately 60 members. The City makes a premium contribution to the Pool for its general insurance coverage.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Premiums are paid annually for the coverage year from August 15, 2004 to August 15, 2005, and are recorded as prepaid expenditures when paid and charged to expenditures monthly. The intergovernmental agreement to the Arizona Municipal Risk Retention Pool provides that the Pool will be self-sustaining through member premiums and will reinsure for claims to a maximum of \$5 million for each insured event. The City has had comparable insurance coverages for the past 16 years, and has had no claims exceeding its insurance coverage.

The City continues to carry commercial insurance for other risks of loss, including airport activities, workers' compensation, and employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 – RECEIVABLES

Receivables as of year-end for the government's individual major funds and nonmajor, internal service in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Highway Users	ID #5 Fund	ID #6 Fund	Water	Wastewater	Airport	Nonmajor, Other Funds	Total
Receivable:									
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 345,058	\$ 171,818	\$ 22,218	\$ 441,642	\$ 980,736
Taxes	1,199,844	121,296	-	-	-	-	-	1,333	1,322,473
Interest	39,054	-	18,454	19,899	4,234	150	-	697	82,488
Special assessments	-	-	3,460,550	3,953,558	-	-	-	-	7,414,108
Gross receivables	<u>1,238,898</u>	<u>121,296</u>	<u>3,479,004</u>	<u>3,973,457</u>	<u>349,292</u>	<u>171,968</u>	<u>22,218</u>	<u>443,672</u>	<u>9,799,805</u>
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,155</u>	<u>22,508</u>	<u>-</u>	<u>9,646</u>	<u>64,309</u>
Net total receivables	<u>\$ 1,238,898</u>	<u>\$ 121,296</u>	<u>\$ 3,479,004</u>	<u>\$ 3,973,457</u>	<u>\$ 317,137</u>	<u>\$ 149,460</u>	<u>\$ 22,218</u>	<u>\$ 434,026</u>	<u>\$ 9,735,496</u>

Revenues of the Water/Wastewater Authority are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water	\$ 32,155
Uncollectibles related to wastewater	22,508
Uncollectibles related to refuse	<u>9,646</u>
	<u>\$ 64,309</u>

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CITY OF SHOW LOW, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2006

An analysis of the progress of the Police Plan (PSPRS) from June 30, 2003 through June 30, 2005, based on actuarial valuations, follows:

<u>Actuarial Valuation Date June 30</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
2003	2,725,236	2,736,239	11,003	99.6%	906,819	1.21%
2004	2,869,122	3,053,065	183,943	94.0%	971,896	18.93%
2005	2,996,674	4,062,027	1,065,353	73.8%	1,187,903	89.70%



Financial Section

Independent Auditor's Report

Management's Discussion & Analysis

Basic Financial Statements

Combining Statements

Nonmajor Governmental Funds

Nonmajor Enterprise Funds

Internal Service Funds

Budget to Actual Comparisons



CITY OF SHOW LOW, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS	Special Revenue			Debt Service Certificates of Participation	Total Nonmajor Governmental Funds
	LTAf	Street Lighting	Public Transportation		
ASSETS					
Investments	\$ 171,934	\$ 43,580	\$ -	\$ -	\$ 215,514
Receivables (net of allowances for uncollectibles)					
Accounts	-	-	236,136	-	236,136
Taxes	-	1,333	-	-	1,333
Interest	579	118	-	-	697
Restricted assets					
Cash and cash equivalents	-	-	-	501,037	501,037
Total assets	<u>\$ 172,513</u>	<u>\$ 45,031</u>	<u>\$ 236,136</u>	<u>\$ 501,037</u>	<u>\$ 954,717</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable and other current liabilities	\$ -	\$ 7,255	\$ 28,174	\$ -	\$ 35,429
Due to other funds	-	-	231,155	-	231,155
Total liabilities	<u>-</u>	<u>7,255</u>	<u>259,329</u>	<u>-</u>	<u>266,584</u>
FUND BALANCE					
Reserved for					
Debt service	-	-	-	501,037	501,037
Unreserved, reported in					
Special revenue	172,513	37,776	(23,193)	-	187,096
Total fund balance	<u>172,513</u>	<u>37,776</u>	<u>(23,193)</u>	<u>501,037</u>	<u>688,133</u>
Total liabilities and fund balance	<u>\$ 172,513</u>	<u>\$ 45,031</u>	<u>\$ 236,136</u>	<u>\$ 501,037</u>	<u>\$ 954,717</u>

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES	Special Revenue			Debt Service	Total
	LTAf	Street Lighting	Public Transportation	Certificates of Participation	Non-Major Governmental Funds
Taxes	\$ 46,518	\$ 99,015	\$ -	\$ -	\$ 145,533
Intergovernmental revenues	-	-	602,601	-	602,601
Investment earnings	4,516	891	-	26,128	31,535
Miscellaneous	-	-	22,944	-	22,944
Total revenues	<u>51,034</u>	<u>99,906</u>	<u>625,545</u>	<u>26,128</u>	<u>802,613</u>
EXPENDITURES					
Current					
Public works	\$ -	\$ 104,709	\$ 321,771	\$ -	\$ 426,480
Capital outlay	8,806	-	391,924	-	400,730
Debt service					
Principal	-	-	-	480,052	480,052
Interest and fiscal charges	-	-	-	124,040	124,040
Total expenditures	<u>8,806</u>	<u>104,709</u>	<u>713,695</u>	<u>604,092</u>	<u>1,431,302</u>
REVENUES (UNDER)					
EXPENDITURES	<u>42,228</u>	<u>(4,803)</u>	<u>(88,150)</u>	<u>(577,964)</u>	<u>(628,689)</u>
OTHER FINANCING SOURCES					
Transfers in	-	1,234	64,957	579,391	645,582
NET CHANGE IN FUND BALANCE	42,228	(3,569)	(23,193)	1,427	16,893
FUND BALANCE, beginning of the year	<u>130,285</u>	<u>41,345</u>	<u>-</u>	<u>499,610</u>	<u>671,240</u>
FUND BALANCE, end of the year	<u>\$ 172,513</u>	<u>\$ 37,776</u>	<u>\$ (23,193)</u>	<u>\$ 501,037</u>	<u>\$ 688,133</u>

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CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2006

ASSETS	Business-type Activities - Enterprise Funds		
	Refuse Fund	Family Aquatic	Total Nonmajor Enterprise Funds
Current assets			
Investments	\$ 48,052	\$ -	\$ 48,052
Receivables (net of uncollectibles)	67,684	-	67,684
Total current assets	<u>115,736</u>	<u>-</u>	<u>115,736</u>
Noncurrent assets			
Capital assets			
Buildings and improvements	-	2,201,597	2,201,597
Machinery and equipment	-	171,424	171,424
Less accumulated depreciation	-	(963,201)	(963,201)
Total capital assets, net	<u>-</u>	<u>1,409,820</u>	<u>1,409,820</u>
Total assets	<u>115,736</u>	<u>1,409,820</u>	<u>1,525,556</u>
LIABILITIES			
Current liabilities			
Accounts payable	57,529	10,697	68,226
Accrued wages and benefits	-	13,445	13,445
Compensated absenses	-	6,093	6,093
Total liabilities	<u>57,529</u>	<u>30,235</u>	<u>87,764</u>
NET ASSETS			
Invested in capital assets	-	1,409,820	1,409,820
Unrestricted	58,207	(30,235)	27,972
Total net assets	<u>\$ 58,207</u>	<u>\$ 1,379,585</u>	<u>\$ 1,437,792</u>

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Refuse Fund	Family Aquatic	Total Nonmajor Enterprise Funds
OPERATING REVENUES			
Service fees	\$ 661,289	\$ 98,166	\$ 759,455
OPERATING EXPENSES			
Cost of goods sold	-	501	501
Personnel services	-	250,601	250,601
Administrative expenses	645,161	15,653	660,814
Field supplies	-	6,051	6,051
Repairs and maintenance	-	31,948	31,948
Utilities	-	77,523	77,523
Departmental expense	-	119	119
Total operating expenses	645,161	382,396	1,027,557
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	16,128	(284,230)	(268,102)
Depreciation expense	-	86,540	86,540
OPERATING INCOME (LOSS)	16,128	(370,770)	(354,642)
NONOPERATING REVENUES			
Investment income	368	-	368
Income (Loss) before transfers	16,496	(370,770)	(354,274)
TRANSFERS	(1,185)	269,623	268,438
CHANGE IN NET ASSETS	15,311	(101,147)	(85,836)
NET ASSETS, beginning of year	42,896	1,480,732	1,523,628
NET ASSETS, end of year	\$ 58,207	\$ 1,379,585	\$ 1,437,792

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Refuse Fund	Family Aquatic	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 653,710	\$ 106,010	\$ 759,720
Payments to suppliers	(643,813)	(132,605)	(776,418)
Payments to employees	-	(243,028)	(243,028)
Net cash provided by (used in) operating activities	9,897	(269,623)	(259,726)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	(1,185)	269,623	268,438
Net cash provided by noncapital financing activities	(1,185)	269,623	268,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	368	-	368
Net cash provided by investing activities	368	-	269,951
NET CHANGE IN CASH	9,080	-	9,080
CASH AND CASH EQUIVALENTS, Beginning of year	38,972	-	38,972
CASH AND CASH EQUIVALENTS, End of year	\$ 48,052	\$ -	\$ 48,052

(Continued)

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Business-type Activities - Enterprise Funds		
	Refuse Fund	Family Aquatic	Total Nonmajor Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 16,128	\$ (370,770)	\$ (354,642)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	86,540	86,540
(Increase) decrease in			
Accounts receivable	(7,579)	7,844	265
Increase (decrease) in			
Accounts payable	1,348	(810)	538
Accrued wages	-	5,781	5,781
Compensated balances	-	1,792	1,792
Total adjustments	(6,231)	101,147	94,916
Net cash provided by operating activities	\$ 9,897	\$ (269,623)	\$ (259,726)
COMPONENTS OF CASH:			
Investments	48,052	-	48,052
TOTAL CASH AND CASH EQUIVALENTS	\$ 48,052	\$ -	\$ 48,052

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CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF NET ASSETS
HEALTH INSURANCE FUND
JUNE 30, 2006

	Health Insurance
ASSETS	
Cash	\$ 742,950
Accounts receivable	128,176
Total assets	<u>871,126</u>
 NET ASSETS	
Unrestricted	871,126
Total net assets	<u>\$ 871,126</u>

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
HEALTH INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Health Insurance
OPERATING REVENUES	<u>\$ 1,393,204</u>
OPERATING EXPENSES	
Administrative expenses	<u>1,350,960</u>
Total operating expenses	<u>1,350,960</u>
OPERATING INCOME	<u>42,244</u>
NONOPERATING REVENUES	
Investment income	<u>23,992</u>
Total nonoperating revenues	<u>23,992</u>
Income before transfers	<u>66,236</u>
CHANGE IN NET ASSETS	66,236
NET ASSETS, beginning of year	<u>804,890</u>
NET ASSETS, end of year	<u><u>\$ 871,126</u></u>

CITY OF SHOW LOW, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
HEALTH INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Health Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,320,615
Cash paid to vendors	<u>(1,350,960)</u>
Net cash provided by operating activities	<u>(30,345)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>23,992</u>
Net cash provided by investing activities	<u>23,992</u>
NET CHANGE IN CASH	(6,353)
CASH AND CASH EQUIVALENTS,	
Beginning of year	<u>749,303</u>
CASH AND CASH EQUIVALENTS,	
End of year	<u><u>\$ 742,950</u></u>

(Continued)

**COMBINING STATEMENT OF CASH FLOWS
HEALTH INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Health Insurance</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Operating income	\$ 42,244
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Increase (decrease) in	
Accounts receivables	(72,589)
Total adjustments	<u>(72,589)</u>
Net cash provided by operating activities	<u>\$ (30,345)</u>

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CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
IMPROVEMENTS DISTRICT # 5 DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special assessments	\$ 662,150	\$ 662,150	\$ 595,094	\$ (67,056)
Fines	2,500	2,500	3,960	1,460
Investment earnings	1,000	1,000	2,432	1,432
Total revenues	<u>665,650</u>	<u>665,650</u>	<u>601,486</u>	<u>(64,164)</u>
EXPENDITURES				
Debt Service				
Principal	405,000	405,000	355,000	50,000
Interest	255,650	255,650	233,632	22,018
Total expenditures	<u>660,650</u>	<u>660,650</u>	<u>588,632</u>	<u>72,018</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,000</u>	<u>5,000</u>	<u>12,854</u>	<u>7,854</u>
NET CHANGE IN FUND BALANCE	<u>5,000</u>	<u>5,000</u>	<u>12,854</u>	<u>7,854</u>
FUND BALANCE, beginning of the year	<u>65,243</u>	<u>65,243</u>	<u>105,002</u>	<u>39,759</u>
FUND BALANCE, end of the year	<u>\$ 70,243</u>	<u>\$ 70,243</u>	<u>\$ 117,856</u>	<u>\$ 47,613</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
IMPROVEMENTS DISTRICT # 6 DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special assessments	\$ 585,800	\$ 585,800	\$ 538,475	\$ (47,325)
Fines	2,500	2,500	-	(2,500)
Investment earnings	1,000	1,000	1,729	729
Total revenues	<u>589,300</u>	<u>589,300</u>	<u>540,204</u>	<u>(49,096)</u>
EXPENDITURES				
Debt Service				
Principal	330,000	330,000	245,000	85,000
Interest	254,300	254,300	246,016	8,284
Total expenditures	<u>584,300</u>	<u>584,300</u>	<u>491,016</u>	<u>93,284</u>
REVENUES (UNDER) EXPENDITURES	<u>5,000</u>	<u>5,000</u>	<u>49,188</u>	<u>44,188</u>
OTHER FINANCING SOURCES (USES)				
FUND BALANCE, beginning of the year	<u>52,363</u>	<u>52,363</u>	<u>46,068</u>	<u>(6,295)</u>
FUND BALANCE, end of the year	<u>\$ 57,363</u>	<u>\$ 57,363</u>	<u>\$ 95,256</u>	<u>\$ 37,893</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LTAFF SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 68,831	\$ 68,831	\$ 46,518	\$ (22,313)
Investment earnings	2,500	2,500	4,516	2,016
Total revenues	<u>71,331</u>	<u>71,331</u>	<u>51,034</u>	<u>(20,297)</u>
EXPENDITURES				
Public Works				
Capital outlay	<u>199,050</u>	<u>199,050</u>	<u>8,806</u>	<u>190,244</u>
Total expenditures	<u>199,050</u>	<u>199,050</u>	<u>8,806</u>	<u>190,244</u>
REVENUES (UNDER) EXPENDITURES	<u>(127,719)</u>	<u>(127,719)</u>	<u>42,228</u>	<u>169,947</u>
NET CHANGE IN FUND BALANCE	<u>(127,719)</u>	<u>(127,719)</u>	<u>42,228</u>	<u>169,947</u>
FUND BALANCE, beginning of the year	<u>(18,985)</u>	<u>(18,985)</u>	<u>130,285</u>	<u>149,270</u>
FUND BALANCE, end of the year	<u><u>\$ (146,704)</u></u>	<u><u>\$ (146,704)</u></u>	<u><u>\$ 172,513</u></u>	<u><u>\$ 319,217</u></u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
STREET LIGHTING SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 99,590	\$ 99,590	\$ 99,015	\$ (575)
Investment earnings	225	225	891	666
Total revenues	<u>99,815</u>	<u>99,815</u>	<u>99,906</u>	<u>91</u>
EXPENDITURES				
Public works				
Street lighting	112,500	112,500	104,709	7,791
Capital outlay	<u>39,627</u>	<u>39,627</u>	<u>-</u>	<u>39,627</u>
Total expenditures	<u>152,127</u>	<u>152,127</u>	<u>104,709</u>	<u>47,418</u>
REVENUES (UNDER) EXPENDITURES	<u>(52,312)</u>	<u>(52,312)</u>	<u>(4,803)</u>	<u>47,509</u>
OTHER FINANCING SOURCES				
Transfers in	<u>20,000</u>	<u>20,000</u>	<u>1,234</u>	<u>(18,766)</u>
NET CHANGE IN FUND BALANCE	<u>(32,312)</u>	<u>(32,312)</u>	<u>(3,569)</u>	<u>28,743</u>
FUND BALANCE, beginning of the year	<u>3,656</u>	<u>3,656</u>	<u>41,345</u>	<u>37,689</u>
FUND BALANCE, end of the year	<u>\$ (28,656)</u>	<u>\$ (28,656)</u>	<u>\$ 37,776</u>	<u>\$ 66,432</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
PUBLIC TRANSPORTATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 572,390	\$ 572,390	\$ 602,601	\$ 30,211
Miscellaneous	22,000	22,000	22,944	944
Total revenues	<u>594,390</u>	<u>594,390</u>	<u>625,545</u>	<u>31,155</u>
EXPENDITURES				
General Government				
Transportation	381,548	381,548	321,771	59,777
Capital outlay	<u>260,000</u>	<u>260,000</u>	<u>391,924</u>	<u>(131,924)</u>
Total expenditures	<u>641,548</u>	<u>641,548</u>	<u>713,695</u>	<u>(72,147)</u>
REVENUES (UNDER) EXPENDITURES	<u>(47,158)</u>	<u>(47,158)</u>	<u>(88,150)</u>	<u>(40,992)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>47,158</u>	<u>47,158</u>	<u>64,957</u>	<u>17,799</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>(23,193)</u>	<u>(23,193)</u>
FUND BALANCE, beginning of the year	<u>(40,679)</u>	<u>(40,679)</u>	<u>-</u>	<u>40,679</u>
FUND BALANCE, end of the year	<u>\$ (40,679)</u>	<u>\$ (40,679)</u>	<u>\$ (23,193)</u>	<u>\$ 17,486</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CERTIFICATES OF PARTICIPATION DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 15,000	\$ 15,000	\$ 26,128	\$ 11,128
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>26,128</u>	<u>11,128</u>
EXPENDITURES				
Debt service				
Principal retirement	480,052	480,052	480,052	-
Interest and fiscal charges	106,879	106,879	124,040	(17,161)
Total expenditures	<u>586,931</u>	<u>586,931</u>	<u>604,092</u>	<u>(17,161)</u>
REVENUES (UNDER) EXPENDITURES	<u>(571,931)</u>	<u>(571,931)</u>	<u>(577,964)</u>	<u>(6,033)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>572,455</u>	<u>572,455</u>	<u>579,391</u>	<u>6,936</u>
NET CHANGE IN FUND BALANCE	<u>524</u>	<u>524</u>	<u>1,427</u>	<u>903</u>
FUND BALANCE, beginning of the year	<u>(75,942)</u>	<u>(75,942)</u>	<u>499,610</u>	<u>575,552</u>
FUND BALANCE, end of the year	<u>\$ (75,418)</u>	<u>\$ (75,418)</u>	<u>\$ 501,037</u>	<u>\$ 576,455</u>

CITY OF SHOW LOW, ARIZONA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2006

	<u>Balance</u> <u>7/1/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2006</u>
ASSETS				
Investments	\$ 4,392	\$ 865	\$ -	\$ 5,257
Interest receivable	9	17	8	18
	<u>4,401</u>	<u>882</u>	<u>8</u>	<u>5,275</u>
Total assets	<u>\$ 4,401</u>	<u>\$ 882</u>	<u>\$ 8</u>	<u>\$ 5,275</u>
LIABILITIES				
Slovakian fund	\$ 1,897	\$ 60	\$ 4	1,953
Police explorer post	-	590	-	590
Disaster relief	-	154	-	154
Swim team	2,324	73	4	2,393
Sister cities fund	180	6	1	185
	<u>4,401</u>	<u>883</u>	<u>9</u>	<u>5,275</u>
Total liabilities	<u>\$ 4,401</u>	<u>\$ 883</u>	<u>\$ 9</u>	<u>\$ 5,275</u>

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CITY OF SHOW LOW, ARIZONA

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities										
Invested in capital assets, net of related debt	N/A	N/A	N/A	N/A	N/A	N/A	\$ 3,268,520	\$ 5,047,274	\$ 8,025,270	\$ 11,108,140
Restricted							10,449,679	9,833,472	8,719,606	8,366,723
Unrestricted							3,756,812	5,180,212	6,020,782	8,969,170
Total governmental activities net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,475,011	\$ 20,060,958	\$ 22,765,658	\$ 28,444,033
Business-type activities										
Invested in capital assets, net of related debt	N/A	N/A	N/A	N/A	N/A	N/A	\$ 39,637,789	\$ 42,473,129	\$ 43,445,397	\$ 46,176,330
Restricted							3,850,746	8,819,520	3,909,842	3,909,842
Unrestricted							394,501	(6,181,546)	1,075,383	2,478,312
Total Business-type activities net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,883,036	\$ 45,111,103	\$ 48,430,622	\$ 52,564,484
Primary government										
Invested in capital assets, net of relate debt	N/A	N/A	N/A	N/A	N/A	N/A	\$ 42,906,309	\$ 47,520,403	\$ 51,470,667	\$ 57,284,470
Restricted	-	-	-	-	-	-	14,300,425	18,652,992	12,629,448	12,276,565
Unrestricted	-	-	-	-	-	-	4,151,313	(1,001,334)	7,096,165	11,447,482
Total primary government net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,358,047	\$ 65,172,061	\$ 71,196,280	\$ 81,008,517

CITY OF SHOW LOW, ARIZONA

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(accrual basis of accounting)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses										
Governmental activities:										
General government							\$ 3,921,783	\$ 4,104,054	\$ 4,002,302	\$ 3,989,285
Public safety							2,178,331	2,647,230	2,839,820	3,624,181
Public works							2,766,797	2,872,362	2,872,918	3,077,390
Public Health							87,799	197,394	166,075	135,214
Culture and recreation							597,382	704,400	845,588	849,871
Interest on long-term debt							781,075	725,521	929,135	603,688
Total governmental activities expenses	-	-	-	-	-	-	10,333,167	11,250,961	11,655,838	12,279,629
Business-type activities:										
Water							2,763,342	1,579,290	1,928,857	1,992,474
Wastewater							-	1,467,116	1,742,718	2,066,814
Airport							1,497,573	1,359,784	1,926,814	1,764,740
Family Aquatic							478,869	520,308	456,557	468,936
Refuse							456,713	537,815	559,758	645,161
Total business-type activities expenses	-	-	-	-	-	-	5,196,497	5,464,313	6,614,704	6,938,125
Total primary government expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,529,664	\$ 16,715,274	\$ 18,270,542	\$ 19,217,754
Program Revenues										
Governmental activities:										
Charges for services:										
General government							651,232	272,940	998,298	456,815
Culture and recreation							74,501	82,630	104,526	78,507
Other activities							117,315	79,052	82,312	2,192,121
Operating grants and contributions							427,430	216,550	654,087	152,870
Capital grants and contributions							960,209	382,948	379,539	333,283
Total governmental activities program revenues	-	-	-	-	-	-	2,230,687	1,034,120	2,218,762	3,213,596
Business-type activities:										
Charges for services:										
Water							2,271,808	1,800,949	2,189,915	2,030,071
Wastewater								1,668,035	1,938,463	2,270,913
Airport							872,047	767,773	930,197	1,040,160
Family Aquatic Center							96,147	99,982	131,190	98,166
Refuse							465,194	512,061	577,425	661,289
Operating grants and contributions							322,620	-	-	-
Capital grants and contributions							7,473,762	952,107	3,472,317	3,544,000
Total business-type activities program revenues	-	-	-	-	-	-	11,501,578	5,800,907	9,239,507	9,644,599
Total primary government program revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,732,265	\$ 6,835,027	\$ 11,458,269	\$ 12,858,195

(Continued)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net (expense)/revenue										
Governmental activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (8,102,480)	\$ (10,216,841)	\$ (9,437,076)	\$ (9,066,033)
Business-type activities	-	-	-	-	-	-	6,305,081	336,594	2,624,803	2,706,474
Total primary government net expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,797,399)	\$ (9,880,247)	\$ (6,812,273)	\$ (6,359,559)

**General Revenues and Other Changes in
Net Assets**

Governmental activities:

Taxes:

Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,882,454	\$ 7,685,555	\$ 8,544,891	\$ 9,976,632
Franchise taxes							218,654	250,610	283,449	301,769
State sales taxes							601,809	647,382	712,867	830,093
Urban revenue sharing							808,564	694,977	715,536	831,807
Auto-in-lieu							421,988	426,779	440,379	498,645
Other							1,547,858	3,616,225	2,171,592	2,914,862
Investment earnings							110,061	78,058	172,331	337,177
Gain(Loss) on sales of assets							54,777	(67,670)	-	-
Miscellaneous							19,185	91,976	29,165	263,448
Transfers							(801,285)	(621,104)	(928,434)	(1,210,025)
Total governmental activities	-	-	-	-	-	-	9,864,065	12,802,788	12,141,776	14,744,408
Business-type activities:										
Investment earning	-	-	-	-	-	-	104,387	100,665	146,124	212,550
Gain(Loss) on sales of assets							(69,781)	169,704	1,178	4,813
Transfers	-	-	-	-	-	-	801,285	621,104	928,434	1,210,025
Total business-type activities	-	-	-	-	-	-	835,891	891,473	1,075,736	1,427,388
Total Primary government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,699,956	\$ 13,694,261	\$ 13,217,512	\$ 16,171,796

Change in Net Asset

Governmental activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,761,585	\$ 2,585,947	\$ 2,704,700	\$ 5,678,375
Business-type activities	-	-	-	-	-	-	7,140,972	1,228,067	3,700,539	4,133,862
Total primary government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,902,557	\$ 3,814,014	\$ 6,405,239	\$ 9,812,237

CITY OF SHOW LOW, ARIZONA

General Governmental Revenue by Source

Last Ten Fiscal Years (unaudited)

(accrual basis of accounting)

Fiscal Year	Taxes	Licenses and Permits	Fines Forfeitures and Penalties	Special Assessments	Interest Income	Inter-governmental	Charges for Service	Miscellaneous Revenue	Capital Projects	Total
1996-97	\$6,475,577	86,590	127,098	232,160	293,370	684,259	121,233	68,209	96,468	\$8,184,964
1997-98	\$7,017,282	179,142	103,571	180,749	313,238	529,291	241,744	66,606	235,486	\$8,867,109
1998-99	\$8,193,315	129,528	132,160	119,345	335,243	461,288	104,270	141,644	466,833	\$10,083,626
1999-00	\$9,229,145	192,975	133,125	630,501	250,772	794,719	113,470	172,713	239,918	\$11,757,338
2000-01	\$9,533,316	186,719	136,708	630,263	321,815	793,388	128,801	311,667	239,763	\$12,282,440
2001-02	\$9,703,641	230,539	181,855	781,885	153,136	501,820	132,148	153,244	155,943	\$11,994,211
2002-03	\$9,080,535	367,881	224,176	1,122,373	100,260	1,648,744	321,800	479,939	85,531	\$13,431,239
2003-04	\$11,044,732	529,895	202,023	1,134,646	78,058	735,695	400,102	400,531	-	\$14,525,682
2004-05	\$12,085,009	623,009	122,958	1,165,709	166,180	1,032,926	449,387	298,768	-	\$15,943,946
2005-06	\$13,846,075	1,192,968	126,915	1,133,569	337,177	1,531,190	736,688	263,448	-	\$19,168,030

(1) Includes General, Special Revenue, Debt Service Funds and Capital Projects.

Source: City of Show Low Finance Department

CITY OF SHOW LOW, ARIZONA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,721	\$ 382,809	\$ 457,619	\$ 780,003
Unreserved	-	-	-	-	-	-	3,382,850	4,581,623	5,174,543	8,036,445
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,507,571</u>	<u>\$ 4,964,432</u>	<u>\$ 5,632,162</u>	<u>\$ 8,816,448</u>
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	-	-	-	-	-	-	311,208	229,119	251,762	230,371
Debt service	-	-	-	-	-	-	789,581	619,181	650,680	714,149
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100,789</u>	<u>\$ 848,300</u>	<u>\$ 902,442</u>	<u>\$ 944,520</u>

CITY OF SHOW LOW, ARIZONA

Changes in Fund Balance of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues										
Taxes							\$ 9,080,535	\$ 11,044,732	\$ 12,085,009	\$ 13,846,075
Licenses and permits							367,881	529,895	623,009	1,192,968
Intergovernmental							1,724,474	735,695	1,032,926	1,531,190
Charges for services							321,800	400,102	449,387	736,688
Fines							224,176	202,023	122,958	126,915
Special assessments							1,122,373	1,134,646	1,165,709	1,133,569
Invertment earnings							110,061	78,058	166,180	337,177
Miscellaneous							479,939	400,531	298,768	263,448
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,431,239	\$ 14,525,682	\$ 15,943,946	\$ 19,168,030
Expenditures										
Current:										
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,634,851	\$ 3,333,143	\$ 3,668,296	\$ 3,752,094
Public safety							2,058,233	2,366,808	2,660,077	3,295,460
Public works							2,060,795	2,190,291	2,586,569	2,890,444
Public health							87,799	94,295	97,796	135,214
Culture and recreation							550,352	623,139	766,538	849,871
Capital outlay							1,903,744	1,977,143	2,614,386	2,124,818
Debt service:										
Principal							1,575,574	1,389,866	1,232,146	1,080,052
Interest and fiscal charges							784,515	725,521	680,594	603,688
Total expenditures	-	-	-	-	-	-	12,655,863	12,700,206	14,306,402	14,731,641
Revenues over(under) expenditures	-	-	-	-	-	-	775,376	1,825,476	1,637,544	4,436,389
Other finance sources (Uses)										
Transfers in(out)							(801,285)	(621,104)	(915,672)	(1,210,025)
Total other finance scources(uses)	-	-	-	-	-	-	(801,285)	(621,104)	(915,672)	(1,210,025)
Net change in fund balances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,909)	\$ 1,204,372	\$ 721,872	\$ 3,226,364
Debt service as a percentage of noncapital expenditures							28.12%	24.58%	19.56%	15.41%

CITY OF SHOW LOW, ARIZONA

Assessed, Limited and Full Cash Value of Taxable Property

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Net Assessed Value</u>	<u>Total Limited Value</u>	<u>Ratio of Net Assessed to Cash Values</u>
1996-97	\$41,671,076	\$277,036,464	15%
1997-98	\$44,641,828	\$300,688,024	15%
1998-99	\$49,512,424	\$338,139,614	15%
1999-00	\$55,684,672	\$384,666,941	14%
2000-01	\$61,707,039	\$431,486,151	14%
2001-02	\$68,519,289	\$485,129,057	14%
2002-03	\$78,807,745	\$560,847,052	14%
2003-04	\$89,338,936	\$634,210,704	14%
2004-05	\$94,162,089	\$677,090,505	14%
2005-06	\$103,182,998	\$767,788,032	13%

Source: Arizona Department of Revenue

CITY OF SHOW LOW, ARIZONA

Property Tax Rates - Direct and Overlapping Governments

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>
1995-96	-	-	0.5240	1.1272	4.8020	6.4532
1996-97	-	-	0.5472	1.1579	4.9757	6.6808
1997-98	-	-	0.5656	1.1813	4.6027	6.3496
1998-99	-	-	0.5833	1.1961	4.6017	6.3811
1999-00	-	-	0.5833	1.1961	4.6017	6.3811
2000-01	-	-	0.6506	1.1504	5.2334	7.0344
2001-02	-	-	0.6506	1.1504	5.3253	7.1263
2002-03	-	-	0.7772	1.4406	5.9103	8.1281
2003-04	-	-	0.9316	1.5092	5.4816	7.9224
2004-05	-	-	1.1600	1.5200	5.0497	7.7297
2005-06	-	-	1.1592	1.4858	4.8494	7.4944

Source: Navajo County Assessor's Office

CITY OF SHOW LOW, ARIZONA

Street Lighting Levies and Collections

Last Ten Fiscal Years (unaudited)

Fiscal Year	Original Real Property Assessments	Collected to June 30th, End of Tax Fiscal Year		Delinquent Taxes Receivable
		Amount	Percent of Original Levy	
1996-97	\$63,918	\$59,295	93%	\$4,623
1997-98	\$68,044	\$62,879	92%	\$5,165
1998-99	\$68,799	\$59,833	87%	\$4,965
1999-00	\$79,487	\$72,346	91%	\$7,141
2000-01	\$94,295	\$93,376	99%	\$7,447
2001-02	\$91,652	\$82,485	90%	\$9,167
2002-03	\$92,173	\$84,973	92%	\$7,200
2003-04	\$90,012	\$84,563	94%	\$5,449
2004-05	\$94,154	\$88,634	94%	\$5,520
2005-06	\$92,668	\$90,037	97%	\$2,631

Source: Navajo County Treasurer's Office

CITY OF SHOW LOW, ARIZONA

Sales Tax Revenue

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Construction</u>	<u>Utilities</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Restaurants</u>	<u>Real Estate</u>	<u>Services</u>	<u>Others</u>	<u>Total</u>	
1996-1997	\$ 280,201	103,202	70,797	3,002,879	286,136	98,901	183,899	144,454	\$ 4,170,469	
1997-1998	\$ 303,908	126,649	100,424	3,313,976	278,545	111,704	220,766	145,790	\$ 4,601,762	110.34%
1998-1999	\$ 589,258	167,077	128,171	3,676,568	274,737	128,158	310,682	164,288	\$ 5,438,939	118.19%
1999-2000	\$ 653,405	305,235	113,757	4,191,938	283,238	142,016	328,873	186,559	\$ 6,205,021	114.09%
2000-2001	\$ 597,918	399,661	116,329	4,325,608	308,686	158,633	369,365	169,586	\$ 6,445,786	103.88%
2001-2002	\$ 549,505	439,266	121,925	4,483,143	321,439	159,348	343,534	199,100	\$ 6,617,259	102.66%
2002-2003	\$ 652,773	287,999	123,471	4,730,725	353,551	168,737	366,706	198,492	\$ 6,882,454	104.01%
2003-2004	\$ 895,577	137,473	134,455	5,213,135	375,041	195,926	332,265	401,685	\$ 7,685,556	111.67%
2004-2005	\$ 1,000,458	107,850	205,425	5,665,592	444,885	414,040	203,978	502,663	\$ 8,544,891	111.18%
2005-2006	\$ 1,471,231	144,500	265,074	6,277,525	540,826	473,152	191,733	560,920	\$ 9,924,958	116.15%

Source: Arizona Department of Revenue

CITY OF SHOW LOW, ARIZONA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Governmental Activities					Business-Type Activities			Total Primary Government
	Special Assessment Bonds	Landfill Monitoring Costs	Compensated Absenses	Certificates of Participation	Loans Payable	Certificates of Participation	Compensated Absenses	Loans Payable	
1997									-
1998									-
1999									-
2000									-
2001									-
2002	9,905,000	26,988	48,349	3,622,796	1,133,668	3,262,204	37,933	231,422	18,268,360
2003	9,310,000	26,988	216,809	3,167,142	758,169	2,992,858	29,129	177,533	16,678,628
2004	8,665,000	26,988	216,161	2,776,424	304,021	2,623,576	47,683	351,688	15,011,541
2005	8,045,000	26,988	312,371	2,367,740	238,608	2,237,260	51,351	380,504	13,659,822
2006	7,445,000	26,988	312,371	1,941,090	126,259	1,833,910	51,351	102,551	11,839,520

CITY OF SHOW LOW, ARIZONA
Computation of Direct and Overlapping Debt
June 30, 2006

Jurisdiction	Net Debt Outstanding	Percentage Applicable to the City of Show Low	Amount Applicable to the City of Show Low
Show Low School District #10 - 1988B	\$ 375,000	71.80%	\$ 269,250
Show Low School District #10 - 1997A	\$ 9,760,000	71.80%	\$ 7,007,680
Show Low School District #10 - 2003	\$ 615,000	71.80%	\$ 441,570
Show Low School District #10 - 2003B	\$ 6,380,000	71.80%	\$ 4,580,840
			\$ 12,299,340

Source: Navajo County Finance Department

CITY OF SHOW LOW, ARIZONA

Debt Limitations and Computation of Legal Debt Margin

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 115,815,162	\$ 115,815,162
Total assessed value	<u>\$ 115,815,162</u>	<u>\$ 115,815,162</u>
Legal debt margin:		
Debt limitation	\$ 23,163,032	\$ 6,948,910
Debt applicable to limitation:		
Total bonded debt	-	-
Total debt applicable to limitation	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 23,163,032</u>	<u>\$ 6,948,910</u>

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

Fiscal Year	Current Assessments Billed	Total Current Assessments Collected	Ratio of Collections to Amount Due	Total Current Outstanding Assessments	Prepaid	Total Outstanding Assessments
1996-1997	\$ 204,652	\$ 201,360	98.39%	\$ 3,292	-	\$ 3,292
1997-1998	\$ 126,931	\$ 124,567	98.14%	\$ 2,364	-	\$ 2,364
1998-1999	\$ 104,314	\$ 104,314	100.00%	\$ -	\$ 15,031	\$ -
1999-2000	\$ 630,501	\$ 628,856	99.74%	\$ 1,645	\$ 9,794	\$ 1,645
2000-2001	\$ 630,263	\$ 624,777	99.13%	\$ 5,486	\$ 2,419	\$ 7,942
2001-2002	\$ 781,885	\$ 778,030	99.51%	\$ 3,855	\$ 54,846	\$ 7,987
2002-2003	\$ 723,159	\$ 708,055	97.91%	\$ 15,104	\$ 351,663	\$ 17,813
2003-2004	\$ 1,131,847	\$ 1,125,566	99.45%	\$ 6,281	\$ 175,732	\$ 14,408
2004-2005	\$ 882,039	\$ 850,548	96.43%	\$ 31,491	\$ 151,069	\$ 69,844
2005-2006	\$ 674,957	\$ 616,469	91.33%	\$ 58,488	\$ 213,114	\$ 139,138

Source: City of Show Low Finance Department

CITY OF SHOW LOW, ARIZONA

Building Permits and New Housing Starts

Last Ten Fiscal Years (unaudited)

Year	BUILDING PERMITS (1)			NEW HOUSING STARTS (1)
	Residential	Commercial	Total	
1997	\$ 6,396,443	\$ 6,241,195	\$ 12,637,638	117
1998	\$ 9,933,867	\$ 27,638,256	\$ 37,572,123	199
1999	\$ 11,525,019	\$ 6,042,288	\$ 17,567,307	157
2000	\$ 15,337,933	\$ 2,228,373	\$ 17,566,306	192
2001	\$ 12,799,057	\$ 2,917,207	\$ 15,716,264	174
2002	\$ 24,540,960	\$ 732,525	\$ 25,273,484	231
2003	\$ 35,444,612	\$ 13,076,487	\$ 48,521,099	341
2004	\$ 46,506,966	\$ 6,342,044	\$ 52,849,010	348
2005	\$ 70,377,886	\$ 7,400,068	\$ 77,777,954	478
2006 *	\$ 45,021,964	\$ 6,560,412	\$ 51,582,376	320

(1) Source: City of Show Low Building Department

* Data is from Jan through July 2006

CITY OF SHOW LOW, ARIZONA

Demographic Statistics - Population Statistics, Unemployment Averages

POPULATION STATISTICS (1)

<u>Year</u>	<u>City of Show Low</u>
1980 (Census)	4218
1990 (Census)	5019
2000 (Census)	7695
2001 (Estimated)	8084
2002 (Estimated)	8557
2003 (Estimated)	8785
2004 (Estimated)	9365
2005 (Estimated)	9786
2006 (Estimated)	9885

UNEMPLOYMENT AVERAGES (2)

<u>Year</u>	<u>City of Show Low</u>	<u>Navajo County</u>	<u>State of Arizona</u>
1996	5.8%	15.9%	5.5%
1997	6.1%	16.7%	4.6%
1998	5.0%	13.8%	3.6%
1999	4.8%	13.4%	4.4%
2000	4.1%	11.5%	3.9%
2001	3.7%	10.5%	4.7%
2002	3.8%	10.8%	6.2%
2003	3.8%	10.8%	5.2%
2004	3.7%	10.6%	4.8%
2005	4.1%	8.5%	4.7%

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

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

CITY OF SHOW LOW, ARIZONA

**Taxable Retail Sales, City Transaction Privilege (Sales) Tax Rates by Category
Last Ten Fiscal Years
(modified accrual basis of accounting)**

TAXABLE SALES (1)

City of Show Low (1)

<u>Fiscal Year</u>	<u>Amount</u>
1996-1997	\$ 208,523,450
1997-1998	\$ 230,088,100
1998-1999	\$ 271,946,950
1999-2000	\$ 311,340,189
2000-2001	\$ 323,224,715
2001-2002	\$ 330,862,950
2002-2003	\$ 344,122,700
2003-2004	\$ 384,277,800
2004-2005	\$ 427,244,550
2005-2006	\$ 496,247,922

**Navajo County (1)
Taxable Retail Sales**

<u>Year</u>	<u>Amount</u>
1997	\$ 444,647,675
1998	\$ 471,053,950
1999	\$ 510,151,428
2000	\$ 556,907,867
2001	\$ 557,901,659
2002	\$ 578,071,060
2003	\$ 609,720,330
2004	\$ 615,673,414
2005	\$ 669,120,354
2006	\$ 756,087,523

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	1%
Feed-Wholesale	2%
Real Property Rental	2%
All other	2%

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

CITY OF SHOW LOW, ARIZONA

Actual Excise Tax Collections

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Privilege & Use Tax	State Shared Sales Tax	Urban Revenue Share	Franchise Tax	Vehicle License Tax	Total
1997	\$ 4,171,968	450,510	529,142	164,728	182,849	\$ 5,499,197
1998	\$ 4,516,760	563,658	597,785	177,688	180,380	\$ 6,036,271
1999	\$ 5,407,006	558,419	762,384	181,105	241,606	\$ 7,150,520
2000	\$ 6,205,021	613,813	777,593	196,423	224,348	\$ 8,017,198
2001	\$ 6,445,786	637,044	811,933	195,055	269,195	\$ 8,359,013
2002	\$ 6,617,259	592,980	803,944	228,800	318,630	\$ 8,561,613
2003	\$ 6,882,454	601,809	808,564	218,654	421,988	\$ 8,933,469
2004	\$ 7,685,555	647,382	694,977	250,610	426,779	\$ 9,705,303
2005	\$ 8,544,891	712,867	715,536	283,449	440,379	\$ 10,697,122
2006	\$ 9,924,958	830,093	831,807	301,769	498,646	\$ 12,387,273

Source: City of Show Low Finance Department

CITY OF SHOW LOW, ARIZONA

Employees by Department Last Ten Fiscal Years

	1997*	1998*	1999*	2000	2001	2002	2003	2004	2005	2006
Airport				5	5	5	6	5	5	5
Animal Control				2	2	2	2	2	2	2
Aquatic Center				4	4	4	3	5	3	2
City 4 Cable TV				1	2	2	2	2	2	2
City Attorney				0	0	0	0	2	2	2
City Magistrate				3	3	3	2	2	2	2
City Manager				1	2	1	1	1	1	1
Communications				10	10	10	11	10	12	12
Community Development				9	9	9	8	10	11	11
Community Services Admin				1	1	1	1	1	1	1
Engineering				5	6	6	6	5	5	6
Finance				10	11	10	9	8	8	8
Human Resources				2	2	2	3	3	4	3
Information Systems				2	3	3	3	3	3	3
Library				6	7	8	9	8	8	7
Maintenance				4	4	4	7	7	7	5
Parks & Recreation				2	2	2	2	2	3	3
Police				25	25	25	25	26	29	29
Public Information Services				2	3	3	3	2	2	3
Public Works Administration				5	4	4	3	4	4	3
Streets				9	9	9	6	10	10	10
Wastewater				0	0	0	10	10	9	9
Water				18	18	18	10	6	7	7
Total Employees				126	132	131	132	134	140	136

* Information not available



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Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

Independent Auditor's 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*

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

Schedule of Findings and Questioned Costs



CITY OF SHOW LOW, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

	Agency or Pass-Through Contract Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed-through Arizona Department of Transportation			
Section 18	AZ-18-0020	20.509	\$ 88,311
Section 18	AZ-18-0021	20.509	150,521
Section 18	AZ-18-0022	20.509	114,268
Section 18	AZ-18-0023	20.509	40,115
Section 18	AZ-18-0024	20.509	<u>108,444</u>
Total Arizona Department of Transportation			<u>501,659</u>
Passed-through Governor's Office of Highway Safety (GOHS)			
Governor's Office of Highway Safety	2006-OP-021	20.600	7,743
Governor's Office of Highway Safety	205-157B-013	20.600	<u>6,422</u>
		Total CDFA 20.600	14,165
Governor's Office of Highway Safety	2005-163SES-002	20.601	1,180
Governor's Office of Highway Safety	2005-157B-027	20.604	4,000
Governor's Office of Highway Safety	2006-PT-031		<u>24,003</u>
Total Governor's Office of Highway Safety			<u>43,348</u>
Passed-through the Federal Aviation Agency			
Airport Taxiway A-4/Sweeper/Heliport	AIP 3-04-0035-14	20.106	279,186
Airport ARFF/Snow Removal Building, Security Fencing	AIP 3-04-0035-13	20.106	121,945
Airport heliport & AWOS installation	AIP 3-04-0035-12	20.106	7,698
Airport Fire Station Phase II	AIP 3-04-0035-11	20.106	<u>3,005</u>
Total Federal Aviation Agency			<u>411,834</u>
Total U.S. Department of Transportation			<u>956,841</u>
<u>U.S. Department of Justice</u>			
Office of Justice Programs	2002SHWX0600	16.710	28,415
Bullet Proof Vest	3017725	16.607	<u>2,349</u>
			<u>30,764</u>
Passed-through Arizona Criminal Justice Commission			
Project Safe Neighborhood	PSN-04-3002	16.609	13,265
Rim Bar Code	JAG-06-151	16.579	<u>5,798</u>
Total Criminal Justice Commission			<u>19,063</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

United States Forest Service

Passed-through Arizona Department of Lands	SFA 4-8	10.664	81,281
Passed-through Arizona Department of Lands	SFA 5-3	10.664	12,895
Passed-through University of Arizona	SLFHI	10.664	7,179
Passed-through Arizona Department of Lands	FHP 01	10.664	<u>97,393</u>
Total United States Forest Service			<u>198,748</u>

U.S. Department of Homeland Security

Passed-through Az Division of Emergency Manangement	2005-GE-T5-0051	97.067	32,069
Passed-through Az Division of Emergency Manangement	2004-GE-T4-0051	97.067	91,912
Passed-through Az Division of Emergency Manangement	2004-GE-T5-0051	97.067/97.074	99,226
Passed-through Az Division of Emergency Manangement	2004-GE-T5-0051	97.067	<u>20,841</u>
Total U.S. Department of Homeland Security			<u>244,048</u>

TOTAL EXPENDITURES OF FEDERAL AWARDS

\$ 1,449,464

The accompanying notes are an integral part of this schedule.

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Schedule of Expenditures of Federal Awards

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Schedule of Findings and Questioned Costs



CITY OF SHOW LOW, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of *City of Show Low, Arizona*, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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Schedule of Findings and Questioned Costs





CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S 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***

To the Honorable Mayor and Members of the Council
City of Show Low, Arizona
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 the *City of Show Low, Arizona* as of and for the year ended June 30, 2006, which collectively comprise the *City of Show Low, Arizona's* basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the *City of Show Low, Arizona's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Mayor and the City Council, 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 "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
August 25, 2006

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Schedule of Expenditures of Federal Awards

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Independent Auditor's 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*

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

Schedule of Findings and Questioned Costs





CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the Council
City of Show Low, Arizona
Show Low, Arizona

Compliance

We have audited the compliance of the *City of Show Low, Arizona* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 on 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, 2006.

Internal Control over Compliance

The management of the *City of Show Low, Arizona* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Show Low, Arizona's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Show Low, Arizona's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-01.

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

A handwritten signature in black ink that reads "Eide Bailley LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
August 25, 2006

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Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

Schedule of Findings and Questioned Costs



CITY OF SHOW LOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of *City of Show Low*.
2. No reportable condition relating to the audit of the financial statements is reported in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of *City of Show Low*, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One reportable condition was reported during the audit of internal control over major federal award programs in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. None were considered to be a material weakness.
5. The auditor's report on compliance for the major federal award program for *City of Show Low* expresses an unqualified opinion on the major federal program.
6. Audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 is reported in Section III.
7. The programs tested as a major program were:
 - United States Department of Transportation, Arizona Department of Transportation, Section 18, CFDA 20.509
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. *City of Show Low* qualifies as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters are reportable.

CITY OF SHOW LOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

Item 06-01

CFDA Numbers: 20.509

Programs: Formula grants for other than urbanized areas.

Agencies: U.S. Department Transportation

Award Year: 10/01/05 to 09/30/06

Questioned Costs: N/A

Criteria: The above grant agreement requires compliance with the Davis-Bacon Act.

Condition: Required compliance procedures were not performed.

Effect: When the compliance procedures are not performed, the granting agency could delay funding or stop funding the program.

Recommendation: The City of Show Low should establish policies and procedures to ensure compliance with the Davis-Bacon Act.

Response: The City of Show Low has put into place procedures to insure that contractors report all payrolls in compliance with the Davis Bacon Act.

FOLLOW-UP ON PRIOR FINDINGS

No matters reported in prior year.

