



COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

Prepared by the City of Safford
Department of Finance

CITY OF SAFFORD, ARIZONA

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January 23, 2014

Honorable Mayor, Members of City Council and
Citizens of Safford, Arizona:

State law mandates that cities publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Safford, Arizona for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. 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 accounting principles generally accepted in the United States of America. 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 of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by HintonBurdick, P.L.L.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with accounting principles

generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments and Non-Profit Organizations designed to meet the special needs of federal grantor agencies. The standards governing A Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of 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 City's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

The City is located in Graham County in the southeastern part of Arizona on the banks of the Gila River. To the southwest of the City lie the Pinaleno (Graham) Mountains. As of the 2010 census, the City had a population of 9,455. The Town of Safford was incorporated in October, 1901 and changed to City of Safford in 1955.

The City serves a trade center of approximately 55,000 to 60,000 people in a wide area of eastern Arizona and western New Mexico. Retail trade and services play a significant role in the economy of the area. The city's largest employers are Freeport-McMoRan Copper, Mount Graham Regional Hospital, Safford Unified Schools and Wal-Mart. Other major employers in the area include the Arizona State Prison Complex - Safford, and the Federal Correctional Institution - Safford. Agriculture has also been a mainstay of the Safford and Graham County economy with cotton the principal commodity produced.

The Mt. Graham International Observatory (MGIO), located on Mt. Graham in the Pinaleno Mountains near Safford, operates and maintains the three telescopes currently on Mt. Graham. Two of the telescopes in operation are the Vatican Advanced Technology Telescope (VATT) and the Heinrich Hertz Submillimeter Telescope (SMT). A third telescope, the Large Binocular Telescope (LBT), is a large, powerful optical telescope which has a number of universities, institutes and observatories from Arizona, Ohio, Germany and Italy as partners.

The construction of Freeport-McMoRan's San Juan/Dos Probes open pit copper mine north of Safford had a significant impact on Safford's economy. Construction on this project began in 2006 and production of copper began in December 2007, with full production in 2008. The mine was the first new large-scale copper mine in Arizona in more than 30 years. Freeport also has a state of the art Process Technology Center and a high-tech analysis center in the area.

The City provides a full range of services including police and fire protection, sanitation and landfill services, construction and maintenance of streets, a City owned airport, and recreational and cultural activities, including a public pool and library. Additional services provided by the City include water, gas, electric, and sewer and a waste water reclamation plant.

The annual budget serves as the foundation for the City's financial planning and control. The City Council formally adopts the budget and legally allocates or appropriates expenditures for the City's various funds. Expenditures may not legally exceed appropriations at the individual fund level.

Management presents a proposed line item budget to the Mayor and City Council for review after staff's analysis of revenue and expenditure data. Once presented to Council a plan is formulated to maximize the use of projected resources in order to provide the most efficient means of financing general government, utilities and special projects. The budget cycle begins in January with tentative approval in July. The City Council is required to hold a public hearing on the proposed budget and adopts the final budget in August. The City has adopted budgets in accordance with A.R.S. requirements for the General and Special Revenue Funds.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. Safford is the County seat for Graham County and the retail hub for approximately 55,000 to 60,000 people. Safford's tax base consists of a variety of tax categories the most significant being taxes applicable to retail sales. In fiscal year 2012/13 the City saw local sales tax revenue increase by 9.26% over fiscal year 2011/12 collections.

The mining industry has taken a front seat in Graham County over the past few years with Freeport-McMoRan's construction of an open pit copper mine north of Safford. As previously mentioned, production at Freeport-McMoRan's open-pit copper mine began in 2008. With the copper mining industry playing such a key part in Safford's economic well-being, it is critical to monitor the industries' economic conditions both locally and at the national level.

Long-term financial planning. Economic factors stemming from the nation's recession continue to improve in fiscal year 2012-13. State Shared Revenues increased by 13% with the largest share in Urban Revenue Sharing (24%) and Highway User Revenues (11%). State Shared Sales tax improved over fiscal year 2011/12 collections by 4.7%. Future forecasts in these revenue categories are at risk as the State of Arizona continues to deal with its budget deficiencies.

The City continues to deal with the allocation of its limited resources in order to provide the same level of services to its citizens for the upcoming fiscal year's budget. Forecasts for City revenues in fiscal year 2013-14 show a slow recovery with conservative revenue growth projections. The City will continue with its five-year plan of projecting future financial needs for the City's capital expenditure projects.

The City is unique in comparison to most Arizona cities and towns in that it provides water, wastewater, gas, electric and landfill utility services to its citizens. Separate utility funds continue to be presented on the 2012-13 financial report for each utility.

As of June 30, 2013 the City's wastewater system served 3,523 customers within the city limits with one treatment facility plant (capacity of 2 MGD). The water system provided water to 7,854 customers both inside the city limits and in the surrounding area of Graham County. Electric and gas services are provided by the City to customers primarily residing in Safford with 4,042 electric customers and 3,517 gas accounts. In order to maintain healthy financial operations, including sufficient debt service coverage and capital needs, the City continues to monitor and analyze each utility's rate structures recommending rate studies and adjustments when deemed necessary. In fiscal year 2012-13 a water and wastewater rate study was conducted with a revised tiered water rate structure implemented in 2013-14.

AWARDS AND ACKNOWLEDGMENTS

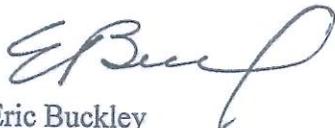
Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the year ended June 30, 2012. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements. This was the sixteenth year the City received this prestigious award.

A Certificate of Achievement is valid for a period of one year only. We believe that 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 certification.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire staff of the Financial Services Department who assisted and contributed in its preparation. We thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Respectfully submitted,

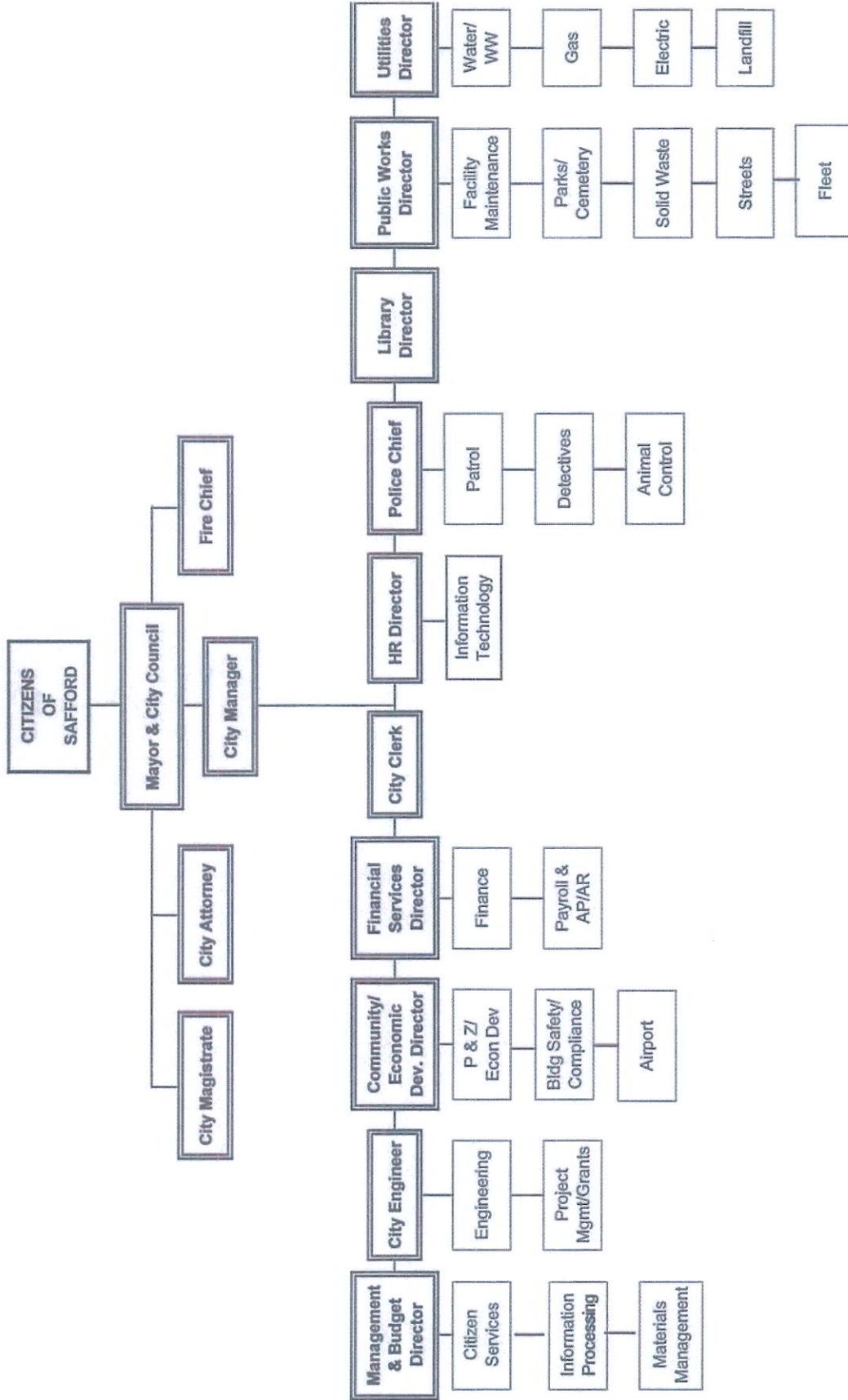


Eric Buckley
Interim City Manager



Ann Waite
Chief Financial Officer

ORGANIZATIONAL CHART



**CITY OF SAFFORD, ARIZONA
LIST OF CITY OFFICIALS**

Elected Officials

| | |
|--------------------------|-------------------|
| Mayor | Wyn C. Gibbs |
| Vice Mayor | Mary Bingham |
| Council member | James D. Howes |
| Council member | Arnold Lopez |
| Council member | Richard L. Ortega |
| Council member | Ken Malloque |
| Council member | Walter E. Seale |

Staff

| | |
|---------------------------------|------------------------|
| Interim City Manager | Eric Buckley |
| Interim City Attorney | William J. Sims |
| City Clerk | Georgia Luster |
| City Magistrate | D. Corey Sanders, Esq. |

Department Directors

| | |
|--|------------------|
| Financial Services Director | Ann Waite |
| Management and Budget Director | Don Knight |
| Fire Chief | Clark Bingham |
| Police Chief | John Griffin |
| Planning and Community Services Director | Dustin Welker |
| Public Works Director | Jenny Howard |
| Utilities Director | Eric Buckley |
| Human Resources Director | Christine Fisher |
| City Engineer | Randy Petty |
| Library Director | LeAnne McElroy |



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Safford
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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FINANCIAL SECTION

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MEMBERS:

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

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

Independent Auditors' Report

The Honorable Mayor and
City Council
City of Safford, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Safford, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, and the aggregate remaining fund information of the City of Safford, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Safford, Arizona's basic financial statements. The introductory section, supplementary budget and actual statements, combining non-major fund financial statements, nonmajor fund budget and actual statements, combining internal service fund financial statements, and statistical section listed are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary budget and actual statements, combining non-major fund financial statements, nonmajor fund budget and actual statements, and combining internal service fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget and actual statements, combining non-major fund financial statements, nonmajor fund budget and actual statements, and combining internal service fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2013, on our consideration of the City of Safford, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Safford, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
December 7, 2013

**CITY OF SAFFORD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

As management of the City of Safford, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity (3) identify changes in the City's financial position (4) identify any material deviations from the financial plan (the approved budget) and (5) individual fund issues or concerns.

The discussion and analysis (MD&A) has a different focus and purpose than the transmittal letter of this report, and is designed to be read in conjunction with the transmittal letter as well as the basic financial statements beginning on page 14 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position at the close of the fiscal year was \$88,351,219. This amount is comprised of \$72,548,583 in capital assets net of related debt, \$140,854 in nonspendable assets, \$1,350,357 of restricted net position and \$14,311,425 in unrestricted net position.
- Governmental net position increased by \$6,003,684 and Business-Type net position increased by \$208,639, net of restatement adjustments.
- Total City Sales tax revenue increased by 9.26 percent from last year and still is the single largest revenue in the budget.
- Improvements totaling nearly \$3.5 million were added to the City's water system. In addition improvements of approximately \$1.7 million were made to the electric system while \$1.53 million of assets were added to the City's governmental activities.
- The City paid off several capital leases during the current fiscal year. Total debt service principal payments on loans, bonds, and capital leases were approximately \$2.2 million leaving \$20.2 million in outstanding loans, bonds, and capital leases at the close of the year.
- The General Fund's fund balance decreased by \$303,330 to \$3,679,827. The General Fund's unassigned fund balance represents 34% of total General Fund expenditures, excluding transfers out, for the fiscal year.
- The net positions of the Water, Wastewater, Gas, and Electric funds increased by \$1,576,965, \$1,279,551, \$417,249 and \$2,007,824 respectively.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$88.35 million as of June 30, 2013 as shown in the following condensed statement of net position. The City has chosen to account for its landfill, water, wastewater, gas, and electric operations in enterprise funds which are shown as Business Activities.

City of Safford Statement of Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|---------------|-----------------------------|---------------|---------------|---------------|
| | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 |
| Current and other assets | \$ 4,027,694 | \$ 4,085,468 | \$ 20,075,730 | \$ 16,580,604 | \$ 24,103,424 | \$ 20,666,072 |
| Capital assets | 36,374,757 | 30,003,959 | 55,773,853 | 61,864,089 | 92,148,610 | 91,868,048 |
| Total assets | 40,402,451 | 34,089,427 | 75,849,583 | 78,444,693 | 116,252,034 | 112,534,120 |
| Long-term liabilities outstanding | 10,366,878 | 10,221,013 | 14,574,408 | 17,178,011 | 24,941,286 | 27,399,024 |
| Other liabilities | 691,954 | 528,479 | 2,267,575 | 2,467,721 | 2,959,529 | 2,996,200 |
| Total liabilities | 11,058,832 | 10,749,492 | 16,841,983 | 19,645,732 | 27,900,815 | 30,395,224 |
| Net position: | | | | | | |
| Net investment in capital assets | 27,349,488 | 20,978,424 | 45,199,095 | 48,405,227 | 72,548,583 | 69,383,651 |
| Nonspendable | 47,223 | - | 93,631 | - | 140,854 | - |
| Restricted | 1,071,188 | 1,035,403 | 279,169 | 1,137,612 | 1,350,357 | 2,173,015 |
| Unrestricted | 875,720 | 1,326,108 | 13,435,705 | 9,256,122 | 14,311,425 | 10,582,230 |
| Total net position | \$ 29,343,619 | \$ 23,339,935 | \$ 59,007,600 | \$ 58,798,961 | \$ 88,351,219 | \$ 82,138,896 |

The City has \$116,252,034 in total assets, with \$92,148,610 in capital assets (net of depreciation). The City's landfill, water, wastewater, gas, and electric enterprise fund operations are included in the Business-type activities column. These operations are capital intensive, using a large portion of their resources to maintain and replace major equipment and facilities.

Governmental Activities

The City's programs include: General Government, Public Safety, Highways and Streets, Sanitation, Culture and Recreation, and Economic and Community Development. Each programs' net cost (total cost less revenues generated by the activities) is presented on the following page. The net cost shows the extent to which the City's general taxes support each of the City's programs.

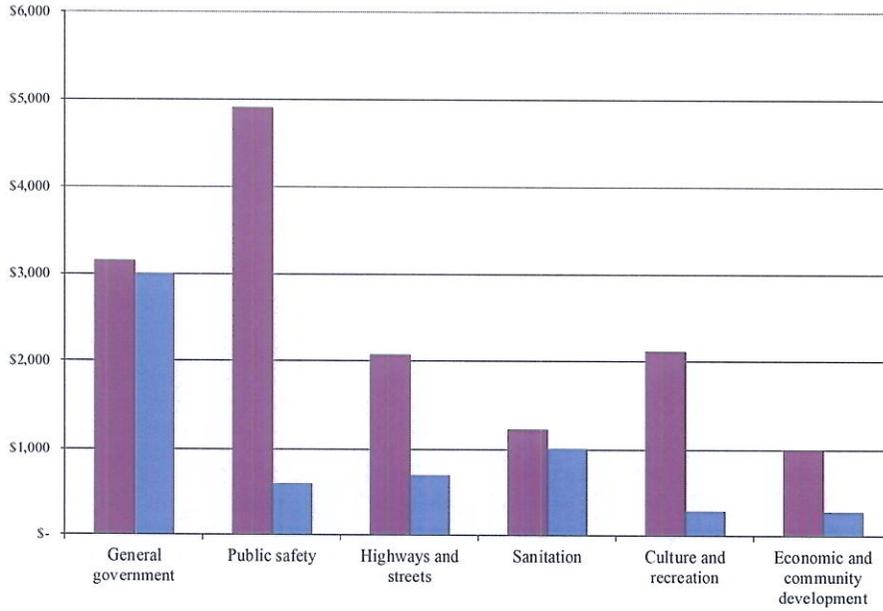
City of Safford
Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 | 6/30/2013 | 6/30/2012 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 4,601,845 | \$ 4,440,050 | \$ 19,882,726 | \$ 20,127,349 | \$ 24,484,571 | \$ 24,567,399 |
| Operating grants and contributions | 897,058 | 1,031,997 | - | - | 897,058 | 1,031,997 |
| Capital grants and contributions | 334,183 | 493,283 | 2,756,504 | 1,922,205 | 3,090,687 | 2,415,488 |
| General revenues: | | | | | | |
| Taxes | 8,479,099 | 7,818,902 | - | - | 8,479,099 | 7,818,902 |
| State revenue sharing | 977,146 | 787,339 | - | - | 977,146 | 787,339 |
| Investment earnings | 16,442 | 9,027 | 66,738 | 21,374 | 83,180 | 30,401 |
| Other revenue/(expense) | 366,725 | 438,374 | - | - | 366,725 | 438,374 |
| Total revenues | <u>15,672,498</u> | <u>15,018,972</u> | <u>22,705,968</u> | <u>22,070,928</u> | <u>38,378,466</u> | <u>37,089,900</u> |
| Expenses: | | | | | | |
| General government | 3,150,383 | 3,133,958 | - | - | 3,150,383 | 3,133,958 |
| Public safety | 4,902,300 | 4,738,627 | - | - | 4,902,300 | 4,738,627 |
| Highways and streets | 2,071,690 | 2,227,993 | - | - | 2,071,690 | 2,227,993 |
| Sanitation | 1,220,126 | 1,182,603 | - | - | 1,220,126 | 1,182,603 |
| Culture and recreation | 2,107,606 | 2,054,730 | - | - | 2,107,606 | 2,054,730 |
| Economic and community developmen | 994,423 | 552,541 | - | - | 994,423 | 552,541 |
| Interest on long-term debt | 474,406 | 480,279 | - | - | 474,406 | 480,279 |
| Airport | - | - | - | 583,575 | - | 583,575 |
| Landfill | - | - | 1,113,660 | 1,077,897 | 1,113,660 | 1,077,897 |
| Water | - | - | 3,988,802 | 3,835,273 | 3,988,802 | 3,835,273 |
| Wastewater | - | - | 2,635,860 | 2,585,043 | 2,635,860 | 2,585,043 |
| Gas | - | - | 2,569,018 | 2,520,994 | 2,569,018 | 2,520,994 |
| Electric | - | - | 7,012,872 | 6,662,124 | 7,012,872 | 6,662,124 |
| Total expenses | <u>14,920,934</u> | <u>14,370,731</u> | <u>17,320,212</u> | <u>17,264,906</u> | <u>32,241,146</u> | <u>31,635,637</u> |
| Increase (Decrease) in net position before transfers | 751,564 | 648,241 | 5,385,756 | 4,806,022 | 6,137,320 | 5,454,263 |
| Transfers | 30,070 | 14,533 | (30,070) | (14,533) | - | - |
| Increase (Decrease) in net position | 781,634 | 662,774 | 5,355,686 | 4,791,489 | 6,137,320 | 5,454,263 |
| Net position, beginning | 23,339,935 | 22,677,161 | 58,798,961 | 54,067,472 | 82,138,896 | 76,744,633 |
| Restatement adjustment | 5,222,050 | - | (5,147,047) | (60,000) | 75,003 | (60,000) |
| Net position, ending | <u>\$ 29,343,619</u> | <u>\$ 23,339,935</u> | <u>\$ 59,007,600</u> | <u>\$ 58,798,961</u> | <u>\$ 88,351,219</u> | <u>\$ 82,138,896</u> |

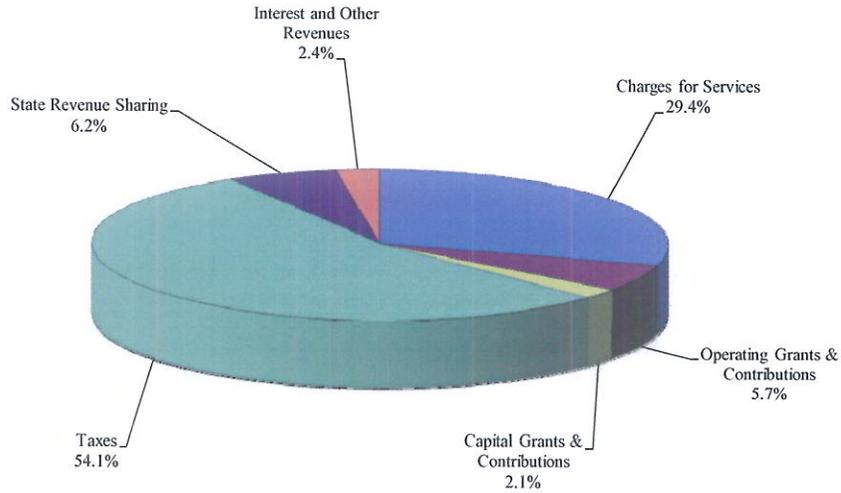
Total resources available during the year to finance governmental operations were \$39 million consisting of program revenues of \$5.83 million and General Revenues of \$9.84 million and Net position at July 1, 2012 of \$23.34. Total Governmental expenses during the year were \$14.9 million. Net position was increased \$5.97 million, net of a \$5.22 million restatement adjustment, to \$29.34 million which includes transfers in of \$30,070.

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

**Expenses and Program Revenues - Governmental Activities
(in Thousands)**



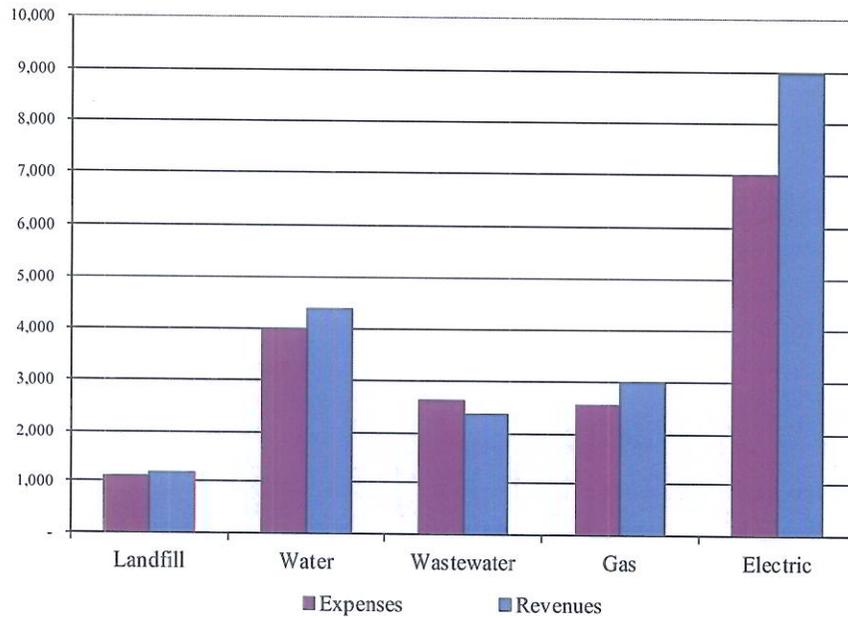
Revenue By Source - Governmental Activities



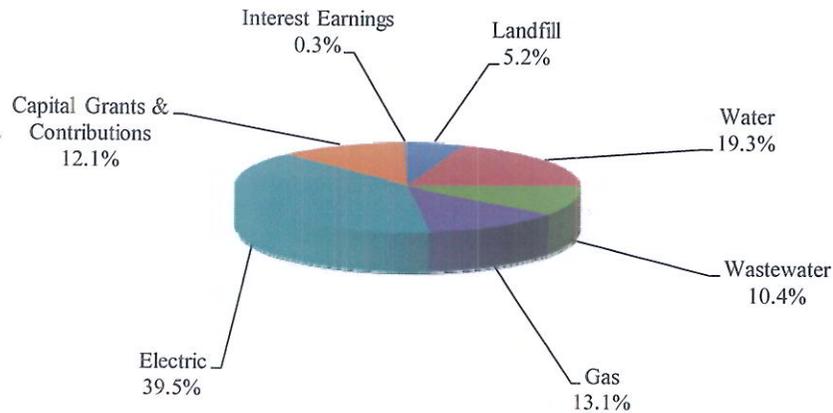
Business Type Activities

Net Position of the Business Type activities at June 30, 2013, as reflected in the Statement of Net Position, was \$59 million. The cost of providing all Proprietary (Business Type) activities this year was \$17.32 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the systems were \$19.88 million and there were \$2.76 million subsidized by grant revenues. Interest earnings and other revenues were \$66,738 which consists mainly of interest earnings. Net position increased by \$208,639, net of a negative \$5.1 million restatement adjustment and operating transfers out of \$30,070.

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



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds – The focus of the City of Safford'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.

As of the end of the current fiscal year, the City of Safford's governmental funds reported combined ending fund balances of \$1.15 million, a decrease of \$87 thousand in comparison with the prior year. Approximately 3% of this total amount or \$35 thousand constitutes unassigned fund balance, which is due to the Highway User Revenue Fund's deficit fund balance. The remainder of the fund balance is restricted or committed because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City of Safford. At the end of the current fiscal year, total fund balance in the general fund was \$3.68 million of which all but \$47,223 is unassigned. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34% of total general fund expenditures. Total fund balance represents 35% of total general fund expenditures.

During the year, the City of Safford's general fund balance decreased by \$303,330 primarily due to reclassifying the City's airport from an enterprise fund to the general fund (See Note 15).

The Highway User Revenue Fund has a deficit fund balance of \$3,597,476. The fund's deficit decreased by \$180,297 from prior year. The City plans to continue eliminating the deficit by the use of accumulated additional tax revenues in future years.

Each of the proprietary funds had healthy increase to their net position with the exception of the Landfill fund. The Landfill fund has a deficit net position of \$2.4 million as of June 30, 2013.

General Fund Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$11,796,179, on a budgetary basis, were less than the budget of \$16,548,259 by \$4,752,080. The variance in budget to actual numbers related primarily to \$4 million in revenues budgeted as "other revenues". The city utilizes this category as a contingency to account for potential revenues such as unexpected grant revenues. Additionally budgeted grants of approximately \$796,000 million were not received in the fiscal year.

Annual expenditures for the General Fund of \$10,428,313 were approximately 65% of the budgeted expenditures of \$15,931,500, a variance of \$5,503,187. The variance in budget to actual numbers related to expenditures of \$4,000,000 budgeted as "contingency". It is the practice of the City to budget for contingencies so that if resources become available the necessary budgeted expense is available. Additionally unrealized grants impacting budgeted police, library and airport expenditures and capital outlay totaled \$1.1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, vehicles, buildings, land, park facilities, roads, and assets used to provide water, wastewater, electric, gas, and other services to the City's citizens. At the end of fiscal year 2013, net capital assets of the government activities totaled \$36.4 million and the net capital assets of the business-type activities totaled \$55.7 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the City had \$10.3 million in governmental type debt, and \$12 million in business-type debt. During the current fiscal year there were no new debt issues and the City's total debt decreased by \$2 million as a result of regularly scheduled debt service payments. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The adopted combined operating and capital expenditure budget for fiscal year 2013-14 totals \$52.8 million, an increase of \$3.8 million or approximately 7% more than fiscal year 2012-13.

The increase in the fiscal year 2013-14 budget is primarily driven by an increase in budgeted grant funded capital expenditures including improvements to the City's airport and other capital projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to: City of Safford, Financial Services Department, P.O. Box 272, Safford, AZ 85548, or call (928) 432-4031.

Or visit our website at: <http://www.cityofsafford.us/> or email: awaite@ci.safford.az.us

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BASIC FINANCIAL STATEMENTS

CITY OF SAFFORD, ARIZONA
Statement of Net Position
June 30, 2013

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 4,314,601 | \$ 13,250,723 | \$ 17,565,324 |
| Receivables (net of allowance) | 979,714 | 2,645,517 | 3,625,231 |
| Internal balances | (1,313,844) | 1,313,844 | - |
| Inventory | - | 1,438,185 | 1,438,185 |
| Prepaid items | 47,223 | 93,631 | 140,854 |
| Temporarily restricted assets: | | | |
| Cash and cash equivalents | - | 1,333,830 | 1,333,830 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 2,716,356 | - | 2,716,356 |
| Infrastructure | 17,239,266 | 52,451,510 | 69,690,776 |
| Buildings and improvements | 3,429,632 | - | 3,429,632 |
| Improvements other than buildings | 7,206,536 | 60,197 | 7,266,733 |
| Machinery, equipment and vehicles | 5,036,471 | 144,636 | 5,181,107 |
| Construction in progress | 746,496 | 3,117,510 | 3,864,006 |
| Total assets | <u>40,402,451</u> | <u>75,849,583</u> | <u>116,252,034</u> |
| Liabilities | | | |
| Accounts payable and other current liabilities | 631,125 | 1,212,914 | 1,844,039 |
| Deposits held for others | - | 1,054,661 | 1,054,661 |
| Unearned revenue | 60,829 | - | 60,829 |
| Noncurrent liabilities: | | | |
| Landfill closure and post closure payable | - | 3,243,248 | 3,243,248 |
| Due within one year | 1,298,341 | 1,051,407 | 2,349,748 |
| Due in more than one year | 9,068,537 | 10,279,753 | 19,348,290 |
| Total liabilities | <u>11,058,832</u> | <u>16,841,983</u> | <u>27,900,815</u> |
| Net Position | | | |
| Net investment in capital assets | 27,349,488 | 45,199,095 | 72,548,583 |
| Nonspendable: | | | |
| Prepays | 47,223 | 93,631 | 140,854 |
| Restricted for: | | | |
| Highways and streets | 1,047,274 | - | 1,047,274 |
| Public Safety | 23,914 | - | 23,914 |
| Debt service | - | 279,169 | 279,169 |
| Unrestricted | 875,720 | 13,435,705 | 14,311,425 |
| Total net position | <u>\$ 29,343,619</u> | <u>\$ 59,007,600</u> | <u>\$ 88,351,219</u> |

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

CITY OF SAFFORD, ARIZONA
Statement of Activities
For the Year Ended June 30, 2013

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|--------------------------------------|------------------|----------------------|----------------------------------|---|-------------------------|--------------------------|---------------|
| | Expenses | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 3,150,383 | \$ 2,996,915 | \$ - | \$ - | \$ (153,468) | \$ - | \$ (153,468) |
| Public safety | 4,902,300 | 416,808 | 177,908 | - | (4,307,584) | - | (4,307,584) |
| Highways and streets | 2,071,690 | - | 663,369 | 22,286 | (1,386,035) | - | (1,386,035) |
| Sanitation | 1,220,126 | 1,004,375 | - | - | (215,751) | - | (215,751) |
| Culture and recreation | 2,107,606 | 58,988 | 55,781 | 166,349 | (1,826,488) | - | (1,826,488) |
| Economic and community development | 994,423 | 124,759 | - | 145,548 | (724,116) | - | (724,116) |
| Interest on long-term debt | 474,406 | - | - | - | (474,406) | - | (474,406) |
| Total governmental activities | 14,920,934 | 4,601,845 | 897,058 | 334,183 | (9,087,848) | - | (9,087,848) |
| Business-type activities: | | | | | | | |
| Landfill | 1,113,660 | 1,173,911 | - | - | - | 60,251 | 60,251 |
| Water | 3,988,802 | 4,389,697 | - | 1,209,966 | - | 1,610,861 | 1,610,861 |
| Wastewater | 2,635,860 | 2,364,170 | - | 1,546,538 | - | 1,274,848 | 1,274,848 |
| Gas | 2,569,018 | 2,981,713 | - | - | - | 412,695 | 412,695 |
| Electric | 7,012,872 | 8,973,235 | - | - | - | 1,960,363 | 1,960,363 |
| Total business-type activities | 17,320,212 | 19,882,726 | - | 2,756,504 | - | 5,319,018 | 5,319,018 |
| Total primary government | \$ 32,241,146 | \$ 24,484,571 | \$ 897,058 | \$ 3,090,687 | (9,087,848) | 5,319,018 | (3,768,830) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | 237,921 | - | 237,921 |
| City sales tax | | | | | 6,093,479 | - | 6,093,479 |
| Franchise tax | | | | | 873,661 | - | 873,661 |
| Auto fee in lieu tax (unrestricted) | | | | | 491,414 | - | 491,414 |
| State sales tax (unrestricted) | | | | | 782,624 | - | 782,624 |
| State revenue sharing (unrestricted) | | | | | 977,146 | - | 977,146 |
| Unrestricted investment earnings | | | | | 16,442 | 66,738 | 83,180 |
| Gain on sale of capital assets | | | | | 42,491 | - | 42,491 |
| Other | | | | | 324,234 | - | 324,234 |
| Transfers | | | | | 30,070 | (30,070) | - |
| Total general revenues & transfers | | | | | 9,869,482 | 36,668 | 9,906,150 |
| Change in net position | | | | | 781,634 | 5,355,686 | 6,137,320 |
| Net position - beginning | | | | | 23,339,935 | 58,798,961 | 82,138,896 |
| Prior period adjustment | | | | | 75,003 | - | 75,003 |
| Restatement adjustment | | | | | 5,147,047 | (5,147,047) | - |
| Net position - ending | | | | | \$ 29,343,619 | \$ 59,007,600 | \$ 88,351,219 |

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

CITY OF SAFFORD, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

| Assets | General Fund | Highway User Revenue Fund | Street Reserve Fund | Non-major Funds | Total Governmental Funds |
|--|-------------------------|--------------------------------------|--------------------------------|----------------------------|---|
| Cash and cash equivalents | \$ 1,247,146 | \$ - | \$ 952,978 | \$ 31,488 | \$ 2,231,612 |
| Receivables: | | | | | |
| Other | 285,336 | - | - | - | 285,336 |
| Intergovernmental | 529,449 | 64,577 | 94,296 | 5,556 | 693,878 |
| Due from other funds | 4,119,315 | - | - | - | 4,119,315 |
| Prepaid items | 47,223 | - | - | - | 47,223 |
| Total assets | \$ 6,228,469 | \$ 64,577 | \$ 1,047,274 | \$ 37,044 | \$ 7,377,364 |
| Liabilities | | | | | |
| Accounts payable | \$ 335,890 | \$ 34,896 | \$ - | \$ 7,574 | \$ 378,360 |
| Accrued wages and benefits | 218,813 | 12,780 | - | - | 231,593 |
| Unearned revenue | 60,829 | - | - | - | 60,829 |
| Due to other funds | 1,920,866 | 3,614,377 | - | 5,556 | 5,540,799 |
| Total liabilities | 2,536,398 | 3,662,053 | - | 13,130 | 6,211,581 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue - property taxes | 12,244 | - | - | - | 12,244 |
| Total deferred inflows of resources | 12,244 | - | - | - | 12,244 |
| Fund Balances: | | | | | |
| Nonspendable | 47,223 | - | - | - | 47,223 |
| Restricted for: | | | | | |
| Public safety | - | - | - | 23,914 | 23,914 |
| Highways and streets | - | - | 1,047,274 | - | 1,047,274 |
| Unassigned | 3,632,604 | (3,597,476) | - | - | 35,128 |
| Total fund balances | 3,679,827 | (3,597,476) | 1,047,274 | 23,914 | 1,153,539 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 6,228,469 | \$ 64,577 | \$ 1,047,274 | \$ 37,044 | \$ 7,377,364 |

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

CITY OF SAFFORD, ARIZONA
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2013

| | | |
|---|----|--------------------------|
| Total governmental fund balances | \$ | 1,153,539 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p> | | |
| Governmental capital assets | \$ | 49,072,394 |
| Less accumulated depreciation | | <u>(17,758,542)</u> |
| | | 31,313,852 |
| <p>Internal service funds are used by management to charge the cost of certain activities to individual funds. Certain assets and liabilities, net of internal balances, of the Interagency Motor Pool Fund are included in governmental activities in the Statement of Net Position.</p> | | |
| | | 6,741,783 |
| <p>Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the governmental funds.</p> | | |
| Bonds payable | \$ | (7,125,000) |
| Deferred amount of bond premium | | (164,276) |
| Capital leases | | (646,947) |
| Loans payable | | (618,994) |
| Compensated absences | | (585,256) |
| OPEB obligations | | <u>(737,326)</u> |
| | | (9,877,799) |
| <p>Delinquent property taxes receivable are not current financial resources and are therefore classified as unearned revenue in the funds, however these amounts are recognized as revenue in the governmental activities.</p> | | |
| | | <u>12,244</u> |
| Total net position of governmental activities | \$ | <u><u>29,343,619</u></u> |

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

CITY OF SAFFORD, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

| REVENUES | General Fund | Highway User Revenue Fund | Street Reserve Fund | Non-major Funds | Totals (Memorandum Only) |
|---|---------------------|------------------------------|------------------------|--------------------|-----------------------------|
| Taxes | \$ 6,119,973 | \$ - | \$ 1,072,844 | \$ - | \$ 7,192,817 |
| Licenses, permits and fees | 68,380 | - | - | - | 68,380 |
| Intergovernmental revenue | 2,773,389 | 663,369 | - | 50,210 | 3,486,968 |
| Charges for services | 2,606,646 | - | - | - | 2,606,646 |
| Fines and forfeitures | 70,879 | - | - | 4,647 | 75,526 |
| Interest | 13,796 | - | - | - | 13,796 |
| Other revenues | 143,116 | 181,118 | - | - | 324,234 |
| Total revenues | <u>11,796,179</u> | <u>844,487</u> | <u>1,072,844</u> | <u>54,857</u> | <u>13,768,367</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 2,655,398 | - | - | - | 2,655,398 |
| Public safety | 4,162,139 | - | - | 8,475 | 4,170,614 |
| Highways and streets | - | 1,151,231 | - | - | 1,151,231 |
| Sanitation | 1,040,965 | - | - | - | 1,040,965 |
| Culture and recreation | 1,617,799 | - | - | 23,381 | 1,641,180 |
| Economic and community development | 527,065 | - | - | - | 527,065 |
| Capital outlay | 306,025 | 285,735 | - | 23,677 | 615,437 |
| Debt service: | | | | | |
| Principal | 99,548 | - | - | 482,929 | 582,477 |
| Interest and fiscal charges | 19,374 | - | - | 413,631 | 433,005 |
| Total expenditures | <u>10,428,313</u> | <u>1,436,966</u> | <u>-</u> | <u>952,093</u> | <u>12,817,372</u> |
| Excess of revenues | | | | | |
| Over (Under) Expenditures | <u>1,367,866</u> | <u>(592,479)</u> | <u>1,072,844</u> | <u>(897,236)</u> | <u>950,995</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers out | (632,953) | (756,413) | (1,037,774) | - | (2,427,140) |
| Transfers in | - | 1,529,189 | - | 897,951 | 2,427,140 |
| Total other financing Sources (Uses) | <u>(632,953)</u> | <u>772,776</u> | <u>(1,037,774)</u> | <u>897,951</u> | <u>-</u> |
| Net change in fund balances | 734,913 | 180,297 | 35,070 | 715 | 950,995 |
| Fund balances, beginning of year | 3,983,157 | (3,777,773) | 1,012,204 | 23,199 | 1,240,787 |
| Restatement adjustment | (1,038,243) | - | - | - | (1,038,243) |
| Fund balances, end of year | <u>\$ 3,679,827</u> | <u>\$ (3,597,476)</u> | <u>\$ 1,047,274</u> | <u>\$ 23,914</u> | <u>\$ 1,153,539</u> |

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

CITY OF SAFFORD, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
To The Statement of Activities
For the Year Ended June 30, 2013

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

| | | |
|---|-----------|--------------------|
| Net change in fund balances - total governmental funds | \$ | 950,995 |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p> | | |
| Capital outlay | \$ | 533,904 |
| Depreciation expense | | <u>(1,334,962)</u> |
| | | (801,058) |
| <p>The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.</p> | | |
| | | (53,969) |
| <p>Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p> | | |
| | | 582,477 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> | | |
| Compensated absences | \$ | (21,395) |
| OPEB obligations | | <u>(123,251)</u> |
| | | (144,646) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p> | | |
| | | 12,244 |
| <p>Amortization of bond premium.</p> | | |
| | | 11,735 |
| <p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the Interagency Motor Pool is reported with governmental activities.</p> | | |
| | | 223,856 |
| Change in net position of governmental activities | <u>\$</u> | <u>781,634</u> |

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

CITY OF SAFFORD, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

| | Business-type Activities - Enterprise Funds | | | |
|--|---|----------------------|----------------------|---------------------|
| Assets | Landfill | Water | Wastewater | Gas |
| Current Assets: | | | | |
| Cash and investments | \$ 379,505 | \$ 1,607,369 | \$ 2,335,603 | \$ 1,170,523 |
| Receivables (net of allowance) | | | | |
| Accounts receivable | 222,180 | 435,390 | 233,498 | 143,646 |
| Intergovernmental | - | 596,418 | - | - |
| Due from other funds | 76,272 | 333,304 | - | 217,459 |
| Inventories | - | - | - | - |
| Prepaid items | 6,216 | 12,559 | 17,056 | 3,867 |
| Total current assets | 684,173 | 2,985,040 | 2,586,157 | 1,535,495 |
| Noncurrent Assets: | | | | |
| Restricted cash and investments | 97,583 | 345,572 | 242,978 | 173,489 |
| Capital Assets: | | | | |
| Infrastructure | 362,883 | 39,855,660 | 26,961,756 | 5,392,138 |
| Buildings and improvements | - | - | - | - |
| Improvements other than buildings | - | - | - | - |
| Machinery, equipment and vehicles | - | - | - | - |
| Construction in progress | 1,323 | 2,535,323 | 69,630 | 64,123 |
| Accumulated depreciation | (167,965) | (16,692,596) | (7,572,005) | (3,169,694) |
| Total capital assets | 196,241 | 25,698,387 | 19,459,381 | 2,286,567 |
| Total noncurrent assets | 293,824 | 26,043,959 | 19,702,359 | 2,460,056 |
| Total Assets | 977,997 | 29,028,999 | 22,288,516 | 3,995,551 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 20,630 | 159,207 | 119,692 | 63,550 |
| Accrued payroll and employee benefits | 6,569 | 31,431 | 10,736 | 13,214 |
| Due to other funds | - | - | - | - |
| Deposits held for others | 97,583 | 194,531 | 114,850 | 173,489 |
| Bonds payable - current | - | - | - | - |
| Leases payable - current | - | - | - | - |
| Loans payable - current | - | 589,874 | 86,533 | - |
| Compensated absences - current | 25,385 | 69,700 | 26,500 | 28,825 |
| Total current liabilities | 150,167 | 1,044,743 | 358,311 | 279,078 |
| Noncurrent liabilities: | | | | |
| Bonds payable, net of current portion | - | - | - | - |
| Leases payable, net of current portion | - | - | - | - |
| Loans payable, net of current portion | - | 5,786,755 | 1,541,599 | - |
| Compensated absences, net of current portion | 7,771 | 21,242 | 8,121 | 8,825 |
| Post employment benefits | 26,003 | 196,947 | 45,422 | 59,415 |
| Landfill closure and postclosure payable | 3,243,248 | - | - | - |
| Total noncurrent liabilities | 3,277,022 | 6,004,944 | 1,595,142 | 68,240 |
| Total liabilities | 3,427,189 | 7,049,687 | 1,953,453 | 347,318 |
| Net Position | | | | |
| Net investment in capital assets | 196,241 | 19,321,758 | 17,831,249 | 2,286,567 |
| Nonspendable | 6,216 | 12,559 | 17,056 | 3,867 |
| Restricted for debt service | - | 151,041 | 128,128 | - |
| Unrestricted | (2,651,648) | 2,493,954 | 2,358,630 | 1,357,799 |
| Total net position | \$ (2,449,191) | \$ 21,979,312 | \$ 20,335,063 | \$ 3,648,233 |

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

| | | Governmental Activities | |
|----------------------|----------------------|----------------------------|--|
| Electric | Totals | Internal Service Funds | |
| \$ 7,448,757 | \$ 12,941,757 | \$ 2,391,955 | |
| 1,012,697 | 2,047,411 | 1,688 | |
| - | 596,418 | 500 | |
| 1,403,984 | 2,031,019 | 107,641 | |
| - | - | 1,438,185 | |
| <u>30,208</u> | <u>69,906</u> | <u>23,725</u> | |
| <u>9,895,646</u> | <u>17,686,511</u> | <u>3,963,694</u> | |
| 474,208 | 1,333,830 | - | |
| 13,055,378 | 85,627,815 | - | |
| - | - | 395,948 | |
| - | - | 68,678 | |
| - | - | 12,033,303 | |
| 447,111 | 3,117,510 | - | |
| <u>(5,574,045)</u> | <u>(33,176,305)</u> | <u>(7,232,188)</u> | |
| <u>7,928,444</u> | <u>55,569,020</u> | <u>5,265,741</u> | |
| <u>8,402,652</u> | <u>56,902,850</u> | <u>5,265,741</u> | |
| <u>18,298,298</u> | <u>74,589,361</u> | <u>9,229,435</u> | |
| 579,807 | 942,885 | 193,847 | |
| 17,063 | 79,013 | 18,346 | |
| - | - | 717,175 | |
| 474,208 | 1,054,661 | - | |
| 125,000 | 125,000 | - | |
| - | - | 258,483 | |
| - | 676,407 | - | |
| 32,817 | 183,227 | 75,335 | |
| <u>1,228,895</u> | <u>3,061,193</u> | <u>1,263,186</u> | |
| 2,445,000 | 2,445,000 | - | |
| - | - | 211,569 | |
| - | 7,328,354 | - | |
| 10,141 | 56,100 | 54,979 | |
| 77,997 | 405,784 | - | |
| - | 3,243,248 | - | |
| <u>2,533,138</u> | <u>13,478,486</u> | <u>266,548</u> | |
| <u>3,762,033</u> | <u>16,539,679</u> | <u>1,529,734</u> | |
| 5,358,444 | 44,994,259 | 4,795,689 | |
| 30,208 | 69,906 | 23,725 | |
| - | 279,169 | - | |
| <u>9,147,613</u> | <u>12,706,348</u> | <u>2,880,287</u> | |
| <u>\$ 14,536,265</u> | <u>\$ 58,049,682</u> | <u>\$ 7,699,701</u> | |

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

CITY OF SAFFORD, ARIZONA
Reconciliation of the Statement of Net Position – Proprietary Funds
To the Statement of Net Position – Business-type Activities
June 30, 2013

Total net position of proprietary funds \$ 58,049,682

Internal service funds are used by management to charge the cost of certain activities to individual funds, therefore, certain assets and liabilities, net of internal balances, are included in the business-type activities on the Statement of Net Position

| | | |
|------------------------------|------------|---------|
| Warehousing Fund | \$ 677,716 | |
| Administrative Services Fund | 280,202 | |
| | | 957,918 |

Total net position of business-type activities \$ 59,007,600

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

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CITY OF SAFFORD, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

| | Business-type Activities - Enterprise Funds | | | |
|---|---|----------------------|----------------------|---------------------|
| | Landfill | Water | Wastewater | Gas |
| Operating Revenues | | | | |
| Charges for services | \$ 1,119,444 | \$ 4,370,819 | \$ 2,349,076 | \$ 2,964,501 |
| Other income | 54,467 | 18,878 | 15,094 | 17,212 |
| Total operating revenues | <u>1,173,911</u> | <u>4,389,697</u> | <u>2,364,170</u> | <u>2,981,713</u> |
| Operating Expenses | | | | |
| Contract services | 404,971 | 896,974 | 420,396 | 504,678 |
| Gas and power purchases | - | - | - | 1,133,307 |
| Depreciation | 34,918 | 871,238 | 625,175 | 95,906 |
| Franchise taxes | - | 206,324 | - | 147,934 |
| Insurance | 27,922 | 37,229 | 22,337 | 125,649 |
| Miscellaneous | 184,472 | 41,963 | 133,866 | 22,249 |
| Outside services | 48,725 | 2,057 | - | - |
| Professional fees | 10,624 | 165,322 | 788,606 | 5,100 |
| Rental | 60,000 | 3,141 | 12,373 | 3,501 |
| Salaries, wages, and benefits | 228,234 | 864,019 | 433,432 | 457,430 |
| Supplies | 104,217 | 558,526 | 45,297 | 66,957 |
| Utilities | 9,577 | 156,904 | 76,874 | 6,307 |
| Total operating expenses | <u>1,113,660</u> | <u>3,803,697</u> | <u>2,558,356</u> | <u>2,569,018</u> |
| Operating income (loss) | <u>60,251</u> | <u>586,000</u> | <u>(194,186)</u> | <u>412,695</u> |
| Non-operating Revenues (Expenses) | | | | |
| Investment earnings | 1,390 | 8,630 | 4,703 | 4,554 |
| Interest and fiscal charges | - | (197,561) | (77,504) | - |
| Gain (loss) on sale of assets | - | - | - | - |
| Total non-operating revenue (expense) | <u>1,390</u> | <u>(188,931)</u> | <u>(72,801)</u> | <u>4,554</u> |
| Income before contributions and transfers | 61,641 | 397,069 | (266,987) | 417,249 |
| Capital contributions | - | 1,209,966 | 1,546,538 | - |
| Transfers out | - | (30,070) | - | - |
| Transfers in | - | - | - | - |
| Change in net position | 61,641 | 1,576,965 | 1,279,551 | 417,249 |
| Net position, beginning of year | <u>(2,510,832)</u> | <u>20,402,347</u> | <u>19,055,512</u> | <u>3,230,984</u> |
| Net position, end of year | <u>\$ (2,449,191)</u> | <u>\$ 21,979,312</u> | <u>\$ 20,335,063</u> | <u>\$ 3,648,233</u> |

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

| | | Governmental Activities | |
|----------------------|----------------------|----------------------------|--|
| Electric | Totals | Internal Service Funds | |
| \$ 8,890,845 | \$ 19,694,685 | \$ 4,566,064 | |
| 82,390 | 188,041 | 18,741 | |
| <u>8,973,235</u> | <u>19,882,726</u> | <u>4,584,805</u> | |
| 675,151 | 2,902,170 | 294,907 | |
| 4,191,139 | 5,324,446 | - | |
| 417,701 | 2,044,938 | 913,689 | |
| 445,503 | 799,761 | - | |
| 60,497 | 273,634 | 68,972 | |
| 161,662 | 544,212 | 434,732 | |
| - | 50,782 | 300,758 | |
| 155,677 | 1,125,329 | 10,550 | |
| 1,819 | 80,834 | 66,673 | |
| 571,629 | 2,554,744 | 1,573,606 | |
| 193,656 | 968,653 | 667,633 | |
| 15,269 | 264,931 | 93,011 | |
| <u>6,889,703</u> | <u>16,934,434</u> | <u>4,424,531</u> | |
| <u>2,083,532</u> | <u>2,948,292</u> | <u>160,274</u> | |
| 47,461 | 66,738 | 2,646 | |
| (123,169) | (398,234) | (53,136) | |
| - | - | 96,458 | |
| <u>(75,708)</u> | <u>(331,496)</u> | <u>45,968</u> | |
| 2,007,824 | 2,616,796 | 206,242 | |
| - | 2,756,504 | - | |
| - | (30,070) | (15,911) | |
| - | - | 45,981 | |
| <u>2,007,824</u> | <u>5,343,230</u> | <u>236,312</u> | |
| <u>12,528,441</u> | <u>52,706,452</u> | <u>7,463,389</u> | |
| <u>\$ 14,536,265</u> | <u>\$ 58,049,682</u> | <u>\$ 7,699,701</u> | |

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

CITY OF SAFFORD, ARIZONA
Reconciliation of the Statement of Revenues, Expenses, and
Changes in Net Position – Proprietary Funds
To the Statement of Activities
For the Year Ended June 30, 2013

Change in net position of total proprietary funds \$ 5,343,230

Internal service funds are used by management to charge the cost of certain activities to individual funds, therefore, the change in net position is included in the business-type activities on the Statement of Activities

Warehousing Fund \$ 12,456

12,456

Change in net position of business-type activities

\$ 5,355,686

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

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CITY OF SAFFORD, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | | |
|--|---|---------------------|---------------------|---------------------|
| | Landfill | Water | Wastewater | Gas |
| Cash Flows From Operating Activities: | | | | |
| Cash received from customers | \$ 1,100,305 | \$ 3,881,927 | \$ 2,428,872 | \$ 2,893,892 |
| Cash paid to suppliers | (657,479) | (2,079,381) | (1,506,553) | (1,982,665) |
| Cash paid to employees | (223,471) | (820,484) | (424,401) | (443,553) |
| Cash flows from operating activities | <u>219,355</u> | <u>982,062</u> | <u>497,918</u> | <u>467,674</u> |
| Cash Flows From Noncapital and Related Financing Activities: | | | | |
| Interfund transfers | - | (30,070) | - | - |
| Cash flows from noncapital and related financing activities | <u>-</u> | <u>(30,070)</u> | <u>-</u> | <u>-</u> |
| Cash Flows From Capital and Related Financing Activities: | | | | |
| Proceeds from the sale of assets | - | - | - | - |
| Capital grants | - | 1,209,966 | 1,546,538 | - |
| Purchase of capital assets | (1,324) | (1,786,794) | (427,824) | (99,064) |
| Principal paid on long term debt | - | (574,494) | (1,443,112) | - |
| Interest paid | - | (197,557) | (77,504) | - |
| Cash flows from capital and related financing activities | <u>(1,324)</u> | <u>(1,348,879)</u> | <u>(401,902)</u> | <u>(99,064)</u> |
| Cash Flows From Investing Activities: | | | | |
| Interest on investments | 1,389 | 8,630 | 4,703 | 4,554 |
| Net change in cash and cash equivalents | 219,420 | (388,257) | 100,719 | 373,164 |
| Cash and cash equivalents, including temporarily restricted cash, beginning of year | 257,668 | 2,341,198 | 2,477,862 | 970,848 |
| Cash and cash equivalents, including temporarily restricted cash, end of year | <u>\$ 477,088</u> | <u>\$ 1,952,941</u> | <u>\$ 2,578,581</u> | <u>\$ 1,344,012</u> |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | | | | |
| Net operating income/(loss) | \$ 60,251 | \$ 586,000 | \$ (194,186) | \$ 412,695 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | | | |
| Depreciation/amortization | 34,918 | 871,238 | 625,175 | 95,906 |
| Changes in operating assets and liabilities: | | | | |
| (Increase)/Decrease in receivables | (135,134) | (477,496) | 63,516 | 24,393 |
| (Increase)/Decrease in inventory | - | - | - | - |
| (Increase)/Decrease in prepaid items | 856 | 8,634 | (5,753) | 21,788 |
| Increase/(Decrease) in accounts payable | 9,452 | (19,575) | (1,051) | 11,229 |
| Increase/(Decrease) in accrued payroll and employee benefits | 4,763 | 43,535 | 9,031 | 13,877 |
| Increase/(Decrease) in due to other funds | - | - | - | - |
| Increase/(Decrease) in deposits held for others | 61,528 | (30,274) | 1,186 | (112,214) |
| Increase/(Decrease) in post closure costs | 182,721 | - | - | - |
| Net cash flows from operating activities | <u>\$ 219,355</u> | <u>\$ 982,062</u> | <u>\$ 497,918</u> | <u>\$ 467,674</u> |

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

| | | Governmental Activities |
|---------------------|----------------------|----------------------------|
| Electric | Totals | Internal Service Funds |
| \$ 9,034,617 | \$ 19,339,613 | \$ 4,593,040 |
| (6,098,006) | (12,324,084) | (1,907,451) |
| <u>(550,173)</u> | <u>(2,462,082)</u> | <u>(1,572,000)</u> |
| 2,386,438 | 4,553,447 | 1,113,589 |
| - | (30,070) | 30,070 |
| - | (30,070) | 30,070 |
| - | - | 109,434 |
| - | 2,756,504 | - |
| (498,256) | (2,813,262) | (1,112,943) |
| (120,000) | (2,137,606) | (152,549) |
| <u>(123,170)</u> | <u>(398,231)</u> | <u>(53,136)</u> |
| <u>(741,426)</u> | <u>(2,592,595)</u> | <u>(1,209,194)</u> |
| 47,461 | 66,737 | 2,646 |
| 1,692,473 | 1,997,519 | 492,871 |
| 6,230,492 | 12,278,068 | 1,899,084 |
| <u>\$ 7,922,965</u> | <u>\$ 14,275,587</u> | <u>\$ 2,391,955</u> |
| \$ 2,083,532 | \$ 2,948,292 | \$ 160,274 |
| 417,701 | 2,044,938 | 913,689 |
| 154,597 | (370,124) | 8,235 |
| - | - | (173,212) |
| 10,352 | 35,877 | 19,898 |
| (207,985) | (207,930) | 93,444 |
| 21,456 | 92,662 | 1,606 |
| - | - | 89,655 |
| 16,937 | (62,837) | - |
| - | 182,721 | - |
| <u>\$ 2,386,438</u> | <u>\$ 4,553,447</u> | <u>\$ 1,113,589</u> |

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

CITY OF SAFFORD, ARIZONA
Statement of Fiduciary Net Position
Pension Trust Fund
June 30, 2013

| | <u>Pension Trust</u> |
|---------------------|--------------------------|
| ASSETS | |
| Cash | \$ 705,047 |
| Accounts receivable | <u>-</u> |
| Total assets | <u>705,047</u> |
| NET POSITION | |
| Held in trust | <u>705,047</u> |
| Total net position | <u><u>\$ 705,047</u></u> |

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

CITY OF SAFFORD, ARIZONA
Statement of Changes in Fiduciary Net Position
Pension Trust Fund
June 30, 2013

| | <u>Pension Trust</u> |
|-------------------------------|--------------------------|
| Additions: | |
| Intergovernmental | \$ 13,796 |
| Investment income | 5,197 |
| Participant contributions | <u>47,121</u> |
| Total additions | <u>66,114</u> |
| | |
| Deductions: | |
| Distributions | <u>43,058</u> |
| Total deductions | <u>43,058</u> |
| | |
| Change in net position | 23,056 |
| Net position - beginning | <u>681,991</u> |
| Net position - ending | <u><u>\$ 705,047</u></u> |

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

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The City of Safford, Arizona (the City) is a municipal corporation governed by an elected mayor and council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of a primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. There are no component units combined with the City for financial reporting purposes and the City is not included in any other governmental reporting entity.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. 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.

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

Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

The government reports the following major governmental funds:

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

The **Highway User Revenue Fund** is used to account for the City's share of motor fuel tax revenues which are restricted for the maintaining, repairing, and upgrading of streets.

The **Street Reserve Fund** accounts for the accumulation of resources for the payment of long-term debt related to the Street Renewal fund.

The City reports the following major proprietary funds:

The **Water Fund** accounts for all operations of the water system.

The **Wastewater Fund** accounts for all operations of the wastewater system.

The **Gas Fund** accounts for all operations of the gas system.

The **Landfill Fund** accounts for all operations of the landfill.

The **Electric Fund** accounts for all operations of the electric system.

Additionally, the City reports the following fund types:

Proprietary Funds – The Proprietary Funds include major utilities funds noted above and the Internal Service Funds established to account for financing of goods and services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The Internal Service Funds consist of the Interagency Motor Pool, Warehousing, Administration Services, and Engineering Services Funds.

Fiduciary Fund – The Fiduciary Fund is an Agency Fund which accounts for resources held by the City on behalf of others and includes the Volunteer Firefighter's Relief and Pension Trust Fund accounts for the contributions to and earnings of the volunteer firefighter's pension trust.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

The proprietary and internal service funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The pension trust fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and cash equivalents

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

Investments

The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's investment pool, obligations of the U.S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities consist principally of materials used in the repair of the distribution, collection and treatment systems and are valued at cost using the average cost method. The cost of such inventories is recorded as expense when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditure/expenses when consumed rather than when purchased.

Capital Assets

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

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

| | |
|-----------------------------------|----------------|
| Buildings | 50 years |
| Buildings improvements | 20 years |
| Improvements other than buildings | 20 years |
| Public domain infrastructure | 35 to 50 years |
| System infrastructure | 30 years |
| Vehicles | 5-7 years |
| Machinery and equipment | 5 years |

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government currently has no items which qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from only one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the city manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (Continued)

Property taxes

Property taxes are levied by the City and collected by the Graham County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date.

Pursuant to A.R.S. a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however, according to case law, an enforceable legal claim to the asset does not arise.

The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2 percent over the previous year's maximum allowable primary levy, plus an increased dollar amount because of a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1 percent of the market value of their homes. If the combined primary property tax (for the City, County, School District, etc.) exceeds 1 percent of the market value of the homes, the school districts will reduce their rate until the homeowners' aggregate rate is equal to or less than the allowable 1 percent. The State will then subsidize the school districts for the reduced revenue. This 1 percent limitation applies to primary property taxes only and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are allowed to increase by no more than 10 percent a year. The dollar amount of the secondary property tax levy is "unlimited" and the actual full cash value of property is used in determining the tax rate.

Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation benefits vest immediately at the employee's current rate of pay. Sick leave benefits vest at one half the hours accumulated at the employee's current rate of pay after six or more years of service, and one fourth (25%) the hours accumulated with a minimum of one, but no more than five years of service. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the gas fund, water fund, sewer fund, electric fund, and refuse fund are charges to customers for sales and services. 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 nonoperating revenues and expenses.

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the City implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

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

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 17.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 19.

Note 3. Stewardship, Compliance and Accountability

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

Budgets and Budgetary Accounting

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

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The City follows a permanent base increase, voter-approved expenditure limitation that was adopted in May 2008.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

NOTE 3. Stewardship, Compliance and Accountability (Continued)

5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Council has adopted a budget transfer policy and all amendments must be done in accordance with this policy.
6. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Capital Projects and Proprietary funds.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year. Supplementary budgetary appropriations were made during the year ended June 30, 2013.

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

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual report as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2013, if any.

Highway User Revenue Funds

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

Note 4. Deposits and Investments

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

| | |
|--------------------------------------|----------------------|
| Cash and cash equivalents | \$ 17,565,324 |
| Restricted cash and cash equivalents | 1,333,830 |
| Fiduciary fund monies | 705,047 |
| | <u>\$ 19,604,201</u> |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments (Continued)

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2013, the City's bank balance of \$3,666,915 was fully insured or collateralized. Of the total bank balance, \$3,493,405 was held in a checking account. Each night the funds in this account are transferred into and held in an interest bearing account. The funds are then transferred back to the checking account each morning.

Investments

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

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

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

As of June 30, 2013 the City had the following deposits, investments, ratings, and maturities:

| | <u>Fair Value</u> | <u>Credit Rating</u> | <u>Weighted Average Maturity</u> |
|--|-----------------------|--------------------------|--|
| Deposits: | | | |
| Cash on deposit | \$ 2,901,944 | N/A | N/A |
| Cash on hand | 4,200 | N/A | N/A |
| Investments: | | | |
| Certificate of deposit | 13,000 | N/A | < 1 year |
| Money market - U.S. Treasuries | 229,706 | AA+ | < 1 year |
| Local Governments Investment Pool #5 | 14,973,032 | AAF/S1+ | 25 days |
| Local Governments Investment Pool #700 | 1,482,319 | AA+ | 2.12 years |
| Total cash and investments | <u>\$ 19,604,201</u> | | |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 4. Deposits and Investments (Continued)

- (1) Ratings are provided where applicable to indicate associated credit risk. The City's investment in the State Treasurer's Investment Pool #5 was rated AAAF/S1+ by Standard and Poor's. The City's investment in the State Treasurer's Pool #700 was rated AA+ by Standard and Poor's.
- (2) Interest rate risk is estimated using the weighted average days to maturity, when applicable.

Interest rate risk

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

Credit risk

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

Note 5. Restricted Assets

Restricted assets consisted of the following cash reserves at June 30, 2013:

Restricted Cash

Proprietary Funds:

| | |
|--|-----------|
| Landfill fund - deposits held for others | \$ 97,583 |
| Water fund - debt reserves and deposits held for others | 345,572 |
| Wastewater fund - debt reserves and deposits held for others | 242,978 |
| Gas fund - deposits held for others | 173,489 |
| Electric fund - deposits held for others | 474,208 |

Subtotal 1,333,830

Pension Trust Fund 705,047

Total restricted cash \$ 2,038,877

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Capital Assets

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

| Governmental Activities: | Balance ** | | | | | Balance |
|--|----------------------|--------------------|---------------------|--------------------|--------------------------|----------------------|
| | 6/30/2012 | Adjustments | Additions | Deletions | Reclassifications | 6/30/2013 |
| Capital assets, not being depreciated: | | | | | | |
| Land | \$ 2,716,356 | \$ - | \$ - | \$ - | \$ - | \$ 2,716,356 |
| Construction in progress | 368,104 | 180,996 | 435,412 | - | (238,016) | 746,496 |
| Total capital assets, not being depreciated | <u>3,084,460</u> | <u>180,996</u> | <u>435,412</u> | <u>-</u> | <u>(238,016)</u> | <u>3,462,852</u> |
| Capital assets, being depreciated: | | | | | | |
| Buildings and improvements | 6,284,352 | - | - | - | - | 6,284,352 |
| Improvements other than buildings | 12,270,536 | - | 33,214 | - | 238,016 | 12,541,766 |
| Machinery, equipment and vehicles | 11,516,928 | - | 1,119,884 | (513,692) | - | 12,123,120 |
| Infrastructure | 26,379,800 | - | - | - | - | 26,379,800 |
| Total capital assets, being depreciated | <u>56,451,616</u> | <u>-</u> | <u>1,153,098</u> | <u>(513,692)</u> | <u>238,016</u> | <u>57,329,038</u> |
| Less accumulated depreciation for: | | | | | | |
| Buildings and improvements | (2,711,765) | - | (142,955) | - | - | (2,854,720) |
| Improvements other than buildings | (4,880,896) | - | (454,334) | - | - | (5,335,230) |
| Machinery, equipment and vehicles | (6,698,331) | - | (835,062) | 446,744 | - | (7,086,649) |
| Infrastructure | (8,415,332) | - | (725,202) | - | - | (9,140,534) |
| Total accumulated depreciation | <u>(22,706,324)</u> | <u>-</u> | <u>(2,157,553)</u> | <u>446,744</u> | <u>-</u> | <u>(24,417,133)</u> |
| Total capital assets, being depreciated, net | <u>33,745,292</u> | <u>-</u> | <u>(1,004,455)</u> | <u>(66,948)</u> | <u>238,016</u> | <u>32,911,905</u> |
| Governmental activities capital assets, net | <u>\$ 36,829,752</u> | <u>\$ 180,996</u> | <u>\$ (569,043)</u> | <u>\$ (66,948)</u> | <u>\$ -</u> | <u>\$ 36,374,757</u> |

** Beginning balances were restated to account for the airport operations being reclassified from a Proprietary Fund to a department of the General Fund. See note 15.

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

| Governmental Activities: | |
|--|---------------------|
| General government | \$ 38,015 |
| Public safety | 13,953 |
| Public works/streets | 1,544,939 |
| Economic and Community Development | 376,651 |
| Culture and Recreation | 183,995 |
| Total depreciation expense - governmental activities | <u>\$ 2,157,553</u> |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 6. Capital Assets, Continued

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

| Business Type Activities: | Balance ** 6/30/2012 | Adjustments | Additions | Deletions | Reclassifications | Balance 6/30/2013 |
|--|-------------------------|---------------------|---------------------|---------------------|-------------------|----------------------|
| Capital assets not being depreciated: | | | | | | |
| Land | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Construction in progress | 2,975,319 | (180,423) | 2,201,179 | - | (1,878,565) | 3,117,510 |
| Total capital assets, not being depreciated | 2,975,319 | (180,423) | 2,201,179 | - | (1,878,565) | 3,117,510 |
| Capital assets being depreciated: | | | | | | |
| Electric system | 11,757,862 | - | 85,494 | - | 1,212,022 | 13,055,378 |
| Gas system | 5,357,199 | - | 34,939 | - | - | 5,392,138 |
| Water system | 38,875,743 | - | 313,374 | - | 666,543 | 39,855,660 |
| Wastewater system | 26,603,062 | - | 358,694 | - | - | 26,961,756 |
| Landfill system | 362,883 | - | - | - | - | 362,883 |
| Improvements other than buildings | 68,677 | - | - | - | - | 68,677 |
| Machinery, equipment and vehicles | 651,417 | - | 244,346 | (186,009) | - | 709,754 |
| Total capital assets, being depreciated | 83,676,843 | - | 1,036,847 | (186,009) | 1,878,565 | 86,406,246 |
| Less accumulated depreciation for: | | | | | | |
| Electric system | (5,156,344) | - | (417,701) | - | - | (5,574,045) |
| Gas system | (3,073,788) | - | (95,906) | - | - | (3,169,694) |
| Water system | (15,821,357) | - | (871,239) | - | - | (16,692,596) |
| Wastewater system | (6,946,831) | - | (625,174) | - | - | (7,572,005) |
| Landfill system | (133,047) | - | (34,918) | - | - | (167,965) |
| Improvements other than buildings | (5,683) | - | (2,797) | - | - | (8,480) |
| Machinery, equipment and vehicles | (476,817) | - | (88,302) | - | - | (565,118) |
| Total accumulated depreciation | (31,613,867) | - | (2,136,037) | - | - | (33,749,903) |
| Total capital assets, being depreciated, net | 52,062,976 | - | (1,099,190) | (186,009) | 1,878,565 | 52,656,343 |
| Business-type activities capital assets, net | <u>\$ 55,038,295</u> | <u>\$ (180,423)</u> | <u>\$ 1,101,989</u> | <u>\$ (186,009)</u> | <u>\$ -</u> | <u>\$ 55,773,853</u> |

** Beginning balances were restated to account for the airport operations being reclassified from a Proprietary Fund to a department of the General Fund. See note 15.

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

| Business-Type Activities: | |
|--|---------------------|
| Landfill | \$ 34,918 |
| Water | 871,238 |
| Wastewater | 625,176 |
| Gas | 95,906 |
| Electric | 417,701 |
| Warehousing (Internal Service Fund) | 2,796 |
| Administration (Internal Service Fund) | 88,302 |
| Total Business-type Activities | <u>\$ 2,136,037</u> |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

| | Balance ** 6/30/2012 | Additions | Retirements | Balance 6/30/2013 | Current Portion |
|---|-------------------------|-------------------|-----------------------|----------------------|---------------------|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| Revenue bonds | \$ 7,515,000 | \$ - | \$ (390,000) | \$ 7,125,000 | \$ 415,000 |
| Loans Payable | 711,923 | - | (92,929) | 618,994 | 34,094 |
| Bond Premium | 176,011 | - | (11,735) | 164,276 | - |
| Capital Leases | 1,369,098 | - | (252,098) | 1,117,000 | 399,247 |
| OPEB Obligations | 614,075 | 123,251 | - | 737,326 | - |
| Compensated Absences | 581,403 | 464,312 | (441,432) | 604,283 | 450,000 |
| Governmental Activities Long-term Liabilities | <u>\$ 10,967,510</u> | <u>\$ 587,563</u> | <u>\$ (1,188,194)</u> | <u>\$ 10,366,879</u> | <u>\$ 1,298,341</u> |
| Business-Type Activities: | | | | | |
| Bonds Payable: | | | | | |
| Revenue Bonds | \$ 2,690,000 | \$ - | \$ (120,000) | \$ 2,570,000 | \$ 125,000 |
| Loans Payable | 10,022,367 | - | (2,017,606) | 8,004,761 | 676,407 |
| OPEB Obligations | 337,951 | 67,833 | - | 405,784 | - |
| Compensated Absences | 320,669 | 318,792 | (288,847) | 350,614 | 250,000 |
| Business-type Activities Long-term Liabilities | <u>\$ 13,370,987</u> | <u>\$ 386,625</u> | <u>\$ (2,426,453)</u> | <u>\$ 11,331,159</u> | <u>\$ 1,051,407</u> |
| Total Long-Term Liabilities | <u>\$ 24,338,497</u> | <u>\$ 974,188</u> | <u>\$ (3,614,647)</u> | <u>\$ 21,698,038</u> | <u>\$ 2,349,748</u> |

** Beginning balances were restated to account for the airport operations being reclassified from a Proprietary Fund to a department of the General Fund. See note 15.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Long-Term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2013:

Governmental Activities:

Revenue Bonds:

Greater Arizona Development Authority (GADA) Revenue Bonds, Series 2006A, interest at 3.4% - 4.32%. Due in annual principal and semi-annual interest installments. Matures July 1, 2025. Bond proceeds were utilized for street renewal projects. The City has pledged future state shared revenues and City transaction privilege tax revenues to repay the bond. \$ 7,125,000

Loans Payable:

Industrial Building Loan, issued in 2007 for the construction of an industrial building which the City is currently renting to a third party. The note bears interest at 7.25% and is payable in monthly installments of \$6,090 which includes principal and interest. Matures in 2026. 614,119

2007 note payable for the purchase of building which the City will utilize for future operations. The note bears interest at 8% and is due in monthly installments of \$5,589 which includes principal and interest. Matures in 2013. 4,875

Total Bonds and Notes Payable - Governmental Activities \$ 7,743,994

Business-Type Activities:

Revenue Bonds:

Greater Arizona Development Authority (GADA) Revenue Bonds, Series 2008A, interest at 3.0% - 5.0%. Due in annual principal and semi-annual interest installments. Matures August 1, 2028. Bond proceeds were utilized for electrical system improvements. The City has pledged future utility revenues to repay the bond. \$ 2,570,000

Loans Payable:

Water Infrastructure Finance Authority (WIFA) loan. The note bears interest at 3.15%. Due in annual principal and semi-annual interest installments. Matures in 2028. Proceeds were used for various wastewater system projects. The City has pledged future utility revenues to repay the loan. 1,628,131

Water Infrastructure Finance Authority (WIFA) loan. The note bears interest at 2.46%. Due in annual principal and semi-annual interest installments. Matures in 2016. Proceeds were used for various water system projects. The City has pledged future utility revenues to repay the loan. 496,015

(Continued on next page)

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 7. Long-Term Debt, Continued

Water Infrastructure Finance Authority (WIFA) loan. The note bears interest at 2.94%.
 Due in annual principal and semi-annual interest installments. Matures in 2028.
 Proceeds were used for various water system projects. The City has pledged future utility revenues to repay the loan. 5,287,145

Water Infrastructure Finance Authority (WIFA) loan. The note bears interest at 2.38%.
 Due in annual principal and semi-annual interest installments. Matures in 2017.
 Proceeds were used for various water system projects. The City has pledged future utility revenues to repay the loan. 593,470

Total Bonds and Notes Payable - Business-Type Activities \$ 10,574,761

Long-term debt service maturities are as follows:

| Fiscal Year Ended June 30 | Governmental Activities | | Business-Type Activities | |
|------------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2014 | \$ 449,094 | \$ 393,800 | \$ 801,407 | \$ 351,957 |
| 2015 | 471,409 | 373,870 | 824,936 | 328,429 |
| 2016 | 498,763 | 352,816 | 848,977 | 302,887 |
| 2017 | 531,294 | 327,035 | 700,010 | 277,918 |
| 2018 | 569,015 | 299,564 | 563,526 | 256,475 |
| 2019-2023 | 3,448,579 | 1,015,816 | 3,133,424 | 981,604 |
| 2024-2028 | 1,775,840 | 144,108 | 3,702,481 | 404,964 |
| Totals | <u>\$ 7,743,994</u> | <u>\$ 2,907,009</u> | <u>\$ 10,574,761</u> | <u>\$ 2,904,234</u> |

Obligations under Capital Leases

The City has entered into lease agreements as a lessee for financing the acquisition of a landfill compactor, grader, dozer, equipment, and hangers. The lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date for amounts that meet the City's capitalization threshold. Revenues from the Interagency Motor Pool Fund, an Internal Service Fund, are used to pay the governmental activities capital lease obligations. Revenues from the Airport Fund and Administrative Services Fund, an Internal Service Fund, are used to pay the business-type activities capital lease obligations.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 8. Long-Term Debt, Continued

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2013 are as follows:

| Year Ending June 30 | Governmental Activities |
|--|----------------------------|
| 2014 | \$ 439,603 |
| 2015 | 285,348 |
| 2016 | 213,124 |
| 2017 | 88,707 |
| 2018 | 83,382 |
| 2019-2020 | 105,019 |
| Total remaining minimum lease payments | 1,215,183 |
| Less amount representing interest | (98,183) |
| Present value of net remaining minimum lease payments | \$ 1,117,000 |

Assets acquired through capital leases are as follows:

| | Governmental Activities |
|--------------------------------|----------------------------|
| Asset: | |
| Buildings and Improvements | \$ 1,359,681 |
| Machinery and equipment | 2,452,205 |
| Less: Accumulated depreciation | (1,529,324) |
| Total | \$ 2,282,562 |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 9. Landfill Closure and Postclosure Costs

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an addition to long-term liabilities on the Statement of Net Position in each period based on landfill capacity used as of fiscal year end. The \$3,243,248 reported as landfill closure and post closure care liability at June 30, 2013, represents the cumulative amount reported to date based on the use of 91.5 percent of the estimated capacity of the landfill and an estimated final cost of \$3,542,464. The City will recognize the remaining estimated cost of closure and postclosure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2012-2013. The City expects to close the landfill in the year 2024, and the actual cost may be higher due to inflation, changes in technology, or changes in regulations. Resources from the Landfill Fund will be used to liquidate the landfill closure and postclosure payable.

Note 10. Interfund Receivables, Payables and Transfers

Interfund receivables and payables as of June 30, 2013 were as follows:

| Due to: | Due From | | | | Total |
|------------------------|---------------------|---------------------------|-----------------------------|------------------------|---------------------|
| | General Fund | Highway User Revenue Fund | Nonmajor Governmental Funds | Internal Service Funds | |
| General Fund | \$ - | \$ 3,614,377 | \$ 5,556 | \$ 499,383 | \$ 4,119,315 |
| Landfill Fund | 76,272 | - | - | - | 76,272 |
| Water Fund | 333,304 | - | - | - | 333,304 |
| Gas Fund | 217,459 | - | - | - | 217,459 |
| Electric Fund | 1,293,832 | - | - | 110,152 | 1,403,984 |
| Internal Service Funds | - | - | - | 107,641 | 107,641 |
| Total | \$ 1,920,866 | \$ 3,614,377 | \$ 5,556 | \$ 717,175 | \$ 6,257,974 |

The interfund receivables and payables were created in prior years as a result of creating new internal service funds and to address cash flow needs in other funds. Management is aware of the need for these balances to be repaid and they are exploring options to do so. For example, in the Highway User Special Revenue Fund management has dedicated fee in lieu taxes exclusively to the fund to address its cash flow needs. The City repaid a significant portion of the interfund balances during fiscal year 2013 and they have plans to further reduce these balances in future years.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 10. Interfund Receivables, Payables and Transfers, Continued

Interfund transfers for the fiscal year ended June 30, 2013 are as follows:

| Transfers Out | Transfers In | | | Total |
|---------------------------|---------------------------|------------------------------|------------------------|---------------------|
| | Highway User Revenue Fund | Non-Major Governmental Funds | Internal Service Funds | |
| General Fund | \$ 491,414 | \$ 141,539 | \$ - | \$ 632,953 |
| Highway User Revenue Fund | - | 756,413 | - | 756,413 |
| Street Reserve Fund | 1,037,774 | - | - | 1,037,774 |
| Water Fund | - | - | 30,070 | 30,070 |
| Total | \$ 1,529,189 | \$ 897,952 | \$ 30,070 | \$ 2,457,210 |

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

Note 11. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the current fiscal year, active plan members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

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

| Year Ended June 30, | Retirement Fund | Health Benefit Supplement Fund | Long-Term Disability Fund |
|------------------------|--------------------|-----------------------------------|------------------------------|
| 2011 | 503,096 | 32,944 | 13,949 |
| 2012 | 526,408 | 33,601 | 12,800 |
| 2013 | 544,569 | 34,534 | 12,751 |

Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 37.51 percent of covered compensation. The health insurance premium portion of the contribution rate was actuarially set at 2.23 percent of covered payroll.

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

The PSPRS contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations using the projected unit credit method. The actuarial assumptions include (a) 8.25 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 8.0 percent per year. The assumptions did not include cost-of-living adjustments and healthcare cost trend rates are not applicable. The actuarial value of assets are determined using techniques that smooth the effects of short-term volatility in the market value of investments and spreads differences between actual and assumed investment return over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 23 years for unfunded actuarial accrued liability and 20 years for excess.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

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

Annual Pension/OPEB Cost - During the year ended June 30, 2013 the City's annual pension cost of \$378,305 and the annual OPEB cost of \$23,912 was equal to the City's required and actual contributions.

| Plan | Year Ended June 30, | Annual Pension/ OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/ OPEB Obligation |
|------------------|------------------------|---------------------------------|---|------------------------------------|
| Pension | 2011 | 328,305 | 100% | - |
| | 2012 | 347,435 | 100% | - |
| | 2013 | 378,305 | 100% | - |
| Health Insurance | 2011 | 24,633 | 100% | - |
| | 2012 | 24,947 | 100% | - |
| | 2013 | 23,912 | 100% | - |

Funded Status and Funding Progress - The funded status of the plan as of June 30, 2013 is as follows:

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$ 10,500,609 |
| Actuarial value of plan assets | 4,802,966 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 5,697,643</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 45.7% |
| Covered payroll (active plan members) | \$ 1,061,331 |
| UAAL as a percentage of covered payroll | 536.8% |

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

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 11. Retirement and Pension Plans, Continued

Elected Officials Retirement System (EORP)

The Elected Officials Retirement System administers a multiple employer, cost-sharing defined benefit pension plan. The Fund Manager of the Public Safety Personnel Retirement System is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. Due to the immateriality of the EORP plan to these financial statements, no additional disclosures regarding the plan are provided in this report.

Volunteer Firefighters' Relief and Pension Fund (VFRPF)

The City contributes to the Volunteer Firefighters' Relief and Pension Fund (VFRPF), a defined contribution plan to provide pensions to volunteer firefighters only. State statute requires that both the employee and the City make contributions equal to 7% of the employees' compensation. Some monies are also received from the State. After a volunteer firefighter has 20 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPF, not to exceed \$200. If an employee resigns before completing 20 years of service, he or she is entitled to a refund of his or her contributions only. He or she is not entitled to any part of the employer's contributions, the amounts received from the state or earnings on any of the contributions. Both the City and the employees made the required 7% contribution.

Note 12. Other Postemployment Benefits – Single Employer Plan

Plan Description – Under authority of the City Council, the City provides postretirement insurance (health) subsidy payments for retirees and their dependents through a single employer defined benefit plan. The City pays a subsidy to retirees and disabled employees for actual medical insurance coverage costs. The City's regular insurance providers do not underwrite the retiree policies. Retirees convert the benefit into an in-lieu payment to secure coverage under independent plans, including but not specific to Arizona State Retirement insurance. The City pays the difference between actual insurance coverage costs and the subsidy the State Retirement System provides to the retiree for health insurance costs. For the current fiscal year, the City contributed \$187,042 for these benefits, which was net of \$62,100 of Arizona State Retirement contributions. The Plan does not issue a separate financial report.

The number of participants as of the effected date of the biannual OPEB valuation follows:

| | |
|-------------------|---------------------|
| | <u>Participants</u> |
| Active employees | 159 |
| Retired employees | <u>35</u> |
| Total | <u><u>194</u></u> |

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 12. Other Postemployment Benefits – Single Employer Plan, Continued

Funding Policy – The City currently pays for postemployment benefits on a pay-as-you-go basis. Although the City is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

| | | |
|---|----|-----------|
| Annual required contribution | \$ | 187,085 |
| Interest on net OPEB obligation | | 3,999 |
| Annual OPEB cost (expense) | | 191,084 |
| Contributions made | | - |
| Increase in net OPEB obligation | | 191,084 |
| Net OPEB obligation - beginning of year | | 952,026 |
| Net OPEB obligation - end of year | \$ | 1,143,110 |

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ended June 30, 2013 and the two preceding years is as follows:

| Year Ended June 30, | Annual Pension/ OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/ OPEB Obligation |
|------------------------|---------------------------------|---|------------------------------------|
| 2011 | \$ 223,099 | 10% | \$ 748,315 |
| 2012 | 223,099 | 9% | 952,026 |
| 2013 | 191,084 | 0% | 1,143,110 |

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer at the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 12. Other Postemployment Benefits – Single Employer Plan, Continued

For the most recent actuarial valuation, the normal cost and the allocation of actuarial present values between services rendered before and after the valuation date were determined using an individual entry-age actuarial cost method. The actuarial assumptions utilized an 8% discount rate based upon the assumption that the City will contribute the actuarially determined annual required contribution. The valuation assumes an 8% inflation factor for healthcare cost trend increases for fiscal year 2012-13, reduced by decrements to a rate of 5% over 6 years. The amortization method is a level percent of payroll over an open 30 year period. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City joined with other cities around the State in the Arizona Municipal Risk Retention Pool (AMRRP), a public entity risk pool currently operating as a common risk management and insurance and workers' compensation program for approximately 73 members. The City pays an annual premium to AMRRP for its general insurance coverage. The agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$600,000 for general liability claims and \$400,000 for property claims for each insured event.

The City insures employee health insurance and accident claims from the Rural Arizona Governmental Health Trust (RAGHT) pool. RAGHT is a multi-entity benefits consortium formed in accordance with A.R.S. §11-952 and A.R.S. §11952.01. RAGHT offers a partially self-funded medical benefit program, a fully self-funded dental program, and full insured Life/AD&D and vision benefit programs. Administrative services are performed by independent agencies for the medical and dental programs.

The City continues to carry commercial insurance for workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

CITY OF SAFFORD, ARIZONA
Notes to the Financial Statements
June 30, 2013

Note 14. Contingent Liabilities and Commitments

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management and City Counsel, the amount of potential losses resulting from these lawsuits will not have a materially adverse effect on the City's financial position at June 30, 2013.

The City receives federal and state funding for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in disallowances under the terms of the grants. There are no required disbursements identified or recorded at the date of these financial statements.

At year end, the City had contractual commitments related to various capital projects for the construction of streets, water, wastewater, electric, and airport renewal projects. These projects are largely being funded by state and federal grants.

Note 15. Restatement Adjustment

In prior years the City accounted for the operations of the City owned airport in an enterprise fund. The City has evaluated the revenue sources used to support the airport operations and determined that the airport does not receive the majority of its annual funding from charges for services. Since enterprise funds should rely to a significant extent on fees and charges for their support it was determined the airport would be better reported as a department of the General Fund. As a result of this change the beginning balances related to capital assets and long-term debt as presented in notes 6 and 7 were restated to show the change of the airport from a business-type activity to a governmental activity. The government-wide financial statements show an adjustment to beginning equity of both the governmental activities and business-type activities in the amount of \$5,147,047 as a result of this change in reporting. The general fund is reporting a net decrease to beginning equity of \$1,038,243 as a result of this change.

Note 16. Prior Period Adjustment

A prior period adjustment in the amount of \$75,003 was posted to the governmental activities. This adjustment was needed to properly report construction in progress which had previously been underreported. The effect of this adjustment was an increase to both construction in progress and net position of the City's governmental activities.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAFFORD, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
PSPRS

An analysis of the progress of the Public Safety Personnel Retirement System Plan (PSPRS) from June 30, 2008 through June 30, 2013, based on actuarial valuations follows:

| Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Liability (AAL) | (b) - (a) Unfunded AAL (UAAL) | (a)/(b) Funded Ratio | (c) Annual Covered Payroll | Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c) |
|----------------|----------------------------------|----------------------------------|----------------------------------|-------------------------|-------------------------------|---|
| June 30, 2008 | 4,001,216 | 7,383,671 | 3,382,455 | 54.2% | 1,385,504 | 244.1% |
| 2009* | 4,389,761 | 8,099,949 | 3,710,188 | 54.2% | 1,170,968 | 316.8% |
| 2010* | 4,228,818 | 8,342,077 | 4,113,259 | 50.7% | 1,088,025 | 378.0% |
| 2011* | 4,497,097 | 9,091,238 | 4,594,141 | 49.5% | 972,602 | 472.4% |
| 2012* | 4,656,655 | 10,176,357 | 5,519,702 | 45.8% | 1,102,416 | 500.7% |
| 2013* | 4,802,966 | 10,500,609 | 5,697,643 | 45.7% | 1,061,331 | 536.8% |

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

| Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Liability (AAL) | (b) - (a) Unfunded AAL (UAAL) | (a)/(b) Funded Ratio | (c) Annual Covered Payroll | Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c) |
|----------------|----------------------------------|----------------------------------|----------------------------------|-------------------------|-------------------------------|---|
| June 30, 2008 | - | 261,258 | 261,258 | 0.0% | 1,385,504 | 18.9% |
| 2009* | - | 282,470 | 282,470 | 0.0% | 1,170,968 | 24.1% |
| 2010* | - | 281,923 | 281,923 | 0.0% | 1,088,025 | 25.9% |
| 2011* | - | 320,197 | 320,197 | 0.0% | 972,602 | 32.9% |
| 2012* | - | 321,829 | 321,829 | 0.0% | 1,102,416 | 29.2% |
| 2013* | - | 334,357 | 334,357 | 0.0% | 1,061,331 | 31.5% |

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

**CITY OF SAFFORD, ARIZONA
Required Supplementary Information**

**Schedule of Funding Progress
Other Postemployment Benefits**

| Valuation Date June 30, | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b) - (a) Unfunded AAL (UAAL) | (a)/(b) Funded Ratio | (c) Annual Covered Payroll | Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c) |
|------------------------------------|--|--|--|---------------------------------|---------------------------------------|--|
| 2013 | - | 2,255,831 | 2,255,831 | 0.0% | 7,853,474 | 29% |
| 2011 | - | 2,531,151 | 2,531,151 | 0.0% | 7,840,917 | 32% |
| 2009 | - | 3,076,380 | 3,076,380 | 0.0% | 8,313,736 | 37% |

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON STATEMENTS

FOR THE FOLLOWING MAJOR FUNDS:

General Fund

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

Special Revenue Funds

- The **Highway User Revenue Fund** accounts for state gasoline taxes that are legally restricted by the State of Arizona for road construction and maintenance.

CITY OF SAFFORD, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| Revenues | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Taxes: | | | | |
| City sales tax | \$ 4,777,000 | \$ 4,777,000 | \$ 5,020,635 | \$ 243,635 |
| Franchise taxes | 865,000 | 865,000 | 873,661 | 8,661 |
| Property taxes | 227,543 | 227,543 | 225,677 | (1,866) |
| Total taxes | <u>5,869,543</u> | <u>5,869,543</u> | <u>6,119,973</u> | <u>250,430</u> |
| Intergovernmental revenues: | | | | |
| State sales tax | 799,911 | 799,911 | 782,624 | (17,287) |
| Auto lieu tax | 450,841 | 450,841 | 491,414 | 40,573 |
| Urban revenue sharing | 977,146 | 977,146 | 977,146 | - |
| Grant revenues | 1,119,847 | 1,119,847 | 323,456 | (796,391) |
| Other | 437,135 | 437,135 | 198,749 | (238,386) |
| Total intergovernmental | <u>3,784,880</u> | <u>3,784,880</u> | <u>2,773,389</u> | <u>(1,011,491)</u> |
| Licenses and permits | 60,000 | 60,000 | 68,380 | 8,380 |
| Charges for services | 2,679,836 | 2,679,836 | 2,606,646 | (73,190) |
| Fines and forfeitures | 60,000 | 60,000 | 70,879 | 10,879 |
| Interest earnings | 8,000 | 8,000 | 13,796 | 5,796 |
| Contingency | 3,996,000 | 3,996,000 | - | (3,996,000) |
| Other revenues | 90,000 | 90,000 | 143,116 | 53,116 |
| Total revenues | <u>16,548,259</u> | <u>16,548,259</u> | <u>11,796,179</u> | <u>(4,752,080)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| City council | 356,435 | 356,435 | 449,659 | (93,224) |
| City manager | 274,938 | 274,938 | 286,879 | (11,941) |
| Human resources | 253,469 | 253,469 | 226,278 | 27,191 |
| City attorney | 219,315 | 219,315 | 143,322 | 75,993 |
| City clerk & general | 245,124 | 245,124 | 239,754 | 5,370 |
| Financial services | 473,870 | 473,870 | 446,748 | 27,122 |
| Building inspection | 110,348 | 110,348 | 82,511 | 27,837 |
| Public works administration | 241,692 | 241,692 | 195,692 | 46,000 |
| Building maintenance | 614,162 | 614,162 | 504,917 | 109,245 |
| Street lights | 80,000 | 80,000 | 79,638 | 362 |
| Contingency | 3,985,400 | 3,985,400 | - | 3,985,400 |
| Total general government | <u>6,854,753</u> | <u>6,854,753</u> | <u>2,655,398</u> | <u>4,199,355</u> |

(Continued)

CITY OF SAFFORD, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance (Continued)
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Public safety: | | | | |
| Police chief & admin | 606,675 | 606,675 | 600,431 | 6,244 |
| Criminal investigation | 518,001 | 518,001 | 490,792 | 27,209 |
| Patrol | 2,061,459 | 2,061,459 | 2,062,023 | (564) |
| Animal control | 133,379 | 133,379 | 132,680 | 699 |
| Police grant division | 383,020 | 383,020 | 116,799 | 266,221 |
| City court | 208,623 | 208,623 | 181,443 | 27,180 |
| Fire department | 646,712 | 646,712 | 577,971 | 68,741 |
| Total public safety | <u>4,557,869</u> | <u>4,557,869</u> | <u>4,162,139</u> | <u>395,730</u> |
| Sanitation | | | | |
| Sanitation | 1,095,405 | 1,095,405 | 1,040,965 | 54,440 |
| Total sanitation | <u>1,095,405</u> | <u>1,095,405</u> | <u>1,040,965</u> | <u>54,440</u> |
| Culture and recreation | | | | |
| Library grants | 416,885 | 416,885 | 188,864 | 228,021 |
| Library general | 507,466 | 507,466 | 504,342 | 3,124 |
| Recreational program | 128,865 | 128,865 | 118,876 | 9,989 |
| Parks | 526,654 | 526,654 | 484,978 | 41,676 |
| Golf course | 493,300 | 493,300 | 320,739 | 172,561 |
| Total culture and recreation | <u>2,073,170</u> | <u>2,073,170</u> | <u>1,617,799</u> | <u>455,371</u> |
| Economic and community development: | | | | |
| Planning & community development | 473,737 | 473,737 | 371,234 | 102,503 |
| Airport | 88,770 | 88,770 | 155,831 | (67,061) |
| Total economic and community development | <u>562,507</u> | <u>562,507</u> | <u>527,065</u> | <u>35,442</u> |
| Capital outlay | 668,869 | 668,869 | 306,025 | 362,844 |
| Debt service: | | | | |
| Principal | 118,927 | 118,927 | 99,548 | 19,379 |
| Interest | - | - | 19,374 | (19,374) |
| Total debt service | <u>118,927</u> | <u>118,927</u> | <u>118,922</u> | <u>5</u> |
| Total expenditures | <u>15,931,500</u> | <u>15,931,500</u> | <u>10,428,313</u> | <u>5,503,187</u> |
| Excess of revenues over expenditures | <u>616,759</u> | <u>616,759</u> | <u>1,367,866</u> | <u>751,107</u> |
| Other financing sources (uses) | | | | |
| Transfers out | - | - | (632,953) | (632,953) |
| Transfers in | - | - | - | - |
| Total other financing sources and (uses) | <u>-</u> | <u>-</u> | <u>(632,953)</u> | <u>(632,953)</u> |
| Net change in fund balance | 616,759 | 616,759 | 734,913 | 118,154 |
| Fund balance - beginning | 3,983,157 | 3,983,157 | 3,983,157 | - |
| Restatement adjustment | - | - | (1,038,243) | 1,038,243 |
| Fund balance - ending | <u>\$ 4,599,916</u> | <u>\$ 4,599,916</u> | <u>\$ 3,679,827</u> | <u>\$ 1,156,397</u> |

CITY OF SAFFORD, ARIZONA
HIGHWAY USER REVENUE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------------|-----------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental revenue | \$ 683,136 | \$ 683,136 | \$ 663,369 | \$ (19,767) |
| Other revenues | 254,000 | 254,000 | 181,118 | (72,882) |
| Total revenues | <u>937,136</u> | <u>937,136</u> | <u>844,487</u> | <u>(92,649)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works/Streets | 1,290,886 | 1,290,886 | 1,151,231 | 139,655 |
| Capital outlay | <u>376,000</u> | <u>376,000</u> | <u>285,735</u> | <u>90,265</u> |
| Total expenditures | <u>1,666,886</u> | <u>1,666,886</u> | <u>1,436,966</u> | <u>229,920</u> |
| Excess of revenues | | | | |
| Over (Under) expenditures | <u>(729,750)</u> | <u>(729,750)</u> | <u>(592,479)</u> | <u>137,271</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | (756,413) | (756,413) | (756,413) | - |
| Transfers in | <u>1,247,827</u> | <u>1,247,827</u> | <u>1,529,189</u> | <u>281,362</u> |
| Total other financing Sources (Uses) | <u>491,414</u> | <u>491,414</u> | <u>772,776</u> | <u>281,362</u> |
| Net change in fund balance | (238,336) | (238,336) | 180,297 | 418,633 |
| Fund balance, beginning of year | <u>(3,777,773)</u> | <u>(3,777,773)</u> | <u>(3,777,773)</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ (4,016,109)</u> | <u>\$ (4,016,109)</u> | <u>\$ (3,597,476)</u> | <u>\$ 418,633</u> |

SUPPLEMENTARY INFORMATION

CITY OF SAFFORD, ARIZONA
STREET RESERVE
Capital Projects Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes | \$ 982,775 | \$ 982,775 | \$ 1,072,844 | \$ 90,069 |
| Total revenues | <u>982,775</u> | <u>982,775</u> | <u>1,072,844</u> | <u>90,069</u> |
| EXPENDITURES | | | | |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues | | | | |
| Over (Under) expenditures | 982,775 | 982,775 | 1,072,844 | 90,069 |
| Other Financing Sources (Uses): | | | | |
| Transfers out | - | - | (1,037,774) | (1,037,774) |
| Total other financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>(1,037,774)</u> | <u>(1,037,774)</u> |
| Net change in fund balances | 982,775 | 982,775 | 35,070 | (947,705) |
| Fund balance, beginning of year | <u>1,012,204</u> | <u>1,012,204</u> | <u>1,012,204</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,994,979</u> | <u>\$ 1,994,979</u> | <u>\$ 1,047,274</u> | <u>\$ (947,705)</u> |

**COMBINING STATEMENTS
AND BUDGETARY COMPARISON STATEMENTS**

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

- The **20th Avenue STP Grant** fund is used to account for funding received by the City for 20th Avenue related expenditures.
- The **Police Res-Magistrate** fund is used to account for the specific funding received from fines which are to be used for public safety.
- The **Main Street Improvements Grant** fund is used to account for the City's grant to make main street improvements.
- The **Library** fund is used to account for grants received for the operations of the joint City and County Library.
- The **Magistrate** fund is used to account for monies received to improve, maintain and enhance the ability to collect and manage monies assessed or received by the courts, to improve court automation and to improve case processing or the administration of justice.

Debt Service

- The **Debt Service** fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

CITY OF SAFFORD, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

| | Special Revenue | | | |
|--|--------------------------|---|--------------------------------------|-----------------|
| | 20th Avenue STP Grant | Police Res-Magistrate Collections | Main Street Improvements Grant | Library |
| Assets | | | | |
| Cash | \$ - | \$ 4,543 | \$ - | \$ 7,574 |
| Intergovernmental receivable | - | - | 5,556 | - |
| Total assets | \$ - | \$ 4,543 | \$ 5,556 | \$ 7,574 |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 7,574 |
| Due to other funds | - | - | 5,556 | - |
| Total liabilities | - | - | 5,556 | 7,574 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - property taxes | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - |
| Fund Balances | | | | |
| Restricted for: | | | | |
| Public safety | - | 4,543 | - | - |
| Total fund balances | - | 4,543 | - | - |
| Total liabilities, deferred inflows of resources, and fund balances | \$ - | \$ 4,543 | \$ 5,556 | \$ 7,574 |

| <u>Special Revenue</u> | | <u>Total Nonmajor Governmental Funds</u> |
|------------------------|---------------------|--|
| <u>Magistrate</u> | <u>Debt Service</u> | |
| \$ 19,371 | \$ - | \$ 31,488 |
| - | - | 5,556 |
| <u>\$ 19,371</u> | <u>\$ -</u> | <u>\$ 37,044</u> |
| | | |
| \$ - | \$ - | \$ 7,574 |
| - | - | 5,556 |
| <u>-</u> | <u>-</u> | <u>13,130</u> |
| | | |
| - | - | - |
| - | - | - |
| | | |
| 19,371 | - | 23,914 |
| <u>19,371</u> | <u>-</u> | <u>23,914</u> |
| <u>\$ 19,371</u> | <u>\$ -</u> | <u>\$ 37,044</u> |

CITY OF SAFFORD, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

| | Special Revenue | | | |
|---------------------------------------|--------------------------|---|--------------------------------------|-----------|
| | 20th Avenue STP Grant | Police Res-Magistrate Collections | Main Street Improvements Grant | Library |
| REVENUES: | | | | |
| Intergovernmental | \$ - | \$ 4,543 | \$ 22,286 | \$ 23,381 |
| Fines and forfeitures | - | - | - | - |
| Total revenues | - | 4,543 | 22,286 | 23,381 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Culture and recreation | - | - | - | 23,381 |
| Public safety | - | - | - | - |
| Capital outlay | - | - | 23,677 | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | - | - |
| Total expenditures | - | - | 23,677 | 23,381 |
| Excess of revenues | | | | |
| Over (under) expenditures | - | 4,543 | (1,391) | - |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | 1,391 | - |
| Total other financing sources (uses): | - | - | 1,391 | - |
| Net change in fund balances | - | 4,543 | - | - |
| Fund balances - beginning | - | - | - | - |
| Fund balances - ending | \$ - | \$ 4,543 | \$ - | \$ - |

| <u>Special Revenue</u> | | <u>Total Nonmajor Governmental Funds</u> |
|------------------------|---------------------|--|
| <u>Magistrate</u> | <u>Debt Service</u> | |
| \$ - | \$ - | \$ 50,210 |
| 4,647 | - | 4,647 |
| <u>4,647</u> | <u>-</u> | <u>54,857</u> |
| - | - | 23,381 |
| 8,475 | - | 8,475 |
| - | - | 23,677 |
| - | 482,929 | 482,929 |
| - | 413,631 | 413,631 |
| <u>8,475</u> | <u>896,560</u> | <u>952,093</u> |
| <u>(3,828)</u> | <u>(896,560)</u> | <u>(897,236)</u> |
| <u>-</u> | <u>896,560</u> | <u>897,951</u> |
| <u>-</u> | <u>896,560</u> | <u>897,951</u> |
| (3,828) | - | 715 |
| <u>23,199</u> | <u>-</u> | <u>23,199</u> |
| <u>\$ 19,371</u> | <u>\$ -</u> | <u>\$ 23,914</u> |

CITY OF SAFFORD, ARIZONA
20TH AVENUE STP GRANT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------------|---------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental revenue | \$ 601,591 | \$ 601,591 | \$ - | \$ (601,591) |
| Total revenues | <u>601,591</u> | <u>601,591</u> | <u>-</u> | <u>(601,591)</u> |
| EXPENDITURES | | | | |
| Capital outlay | <u>638,881</u> | <u>638,881</u> | <u>-</u> | <u>638,881</u> |
| Total expenditures | <u>638,881</u> | <u>638,881</u> | <u>-</u> | <u>638,881</u> |
| Excess of revenues Over (Under) expenditures | (37,290) | (37,290) | - | 37,290 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | (37,290) | (37,290) | - | 37,290 |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ (37,290)</u> | <u>\$ (37,290)</u> | <u>\$ -</u> | <u>\$ 37,290</u> |

CITY OF SAFFORD, ARIZONA
POLICE RES-MAGISTRATE COLLECTIONS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------|-----------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental | \$ 4,000 | \$ 4,000 | \$ 4,543 | \$ 543 |
| Total revenues | <u>4,000</u> | <u>4,000</u> | <u>4,543</u> | <u>543</u> |
| EXPENDITURES | | | | |
| Public safety | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues Over (Under) expenditures | 4,000 | 4,000 | 4,543 | 543 |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 4,000</u> | <u>\$ 4,000</u> | <u>\$ 4,543</u> | <u>\$ 543</u> |

**CITY OF SAFFORD, ARIZONA
MAIN STREET IMPROVEMENTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------|---------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental | \$ 98,971 | \$ 98,971 | \$ 22,286 | \$ (76,685) |
| Total revenues | <u>98,971</u> | <u>98,971</u> | <u>22,286</u> | <u>(76,685)</u> |
| EXPENDITURES | | | | |
| Capital outlay | <u>103,919</u> | <u>103,919</u> | <u>23,677</u> | <u>80,242</u> |
| Total expenditures | <u>103,919</u> | <u>103,919</u> | <u>23,677</u> | <u>80,242</u> |
| Excess of revenues Over (Under) expenditures | (4,948) | (4,948) | (1,391) | 3,557 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>1,391</u> | <u>1,391</u> |
| Total other financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>1,391</u> | <u>1,391</u> |
| Net change in fund balance | (4,948) | (4,948) | - | 4,948 |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ (4,948)</u> | <u>\$ (4,948)</u> | <u>\$ -</u> | <u>\$ 4,948</u> |

**CITY OF SAFFORD, ARIZONA
LIBRARY
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------|---------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental | \$ 25,000 | \$ 25,000 | \$ 23,381 | \$ (1,619) |
| Total revenues | <u>25,000</u> | <u>25,000</u> | <u>23,381</u> | <u>(1,619)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and recreation | <u>25,000</u> | <u>25,000</u> | <u>23,381</u> | <u>1,619</u> |
| Total expenditures | <u>25,000</u> | <u>25,000</u> | <u>23,381</u> | <u>1,619</u> |
| Excess of revenues Over (Under) expenditures | - | - | - | - |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**CITY OF SAFFORD, ARIZONA
MAGISTRATE
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------------|-------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Fines and forfeitures | \$ 4,000 | \$ 4,000 | \$ 4,647 | \$ 647 |
| Total revenues | <u>4,000</u> | <u>4,000</u> | <u>4,647</u> | <u>647</u> |
| EXPENDITURES | | | | |
| Public safety | <u>8,000</u> | <u>8,000</u> | <u>8,475</u> | <u>(475)</u> |
| Total expenditures | <u>8,000</u> | <u>8,000</u> | <u>8,475</u> | <u>(475)</u> |
| Excess of revenues Over (Under) expenditures | (4,000) | (4,000) | (3,828) | 172 |
| Fund balance, beginning of year | <u>23,199</u> | <u>23,199</u> | <u>23,199</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 19,199</u></u> | <u><u>\$ 19,199</u></u> | <u><u>\$ 19,371</u></u> | <u><u>\$ 172</u></u> |

CITY OF SAFFORD, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------|----------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental | \$ - | \$ - | \$ - | \$ - |
| Total revenues | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal | - | - | 482,929 | (482,929) |
| Interest and fiscal charges | - | - | 413,631 | (413,631) |
| Total expenditures | <u>-</u> | <u>-</u> | <u>896,560</u> | <u>(896,560)</u> |
| Excess of revenues | | | | |
| Over (Under) expenditures | - | - | (896,560) | (896,560) |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | 896,560 | 896,560 |
| Total other financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>896,560</u> | <u>896,560</u> |
| Net change in fund balance | - | - | - | - |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for financing goods and services provided by one department or agency to other department or agencies of the City on a cost reimbursement basis.

- The **Interagency Motor Pool** fund is used to account for the City's motor pool charges and expenses.
- The **Warehousing** fund is used to account for the City's central warehouse charges and expenses.
- The **Administration Services** fund is used to account for the administrative services charges and expenses.
- The **Engineering Services** fund is used to account for engineering services charges and expenses.

CITY OF SAFFORD, ARIZONA
Combining Statement of Net Position
Internal Service Funds
June 30, 2013

| Assets | <u>Interagency Motor Pool</u> | <u>Warehousing</u> | <u>Administration Services</u> |
|--|-----------------------------------|--------------------|------------------------------------|
| Current Assets: | | | |
| Cash and investments | \$ 2,082,989 | \$ 100 | \$ 226,098 |
| Receivables (net of allowance) | | | |
| Accounts receivable | - | 1,688 | - |
| Intergovernmental | 500 | - | - |
| Due from other funds | 107,641 | - | - |
| Inventories | - | 1,438,185 | - |
| Prepaid items | - | - | 23,725 |
| Total current assets | <u>2,191,130</u> | <u>1,439,973</u> | <u>249,823</u> |
| Noncurrent Assets: | | | |
| Capital Assets: | | | |
| Buildings and improvements | 395,948 | - | - |
| Improvements other than buildings | - | 68,678 | - |
| Machinery, equipment and vehicles | 11,323,548 | 19,385 | 690,370 |
| Accumulated depreciation | (6,658,591) | (27,864) | (545,733) |
| Total capital assets | <u>5,060,905</u> | <u>60,199</u> | <u>144,637</u> |
| Total noncurrent assets | <u>5,060,905</u> | <u>60,199</u> | <u>144,637</u> |
| Total Assets | <u>7,252,035</u> | <u>1,500,172</u> | <u>394,460</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 21,174 | 95,269 | 72,057 |
| Accrued payroll and employee benefits | - | 3,606 | - |
| Due to other funds | - | 717,175 | - |
| Compensated absences - current | 8,562 | 3,844 | 25,321 |
| Leases payable - current | 258,483 | - | - |
| Total current liabilities | <u>288,219</u> | <u>819,894</u> | <u>97,378</u> |
| Noncurrent liabilities: | | | |
| Compensated absences, net of current portion | 10,464 | 2,562 | 16,880 |
| Leases payable, net of current portion | 211,569 | - | - |
| Total noncurrent liabilities | <u>222,033</u> | <u>2,562</u> | <u>16,880</u> |
| Total liabilities | <u>510,252</u> | <u>822,456</u> | <u>114,258</u> |
| Net Position | | | |
| Net investment in capital assets | 4,590,853 | 60,199 | 144,637 |
| Unrestricted | 2,150,930 | 617,517 | 135,565 |
| Total net position | <u>\$ 6,741,783</u> | <u>\$ 677,716</u> | <u>\$ 280,202</u> |

| Engineering Services | Totals |
|-------------------------|---------------------|
| \$ 82,768 | \$ 2,391,955 |
| - | 1,688 |
| - | 500 |
| - | 107,641 |
| - | 1,438,185 |
| - | 23,725 |
| <u>82,768</u> | <u>3,963,694</u> |
| - | 395,948 |
| - | 68,678 |
| - | 12,033,303 |
| - | (7,232,188) |
| - | <u>5,265,741</u> |
| - | <u>5,265,741</u> |
| <u>82,768</u> | <u>9,229,435</u> |
| 5,347 | 193,847 |
| 14,740 | 18,346 |
| - | 717,175 |
| 37,608 | 75,335 |
| - | 258,483 |
| <u>57,695</u> | <u>1,263,186</u> |
| 25,073 | 54,979 |
| - | 211,569 |
| <u>25,073</u> | <u>266,548</u> |
| <u>82,768</u> | <u>1,529,734</u> |
| - | 4,795,689 |
| - | 2,904,012 |
| <u>\$ -</u> | <u>\$ 7,699,701</u> |

CITY OF SAFFORD, ARIZONA
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2013

| Operating Revenues | Interagency Motor Pool | Warehousing | Administration Services |
|---|---------------------------|-------------------|----------------------------|
| Charges for services | \$ 1,834,093 | \$ 326,730 | \$ 1,572,287 |
| Other income | 12,657 | 637 | 5,447 |
| Total operating revenues | <u>1,846,750</u> | <u>327,367</u> | <u>1,577,734</u> |
| Operating Expenses | | | |
| Utilities | 19,502 | 11,516 | 58,230 |
| Professional fees | - | - | 10,550 |
| Contract services | 61,199 | 55,900 | 177,808 |
| Insurance | 64,318 | 4,654 | - |
| Miscellaneous | 91,147 | 73,500 | 231,703 |
| Depreciation | 822,591 | 2,796 | 88,302 |
| Outside services | - | - | 86,096 |
| Salaries, wages, and benefits | 257,917 | 136,742 | 666,812 |
| Rental | - | 12,744 | 26,865 |
| Supplies | 382,258 | 17,059 | 247,279 |
| Total operating expenses | <u>1,698,932</u> | <u>314,911</u> | <u>1,593,645</u> |
| Operating income (loss) | <u>147,818</u> | <u>12,456</u> | <u>(15,911)</u> |
| Non-operating Revenues (Expenses) | | | |
| Investment earnings | 2,646 | - | - |
| Interest and fiscal charges | (53,136) | - | - |
| Gain (loss) on sale of assets | 96,458 | - | - |
| Total non-operating revenue (expense) | <u>45,968</u> | <u>-</u> | <u>-</u> |
| Income before contributions and transfers | 193,786 | 12,456 | (15,911) |
| Transfers out | - | - | - |
| Transfers in | 30,070 | - | 15,911 |
| Change in net position | 223,856 | 12,456 | - |
| Net position, beginning of year | <u>6,517,927</u> | <u>665,260</u> | <u>280,202</u> |
| Net position, end of year | <u>\$ 6,741,783</u> | <u>\$ 677,716</u> | <u>\$ 280,202</u> |

| Engineering Services | Totals |
|-------------------------|---------------------|
| \$ 832,954 | \$ 4,566,064 |
| - | 18,741 |
| <u>832,954</u> | <u>4,584,805</u> |
| 3,763 | 93,011 |
| - | 10,550 |
| - | 294,907 |
| - | 68,972 |
| 38,382 | 434,732 |
| - | 913,689 |
| 214,662 | 300,758 |
| 512,135 | 1,573,606 |
| 27,064 | 66,673 |
| 21,037 | 667,633 |
| <u>817,043</u> | <u>4,424,531</u> |
| <u>15,911</u> | <u>160,274</u> |
| - | 2,646 |
| - | (53,136) |
| - | 96,458 |
| <u>-</u> | <u>45,968</u> |
| 15,911 | 206,242 |
| (15,911) | (15,911) |
| <u>-</u> | <u>45,981</u> |
| - | 236,312 |
| <u>-</u> | <u>7,463,389</u> |
| <u>\$ -</u> | <u>\$ 7,699,701</u> |

CITY OF SAFFORD, ARIZONA
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2013

| | Interagency Motor Pool | Warehousing |
|--|----------------------------|----------------------|
| Cash Flows From Operating Activities: | | |
| Receipts from interfund charges | \$ 1,854,726 | \$ 327,626 |
| Cash paid to suppliers | (605,362) | (193,248) |
| Cash paid to employees | (256,434) | (134,278) |
| Cash flows from operating activities | <u>992,930</u> | <u>100</u> |
| Cash Flows From Noncapital and Related Financing Activities: | | |
| Net interfund receipts/(payments) | 555,760 | - |
| Interfund transfers | 30,070 | - |
| Cash flows from noncapital and related financing activities | <u>585,830</u> | <u>-</u> |
| Cash Flows From Capital and Related Financing Activities: | | |
| Proceeds from the sale of assets | 109,434 | - |
| Purchase of capital assets | (1,054,606) | - |
| Principal paid on long term debt | (152,549) | - |
| Interest paid | (53,136) | - |
| Cash flows from capital and related financing activities | <u>(1,150,857)</u> | <u>-</u> |
| Cash Flows From Investing Activities: | | |
| Interest on investments | 2,646 | - |
| Net change in cash and cash equivalents | 430,549 | 100 |
| Cash and cash equivalents, including temporarily restricted cash, beginning of year | 1,652,440 | - |
| Cash and cash equivalents, including temporarily restricted cash, end of year | <u><u>\$ 2,082,989</u></u> | <u><u>\$ 100</u></u> |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | | |
| Net operating income/(loss) | \$ 147,818 | \$ 12,456 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | |
| Depreciation/amortization | 822,591 | 2,796 |
| Changes in operating assets and liabilities: | | |
| (Increase)/Decrease in receivables | 7,976 | 259 |
| (Increase)/Decrease in inventory | - | (173,212) |
| (Increase)/Decrease in prepaid items | 10,667 | 782 |
| Increase/(Decrease) in accounts payable | 2,395 | 64,900 |
| Increase/(Decrease) in accrued payroll and employee benefits | 1,483 | 2,464 |
| Increase/(Decrease) in due to other funds | - | 89,655 |
| Net cash flows from operating activities | <u><u>\$ 992,930</u></u> | <u><u>\$ 100</u></u> |

| Administrative Services | Engineering Services | Totals |
|----------------------------|-------------------------|---------------------|
| \$ 1,577,734 | \$ 832,954 | \$ 4,593,040 |
| (807,469) | (301,372) | (1,907,451) |
| (665,029) | (516,259) | (1,572,000) |
| <u>105,236</u> | <u>15,323</u> | <u>1,113,589</u> |
| - | - | 555,760 |
| <u>15,911</u> | <u>(15,911)</u> | <u>30,070</u> |
| <u>15,911</u> | <u>(15,911)</u> | <u>585,830</u> |
| - | - | 109,434 |
| (58,337) | - | (1,112,943) |
| - | - | (152,549) |
| <u>-</u> | <u>-</u> | <u>(53,136)</u> |
| <u>(58,337)</u> | <u>-</u> | <u>(1,209,194)</u> |
| - | - | 2,646 |
| <u>62,810</u> | <u>(588)</u> | <u>492,871</u> |
| <u>163,288</u> | <u>83,356</u> | <u>1,899,084</u> |
| <u>\$ 226,098</u> | <u>\$ 82,768</u> | <u>\$ 2,391,955</u> |
| | | |
| \$ (15,911) | \$ 15,911 | \$ 160,274 |
| 88,302 | - | 913,689 |
| - | - | 8,235 |
| - | - | (173,212) |
| 8,449 | - | 19,898 |
| 22,613 | 3,536 | 93,444 |
| 1,783 | (4,124) | 1,606 |
| <u>-</u> | <u>-</u> | <u>89,655</u> |
| <u>\$ 105,236</u> | <u>\$ 15,323</u> | <u>\$ 1,113,589</u> |

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STATISTICAL SECTION

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

| Contents | Page |
|---|------|
| Financial Trends | 90 |
| <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i> | |
| Revenue Capacity | 95 |
| <i>These schedules contain information to help the reader assess the government's property taxes and the most significant local revenues source, the sales tax.</i> | |
| Debt Capacity | 98 |
| <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information..... | 101 |
| <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i> | |
| Operating Information | 105 |
| <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i> | |

CITY OF SAFFORD, ARIZONA
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Governmental Activities | | | | | | | | | | |
| Net Investment in Capital Assets: | | | | | | | | | | |
| Nonspendable | \$ 6,808,879 | \$ 8,143,112 | \$ 16,732,994 | \$ 22,348,262 | \$ 21,518,201 | \$ 21,561,708 | \$ 20,917,716 | \$ 20,653,034 | \$ 20,978,424 | \$ 27,349,488 |
| Restricted | - | - | - | - | - | - | - | 827,631 | 1,035,403 | 1,071,188 |
| Unrestricted | 4,452,318 | 331,913 | 1,519,166 | (3,251,655) | (2,250,819) | (1,738,281) | (1,171,950) | 1,196,496 | 1,326,108 | 875,720 |
| Total Governmental Activities Net Position | \$ 11,261,197 | \$ 8,475,025 | \$ 18,252,160 | \$ 19,096,607 | \$ 19,267,382 | \$ 19,823,427 | \$ 19,745,766 | \$ 22,677,161 | \$ 23,339,935 | \$ 29,343,619 |
| Business-type activities | | | | | | | | | | |
| Net Investment in Capital Assets: | | | | | | | | | | |
| Nonspendable | \$ 33,060,529 | \$ 32,548,190 | \$ 32,671,943 | \$ 33,444,453 | \$ 40,689,932 | \$ 36,953,200 | \$ 41,779,346 | \$ 45,649,326 | \$ 48,405,227 | \$ 45,199,095 |
| Restricted | - | - | - | - | - | - | - | - | - | 93,631 |
| Unrestricted | 3,003,162 | 4,485,454 | 5,242,183 | 5,893,772 | 1,850,497 | 5,300,828 | 2,275,122 | 1,183,026 | 1,137,612 | 279,169 |
| Total Business-Type Activities Net Position | \$ 36,063,691 | \$ 37,033,644 | \$ 37,914,126 | \$ 39,338,225 | \$ 42,540,429 | \$ 42,254,028 | \$ 48,650,286 | \$ 54,067,472 | \$ 58,798,961 | \$ 59,007,600 |
| Primary government | | | | | | | | | | |
| Net Investment in Capital Assets: | | | | | | | | | | |
| Nonspendable | \$ 39,869,408 | \$ 40,691,302 | \$ 49,404,937 | \$ 55,792,715 | \$ 62,208,133 | \$ 58,514,908 | \$ 62,697,062 | \$ 66,302,360 | \$ 69,383,651 | \$ 72,548,583 |
| Restricted | - | - | - | - | - | - | - | - | - | 140,854 |
| Unrestricted | 7,455,480 | 4,817,367 | 6,761,349 | 2,642,117 | (400,322) | 3,562,547 | 2,275,122 | 2,010,657 | 2,173,015 | 1,350,357 |
| Total Primary Government Net Position | \$ 47,324,888 | \$ 45,508,669 | \$ 56,166,286 | \$ 58,434,832 | \$ 61,807,811 | \$ 62,077,455 | \$ 68,396,052 | \$ 76,744,633 | \$ 82,138,896 | \$ 88,351,219 |

Source: The source of this information is the City's financial records.

Note: The significant increase in governmental activities in fiscal year 2007 is due to the addition of retroactive infrastructure as required by GASB statement 34.

CITY OF SAFFORD, ARIZONA
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General Government | \$ 2,994,532 | \$ 3,194,247 | \$ 2,818,236 | \$ 3,228,687 | \$ 4,130,224 | \$ 3,868,579 | \$ 3,223,810 | \$ 2,868,828 | \$ 3,133,958 | \$ 3,150,383 |
| Public Safety | 2,142,345 | 2,275,752 | 2,631,162 | 3,173,736 | 3,454,258 | 3,743,985 | 3,741,728 | 3,889,627 | 4,738,627 | 4,902,300 |
| Highway and Streets | 969,793 | 993,984 | 1,655,367 | 1,931,614 | 1,713,275 | 2,336,657 | 1,890,432 | 1,852,093 | 2,227,993 | 2,071,690 |
| Sanitation | 940,804 | 885,393 | 1,036,931 | 1,097,169 | 2,614,614 | 1,103,633 | 1,216,241 | 1,022,428 | 1,182,603 | 1,220,126 |
| Culture and Recreation | 1,514,149 | 1,899,101 | 2,475,440 | 2,634,002 | 3,260,001 | 3,172,267 | 2,898,554 | 2,106,533 | 2,054,730 | 2,107,606 |
| Economic and Community Development | 299,176 | 184,769 | 232,370 | 223,446 | 244,842 | 103,425 | 92,063 | 351,950 | 552,541 | 994,423 |
| Interest on Long-Term Debt | 45,383 | 46,420 | 227,430 | 555,603 | 587,147 | 580,055 | 569,051 | 528,397 | 480,279 | 474,406 |
| Total Governmental Activities Expenses | 8,906,182 | 9,479,666 | 11,076,936 | 12,844,257 | 16,004,361 | 14,908,601 | 13,631,879 | 12,619,836 | 14,370,731 | 14,920,934 |
| Business-Type Activities: | | | | | | | | | | |
| Water | 3,402,498 | 3,683,260 | 4,089,699 | 3,965,916 | 4,404,177 | 4,977,296 | 4,483,293 | 3,704,349 | 3,835,273 | 3,988,802 |
| Wastewater | 2,126,817 | 2,093,082 | 2,139,182 | 2,219,660 | 2,560,238 | 2,673,111 | 2,555,329 | 2,292,795 | 2,585,043 | 2,635,860 |
| Gas | 2,074,152 | 2,294,378 | 2,993,202 | 2,974,869 | 3,142,225 | 3,302,255 | 3,012,346 | 2,854,849 | 2,520,994 | 2,569,018 |
| Electric | 5,164,400 | 5,265,291 | 5,894,631 | 6,335,792 | 6,962,279 | 7,688,965 | 7,186,117 | 6,178,881 | 6,662,124 | 7,012,872 |
| Landfill | 833,288 | 841,929 | 916,359 | 955,871 | 982,287 | 1,566,575 | 1,145,443 | 1,257,871 | 1,077,897 | 1,113,660 |
| Airport | 195,435 | 229,595 | 327,620 | 402,285 | 364,132 | 459,379 | 334,623 | 538,631 | 583,575 | - |
| Total Business-Type Activities Expenses | 13,796,590 | 14,407,535 | 16,360,693 | 16,854,393 | 18,415,338 | 20,695,581 | 18,717,151 | 16,827,376 | 17,264,906 | 17,320,212 |
| Total Primary Government Expenses | \$ 22,702,772 | \$ 23,887,201 | \$ 27,437,629 | \$ 29,698,650 | \$ 34,419,699 | \$ 35,604,182 | \$ 32,349,030 | \$ 29,447,232 | \$ 31,635,637 | \$ 32,241,146 |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| General Government | 1,542,913 | 1,580,712 | 1,810,784 | 2,046,431 | 2,669,982 | 3,758,516 | 3,052,621 | 2,280,070 | 2,985,679 | 2,996,915 |
| Public Safety | 172,602 | 205,450 | 152,985 | 89,701 | 274,793 | 469,269 | 309,000 | 322,948 | 409,080 | 416,808 |
| Highway and Streets | - | - | - | - | - | - | - | - | - | - |
| Sanitation | 684,883 | 675,557 | 695,977 | 811,388 | 961,359 | 994,369 | 955,725 | 972,117 | 991,754 | 1,004,375 |
| Culture and Recreation | 450,884 | 448,402 | 531,824 | 544,638 | 505,473 | 497,225 | 547,237 | 230,527 | 53,537 | 58,988 |
| Economic and Community Development | - | - | - | 27,508 | 172,836 | 139,563 | 74,691 | 92,656 | - | 124,759 |
| Operating grants and contributions | 1,132,357 | 1,685,282 | 4,461,195 | 1,112,277 | 1,152,093 | 929,977 | 1,209,462 | 1,135,839 | 1,031,997 | 897,058 |
| Capital grants and contributions | - | - | - | - | 439,795 | - | 42,045 | 342,986 | 493,283 | 334,183 |
| Total Governmental Activities Program Revenues | 3,983,639 | 4,595,403 | 7,652,765 | 4,631,943 | 6,176,331 | 6,788,919 | 6,190,781 | 5,377,143 | 5,965,330 | 5,833,080 |
| Business-Type Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Water | 3,545,419 | 3,475,236 | 3,723,831 | 4,508,258 | 5,136,929 | 4,673,148 | 4,827,527 | 4,587,729 | 4,564,087 | 4,389,697 |
| Wastewater | 1,412,919 | 1,451,832 | 1,490,328 | 1,996,803 | 3,311,079 | 3,083,067 | 2,694,922 | 2,462,021 | 2,454,693 | 2,364,170 |
| Gas | 2,272,626 | 2,505,062 | 2,972,872 | 2,951,728 | 3,333,519 | 3,059,527 | 3,252,703 | 3,271,358 | 3,121,378 | 2,981,713 |
| Electric | 5,952,269 | 5,868,541 | 6,473,184 | 6,769,144 | 7,565,816 | 7,906,694 | 9,080,807 | 8,901,294 | 8,816,434 | 8,973,235 |
| Landfill | 966,078 | 1,028,748 | 978,217 | 1,295,860 | 1,346,923 | 1,255,546 | 1,048,132 | 1,105,663 | 1,036,977 | 1,173,911 |
| Airport | 39,109 | 74,921 | 108,924 | 119,839 | 181,874 | 163,554 | 178,974 | 161,411 | 133,780 | - |
| Total Business-Type Activities Program Revenues | 15,804,167 | 15,368,910 | 16,774,942 | 18,144,958 | 21,598,413 | 20,504,508 | 25,091,124 | 24,914,959 | 23,049,554 | 22,639,230 |
| Total Primary Government Program Revenues | \$ 19,787,806 | \$ 19,964,313 | \$ 24,427,707 | \$ 22,776,901 | \$ 27,774,744 | \$ 27,293,427 | \$ 31,281,905 | \$ 30,292,102 | \$ 28,014,884 | \$ 28,472,316 |

* Beginning in fiscal year 2013 the airport operations were reported as a department of the general fund.

(continued)

CITY OF SAFFORD, ARIZONA
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Continued)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net (expense)/revenue | | | | | | | | | | |
| Governmental Activities | \$ 4,922,543 | \$ 4,884,263 | \$ 3,424,171 | \$ (8,212,314) | \$ (9,828,030) | \$ (8,119,682) | \$ (7,441,098) | \$ (7,242,713) | \$ (8,405,401) | \$ (9,087,848) |
| Business-Type Activities | 2,007,577 | 961,375 | 414,249 | 1,290,565 | 3,183,075 | (191,073) | 6,373,973 | 8,087,583 | 4,784,648 | 5,319,018 |
| Total Primary Government Net Expense | \$ (2,914,966) | \$ (3,922,888) | \$ (3,009,922) | \$ (6,921,749) | \$ (6,644,955) | \$ (8,310,755) | \$ (1,067,125) | \$ 844,870 | \$ (3,620,753) | \$ (3,768,830) |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Property taxes, levied for general purposes | \$ 137,285 | \$ 127,868 | \$ 171,755 | \$ 167,665 | \$ 177,196 | \$ 185,141 | \$ 184,556 | \$ 194,978 | \$ 201,761 | \$ 237,921 |
| City sales tax | 2,336,217 | 2,444,331 | 3,662,056 | 5,746,283 | 6,512,064 | 5,576,365 | 4,605,185 | 4,945,809 | 5,576,922 | 6,093,479 |
| Franchise taxes | 77,391 | 69,165 | 70,319 | 68,031 | 65,772 | 73,419 | 66,999 | 59,905 | 844,465 | 873,661 |
| Unrestricted state shared sales tax | 1,978,665 | 2,095,803 | 2,383,761 | 2,374,843 | 2,719,808 | 2,550,627 | 2,357,794 | 2,081,548 | 1,983,093 | 2,251,184 |
| Grants, aid, and contributions - unrestricted | - | - | - | - | - | - | - | - | - | - |
| Development impact fees | - | - | - | - | - | - | - | - | - | - |
| Unrestricted Investment Earnings (loss) | 113,692 | 110,481 | 261,923 | 615,421 | 356,249 | 39,012 | 13,223 | 10,092 | 9,027 | 16,442 |
| Miscellaneous | 39,297 | 443 | 81 | 707 | 21,749 | 152,808 | 135,680 | 195,643 | 438,374 | 366,725 |
| Transfers | 500,000 | 250,000 | - | 83,811 | 145,967 | 98,355 | - | (26,076) | 14,533 | 30,070 |
| Total Governmental Activities: | \$ 5,182,547 | \$ 5,098,091 | \$ 6,549,895 | \$ 9,056,761 | \$ 9,998,805 | \$ 8,675,727 | \$ 7,363,437 | \$ 7,461,899 | \$ 9,068,175 | \$ 9,869,482 |
| Business-Type Activities: | | | | | | | | | | |
| Development impact fees | 66,720 | 157,253 | 229,020 | - | - | - | - | - | - | - |
| Unrestricted Investment Earnings (loss) | 83,321 | 101,325 | 237,213 | 217,345 | 165,096 | 3,027 | 22,285 | 15,736 | 21,374 | 66,738 |
| Miscellaneous | - | - | - | - | - | - | - | - | - | - |
| Transfers | (500,000) | (250,000) | - | (83,811) | (145,967) | (98,355) | - | 26,076 | (14,533) | (30,070) |
| Total Business-Type Activities | \$ (347,959) | \$ 8,578 | \$ 466,233 | \$ 133,534 | \$ 19,129 | \$ (95,328) | \$ 22,285 | \$ 41,812 | \$ 6,841 | \$ 36,668 |
| Total Primary Government | \$ 4,834,588 | \$ 5,106,669 | \$ 7,016,128 | \$ 9,190,295 | \$ 10,017,934 | \$ 8,580,399 | \$ 7,385,722 | \$ 7,503,711 | \$ 9,075,016 | \$ 9,906,150 |
| Changes in Net Position | | | | | | | | | | |
| Governmental Activities | \$ 260,004 | \$ 213,828 | \$ 3,125,724 | \$ 844,447 | \$ 170,775 | \$ 556,045 | \$ (77,661) | \$ 219,186 | \$ 662,774 | \$ 781,634 |
| Business-Type Activities | 1,659,618 | 969,953 | 880,482 | 1,424,099 | 3,202,204 | (286,401) | 6,396,258 | 8,129,395 | 4,791,489 | 5,355,686 |
| Total Primary Government | \$ 1,919,622 | \$ 1,183,781 | \$ 4,006,206 | \$ 2,268,546 | \$ 3,372,979 | \$ 269,644 | \$ 6,318,597 | \$ 8,348,581 | \$ 5,454,263 | \$ 6,137,320 |

CITY OF SAFFORD, ARIZONA
Fund Balance of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| General Fund | | | | | | | | | | |
| Nonspendable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 29,990 | \$ 39,464 | \$ 47,223 |
| Unassigned | - | - | - | - | - | - | - | 3,525,524 | 3,943,693 | 3,632,604 |
| Reserved | - | - | - | - | 25,774 | 28,468 | 35,921 | - | - | - |
| Unreserved | 4,055,703 | 3,910,365 | 2,486,405 | 1,571,767 | 1,860,998 | 2,632,606 | 3,071,044 | - | - | - |
| Total General Fund | \$ 4,055,703 | \$ 3,910,365 | \$ 2,486,405 | \$ 1,571,767 | \$ 1,886,772 | \$ 2,661,074 | \$ 3,106,965 | \$ 3,555,514 | \$ 3,983,157 | \$ 3,679,827 |

| | | | | | | | | | | |
|---|-------------------|------------------|---------------------|---------------------|--------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| All other Governmental Funds | | | | | | | | | | |
| Nonspendable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,090 | \$ 9,343 | \$ - |
| Restricted | - | - | - | - | - | - | - | 827,631 | 1,035,403 | 1,071,188 |
| Committed | - | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - |
| Reserved | - | - | - | - | 9,254 | 9,572 | 9,831 | - | (3,787,116) | (3,597,476) |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 415,060 | 70,740 | (46,789) | (1,161,865) | (2,327,758) | (3,330,126) | (3,780,719) | - | - | - |
| Capital projects funds | - | - | 8,795,117 | 3,854,532 | 1,518,452 | 1,512,578 | 67,660 | - | - | - |
| Debt service fund | - | - | - | 440,998 | 776,703 | 980,675 | 1,068,380 | - | - | - |
| Total all other Governmental Funds | \$ 415,060 | \$ 70,740 | \$ 8,748,328 | \$ 3,133,665 | \$ (23,349) | \$ (827,301) | \$ (2,634,848) | \$ (2,905,888) | \$ (2,742,370) | \$ (2,526,288) |

Source: The source of this information is the City's financial records
Note: The provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 were adopted in fiscal year 2011. The standard replaces the previous reserved and unreserved fund balance categories with the following five fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned fund balance.

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

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---------------------|---------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
| Revenues | | | | | | | | | | |
| Taxes | \$ 2,550,893 | \$ 2,641,365 | \$ 3,904,130 | \$ 5,981,979 | \$ 6,755,032 | \$ 5,834,925 | \$ 4,856,740 | \$ 5,200,692 | \$ 6,623,147 | \$ 7,192,817 |
| Licenses and Permits | 41,041 | 63,241 | 92,076 | 222,929 | 109,408 | 95,512 | 54,972 | 65,365 | 66,345 | 68,380 |
| Intergovernmental | 3,318,095 | 4,027,685 | 7,041,209 | 3,615,181 | 4,625,743 | 3,989,435 | 3,952,256 | 3,911,044 | 3,508,374 | 3,486,968 |
| Charges for Services | 2,502,095 | 2,492,423 | 2,724,244 | 2,972,369 | 3,779,379 | 4,964,249 | 4,348,600 | 3,233,026 | 2,458,392 | 2,606,646 |
| Fines and Forfeitures | 70,897 | 78,859 | 88,250 | 85,144 | 100,503 | 94,778 | 88,299 | 74,568 | 78,682 | 75,526 |
| Miscellaneous | 78,356 | 29,443 | 90,828 | 111,870 | 302,856 | 347,129 | 243,468 | 370,331 | 438,389 | 324,234 |
| Investment income (loss) | 93,915 | 98,884 | 240,063 | 598,163 | 334,942 | 39,891 | 14,446 | 9,557 | 8,050 | 13,796 |
| Special Assessments | 20,369 | 2,094 | 3,421 | 2,233 | 3,818 | 1,251 | 2,045 | - | - | - |
| Total Revenues | \$ 8,675,661 | \$ 9,433,994 | \$ 14,184,221 | \$ 13,589,868 | \$ 16,011,681 | \$ 15,367,170 | \$ 13,560,826 | \$ 12,864,583 | \$ 13,181,379 | \$ 13,768,367 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General Government | \$ 2,824,176 | \$ 3,019,672 | \$ 2,784,056 | \$ 3,196,607 | \$ 3,751,838 | \$ 3,862,006 | \$ 3,150,035 | \$ 2,731,894 | \$ 2,590,895 | \$ 2,655,398 |
| Public Safety | 2,058,865 | 2,158,138 | 2,645,929 | 3,322,508 | 3,769,817 | 4,007,841 | 3,855,546 | 3,769,031 | 4,049,278 | 4,170,614 |
| Highways and streets | 895,084 | 930,575 | 1,257,907 | 1,501,307 | 1,741,143 | 1,776,368 | 1,307,536 | 1,115,255 | 1,131,916 | 1,151,231 |
| Sanitation | 899,210 | 858,611 | 1,056,109 | 1,155,959 | 1,206,092 | 1,075,654 | 1,110,186 | 1,053,879 | 1,020,240 | 1,040,965 |
| Culture and recreation | 1,412,307 | 1,780,802 | 2,307,658 | 2,649,119 | 3,290,951 | 3,120,127 | 2,783,528 | 1,889,625 | 1,608,052 | 1,641,180 |
| Economic and community development | 289,148 | 191,331 | 169,778 | 243,273 | 187,648 | 151,196 | 67,724 | 316,557 | 442,268 | 527,065 |
| Capital Outlay | 1,473,532 | 1,098,103 | 6,358,143 | 6,024,572 | 3,939,257 | 300,730 | 1,609,952 | 734,302 | 778,102 | 615,437 |
| Debt service: | | | | | | | | | | |
| Interest and Fiscal Charges | 45,383 | 46,420 | 227,430 | 543,794 | 641,618 | 511,742 | 520,753 | 464,999 | 439,751 | 483,005 |
| Principal | 85,000 | 90,000 | 540,000 | 1,482,030 | 538,035 | 489,471 | 488,942 | 552,757 | 451,605 | 582,477 |
| Payment to refunded bond escrow agent | - | - | - | - | - | - | - | - | - | - |
| Bond issuance costs | - | - | 252,335 | - | - | - | - | - | - | - |
| Total Expenditures | 9,982,705 | 10,173,652 | 17,599,345 | 20,119,169 | 19,066,399 | 15,295,135 | 14,894,202 | 12,628,299 | 12,512,107 | 12,817,372 |
| Revenues over (under) Expenditures | (1,307,044) | (739,658) | (3,415,124) | (6,529,301) | (3,054,718) | 72,035 | (1,333,376) | 236,284 | 669,272 | 950,995 |
| Other Finance Sources (Uses) | | | | | | | | | | |
| Debt proceeds | - | - | 10,170,000 | - | 3,18,750 | - | - | - | - | - |
| Premium on issuance of loans | - | - | 498,752 | - | - | - | - | - | - | - |
| Capital lease agreements | - | - | - | - | - | - | - | - | - | - |
| Transfers in | 681,341 | 441,871 | 4,092,708 | 1,856,090 | 503,741 | 297,947 | 300,847 | 1,540,927 | 2,180,006 | 2,427,140 |
| Transfers out | (181,341) | (191,871) | (4,092,708) | (1,856,090) | (609,782) | (399,632) | (329,127) | (1,599,702) | (2,258,117) | (2,427,140) |
| Total other Finance Sources (uses) | 500,000 | 250,000 | 10,668,752 | - | 212,709 | (101,685) | (28,280) | (58,775) | (78,111) | - |
| Net Change in Fund Balances | \$ (807,044) | \$ (489,658) | \$ 7,253,628 | \$ (6,529,301) | \$ (2,842,009) | \$ (29,650) | \$ (1,361,656) | \$ 177,509 | \$ 591,161 | \$ 950,995 |
| Debt Service as a Percentage of Noncapital Expenditures | 1.56% | 1.53% | 7.51% | 16.79% | 8.46% | 7.16% | 8.23% | 9.36% | 8.02% | 9.01% |

CITY OF SAFFORD, ARIZONA
Taxable Sales by Category
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Construction | \$ 200,360 | \$ 188,645 | \$ 309,237 | \$ 365,433 | \$ 520,687 | \$ 938,460 | \$ 482,050 | \$ 404,099 | \$ 111,880 | \$ 169,131 |
| Manufacturing | 126,073 | 88,794 | 111,222 | 88,236 | 109,510 | 138,870 | 135,385 | 105,181 | 99,859 | 81,510 |
| Utilities | 159,437 | 183,351 | 181,923 | 203,295 | 212,368 | 224,752 | 170,360 | 97,415 | 212,083 | 277,832 |
| Wholesale | 181,800 | 173,488 | 106,618 | 93,150 | 140,075 | 117,626 | 55,747 | 80,181 | 54,205 | 56,051 |
| Retail | 4,093,815 | 3,856,735 | 3,719,848 | 3,590,697 | 4,024,039 | 4,625,932 | 4,265,882 | 2,305,045 | 1,406,547 | 1,244,236 |
| Restaurants | 465,466 | 404,634 | 352,085 | 332,107 | 363,298 | 256,271 | 370,251 | 276,031 | 201,447 | 202,664 |
| Property Rental | 216,489 | 163,495 | 191,373 | 175,848 | 247,841 | 231,559 | 222,483 | 177,809 | 119,719 | 112,923 |
| Hotels | 454,109 | 322,155 | 303,173 | 240,840 | 451,707 | 568,064 | 404,466 | 314,374 | 178,932 | 159,181 |
| Mining | | | | | 31 | 493 | | 55,467 | | |
| Services | 130,894 | 129,440 | 108,267 | 111,071 | 135,859 | 148,065 | 134,936 | 105,517 | 79,977 | 79,391 |
| Other | 55,465 | 38,231 | 27,787 | 49,379 | 59,121 | 87,352 | 53,183 | 35,251 | 35,251 | 77,105 |
| Transportation | 5,717 | 5,343 | 8,938 | 7,332 | 1,423 | 13,597 | 13,936 | 11,166 | 17,481 | 19,373 |
| Finance & Insurance | 3,480 | 2,779 | 3,933 | 3,288 | 6,445 | 12,578 | 11,592 | 6,458 | 2,600 | 2,761 |
| Public Administration | | | | | 2,691 | 4,356 | 5,770 | 3,744 | 6,006 | 6,050 |
| Arts & Entertainment | | 19,827 | 18,436 | | 17,579 | 23,592 | 21,724 | 21,402 | 18,127 | 17,192 |
| Audit Program | | | | | (2,726) | (6,535) | (5,273) | (19,339) | | |
| Adjustment | | | | | | | | (8,146) | (3,828) | (744) |
| Total | \$ 6,093,105 | \$ 5,576,917 | \$ 5,442,840 | \$ 5,260,676 | \$ 6,289,948 | \$ 7,385,032 | \$ 6,342,492 | \$ 3,936,404 | \$ 2,540,286 | \$ 2,504,656 |
| Safford's direct sales tax rate | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.0% | 2.0% |

Source: Arizona Department of Revenue

- Notes:**
- 1) Beginning in January 2004, the Arizona Department of Revenue began using a new reporting software system for classifying business establishments called the North American Industry Classification System (NAICS). Under the new system, the category may be defined a little differently. In addition, more categories were established.
 - 2) When NAICS reporting began, many businesses checked the "Other" category due to uncertainty. This problem is being remedied and therefore, the "Other" category will decrease as more businesses will be classified under their proper category.

CITY OF SAFFORD, ARIZONA
Sales Tax Rates
Last Ten Fiscal Years

| Fiscal Year | Safford Direct Rate | Arizona Rate | Graham County Rate |
|------------------------|------------------------------------|-------------------------|-----------------------------------|
| 2013 | 2.50% | 5.60% | 0.50% |
| 2012 | 2.50% | 6.60% | 0.50% |
| 2011 | 2.50% | 6.60% | 0.50% |
| 2010 | 2.50% | 5.60% | 0.50% |
| 2009 | 2.50% | 5.60% | 0.50% |
| 2008 | 2.50% | 5.60% | 0.50% |
| 2007 | 2.50% | 5.60% | 0.50% |
| 2006 | 2.50% | 5.60% | 0.50% |
| 2005 | 2.00% | 5.60% | 0.50% |
| 2004 | 2.00% | 5.60% | 0.50% |

Source: The source of this information is the City's records.

CITY OF SAFFORD, ARIZONA
Principal Sales Taxpayers
Current Fiscal Year and Eight Years Ago

| Taxpayer | Business Type | Fiscal Year 2013 | | | Fiscal Year 2005 | | |
|-------------|---------------|---------------------|------|--|---------------------|------|--|
| | | Sales Tax Payments | Rank | Percentage of Total Sales Tax Payments | Sales Tax Payments | Rank | Percentage of Total Sales Tax Payments |
| Taxpayer A | Retail Trade | 2,033,579 | 1 | 33.38% | | | |
| Taxpayer B | Utility | 356,045 | 2 | 5.84% | 187,849 | 2 | 7.39% |
| Taxpayer C | Retail Trade | 231,816 | 3 | 3.80% | 263,481 | 1 | 10.37% |
| Taxpayer D | Retail Trade | 142,394 | 4 | 2.34% | 119,458 | 3 | 4.70% |
| Taxpayer E | Retail Trade | 117,903 | 5 | 1.94% | | | |
| Taxpayer F | Retail Trade | 111,251 | 6 | 1.83% | 44,369 | 6 | 1.75% |
| Taxpayer G | Restaurant | 107,394 | 7 | 1.76% | 109,573 | 4 | 4.31% |
| Taxpayer H | Retail Trade | 99,323 | 8 | 1.63% | 35,836 | 10 | 1.41% |
| Taxpayer I | Retail Trade | 83,623 | 9 | 1.37% | 98,411 | 5 | 3.87% |
| Taxpayer J | Retail Trade | 71,066 | 10 | 1.17% | | | |
| Taxpayer K | Construction | | | | 42,331 | 7 | 1.67% |
| Taxpayer L | Retail Trade | | | | 37,947 | 8 | 1.49% |
| Taxpayer M | Retail Trade | | | | 36,217 | 9 | 1.43% |
| Total Sales | | <u>\$ 6,093,108</u> | | <u>55.05%</u> | <u>\$ 2,540,286</u> | | <u>38.40%</u> |

Source: Arizona Department of Revenue

Note: 2005 is the first fiscal year of available data of sales tax payments by business type

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

| Fiscal Year Ended June 30 | Governmental Activities | | Business-Type Activities | | Total Primary Government | Percentage of Personal Income | Per Capita |
|------------------------------------|-------------------------|-------------------|--------------------------|-------------------|--------------------------------|-------------------------------------|---------------|
| | Loans | Capital Leases | Loans | Capital Leases | | | |
| 2013 | \$ 7,908,270 | \$ 1,117,000 | \$ 10,574,761 | \$ - | \$ 19,600,031 | n/a | \$ 2,049 |
| 2012 | 8,226,923 | 640,144 | 12,712,367 | 746,496 | 22,325,930 | n/a | 2,334 |
| 2011 | 8,678,528 | 869,720 | 14,738,754 | 857,331 | 25,144,333 | n/a | 2,629 |
| 2010 | 9,231,285 | 1,189,747 | 17,124,411 | 1,001,247 | 28,546,690 | 3.21% | 2,903 |
| 2009 | 9,752,038 | 1,498,280 | 21,452,430 | 1,143,357 | 33,846,105 | 3.74% | 3,391 |
| 2008 | 10,241,509 | 1,243,757 | 22,444,377 | 1,277,464 | 35,207,107 | 4.03% | 3,722 |
| 2007 | 10,564,377 | 715,933 | 11,679,436 | 1,361,844 | 24,321,590 | 3.42% | 2,576 |
| 2006 | 12,046,407 | - | 12,493,589 | 906,510 | 25,446,506 | 4.04% | 2,696 |
| 2005 | 1,825,000 | - | 13,279,116 | 957,629 | 16,061,745 | 2.72% | 1,740 |
| 2004 | 1,915,000 | - | 14,036,767 | 539,727 | 16,491,494 | 3.04% | 1,786 |

CITY OF SAFFORD, ARIZONA
Direct and Overlapping Governmental Activities Debt
June 30, 2013

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable to School District</u> | <u>Estimated Amount Applicable to School District</u> |
|---------------------------------------|-----------------------------|---|---|
| Safford Unified School District No. 1 | \$ 2,325,000 | 44.00 % | \$ 1,023,000 |
| Subtotal, Overlapping Debt | | | <u>1,023,000</u> |
| Direct: | | | |
| City of Safford | | | <u>20,246,978</u> |
| Total Direct and Overlapping Debt | | | <u>\$ 21,269,978</u> |

Source: The source of this information is the District's records and the State and County Abstract of the Assessment Roll, Arizona Department of Revenue and the applicable governmental unit.

Notes: 1) Estimated percentage of debt outstanding applicable to the District is calculated based on the District's secondary assessed valuation as a percentage of the secondary assessed valuation of the overlapping jurisdiction.

CITY OF SAFFORD, ARIZONA
Legal Debt Margin Information
Last Ten Fiscal Years

Legal Debt Margin Calculations for Fiscal Year 2013:

| | 20% Limitation | | | | 6% Limitation | | | | | |
|--|----------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|
| | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2013-2014 |
| 20% Limitation (a) | | | | | | | | | | |
| Debt Limit Equal to 20% of Assessed Valuation | \$ 6,826,209 | \$ 6,892,105 | \$ 6,902,479 | \$ 7,663,462 | \$ 8,297,914 | \$ 9,831,547 | \$ 12,584,925 | \$ 13,741,392 | \$ 10,199,044 | \$ 9,200,914 |
| Total Debt Applicable to 20% Limit | - | - | - | - | - | - | - | - | - | - |
| Legal 20% Debt Margin (Available Borrowing Capacity) | \$ 6,826,209 | \$ 6,892,105 | \$ 6,902,479 | \$ 7,663,462 | \$ 8,297,914 | \$ 9,831,547 | \$ 12,584,925 | \$ 13,741,392 | \$ 10,199,044 | \$ 9,200,914 |
| Total Net Debt Applicable to the 20% Limit as a Percentage of 20% Debt Limit | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 6% Limitation (b) | | | | | | | | | | |
| Debt Limit Equal to 6% of Assessed Valuation | \$ 2,047,863 | \$ 2,067,631 | \$ 2,070,744 | \$ 2,299,039 | \$ 2,489,374 | \$ 2,949,464 | \$ 3,775,478 | \$ 3,669,943 | \$ 2,347,790 | \$ 2,141,280 |
| Total Debt Applicable to 6% Limit | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (711,923) | \$ (618,994) |
| Legal 6% Debt Margin (Available Borrowing Capacity) | \$ 2,047,863 | \$ 2,067,631 | \$ 2,070,744 | \$ 2,299,039 | \$ 2,489,374 | \$ 2,949,464 | \$ 3,775,478 | \$ 3,669,943 | \$ 1,635,867 | \$ 1,522,286 |
| Total Net Debt Applicable to the 6% Limit as a Percentage of 6% Debt Limit | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 23.27% | 22.43% |

CITY OF SAFFORD, ARIZONA
County-Wide Demographic and Economic Statistics
Last Ten Calendar Years

| <u>Year</u> | <u>Population</u> | <u>Personal Income (thousands)</u> | <u>Per Capita Income</u> | <u>Unemployment Rate</u> | <u>Estimated City Population</u> |
|-------------|-------------------|--|------------------------------|------------------------------|--|
| 2012 | 37,416 | 968,606 | 25,887 | 8.7 | 9,566 |
| 2011 | 37,147 | 936,660 | 25,515 | 10.4 | 9,566 |
| 2010 | 37,220 | N/A | N/A | 13.5 | 9,566 |
| 2009 | 39,792 | 888,053 | 23,972 | 14.0 | 9,832 |
| 2008 | 38,633 | 906,160 | 25,029 | 6.3 | 9,982 |
| 2007 | 37,338 | 874,558 | 23,423 | 2.8 | 9,460 |
| 2006 | 36,380 | 712,181 | 21,353 | 4.9 | 9,440 |
| 2005 | 35,455 | 629,832 | 19,034 | 6.6 | 9,440 |
| 2004 | 35,895 | 590,333 | 17,966 | 7.1 | 9,232 |
| 2003 | 34,180 | 542,698 | 16,444 | 7.3 | 9,232 |

Sources: The source of the "Personal Income" and "Per Capita" information is the Bureau of Economic Analysis. The source of the "Population" and "Unemployment Rate" information is University of Arizona, Eller College of Management, Economic and Business Research Center.

Note: N/A indicates that the information is not available.

CITY OF SAFFORD, ARIZONA
Principal Employers
Current Year and Eight Years Ago

| Employer | 2013 | | 2005 | |
|---|--------------|--------------------------------------|--------------|--------------------------------------|
| | Employees | Percentage of Total Employment | Employees | Percentage of Total Employment |
| Freeport McMoRan Copper and Gold Inc. | 3,835 | 43.50 % | 2,200 | 24.95 % |
| Mount Graham Regional Medical | 560 | 6.35 | 440 | 4.99 |
| Arizona State Prison Complex - Safford | 391 | 4.43 | 480 | 5.44 |
| Safford Unified School District | 434 | 4.92 | 345 | 3.91 |
| Wal-Mart | 310 | 3.52 | | - |
| Graham County, Arizona | 260 | 2.95 | 260 | 2.95 |
| Eastern Arizona College | 209 | 2.37 | 860 | 9.75 |
| Federal Correctional Institution | 210 | 2.38 | 200 | 2.27 |
| City of Safford | 145 | 1.64 | | |
| DRG Technologies | 98 | 1.11 | | - |
| U.S. Bureau of Land Management | 41 | 0.47 | 100 | 1.13 |
| Arizona Department of Economic Security | 38 | 0.43 | 130 | 1.47 |
| Sun Pumps | 18 | 0.20 | 155 | 1.76 |
| Total | <u>6,549</u> | <u>74.27 %</u> | <u>5,170</u> | <u>58.62 %</u> |
| Total employment | <u>8,817</u> | | <u>8,817</u> | |

Source: 2005 numbers were taken from the Arizona Industrial Directory, publications of the Greater Phoenix Chamber of Commerce, the Graham County Chamber of Commerce, and an individual employer survey.

CITY OF SAFFORD, ARIZONA
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General Government | | | | | | | |
| Management | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Finance | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Planning | 3 | 3 | 4 | 4 | 4 | 4 | 4 |
| Building | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| Other | 48 | 48 | 48 | 48 | 48 | 48 | 41 |
| Public Safety | | | | | | | |
| Police | | | | | | | |
| Officers | 20 | 19 | 19 | 21 | 22 | 21 | 21 |
| Civilians | 3 | 4 | 4 | 4 | 4 | 4 | 4 |
| Fire | | | | | | | |
| Firefighters and officers | 29 | 28 | 28 | 28 | 29 | 29 | 28 |
| Highways and Streets | | | | | | | |
| Engineering | 6 | 5 | 5 | 4 | 4 | 4 | 6 |
| Other | | | | | | | |
| Sanitation | 5 | 5 | 5 | 6 | 3 | 5 | 6 |
| Culture and Recreation | | | | | | | |
| Parks and recreation | 5 | 5 | 6 | 11 | 11 | 16 | 16 |
| Library | 7 | 6 | 5 | 9 | 9 | 8 | 8 |
| Water | 11 | 10 | 11 | 20 | 20 | 20 | 20 |
| Wastewater | 7 | 6 | 4 | 5 | 5 | 5 | 5 |
| Gas | 6 | 6 | 6 | 6 | 8 | 8 | 6 |
| Electric | 6 | 6 | 6 | 6 | 8 | 8 | 8 |
| Landfill | 4 | 4 | 3 | 4 | 3 | 3 | 3 |
| Utility Admin and Support | 3 | 2 | 2 | 5 | 5 | 5 | 5 |
| Total | 174 | 167 | 173 | 208 | 210 | 215 | 208 |

(Continued)

CITY OF SAFFORD, ARIZONA
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

| | <u>Full-time Equivalent Employees as of June 30</u> | | |
|----------------------------------|---|-------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| General Government | | | |
| Management | 2 | 2 | 2 |
| Finance | 5 | 5 | 5 |
| Planning | 4 | 4 | 4 |
| Building | 5 | 5 | 5 |
| Other | 32 | 26 | 21 |
| Public Safety | | | |
| Police | | | |
| Officers | 19 | 20 | 18 |
| Civilians | 3 | 3 | 3 |
| Fire | | | |
| Firefighters and officers | 28 | 28 | 28 |
| Highways and Streets | | | |
| Engineering | 3 | 3 | 3 |
| Other | 16 | 13 | 15 |
| Sanitation | 11 | 8 | 9 |
| Culture and Recreation | | | |
| Parks and recreation | 37 | 27 | 17 |
| Library | 9 | 6 | 6 |
| Water | 21 | 16 | 14 |
| Wastewater | 5 | 6 | 7 |
| Gas | 7 | 8 | 6 |
| Electric | 9 | 11 | 8 |
| Landfill | 3 | 4 | 3 |
| Utility Admin and Support | 6 | 7 | 5 |
| Total | 225 | 202 | 179 |

Source: The source of this information is the City's payroll records. (Concluded)

CITY OF SAFFORD, ARIZONA
Capital Asset Information
Last Ten Fiscal Years

| Function/Program | Fiscal Year Ended June 30 | | | | | | | | | |
|---|---------------------------|--------|--------|--------|--------|--------|-------|-------|-------|-------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 14 | 14 | 14 | 9 | 22 | 22 | 22 | 22 | 20 | 20 |
| Fire Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Refuse collection | | | | | | | | | | |
| Collection trucks | 10 | 9 | 6 | 8 | 6 | 6 | 6 | 6 | 6 | 6 |
| Other Public Works | | | | | | | | | | |
| Streets (miles) | 44.4 | 43 | | 43 | 43 | 43 | 45 | 43 | 42 | 42 |
| Highways (miles) | 5 | 5 | | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Streetlights | 861 | 860 | 853 | 848 | 848 | 848 | 840 | 840 | 812 | 812 |
| Traffic signs | 2234 | 2,064 | 1,777 | 1790 | 1310 | 1310 | 1,310 | 1,295 | 1,270 | 1,270 |
| Parks and recreation | | | | | | | | | | |
| Acreage | 720 | 720 | 720 | 720 | 720 | 720 | 720 | 720 | 720 | 720 |
| Playgrounds | 4 | 4 | 4 | 4 | 4 | 4 | 7 | 7 | 7 | 7 |
| Baseball/softball diamonds | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Soccer/football fields | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Community centers | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Water | | | | | | | | | | |
| Water mains (miles) | 252 | 254 | 255 | 251 | 242 | 242 | 235 | 232 | 230 | 274 |
| Fire hydrants | 997 | 983 | 972 | 947 | 881 | 881 | 842 | 836 | 860 | 780 |
| Storage capacity (thousands of gallons) | 19750 | 19,750 | 19,700 | 19,700 | 12,700 | 12,700 | 7,920 | 7,920 | 7,920 | 7,920 |
| Wastewater | | | | | | | | | | |
| Sanitary sewers (miles) | 74 | 70 | 74 | 72 | 70 | 70 | 62 | 62 | 62 | 58 |
| Storm sewers (miles) | 20 | 20 | 20 | 20 | 20 | 20 | 6 | 6 | 6 | 6 |
| Treatment capacity (thousands of gallons) | 2000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 4,008 | 4,008 | 4,008 | 2,000 |

Source: The source of this information is the City's facilities records.

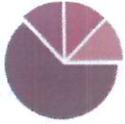
CITY OF SAFFORD, ARIZONA
Operating Indicators by Function
Last Three Fiscal Years

| <u>Function/Program</u> | <u>Fiscal Year Ended June 30</u> | | |
|------------------------------------|----------------------------------|-------------|-------------|
| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Police: | | | |
| Burglaries | 152 | 219 | 157 |
| Citations (traffic) | 647 | 682 | 914 |
| Total Arrests | 446 | 380 | 354 |
| Thefts | 645 | 441 | 532 |
| Public Works | | | |
| Street resurfacing (miles) | | | |
| Parks and Recreation: | | | |
| Recreation Programs Held Annually | 12 | 12 | 23 |
| Months of Public Pool Operations | 3 | 3 | 3 |
| Parks Maintenance Man-Hours Worked | 9,228 | 5,113 | 12,713 |
| Library: | | | |
| Collection volume | 38,076 | 38,403 | 41,225 |
| Water: | | | |
| New connections | 102 | 66 | 50 |
| Total connections | 8599 | 8,512 | 8,429 |

Source: City of Safford Finance Department

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
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KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

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

The Honorable Mayor and
City Council
Safford, Arizona

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Safford, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Safford, Arizona's basic financial statements and have issued our report thereon dated December 7, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Safford, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Safford, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Safford, Arizona's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations dated December 7, 2013 that we consider to be significant deficiencies.

- 12-1 Accounting Adjustments not Initially Identified by the City's Internal Control
- 12-2 Segregation of Duties – Bank Reconciliations

Compliance and Other Matters

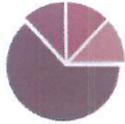
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
December 7, 2013



MEMBERS:

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

The Honorable Mayor and
City Council
Safford, Arizona

We have audited the basic financial statements of the City of Safford, Arizona for the year ended June 30, 2013, and have issued our report thereon dated December 7, 2013. Our audit also included test work on the City of Safford's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, The City of Safford, Arizona complied, in all material respects, with the requirements identified above for the year ended June 30, 2013.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

HintonBurdick PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
December 7, 2013

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HINTONBURDICK

CPAs & ADVISORS

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MARK E. TICHENOR, CPA

December 7, 2013

To the Honorable Mayor and City Council
City of Safford, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Safford, Arizona for the year ended June 30, 2013, and have issued our report thereon dated December 7, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated August 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2013. Accordingly, the effect of adopting this standard is reflected in the financial statements and notes to the financial statements.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on outstanding receivable balances in the accounts receivable aging report at year end.

The useful life of capital assets used in calculating depreciation as disclosed in footnote 1 of the financial statements.

Management's estimate of the compensated absences accrual is based on current pay rates and accrued vacation pay hours.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole...

The disclosures in the financial statements should be neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A list of audit adjustments has been provided to management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Mayor, City Council, and management of the City of Safford and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



HintonBurdick, PLLC



MEMBERS:

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Findings and Recommendations
For the Fiscal Year Ended June 30, 2013.

The Honorable Mayor and
City Council
City of Safford, Arizona

Professional standards require that we communicate, in writing; deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. We wish to commend the City for their achievements with the City's accounting and budgeting system. During our audit of the City of Safford, Arizona for the fiscal year ended June 30, 2013, we noted a few areas needing corrective action and we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Material Weakness:

None Noted

Significant Deficiencies:

12-1. Accounting Adjustments not Initially Identified by the City's Internal Control

Finding

During our audit, we noted significant accounting adjustments that were not initially identified by the City's internal control. Statement on Auditing Standards No. 115 (SAS 115) indicates that the identification by the auditor of such a misstatement in the financial statements may be a weakness in the City's internal controls. Overall management has done a good job at reconciling accounts and getting journal entries posted in a timely manner. Nevertheless, current audit standards require that we report the above finding as a deficiency or weakness in controls over financial reporting.

Recommendation

Management should review the journal entries and discuss them with us to ensure that they agree with the entries and understand the purpose and underlying accounting principles associated with each entry. We recommend that management continue to establish and follow procedures to reduce the number of entries for next year.

12-2. Segregation of Duties – Bank Reconciliations

Finding

We noted during our review of the City's internal controls that a second individual is not reviewing the monthly bank reconciliations. Bank reconciliations are an important safeguard and control to ensure the proper accounting, deposit and disposition of the City's funds. In order to ensure the reconciliations have been completed accurately and in a timely manner, it is important that they are reviewed by a second, qualified individual.

Recommendation

The City should consider having someone independent of the bank reconciliation process review and initial the bank reconciliations on a monthly basis to ensure they are being completed timely and accurately.

COMPLIANCE AND OTHER MATTERS:

Compliance:

None Noted

Other matters:

12-4. Deficit Fund Equity and Interfund Balances

Finding

The Highway Users Special Revenue Fund and the Landfill Enterprise Fund have deficit equity balances as of June 30, 2013 of \$3,597,476 and \$2,449,191 respectively. In addition, the Highway Users Special Revenue Fund has borrowed \$3,614,377 from other funds.

Recommendation

We recommend that the City review and monitor rate structures, operating costs and other items as necessary in order to provide income at levels sufficient to sustain cash balances and to provide for depreciation or future capital requirements for these funds. We also recommend that the City consider ways to eliminate the interfund payables in these funds. If it is not the intention of management to have these funds repay these balances then transfers should be budgeted and made to eliminate them.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,



HintonBurdick, PLLC

December 7, 2013