

LAKE HAVASU CITY, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2013





LAKE HAVASU CITY

Lake Havasu City, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

CITY COUNCIL

Mark S. Nexsen
Mayor

Dean Barlow
Vice Mayor

Crystal Alger
Councilmember

Donna Brister
Councilmember



Don Callahan
Councilmember

Jeni Coke
Councilmember

David McAtlin
Councilmember

CITY STAFF

Charlie Cassens
City Manager

Larry Didion
Deputy City Manager

Administrative Services Department staff responsible for CAFR presentation

Valerie Fenske, CPA
Administrative Services Director

Sharon Lawrence
Finance Division Manager

LAKE HAVASU CITY

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LAKE HAVASU CITY

**LAKE HAVASU CITY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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LAKE HAVASU CITY

INTRODUCTORY SECTION



LAKE HAVASU CITY



LAKE HAVASU CITY

ADMINISTRATIVE SERVICES DEPARTMENT

December 20, 2013

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Lake Havasu City, Arizona:

The 2013 Comprehensive Annual Financial Report (CAFR) of Lake Havasu City, Arizona (City) for the fiscal year ended June 30, 2013, is submitted in accordance with Arizona Revised Statutes, Section 9-481. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based on a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, has issued an unmodified ("clean") opinion on the City's financial statements for the year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report. The City's independent auditors also perform the Single Audit of the City's federal grant programs. The Single Audit Reporting Package is issued separately from this financial report and is available on request.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Lake Havasu City Profile

History – Lake Havasu was created with the construction of Parker Dam in the 1930's. Until the dam systems were built, what is now Lake Havasu was a remote section of the Colorado River. In 1963, on the courthouse steps of Kingman, Arizona, Robert P. McCulloch purchased a 26 square mile parcel of barren desert that would become the site for Lake Havasu City. At the time it was the largest single tract of state land ever sold in Arizona, and the cost per acre was under \$75.

Lake Havasu City was founded as a master-planned community with an emphasis on recreation and residential retirement. It was the purchase of the London Bridge, in 1968, which gave worldwide exposure to Lake Havasu City. The bridge structure was dismantled brick by brick in London, transported to Lake Havasu City, and authentically reconstructed over a three-year period. In addition, a mile-long bridge channel was dredged, giving purpose to the transplanted landmark.

In 1963 Lake Havasu City did not qualify for incorporation under state law and so became a recognized Irrigation and Drainage District (IDD). The IDD's Board of Directors acted as city councilmen in order to run the city. In the early nineteen seventies they took steps toward incorporation by instigating a feasibility study. Near the end of the decade, incorporation was made possible with a new state law that enabled a new municipality to organize as a city and to assume trusteeship of bonded debts and special districts. The City is located in the western part of Arizona in Mohave County on the Colorado River and was incorporated in 1978 by a vote of the residents.

Current Profile - Lake Havasu City currently encompasses approximately 44 square miles and serves a population of approximately 52,720. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

Government and Organization - Lake Havasu City has operated under the council-manager form of government since 1978. Policy-making and legislative authority are vested in a governing council (Council) consisting of a Mayor and six Council Members. The Mayor and Council Members are elected at-large for four-year terms. Their terms are staggered on a two-year basis.

The Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of City Manager, City Attorney, and City Magistrate. The City Manager is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the day-to-day operations of the City.

The City provides a full range of municipal services, including police and fire protection, airport, water and sewer services, construction and maintenance of streets, recreational and cultural events, transit services, planning and zoning services, housing rehabilitation, and general administrative services. Lake Havasu City offers a full range of community facilities including a community center/aquatic complex, and fifteen City-owned parks.

The City contracts for jail services, animal shelter services, tourism development, social service functions, economic development, and sanitation services, including waste collection, recycling pickup and landfill operations.

Budgetary Controls – By State Statute the Council is required to adopt a tentative budget on or before the third Monday in July of each fiscal year. Once the tentative budget has been adopted, the expenditures may be decreased but not increased upon final adoption. The formal adoption of Lake Havasu City's final budget usually occurs at the last Council meeting in June.

The City maintains budgetary controls which are designed to ensure compliance with budgetary and legal provisions embodied in the annually appropriated operating budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by the City Council. However, for budget administrative purposes, the City maintains budgeting controls at department appropriation levels. In addition to maintaining budgetary control via formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon issuance of a purchase order.

Local Economy

Lake Havasu City's economy is based primarily in tourism and hospitality, government, marine industry and long term winter visitors, although efforts continue to further diversify the local economy. The City has benefited in the past from steady growth in all of these areas but has experienced declines beginning in fiscal year 2006-07 which appear to have stabilized in fiscal year 2012-13, mirroring the national and state economic climate. Construction and retail exhibited the heaviest downturn, impacting the City's related sales tax revenues. The City was faced with balancing the declining revenue sources with many critical growth and expenditure issues. The City's sales tax revenues have leveled off in fiscal year 2012-13, indicating that new growth is resuming and retailers are more confident with their spending trends. The City is still committed to finding innovative solutions for the future.

The City's Strategic Plan for Economic Development outlines strategies for economic diversification to create a more stable economic base. The plan calls for a balanced development of retail, commercial, manufacturing, restaurant, lodging, and entertainment. The City continues to be a desirable location for work, destination, and living due to the affordable housing market, continuing low mortgage interest rates and the potential for growth. Recruitment efforts continue for commercial enterprises to complement the existing industry, with focus on growing the tenant base of the regional mall, expanding the marine industry, light manufacturing and resort opportunities.

The City recognizes the critical need of major projects and developments for the economic well-being of the community. In response to these needs the City continues to seek protection and acquisition of public shoreline access and preservation of sensitive lands. The City revised the General Plan Update and Future Land Use Plan in September 2008 to include regional development plans as identified by the Regional/Urban Design Assistance Team (R/UDAT) for establishing special purpose zoning districts to revitalize the City. The development of the Bridgewater Channel, renovation of the London Bridge, a second bridge to the island and Master Plan for the Island are instrumental for the goal of a resort and spa destination to include a convention center. The future also holds plans for a North-South traffic flow and bypass, a mainland marina and golf course development and a motorsports facility to promote year-round tourism. The enhancements to City parks in the channel area including white sand beaches, expansion of Rotary Community Park, and the addition of a world class skatepark and expansion of parking to accommodate large events, has been the major focus this fiscal year. This project was completed in October 2013.

Tourism

Lake Havasu City continues to enjoy seasonal influxes of residents from throughout the United States and Canada, especially during the winter months. The London Bridge, which is one of the largest tourist attractions in Arizona, continues to draw visitors from around the world. Focus on future development of the Bridgewater Channel, which is adjacent to the bridge, and support of resort development on the Island is a priority for the City for continuous, steady tourism revenue.

Construction

Housing (single-family, two-family, and multi-family) construction has increased during the fiscal year. Issuance of new single-family housing permits increased 96 percent from the previous year's total of 97 to a total of 190 in fiscal year 2012-13. Although this is an increase in year over year permits, this figure is still down from the peak year of 2006, when single-family housing permits were 735. Much of this is caused, in part, by the abundance of housing on the market due to the many foreclosures and bankruptcies from the economic downturn. The estimated building valuation of the permits issued this fiscal year reflect an increase from \$17,415,593 in 2011-12 to \$35,193,568 in 2012-13, representing a 102 percent increase in building valuations.

New commercial building permits decreased 44 percent from the previous year with 5 commercial building permits in fiscal year 2012-13 as compared to 9 permits in fiscal year 2011-12. Total permits increased slightly, although the average commercial permit value in fiscal year 2012-13 declined. In fiscal year 2012-13 the average commercial permit was valued at \$63,597 representing a decrease of 89 percent from the previous year's estimated average valuation of \$556,823. Commercial addition permits increased 23 percent in fiscal year 2012-13, with 103 permits compared to the previous fiscal year's permits of 84. Commercial addition valuations in fiscal year 2012-13 averaged \$56,583, a decrease of 11 percent when compared to the fiscal year 2011-12 average valuation of \$63,454. Overall the trending follows the state and national economic conditions related to the construction industry, which has begun to show a gradual recovery as the housing market stabilizes and the need to accommodate growth develops.

While the City's growth rate until fiscal year 2005-06 had been significant, it has slowed due to the shake up of the mortgage industry and the excess supply of existing housing. The projected build-out population figure for the City is estimated at 96,000. Potential constraints to achieving the population build-out figure include water availability, land transfers from public to private use, and infrastructure costs.

The significant developments currently underway or scheduled to begin in fiscal year 2013-14 are:

Commercial:

- **Agave Business Park** – This will be a three phase 84-acre industrial park located south of the airport. The property will be subdivided to allow for light industrial uses. The first phase of the industrial park is complete, including infrastructure, and the first tenant is currently building a warehouse facility. The City initiated a rezone for Phase II which is now completed and ready for development.
- **Old Wal-Mart Facility** – The vacant Wal-Mart building has been redeveloped and divided into four store fronts. Three of the store fronts are occupied by a Hobby Lobby retail store, a 99 Cent Store retail location and a Tuesday Morning retail location. The final storefront is scheduled to open in September as Ashley Furniture.
- **Arizona State University** – The Arizona Board of Regents (ABOR), Lake Havasu City, Lake Havasu City Unified School District and the Lake Havasu Foundation for Higher Education partnered together in a collaborative effort to bring a satellite campus to Lake Havasu City. The school continues to expand classes to draw additional students and make improvements to the site.
- **The Shops at Lake Havasu** –Walgreens has submitted a preliminary site plan proposed for this location.
- **O'Riley's Auto Parts Store** – Plans have been approved for O'Rileys with the anticipation to pull a building permit in early 2014 and open a new store in 2015.

Residential:

- **Sailing Hawks** - The Sailing Hawks Planned Development covers 56 acres of development. There are five phases to this mixed residential development, which will include recreation areas, a clubhouse, pool, spa and fitness center, shade structures, and a gated private drive. Phase I residential lots are completely developed. Phase II, "The Ridge", has infrastructure in place, a community building and pool area completed with 20 percent residential completed. Phase III, "Mesquite Bay", has infrastructure in place and lots available for sale. Phase IV, "The Cove", has infrastructure in place to the site and is currently being replatted with anticipated grading to begin in 2014. Phase V, "The Spa", has infrastructure to the site and is approved for a spa and fitness center.

- **Grand Island Estates** – This Island development is a planned subdivision of nine use areas as follows: 5.4 acres – commercial, 6.5 acres – casitas, 11.2 acres – resort, 23.4 acres – 2 single family areas, 18.9 acres – townhouses, 15 acres – park parcel, 13.8 acres – patio homes, 11.6 acres – dual homes for a total of 400 units. The City owned Park is completed, all infrastructure is in place and the residential element is approximately 15 percent completed.

Employment and Job Growth

Lake Havasu City's employment relies heavily on the construction and tourism sector. The City's labor force is reflecting an increase in numbers although the average unemployment rate is 10.7 percent, as reported by the Arizona Department of Administration. This rate increased as compared to last year's average rate of 10.3 percent in June 2012. The City's unemployment rate is currently higher than the state and the national average due to the heavy reliance on construction in the past and the remote location of the City. The state's employment and job growth have improved as experienced nationally. In June 2013 the state's average unemployment rate was 8.1 percent, down from 8.3 percent from the prior year. The national unemployment average in June 2013 was 7.8 percent.

Lake Havasu City had one new major employer recruited to the area during fiscal year 2012-13, the new campus of Arizona State University. The average annual salary in the City is \$27,628. The City is looking forward to attracting new employers in the service, retail, and manufacturing industries. The regional mall is expected to continue to provide new positions for the area and some of the major vacated commercial properties have been remodeled to attract new businesses to establish in fiscal year 2013-14. The City is also working with a major developer to revamp the English Village, which is adjacent to the London Bridge, to create a Channel River Walk District with a Commercial and Residential Planned Development.

Long-term Financial Planning

The City responds to changing economic challenges with careful long-range planning for fiscally healthy conditions. With conservatism in mind, the budget is prepared with maximization of operating efficiencies. This is evident with the change to a biennial budget for fiscal years 2013-14 and 2014-15. The financial position of the City at the close of fiscal year 2012-13 reflected higher than expected reserves. The City took drastic measures in fiscal year 2008-09 by making major cuts in operating expenditures, some of which included: non-essential operating expenditure cutbacks; 5 percent reduction of all salaries; reduction in workforce; elimination of vacant positions; along with other reductions to employee benefits.

This budget strategy continued into fiscal year 2012-13, which helped to maintain an acceptable level of reserves at year end. In addition, the City used zero-based budgeting to develop the fiscal year 2013-14 and 2014-15 biennial budget and continually analyzes and revises the City's fee schedules. These changes have allowed the City to weather the difficult economic climate with minimal sacrifice to critical services provided to citizens of Lake Havasu City (streets, water, sewer, sanitation, police, fire, parks and recreation and public transit). The City was able to reinstate the 5 percent reduction of salaries at the beginning of fiscal year 2013-14.

In order to provide flexibility to respond to unanticipated revenue decreases or unexpected expenditures, the City maintains a "Contingency Fund" in the General Fund, Irrigation & Drainage District Fund (operating and maintenance only), Wastewater Fund (operating and maintenance only), the Highway Users Revenue Fund, Transit Fund, Aquatic Fund and the Airport Fund.

The City is shifting from a “pay as you go” philosophy for capital infrastructure to increase reserves and to stay in compliance with the State’s expenditure limits by researching the best financing options for required infrastructure and capital outlay. The City collected impact fees for a second bridge to the Island beginning in fiscal year 2006-07 and future infrastructure and equipment needs of police, fire, parks, transportation, and general administration beginning in fiscal year 2008-09. The City Council rescinded future impact fees on October 11, 2012. Fees collected to date are being used to fund a portion of the designated projects for infrastructure and equipment costs only, not operating costs.

Major Initiatives

During fiscal year 2012-13 the City completed the final adjustments and closeout of the sewer expansion project, which voters approved in November 2001 and has been ongoing since the start of the project in October 2002. The project called for expanding the existing collection system by contracting and installing 390 miles of gravity sewer lines, 400 miles of gravity sewer laterals, 9,700 sewer manholes, 17 miles of sewer force main, 75 pumping stations, decommissioning over 24,000 individual onsite septic systems (90 percent of the residential units), building a new treatment plant with a capacity of 14 million gallons per day, upgrading two existing treatment plants to treat an additional 1.1 million gallons per day or 4.7 million gallons per day total, and developing reuse/disposal facilities.

The project is financed with voter-approved borrowing authority. The project is funded by a combination of financing secured through the Water Infrastructure Financing Authority (WIFA) of Arizona and the Greater Arizona Development Authority (GADA). The debt service periods range from twenty to thirty years to keep debt payments level and is currently funded through user rate charges. The City applied for federal assistance for the project and received \$1.4 million toward the project in fiscal year 2007-08. The City also received \$2 million of forgivable American Recovery and Reinvestment Act (ARRA) awards through WIFA for the project. In fiscal year 2010-11 the City was awarded an additional \$2.8 million of federal funds for principal forgiveness on WIFA funding for the final phase of the expansion project.

The City partners with the Colorado River Regional Sewer Coalition (CRRSCo) to convey to legislators the financial burden of protecting and enhancing the Colorado River through the improvement of wastewater management practices to ensure high quality water for all users. This effort has proven to be valuable in generating awareness and funding assistance for the City’s wastewater expansion program. In an attempt to keep future user rates low for the citizens of Lake Havasu City, officials are exploring alternate debt arrangements with plans to refinance the GADA loan at the earliest opportunity.

The City continues with major water infrastructure projects that are funded with financing secured through WIFA. The original loan from WIFA was for \$11.4 million with \$8.2 million forgivable as a pass through grant from the federal government. The remaining balance on this allocation from WIFA is \$5.7 million, with \$2.5 million remaining on the forgivable grant award.

The City will be in the research and development stages of other major projects during 2013-14. These projects are the development of a Motor Sports Facility, Veteran’s Court, Site Six Redevelopment Planning, Wash Remediation Program, Havasu 280-a planned development to include a performing arts and cultural center, Citywide Drainage Improvements, the Water Treatment Plant Capacity increase, and Citywide Asset Management Program.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lake Havasu City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the 26th year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Lake Havasu City also received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2012 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and we expect to receive this award again for the fiscal year beginning July 1, 2013.

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Administrative Services Department and Finance Division, the assistance of administrative personnel in the various departments, and the competent service of our independent auditors. Credit also must be given to the City Council and the City Manager for their interest and support in planning and conducting the financial affairs of Lake Havasu City in a responsible and professional manner. For those involved, we express our sincerest appreciation.

Respectfully submitted,



Valerie H. Fenske, CPA
Administrative Services Director



Sharon Lawrence
Finance Division Manager





Government Finance Officers Association

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

Presented to

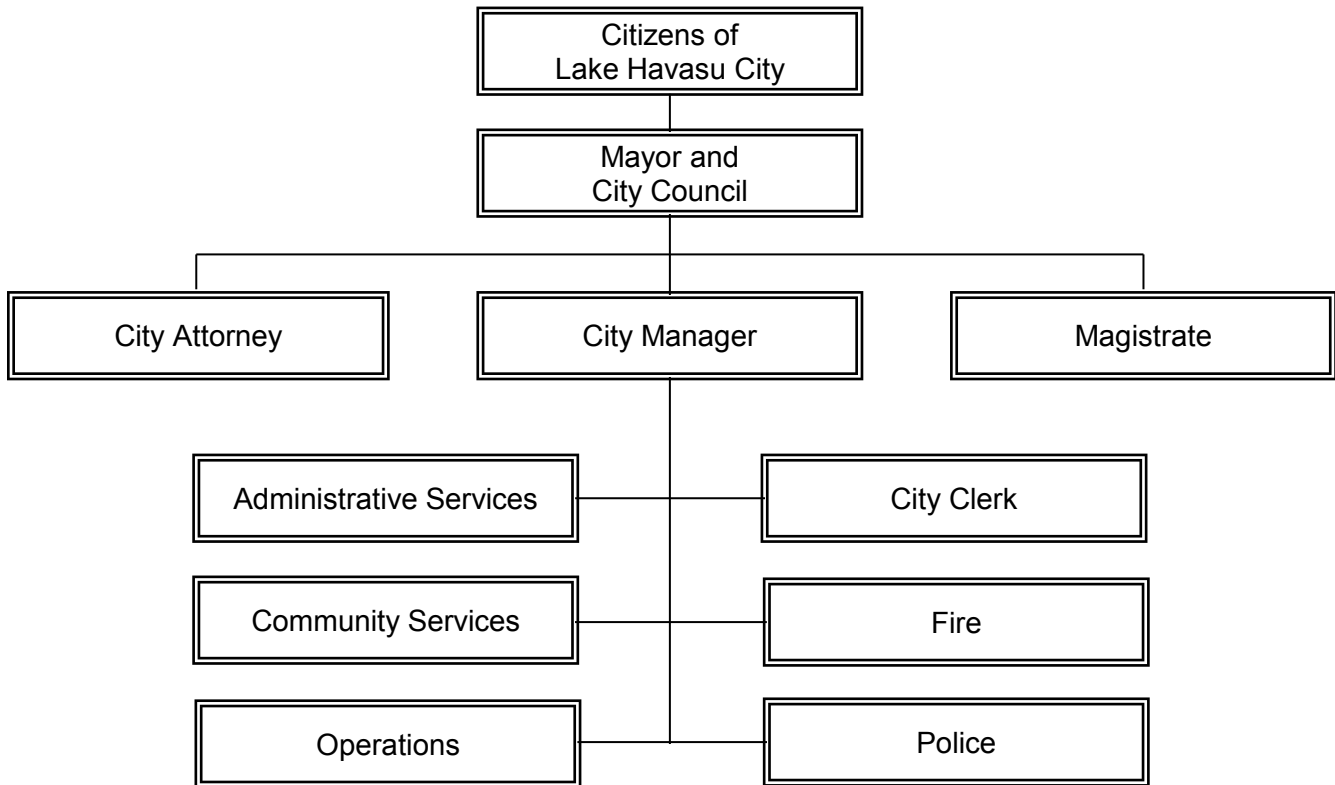
**Lake Havasu City
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

ORGANIZATIONAL CHART



MANAGEMENT STAFF

Charlie Cassens, City Manager
Larry Didion, Deputy City Manager

DEPARTMENT DIRECTORS

Dan Doyle, Police Chief
Valerie Fenske, Administrative Services Director
Greg Froslic, Community Services Director
Kelly Garry, City Attorney
Mitchell Kalauli, Magistrate
Dennis Mueller, Fire Chief
Gary Parsons, Operations Director
Kelly Williams, City Clerk

MAYOR & CITY COUNCIL



Mark S. Nexsen
Mayor

Term Expires 11/2014



Dean Barlow
Vice Mayor

Term Expires 11/2016



Don Callahan
Councilmember

Term Expires 11/2016



Crystal Alger
Councilmember

Term Expires 11/2014



Jeni Coke
Councilmember

Term Expires 11/2014



Donna Brister
Councilmember

Term Expires 11/2016



David McAtlin
Councilmember

Term Expires 11/2014



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
Lake Havasu City, 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 Lake Havasu City, Arizona (City), 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 City'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 City'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 Lake Havasu City, Arizona, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and HURF Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Correction of Beginning Net Position

As discussed in Note 3A. to the financial statements, the net position at July 1, 2012 has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, which represents a change in accounting principle. 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 on pages 17 through 37 and schedules of funding progress on pages 83 through 84 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's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules 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. Such 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 combining and individual fund financial statements and schedules information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of Lake Havasu City, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Havasu City, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 20, 2013

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The Management's Discussion and Analysis (MD&A) section of the City's Comprehensive Annual Financial Report (CAFR) presents discussion and comparative analysis of the financial activities of the City for the fiscal year ended June 30, 2013. This discussion and analysis is designed to be used in conjunction with the letter of transmittal at the beginning of the CAFR along with the financial statements which immediately follow this section.

Financial Highlights

- The City's total net position increased by \$2.2 million (0.7 percent) in fiscal year 2012-13. The increase was attributed to a \$1.2 million increase to the business type activities, which reflected a 0.6 percent change and a \$1.0 million increase in governmental activities, which reflected a 0.9 percent change.
- The assets of the City exceeded liabilities at the close of fiscal year 2012-13 by \$329.7 million (net position). Governmental funds reflected \$120.6 million of net position and \$209.1 million were in business-type activities. Of this amount, \$121.4 million is unrestricted net position, (\$24.7 million in governmental funds, and \$96.7 million in business-type activities) and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's governmental funds reported combined ending fund balances of \$31.7 million, an increase of \$5.0 million (18.5 percent) in comparison with the prior fiscal year. The unassigned fund balance for the General Fund was \$17.9 million or 51.6 percent of total General Fund expenditures.
- The City's total debt decreased by \$7.7 million (2.4 percent) in fiscal year 2012-13.
- The business-type activities program revenues decreased by \$1.1 million (2.5 percent) in fiscal year 2012-13, primarily due to the conclusion of the sewer expansion project in the wastewater utility. Governmental activities program revenues increased \$2.9 million (25.6 percent) due in part to an increase in capital contribution for street projects.
- The General Fund fund balance increased \$4.6 million in fiscal year 2012-13, a 30.2% increase.

Overview of the Financial Statements

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

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

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

LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, culture and recreation, tourism and promotion, and transportation services. The business-type activities of the City include water (Irrigation and Drainage District (IDD)), wastewater and trash (Refuse) utilities, the airport, and recreation/aquatic center. These activities are primarily supported through user charges and fees.

The government-wide financial statements include not only the City itself but other separate legal entities in its report. The Improvement Districts and the IDD Fund (water) represent legally separate, "component units". These are important to note because the City is financially accountable for these component units. A description of these units is available in Note 1 A. on page 53. Separate financial statements are not prepared for these component units.

The government-wide financial statements can be found on pages 40-41 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City does not currently report any fiduciary funds.

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

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

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The City maintains several individual governmental funds organized according to their purpose (special revenue, debt service, and capital projects) presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Highway User Revenue Fund (HURF), the Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in a separate section in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and HURF fund as part of the basic financial statements to demonstrate compliance with this budget. Budgetary comparisons for all other governmental funds are provided in the combining and individual fund statements and schedules.

The basic governmental fund financial statements can be found on pages 42-47 of this report.

Proprietary funds. Proprietary Funds are generally used to account for services for which the City charges its customers-either outside customers, internal units or departments of the City. The City maintains two different types of proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water (IDD), wastewater, trash (Refuse), airport, and recreation/aquatic center operations. Three of the City's enterprise funds, the IDD, Wastewater and Refuse are considered major funds of the City. Individual fund data on the Airport and Recreation/Aquatic Center funds is provided in the form of combining statements elsewhere in this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for the Employee Benefit Trust (EBT) activities, which was the City's limited risk self-insurance program for employees, dependents and eligible retirees. The City also uses an internal service fund to account for the vehicle and equipment replacement program. Because these services predominantly benefit governmental rather than business-type functions, they have been included with *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the Proprietary Fund financial statements.

The basic proprietary fund financial statements can be found on pages 48-51 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 53-80 of this report.

LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its public safety employees and the progress in funding other postemployment benefits for eligible city employees hired before July 1, 2004. Required supplementary information can be found on pages 83-84 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental and enterprise funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 88-108 of this report.

Government-wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the Statement of Net Position and the Statement of Activities serve to provide information on how the City, as a whole, did financially throughout the year.

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$329.7 million at the close of fiscal year 2012-13 and \$327.5 million at the close of fiscal year 2011-12.

Lake Havasu City, Arizona
Condensed Statement of Net Position
June 30, 2013, and 2012
(In millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012 (As Restated)	2013	2012	
Current and Other Assets	\$ 42.4	\$ 39.8	\$ 109.2	\$ 108.7	\$ 151.6	\$ 148.5	2.1%
Capital Assets							
Non-depreciable	29.2	28.6	12.3	13.0	41.5	41.6	(0.2%)
Depreciable (net)	62.0	62.3	403.1	411.0	465.1	473.3	(1.7%)
Total Assets	133.6	130.7	524.6	532.7	658.2	663.4	
Other Liabilities	3.3	3.1	8.6	8.5	11.9	11.6	2.6%
Non-current Liabilities							
Due Within One Year	1.8	1.6	11.0	10.7	12.8	12.3	4.1%
Due in More Than One Year	7.9	6.5	295.9	305.5	303.8	312.0	(2.6%)
Total Liabilities	13.0	11.2	315.5	324.7	328.5	335.9	
Net Position:							
Net Investment in Capital Assets	87.4	87.0	112.4	111.3	199.8	198.3	0.8%
Restricted	8.5	8.2	-	-	8.5	8.2	3.7%
Unrestricted	24.7	24.3	96.7	96.7	121.4	121.0	0.3%
Total Net Position	\$ 120.6	\$ 119.5	\$ 209.1	\$ 208.0	\$ 329.7	\$ 327.5	0.7%

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

By far the largest portion of the City's net position in fiscal year 2012-13 and fiscal year 2011-12, \$199.8 million (60.6 percent) and \$198.3 million (60.6 percent), respectively, reflects its investment in capital assets, (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire these assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, in the amount of \$8.5 million (2.6 percent) in fiscal year 2012-13, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$121.4 million (36.8 percent) may be used to meet the government's ongoing obligations to citizens and creditors. In fiscal year 2011-12, \$8.2 million (2.5 percent) of the City's net position was subject to external restrictions and \$121.0 million (37.0 percent) was available to be used to meet the government's ongoing obligations to citizens and creditors.

Business type net position has increased overall by \$1.2 million (0.6 percent) primarily due to revenues exceeding expenses in IDD in the amount of \$2.0 million. Net investment in capital assets increased \$1.1 million (1.0 percent) in fiscal year 2012-13 due to the retirement of debt associated with capital assets in the Wastewater Fund.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Analysis of Changes in Net Position

The City's total net position increased by \$2.2 million (0.7 percent) in fiscal year 2012-13 and by \$3.2 (1.0 percent) million during fiscal year 2011-12. These increases are explained in the government and business-type activities discussion and are primarily a result of budget restrictions intended to lower expenditures. These budget restrictions were implemented to offset the recognized decline in sales tax revenue and charges for services at the start of the economic downturn which began in 2008 and which continued through fiscal year 2012-13.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Lake Havasu City, Arizona
Statement of Activities
Fiscal Years Ended June 30, 2013, and 2012
(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012 (As Restated)	2013	2012	
REVENUES							
Program Revenues:							
Charges for Services	\$ 4,498	\$ 3,312	\$ 39,129	\$ 39,146	\$ 43,627	\$ 42,458	2.8%
Operating Grants and Contributions	6,838	6,522	52	89	6,890	6,611	4.2%
Capital Grants and Contributions	2,930	1,525	2,159	3,161	5,089	4,686	8.6%
General Revenues:							
Property Taxes	4,194	4,151	5,675	5,703	9,869	9,854	0.2%
Business Taxes	14,158	14,400	-	-	14,158	14,400	(1.7%)
Other Local Taxes	1,706	1,684	-	-	1,706	1,684	1.3%
State Shared Revenues	12,088	10,989	-	-	12,088	10,989	10.0%
Investment Earnings	400	(81)	670	257	1,070	176	508.0%
Other	48	119	-	-	48	119	(59.7%)
Total Revenues	<u>46,860</u>	<u>42,621</u>	<u>47,685</u>	<u>48,356</u>	<u>94,545</u>	<u>90,977</u>	
EXPENSES							
General Government	10,854	8,477	-	-	10,854	8,477	28.0%
Public Safety	24,589	21,687	-	-	24,589	21,687	13.4%
Highways and Streets	6,489	6,233	-	-	6,489	6,233	4.1%
Culture and Recreation	2,084	4,074	-	-	2,084	4,074	(48.8%)
Tourism and Promotion	1,485	1,497	-	-	1,485	1,497	(0.8%)
Transportation	1,819	1,879	-	-	1,819	1,879	(3.2%)
Interest on Long Term Debt	92	99	-	-	92	99	(7.1%)
Refuse	-	-	5,369	5,410	5,369	5,410	(0.8%)
Recreation/Aquatic Center	-	-	1,329	1,246	1,329	1,246	6.7%
Irrigation and Drainage	-	-	9,841	10,044	9,841	10,044	(2.0%)
Wastewater	-	-	27,050	25,794	27,050	25,794	4.9%
Airport	-	-	1,332	1,365	1,332	1,365	(2.4%)
Total Expenses	<u>47,412</u>	<u>43,946</u>	<u>44,921</u>	<u>43,859</u>	<u>92,333</u>	<u>87,805</u>	
CHANGE IN NET POSITION BEFORE TRANSFERS	(552)	(1,325)	2,764	4,497	2,212	3,172	(30.3%)
Transfers	<u>1,600</u>	<u>1,253</u>	<u>(1,600)</u>	<u>(1,253)</u>	<u>-</u>	<u>-</u>	
CHANGE IN NET POSITION	1,048	(72)	1,164	3,244	2,212	3,172	
Net Position - Beginning of Year	<u>119,532</u>	<u>119,604</u>	<u>207,986</u>	<u>204,742</u>	<u>327,518</u>	<u>324,346</u>	
Net Position - End of Year	<u>\$ 120,580</u>	<u>\$ 119,532</u>	<u>\$ 209,150</u>	<u>\$ 207,986</u>	<u>\$ 329,730</u>	<u>\$ 327,518</u>	0.7%

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

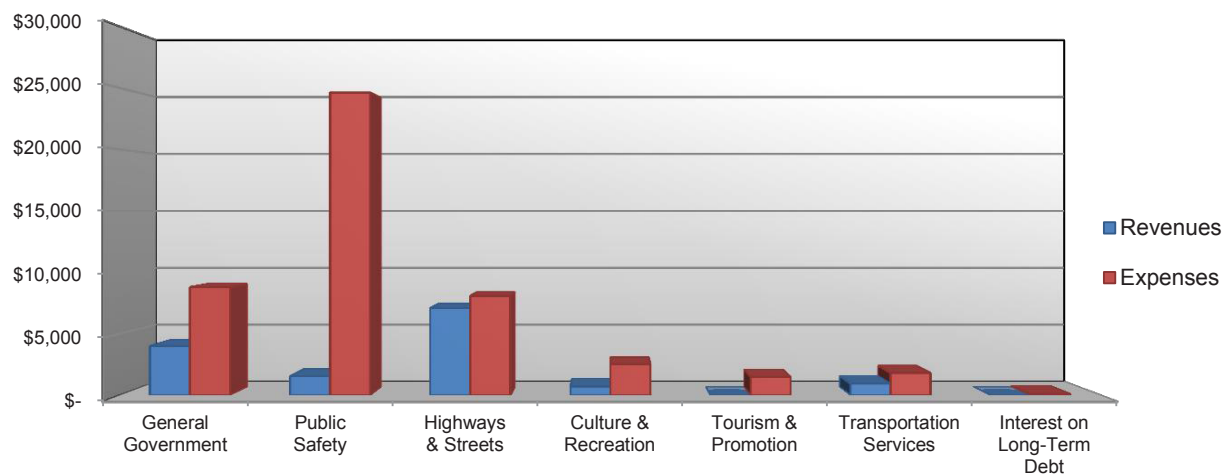
Governmental activities. Governmental activities increased the City's net position by \$1.0 million (0.9 percent) in fiscal year 2012-13, as compared to the fiscal year 2011-12 decrease of \$72,148 (0.1 percent). Key elements of this increase are as follows:

- Total expenses increased \$3.5 million (7.9 percent) due to a combination of factors. General Government had an increase in fiscal year 2012-13 (\$2.4 million, 28.0 percent) as did Public Safety (\$2.9 million, 13.4 percent) and Highways and Streets (\$255,718, 6.3 percent), but these increases were offset by decreases in Culture and Recreation, Tourism and Promotion, and Transportation Services totaling \$2.1 million. This overall increase in expenses in General Government, Public Safety and Highways and Streets was due to a combination of a one-time retention payment to eligible employees, equivalent to 5 percent of total salaries and wages, and expenses related to maintenance of items that had been deferred in previous years due to the economic conditions. In fiscal year 2011-12, total expenses had decreased \$1.6 million (3.6 percent). The majority of the decreases were reflected in General Government (\$1.1 million, 11.9 percent) but were offset by increases in Highways and Streets, Tourism and Promotion, and Transportation Services totaling \$838,804.
- Transfers into governmental funds from enterprise funds increased in fiscal year 2012-13 by \$346,863 (27.7 percent) from fiscal year 2011-12. This increase in transfers is due primarily to capital lease expenses. In fiscal year 2011-12 transfers into the governmental funds from enterprise funds increased by \$1.4 million (915.0 percent) from fiscal year 2010-11. This increase in transfers was due primarily to the partial reimbursement to the General Fund from the IDD Fund in the amount of \$2 million for funding provided between 2003 and 2006 to the IDD to construct the new Water Treatment Plant. A total of \$12.2 million will be reimbursed to the General Fund over a 6 year timeframe.
- Capital grants and contributions increased by \$1.4 million (92.1 percent) in fiscal year 2012-13. This increase can be attributed mainly to an increase of Flood Control funding from Mohave County for drainage improvements in the amount of \$1.5 million (109.0 percent). In fiscal year 2011-12 capital grants and contributions reflected a decline from the prior fiscal year of \$1.7 million (53.3 percent) due to a reduction of Flood Control funding in that year.
- Business tax (sales tax) revenues showed a slight decrease in fiscal year 2012-13 of \$242,762 (1.7 percent) due mainly to the restatement this fiscal year of two major taxpayers' prior year's sales tax filings. Other sales tax revenue activity indicates that sales tax revenues are continuing to stabilize, but still not reflecting significant improvement in construction and retail activity from the economic downturn. In fiscal year 2011-12 sales tax revenues increased \$21,069 (0.1 percent).
- In fiscal year 2012-13 property taxes remained relatively stable with a slight increase of \$43,633 (1.1 percent). In fiscal year 2011-12 property taxes remained stable with little change over the previous fiscal year. The assessed values declined in fiscal year 2012-13 and the City increased the levy to take advantage of the 2% allowable increase, resulting in an increase in the tax rate from 0.7264 per \$100 of assessed value to 0.7332 per \$100 of assessed value.
- Other local taxes and state shared revenues increased a combined total of \$1.1 million (8.8 percent) during fiscal year 2012-13 and decreased \$1.0 million (7.0 percent) in fiscal year 2011-12. State shared revenues reflected the majority of this increase in fiscal year 2012-13 by \$1.1 million (10.0 percent) due to an allocation adjustment for state shared revenues.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

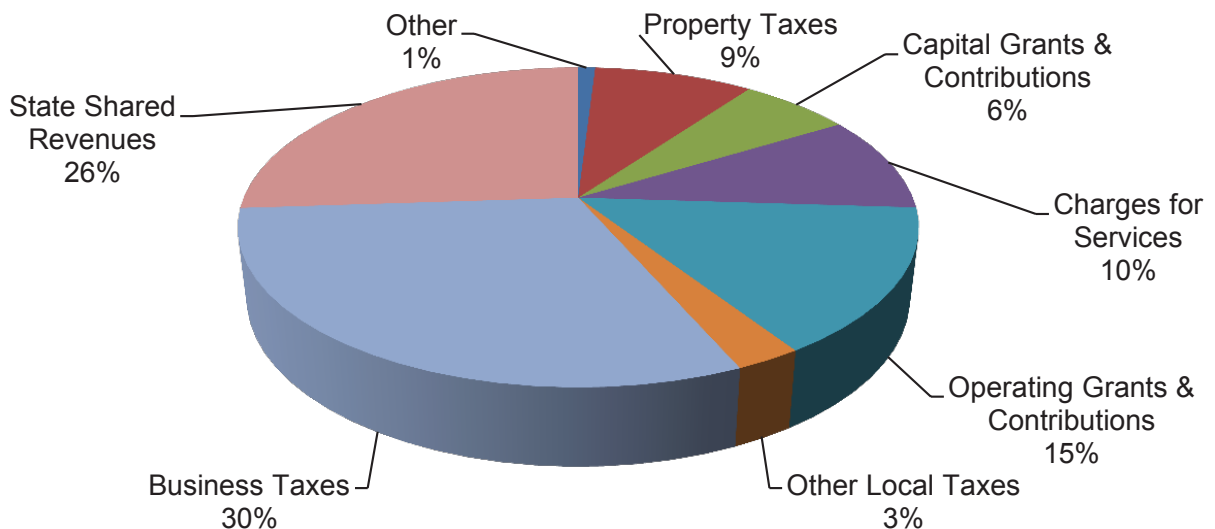
- Investment earnings in fiscal year 2012-13 reflect an increase of \$481,813 (591.8 percent) over the previous fiscal year. This increase is due to a focused restructuring and diversification of the City's investment portfolio to increase earnings on idle cash. In fiscal year 2011-12 investment earnings reflected negative earnings of \$81,420 due to the write off of the Lehman Brothers holdings in the Local Government Investment Pool (LGIP) in the amount \$350,770 in the governmental funds. These holdings had been pending bankruptcy resolution since 2008.
- Operating grants and contributions reflected an increase of \$315,566 (4.8 percent) in fiscal year 2012-13. This overall increase was mainly due to an increase of grant funding for public safety (\$141,820, 18.4 percent) and highways and streets (\$347,089, 9.4 percent), as well as declines in general government of (\$99,683, 9.7 percent) and transportation services of (\$74,043, 8.1 percent). In fiscal year 2011-12 operating grants and contributions reflected a decrease of \$1.2 million (15.9 percent).
- Total governmental revenues increased overall by \$4.2 million (9.9 percent) in fiscal year 2012-13. As mentioned earlier, this increase is attributed to increases in all revenue categories, with the exception of business taxes which showed a minimal decrease of \$242,762 (1.7 percent). In fiscal year 2011-12 total governmental revenues decreased overall by \$4.6 million (9.8 percent). The decline in overall revenue was mainly due to the reduction of available grant funding and gasoline tax (\$1.3 million), a decline in other taxes and state shared revenue (\$1.2 million), and the decrease of Flood Control funding (\$1.2 million).

**Lake Havasu City, Arizona
Program Revenues and Expenses
Governmental Activities
Fiscal Year 2012-13
(in thousands of dollars)**



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Lake Havasu City, Arizona
Revenues by Source
Governmental Activities
Fiscal Year 2012-13**



Business-type activities. Business-type activities increased the City's net position by \$1.2 million, accounting for 52.6 percent of the total growth in the government's net position in fiscal year 2012-13. Key elements of the fiscal year 2012-13 business-type activities are as follows:

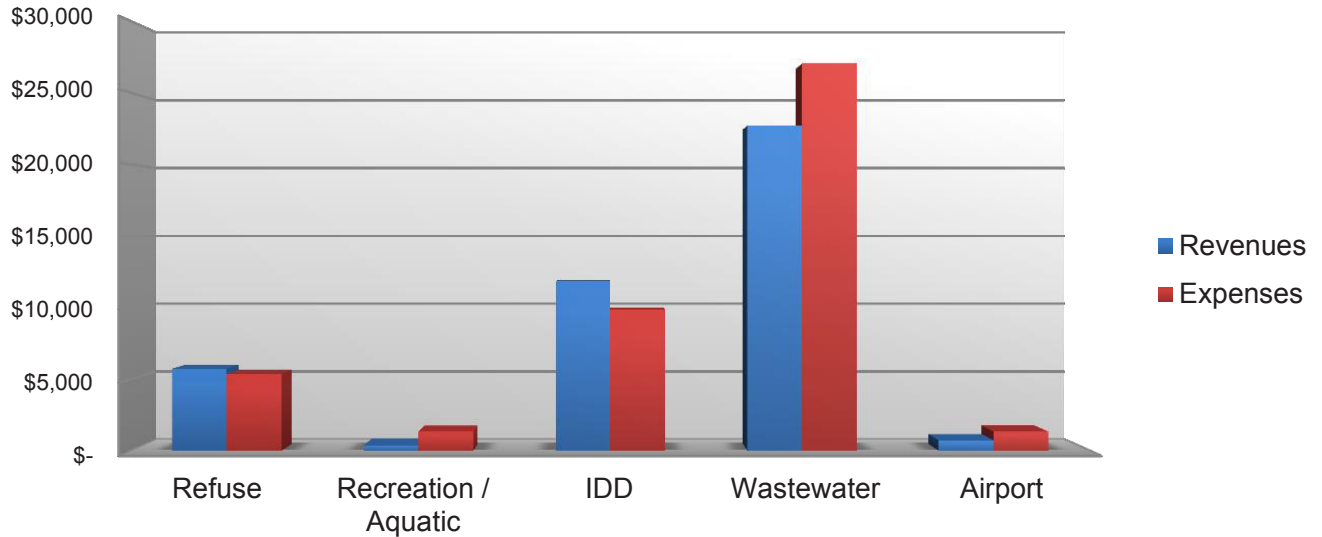
- Charges for services for business-type activities remained relatively unchanged overall during the year compared to last fiscal year. Decreases were realized in Irrigation and Drainage (\$301,782, 2.8 percent), Airport (\$18,126, 3.6 percent), and Recreation/Aquatic (\$16,440, 4.2 percent), offset by increases in Wastewater (\$182,492, 0.8 percent) and Refuse (\$136,204, 2.4 percent). The net change in charges for services was a reduction of \$17,652 or 0.04 percent. In fiscal year 2011-12 charges for services for business-type activities increased \$4.9 million (14.2 percent) overall during the year. Most of this increase can be attributed to Refuse, which reflects an increase of \$4.4 million (366.3 percent) due to a change in accounting methods implemented in fiscal year 2011-12. In prior years the revenue received from refuse services was passed through to the licensed contractor performing the services. The City revised the method of recording revenues and expenses to better reflect the full amount of revenue received and the cost of outsourcing those services.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

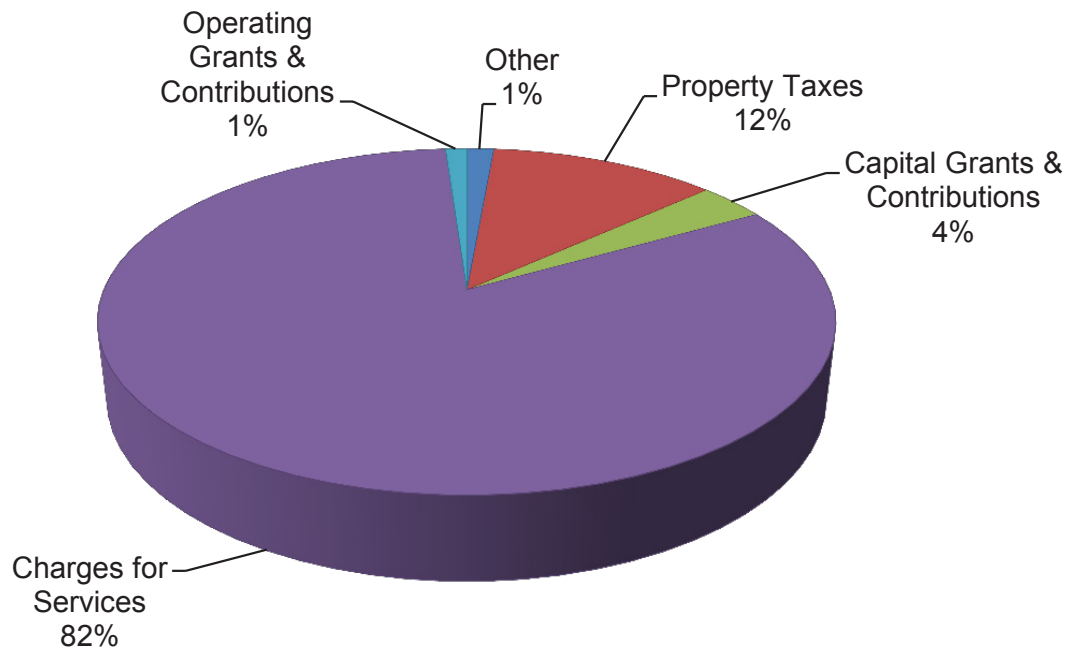
- Capital grants and contributions decreased \$1.0 million (31.7 percent) overall in fiscal year 2012-13. Airport saw an increase of \$61,719 (36.3 percent) related to capital projects while Irrigation and Drainage realized a decrease of \$333,492 (20.7 percent) and Wastewater decreased \$730,154 (53.1 percent). These decreases are the result of completion of the Wastewater System Expansion project and a continued decline in new customers being added to the system and a delay in progress for water projects funded with proceeds from a Water Infrastructure Financing Authority (WIFA) loan with forgivable principal from an American Recovery and Reinvestment Authority (ARRA) grant. In fiscal year 2011-12 capital grants and contributions decreased by \$10.4 million (76.7 percent). Wastewater completed the sewer expansion project in this fiscal year and realized \$8.5 million (86.6 percent) less in Treatment Capacity Fees for new connections to the sewer. Water received \$1.2 million (42.7 percent) less on a Water Infrastructure Financing Authority (WIFA) loan.
- Property taxes decreased slightly, \$27,722 (0.5 percent) in fiscal year 2012-13. The per acre tax rate in IDD of \$268.85 was unchanged from fiscal year 2011-12. Property taxes reflected an increase of \$1.2 million (27.9 percent) in fiscal year 2011-12 due to an increase in the per acre tax from \$212.75 to \$268.85 in the IDD Fund.
- In fiscal year 2012-13 expenses increased in Wastewater (\$1.3 million, 4.9 percent) and Recreation/Aquatic (\$83,373, 6.7 percent) and decreased in Refuse (\$42,228, 0.8 percent), Irrigation and Drainage (\$203,391, 2.0 percent), and Airport (\$32,606, 2.4 percent), resulting in a net overall increase of \$1.1 million (2.4 percent). The largest component of this increase was due to expenditures necessary to maintain equipment in working order to efficiently operate the City's wastewater system. In fiscal year 2011-12 total expenses reflected an increase of \$4.9 million (12.4 percent). As mentioned earlier, a change in accounting methods in Refuse is the primary reason for this increase. The expense of outsourcing these services was \$4.4 million, which in past years was treated as a pass through. Expenses in Recreation/Aquatic, IDD, Wastewater and Airport generally remained stable in fiscal year 2011-12.
- Transfers from business-type funds to governmental funds increased \$346,863 (27.7 percent) in fiscal year 2012-13 primarily due to capital lease expenses. In fiscal year 2011-12 transfers increased \$1.4 million (915.0 percent). This was due to the payback from the IDD Fund to the General Fund of \$2.0 million for the funding provided to the IDD Fund between 2003 and 2006 for the Water Treatment Plant. This was offset by a subsidy from the General Fund to Airport in fiscal year 2011-12 in the amount of \$761,000.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Lake Havasu City
Program Revenues and Expenses
Business-Type Activities
Fiscal Year 2012-13
(in thousands of dollars)**



**Lake Havasu City
Revenues by Source
Business-Type Activities
Fiscal Year 2012-13**



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Financial Analysis of Lake Havasu City's Funds

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

Governmental funds. The focus of the City'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 and may serve as a useful measure of a government's net financial resources available for spending at the end of the fiscal year to finance the City's programs. The types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of fiscal year 2012-13, the City's governmental funds reported combined ending fund balances of \$31.7 million, an increase of \$5.0 million (18.5 percent) in comparison with fiscal year 2011-12, which reflected combined ending fund balance of \$26.8 million, an increase of \$353,282 (1.3 percent) over prior fiscal year. In fiscal year 2010-11 the City implemented Government Accounting Standard Board (GASB) Statement No. 54, which required that fund balance be categorized to focus on the extent to which the government is bound to honor constraints on the specific purpose for which amounts in the fund can be spent.

Of the fiscal year 2012-13 fund balance of \$31.7 million, \$406,184 (1.3 percent) is nonspendable, the portion of net resources that cannot be spent because of their form (inventory, prepaid expenses). Approximately \$8.4 million (26.5 percent) is restricted in its use by externally enforceable limitations. The committed fund balance of \$1.3 million (4.1 percent) is limited for use on certain expenditures through formal action of the Council. Approximately \$3.7 million (11.7 percent) is assigned for use by management for specific intentions and \$17.9 million (56.4 percent) is unassigned and available for use at the government's discretion.

At the end of fiscal year 2011-12, the City's governmental funds reported combined ending fund balances of \$26.8 million, an increase of \$353,282 (1.3 percent) in comparison with the prior fiscal year. Of the fiscal year 2011-12 fund balance, \$472,887 (1.8 percent) was nonspendable and approximately \$8.1 million (30.3 percent) was restricted in its use by externally enforceable limitations. The committed fund balance was \$686,599 (2.6 percent) and \$3.0 million (11.3 percent) was assigned for use by management for specific intentions. The unassigned balance was \$14.5 million (54.1 percent) and available for use at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2012-13 the total fund balance of the General Fund reached \$20.0 million. The nonspendable portion of the fund balance is \$280,021 (1.4 percent), reflecting inventory and prepaid expenses. The restricted portion of the fund balance is \$43,053 (0.2 percent). The portion that is committed totals \$73,885 (0.4 percent), the assigned portion is \$1.7 million (8.5 percent), and the unassigned fund balance is \$17.9 million (89.5 percent), which is available for use at the City's discretion. At the end of fiscal year 2011-12, total fund balance reached \$15.4 million. Of that fund balance, \$349,232 (2.3 percent) was nonspendable, \$16,815 (0.1 percent) was restricted, \$533,133 million (3.5 percent) was committed and \$14.5 million (94.2 percent) was unassigned.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The fund balance of the City's General Fund increased \$4.6 million (30.2 percent) during fiscal year 2012-13. Key factors for this increase are:

- Overall total revenues in fiscal year 2012-13 reflected an increase of \$2.4 million (7.3 percent). Expenditures increased by \$1.6 million (4.9 percent) overall. In fiscal year 2011-12 revenues reflected an overall decrease of \$1.5 million (4.2 percent). Expenditures increased by \$297,267 (0.9 percent). Revenues were expected to remain flat both years but the City experienced a large increase in state shared and permitting revenues and reduced expenditures to realize a positive net change in fund balance.
- Intergovernmental revenues reflected one of the largest increases totaling \$1.1 million (9.2 percent) due to both state shared sales tax and urban revenue sharing revenue increases. For fiscal year 2011-12 a large revenue decrease of \$873,023 (7.0 percent) was realized. State shared revenues related to income tax have a delay of two years in reflecting the true economic condition and resulting distribution from the state. Fiscal year 2012-13 reflects a positive indicator of economic recovery.
- Tax revenues showed little change but all other major revenues (licenses and permits, fines and forfeitures, charges for services) showed first signs of improvement, totaling \$819,102 (27.3 percent) in fiscal year 2012-13. Fiscal year 2011-12 stayed level with the prior fiscal year. Interest earnings in fiscal year 2012-13 reflect earnings of \$284,300, an increase of \$422,796 (305.3 percent) after a net loss of \$138,496 in fiscal year 2011-12. The actual earnings in fiscal year 2011-12 were \$106,837; however, the write-off of the Lehman Brothers bankruptcy of (\$245,334) offset those earnings to a net loss.
- General Fund expenditures reflected an increase of \$1.6 million (4.9 percent) in fiscal year 2012-13. Public Safety reflected an increase of \$2.5 million (12.4 percent) and Culture and Recreation a decrease of \$2.0 million (54.0 percent), netting the change in expenditures overall to \$1.6 million. The reorganization of parks maintenance services to operations (general government) is the main reason for the decrease in Culture and Recreation. The one significant change in expenditures affecting all areas is the one time retention pay out to all full time employees in lieu of a salary increase. All other categories of expenses reflected minimal change from fiscal year 2011-12 continuing with the budget reduction strategies implemented previously, as mentioned, in fiscal year 2009-10.
- The biggest impact on the positive change in fund balance was due to the transfers into the General Fund. Transfers in reflect an increase of \$2.0 million (71.2 percent) due to the transfer of \$2.5 million from the Employee Benefit Trust to fund the budget stabilization reserve. Transfers out of the General Fund increased by \$599,948 (34.6 percent) in fiscal year 2012-13 when compared to fiscal year 2011-12 due to increased subsidies to Transit and Aquatic and transfers to HURF for special project work performed. In fiscal year 2011-12 an increase of \$140,890 (8.8 percent) is reflected in transfers out from the General Fund. Fewer capital projects were identified to use general fund as the funding source for capital projects. This strategy was used to keep the general fund with a positive and improving fund balance.

The HURF fund, which accounts for the City's highway and street activities, had a net increase in fund balance of \$167,159 (6.3 percent) in fiscal year 2012-13. Revenues increased by \$511,335 (13.7 percent) due to an increase in gasoline tax revenue and expenditures increased \$190,214 (4.2 percent) from continued efforts to maintain street repairs. In fiscal year 2011-12 the HURF fund realized a decrease in fund balance of \$144,931 (5.2 percent) over the prior fiscal year. Revenues decreased by \$689,635 (15.6 percent) due to a decline in gasoline tax collections while expenditures increased \$103,560 (2.3 percent) due to regularly scheduled street repair contractual services.

LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

The City's debt service fund has a total fund balance of \$158,047, an increase of \$3,402 (2.2 percent). The Debt Service Fund is restricted for the payment of debt service and only receives annual transfers from other funds relating to capital projects for which bonds were issued to cover costs. Transfer amounts are made according to the current fiscal year payment requirements. The only debt remaining is the Greater Arizona Development Authority (GADA) loan for the land purchase for the second bridge to the island.

The Capital Projects Fund had an increase to fund balance of only \$25,393 as compared to fiscal year 2011-2012, which showed a decrease of \$1.8 million. Revenues increased by \$1.3 million (80.7% percent) while expenditures totaled \$3.4 million, an increase of \$1.1 million (47.3 percent) from fiscal year 2011-2012. In fiscal year 2012-2013 the City moved forward, as scheduled, with needed capital projects.

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

Total change to proprietary fund net position reflected an increase of \$1.2 million (0.6 percent). A significant increase occurred in the IDD Fund, showing an increase of \$5.8 million (7.5 percent). The Wastewater Fund decreased \$4.0 million (3.8 percent). Refuse remained stable with a slight decrease of \$98,669 (2.5 percent) from fiscal year 2011-12. Recreation/Aquatic and Airport realized a decrease totaling \$570,189 (2.6 percent) for the non-major funds combined. Recreation/Aquatics had an increase in operating expenses of \$83,373 (6.7 percent) but transfers in increased in the amount of \$114,000 (15.0 percent). Airport's capital contributions (grant funding) increased \$61,719 (36.3 percent) due to an increase in airport projects in fiscal year 2012-13.

The change to net position in Wastewater was due to expenses and transfers out exceeding revenues, transfers in, and capital contributions by \$4.0 million. When compared to fiscal year 2011-12, operating revenues increased by \$165,429 (0.8 percent) with operating expenses increasing by \$530,703 (3.3 percent). There was a decrease of \$730,154 (53.1 percent) in capital contributions in fiscal year 2012-13 due to the decline in Treatment Capacity Fees collected from fewer new connections with the close of the sewer expansion project. In fiscal year 2011-12 the change to net position in Wastewater of \$412,544 (0.4 percent) was due to expenses exceeding revenues by \$3.7 million, off-set by capital contributions of \$1.4 million from Treatment Capacity Fees for new connections to the sewer system, and the transfer in from the IDD Fund in the amount of \$2.0 million for water improvements performed in conjunction with the sewer expansion.

The increase to the IDD Fund's net position in fiscal year 2012-13 of \$5.8 million (7.5 percent) was due mainly to revenues exceeding expenses by \$6.6 million. Operating revenues decreased only \$64,972 (.6 percent) with operating expenses decreasing \$191,574 (1.9 percent). Capital contributions decreased by \$333,492 (20.7 percent) in fiscal year 2012-13. This was due to a decline in federal grant funding of forgivable principal awarded on the WIFA loan proceeds used for waterline replacement projects. In fiscal year 2011-12, the IDD Fund's increase in net position was due to revenues exceeding expenses by \$6.6 million. Property taxes increased by \$1.2 million (27.9 percent) due to the increase in the per acre tax on assessed property value. Although intergovernmental revenues reflected a decrease of \$2.8 million (96.9 percent), capital contributions increased \$1.6 million.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Net investment in capital assets increased by \$1.1 million (4.2 percent) in Wastewater and \$476,859 (0.7 percent) in the IDD Fund. These increases are due to capital asset activity exceeding debt activity. In Wastewater, the retirement of debt was the main reason for the increase in the value of net investment in capital assets. In IDD, capital projects totaled \$2.2 million but accumulated depreciation offset this increase in capital asset value. These increases can be attributed to the wastewater system expansion project and the water line replacements constructed in conjunction with the sewer expansion project.

Unrestricted net position in fiscal year 2012-13 for the IDD is \$19.0 million (22.7 percent of the total IDD Fund net position). This reflects an increase of \$5.3 million (38.9 percent) over fiscal year 2011-12. Unrestricted net position in Wastewater is \$73.8 million (73.6 percent of total Wastewater net position). This reflects a decrease of \$5.1 million (6.4 percent) over fiscal year 2011-12. The Refuse Fund's unrestricted net position was \$3.8 million (99.3 percent of total Refuse net position). This reflects a \$97,493 (2.5 percent) decrease from fiscal year 2011-12. Unrestricted net position in fiscal year 2011-12 for the IDD Fund was \$13.7 million, up \$3.8 million (38.0 percent) over prior fiscal year. Unrestricted net position in Wastewater was \$78.9 million, up \$1.2 million (1.5 percent). Refuse Fund unrestricted net position was \$3.9 million remaining constant from prior year.

The internal service funds' total net position decreased \$2.7 million (24.5 percent) in fiscal year 2012-13. The vehicle replacement fund, which accounts for the vehicle and equipment replacement program, had net position of \$4.2 million, a decrease of \$386,137 (8.4 percent) from fiscal year 2011-12. One of the budget reduction strategies was to extend the life of the City's vehicles and equipment and forego the rental charges that provide the operating revenue to the vehicle replacement fund for another year. With no new operating revenues realized in this fund, the only major expense to this fund, depreciation on capital assets purchased in prior years, continues to cause the decline in net position. In fiscal year 2011-12 the vehicle replacement fund had \$4.6 million in net position, a decrease from the prior fiscal year of \$302,070 (6.2 percent). This decrease in net position reflects the same decline as fiscal year 2012-13 for the depreciation expense.

The Employee Benefit Trust Fund (EBT) was used to account for the City's limited risk self-insurance program for employee and dependent medical care. The EBT had unrestricted net position of \$4.1 million, a decrease of \$2.3 million (35.9 percent) from the fiscal year 2011-12 balance of \$6.4 million. The decrease is due to a \$2.5 million transfer out to the General Fund for budget stabilization. The reason for the significant decreases is that effective June 30, 2012 the EBT is no longer used by the City to provide employee benefits, but will remain in use to close out outstanding claims. Effective July 1, 2012, the City joined the Northwest Arizona Employee Benefit Trust as the employee benefits pool to provide employee benefits to eligible employees of the City and their dependants. Due to this change, revenues in fiscal year 2012-13 decreased \$6.4 million (96.9 percent) and operating expenses decreased \$5.6 million (98.1 percent) from fiscal year 2011-12.

General Fund Budgetary Highlights

During the year there were several changes in appropriations between the original and final budget of the General Fund in fiscal year 2012-13. Total decrease in expenditure appropriation was \$144,830 (0.4 percent). Additional information on the changes in budget appropriations can be found in the Notes to the Financial Statements in Note 2. A. on page 61.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Total revenues reflect a negative variance to budget in the amount of \$506,270 (1.4 percent) for fiscal year 2012-13. The variance in fiscal year 2012-13 was primarily attributed to a net reduction in tax revenues due to tax rebates exceeding the original budget. In fiscal year 2011-12 revenues reflected a positive variance to budget in the amount of \$358,698 (1.1 percent).

The actual expenditures reflect a favorable variance to final budget in the amount of \$4.9 million, 12.5 percent less than final total appropriations. This was due to a conscious effort by staff and management to adhere to budget restrictions and seek out cost saving measures and efficiencies. The biggest savings were realized in the non-departmental expenditures for unused contingency and in the Administrative Services Department, for technology project expenditures carried into the next fiscal year. The savings can also be attributed to the budget restrictions already mentioned. These restrictions are also the reason for the favorable variance to final budget in fiscal year 2011-12 in the amount of \$4.3 million, or 11.9 percent less than the total appropriations.

A positive variance of \$1.0 million in Development Services is the result of direct charging of engineering services to other funds. The original budget reflected all engineering staff expensed to the Development Services Department with an intercost allocation reimbursing the General Fund. This variance represents a shift of expenses to other funds, not actual savings.

License and permit revenues show a positive variance of \$511,321 (55.4 percent) between actual and final budget. This was due to an increase in building permit and other construction related fees. License and permit revenues appear to be stabilizing from the recessionary levels experienced in prior years. In fiscal year 2011-12 license and permits revenues showed a positive variance between actual and final budget, in the amount of \$149,029.

The actual change in fund balance to projected change in fund balance reflects an additional \$5.6 million from the favorable variances in expenditures and decreases to operating transfers out primarily due to capital project delays in fiscal year 2012-13. In fiscal year 2011-12 the actual change to fund balance reflected an additional \$5.1 million over projected.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$506.7 million (net of accumulated depreciation). In fiscal year 2011-12, the capital asset investment was \$514.9 million, representing a decrease of \$8.2 million (1.6 percent) in fiscal year 2012-13 and a decrease of \$1.7 million (0.3 percent) in fiscal year 2011-12. This investment in capital assets includes land, buildings and improvements, other improvements, water rights, machinery and equipment, park facilities, roads, and highways. The total increase in fiscal year 2012-13 for governmental activities was \$378,734, a 0.4 percent increase due to the completion of the energy improvement project and ongoing information technology projects. The total decrease for business-type activities was \$8.5 million, or 2.0 percent. This decrease was due mainly to the completion of the wastewater sewer expansion project.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Lake Havasu City, Arizona
Capital Assets, Net of Depreciation
June 30, 2013, and 2012
(In thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012 (As Restated)	2013	2012	
Land	\$ 26,755	\$ 26,755	\$ 3,288	\$ 3,288	\$ 30,043	\$ 30,043	0.0%
Improvements to Land	9,619	10,048	-	-	9,619	10,048	(4.3%)
Buildings, Structures & Improvements	15,317	14,596	27,176	26,259	42,493	40,855	4.0%
Other Improvements	-	-	373,221	381,634	373,221	381,634	(2.2%)
Equipment, Furniture & Fixtures	3,973	4,379	516	844	4,489	5,223	(14.1%)
Construction in Progress	2,490	1,877	2,877	3,553	5,367	5,430	(1.2%)
Infrastructure	33,119	33,240	-	-	33,119	33,240	(0.4%)
Water Allocation	-	-	8,357	8,417	8,357	8,417	(0.7%)
Total	<u>\$ 91,273</u>	<u>\$ 90,895</u>	<u>\$ 415,435</u>	<u>\$ 423,995</u>	<u>\$ 506,708</u>	<u>\$ 514,890</u>	(1.6%)

Major capital asset events during the current fiscal year included the following:

The majority of the decrease in capital assets in fiscal year 2012-13 was in the Wastewater Fund. The capital asset additions to this fund totaled \$1.4 million (0.4 percent) with an offset of current year depreciation of \$9.9 million for a net decrease of \$8.5 million (0.26 percent).

The IDD Fund had new additions of \$2.3 million, an offset of current year depreciation of \$2.1 million brought the net change to an increase of \$113,846 (0.2 percent). The additions were \$1.2 million for the water line improvements at McCulloch Boulevard and Eldorado, and the remainder was on booster station improvements and water treatment plant improvements.

The Governmental Funds had new capital additions of \$4.9 million with an offset of current year depreciation of \$4.5 million brought the net change to an increase of \$378,734 (0.4 percent). The capital asset additions included \$2.2 million of drainage improvements, \$2 million of network infrastructure and various equipment, and \$588,386 in community park upgrades.

Additional information on the City's capital assets can be found in Note 3 B. 4 on pages 66-68 of this report.

Long-term debt. At the end of fiscal year 2012-13, the City had total bonded debt outstanding of \$303.3 million (net of related premium), a decrease of \$10.1 million (3.2 percent). At the end of fiscal year 2011-12 the bonded debt totaled \$313.5 million. Of the fiscal year 2012-13 total bonded debt, \$105,000 are general obligation bonds backed by the full faith and credit of the IDD Fund (water utilities), \$2.1 million are excise tax revenue bonds for the Freedom Bridge, \$240.9 million are loans from WIFA for the wastewater system expansion and water system improvements and \$60.2 million (net of related premium) is a loan from GADA also for the wastewater expansion.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

During fiscal year 2012-13, the City retired \$10,000 in general obligation bonds of the IDD, \$145,000 on the GADA excise tax bonds for the Freedom Bridge and \$10.4 million (net of related premium) in WIFA and GADA loans in the Wastewater Fund.

State statutes impose certain debt limitations on the City of 6 percent and 20 percent of the outstanding secondary assessed valuation of the City. The City's available debt margin at June 30, 2013, is \$34.4 million in the 6 percent capacity and (\$29.8) million in the 20 percent capacity. In fiscal year 2011-12, the 6 percent capacity limit was \$34.1 million and the 20 percent capacity limit was (\$26.9) million. This deficit in available debt margin in fiscal year 2012-13 and fiscal year 2011-12 is due to the declining assessed property valuations. At the time the debt was issued, sufficient assessed property tax valuation existed to meet the debt limitation requirements. Additional information on the debt limitations and capacities may be found on page 132-133 in the statistical section of this report. See Note 3 D and E on pages 70-73 to the financial statements for further information regarding capital leases and long-term bonds and loans.

**Lake Havasu City, Arizona
Outstanding Obligations
June 30, 2013, and 2012
(In thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012	2013	2012	
General Obligation Bonds	\$ -	\$ -	\$ 105	\$ 115	\$ 105	\$ 115	(8.7%)
GADA Loan	2,090	2,235	-	-	2,090	2,235	(6.5%)
GADA Loan (net of related premium), G/O Loan	-	-	60,166	60,261	60,166	60,261	(0.2%)
LHC WIFA 2002 Jr. Lien Revenue, G/O Loan	-	-	5,307	5,752	5,307	5,752	(7.7%)
LHC WIFA 2002 Sr. Lien Revenue	-	-	5,307	5,752	5,307	5,752	(7.7%)
LHC WIFA 2004 Sr. Lien Revenue	-	-	4,142	4,423	4,142	4,423	(6.4%)
LHC WIFA 2004A Jr. Construction, G/O Loan	-	-	26,215	27,265	26,215	27,265	(3.9%)
LHC WIFA 2004A Sr. Construction	-	-	12,443	13,279	12,443	13,279	(6.3%)
LHC WIFA 2006 Jr. Construction, G/O Loan	-	-	42,095	44,550	42,095	44,550	(5.5%)
LHC WIFA 2006 Sr. Construction	-	-	9,735	10,300	9,735	10,300	(5.5%)
LHC WIFA 2007 Drinking Water	-	-	4,620	4,851	4,620	4,851	(4.8%)
LHC WIFA 2007 Sr. Construction	-	-	47,941	49,185	47,941	49,185	(2.5%)
LHC WIFA 2008 Jr. Construction, G/O Loan	-	-	27,356	27,973	27,356	27,973	(2.2%)
LHC WIFA 2009 Sr. Construction	-	-	2,714	2,777	2,714	2,777	(2.3%)
LHC WIFA 2009A Sr. Construction	-	-	53,341	54,877	53,341	54,877	(2.8%)
LHC WIFA 2010 Sr. Drinking Water (1)	-	-	(249)	(123)	(249)	(123)	(102.4%)
Total Bonds Payable	2,090	2,235	301,238	311,237	303,328	313,472	(3.2%)
Capital Leases	2,787	1,610	1,795	1,432	4,582	3,042	50.6%
Compensated Absences	2,271	2,266	313	239	2,584	2,505	3.2%
Other Postemployment Benefits	2,566	2,003	860	715	3,426	2,718	26.0%
Landfill Closure and Post-Closure Costs	-	-	2,721	2,608	2,721	2,608	4.3%
Total Long-Term Liabilities	<u>\$ 9,714</u>	<u>\$ 8,114</u>	<u>\$ 306,927</u>	<u>\$ 316,231</u>	<u>\$ 316,641</u>	<u>\$ 324,345</u>	(2.4%)

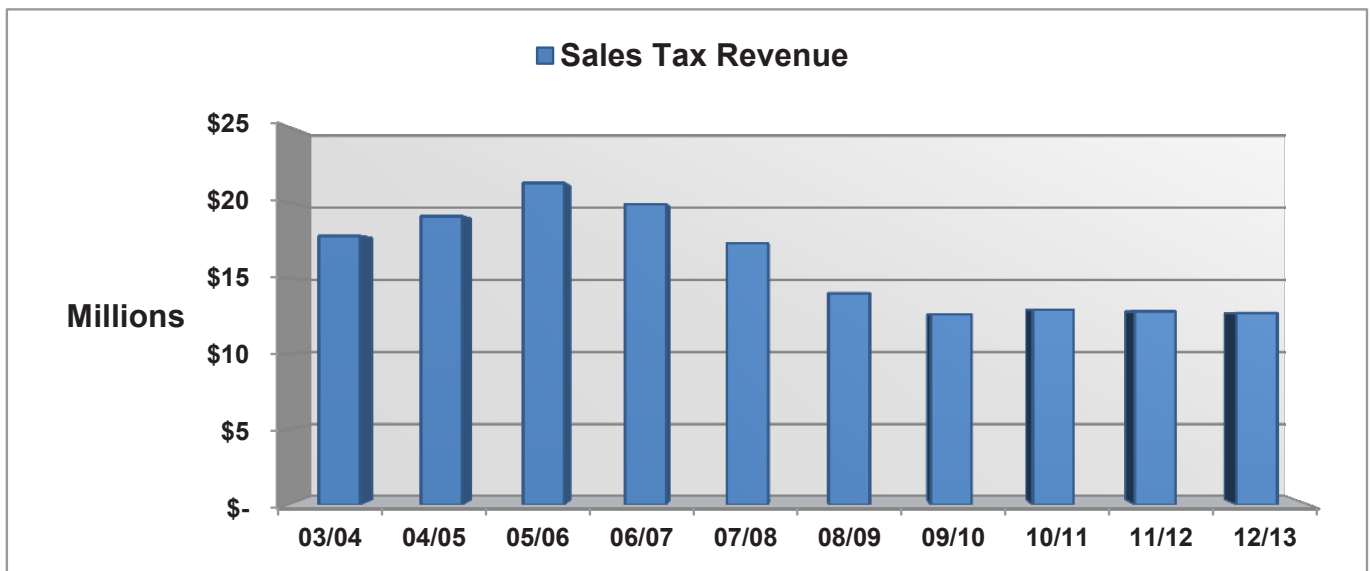
(1) The WIFA 2010 Sr. Drinking Water loan is for \$11.4 million with forgivable principle of \$8.2 million from a pass through ARRA federal grant. The net obligation to the City is \$3.2 million. Principal payments are now due in accordance with the WIFA loan documents on the debt obligation of \$3.2 million. The City has not received the full \$8.2 million from the ARRA grant causing a negative balance owed on this WIFA loan as of June 30, 2013.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Economic Factors and Next Year's Budgets and Rates

Sales Tax

The City's most reliable indicator of economic condition is sales tax. The City's collection of sales tax revenue comprised 35.6 percent (\$12.7 million) of the total General Fund revenues in fiscal year 2012-13. This represents a decrease of \$153,222 (1.2 percent) from fiscal year 2011-12, which reflected a decrease of \$119,997 (0.9 percent) over the prior fiscal year. The City's sales tax rate is currently 2 percent. An additional 1 percent for restaurant/bar activity and 3 percent for transient occupancy is collected for the Tourism/Economic Development Fund. The City anticipates the sales tax revenue to remain conservative until true economic recovery is realized. The City expects to maintain a sustainable long-term economic outlook which can be attributed to a high volume of tenant improvement construction projects, continued tourism and commercial growth in the City.



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The unemployment rate for the City is currently 10.7 percent, which has increased 0.4 percent from last year's rate of 10.3 percent. This does not compare favorably to the state's average unemployment rate of 8.1 percent and the national average rate of 7.8 percent at June 30, 2013. This can be attributed to the remote location of the City and its past reliance on the construction industry and tourism.

During fiscal year 2013-14, the City continues to designate \$2.5 million of its projected \$15.7 million fund balance in the General Fund for a budget stabilization reserve. This should avoid the need to seek alternate revenue sources. The General Fund will also receive a transfer from the IDD Fund of \$2 million for payback of prior year transfers to the IDD Fund of \$12.2 million for IDD capital projects. The City intends to maintain appropriate reserves of the General Fund through a combination of budget restraints and efficiency measures in fiscal year 2013-14.

Recognizing that the City's General Fund balance should be maintained at a healthy level, the City Council continues to evaluate other financing alternatives when paying for capital improvements. This change in perspective (from pay-as-you-go) should help the City to maintain cash balances over the next several years, both for financial stability and in anticipation of capital and ongoing operational needs during a continued national recession. In addition, the City is researching alternative service delivery options for implementation in the face of continued budget restraints to mitigate the cost of operations and maintenance.

The City assessed a property tax levy rate of \$0.7332 per \$100 assessed value in fiscal year 2012-13. This was an increase over the prior fiscal year in which the assessment was \$0.7264 per \$100 assessed value. In fiscal year 2013-14 the property tax levy rates will be increased to \$0.7381, due to the decline in the assessed value of property, in an attempt to maintain a steady level of collections to fund current operating needs.

Building permit fees are expected to increase from the prior year level based on the current level of new residential housing activity and the availability of low mortgage rates. This, in turn, will impact the sales tax collections. The City is optimistic that new residential growth and increased valuation of the permitted improvements and major renovations of vacant commercial property by new retail establishments will improve permit activity as well as generate additional retail sales to help carry the City through the ongoing economic recovery.

During fiscal year 2012-13 sewer rates remained the same. During fiscal year 2010-11 the City made the decision to hold rates for three years at the current level with the next anticipated increase scheduled for fiscal year 2013-14. At the end of fiscal year 2006-07, the City adopted a Rate Stabilization Fund. This required that \$5.0 million be reserved to maintain a fund balance in the Wastewater Fund that will factor into calculations of future rate increases with the intent to stabilize rates, meet required debt covenants, and prevent wide rate fluctuations to utility customers. An additional \$1.5 million was added in fiscal year 2010-11 to bring the total rate stabilization fund to \$6.5 million. Sewer revenues are expected to increase due to an expanded customer base.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Trash rates will increase slightly in the 2013-14 budget year. Trash rates are evaluated annually in October against the consumer price index with any resulting increases occurring in January of each year. The consumer price index increased slightly in fiscal year 2012-13, resulting in a small rate increase in January 2013.

The City conducted an in-house water rate study in fiscal year 2011-12 to review the rates needed to cover the costs of the water system operations and maintenance and debt service requirements. Water rates were not increased in fiscal year 2012-13 as a result of this study. Council adopted rate increases in 2009 that became effective August 2009 for fiscal year 2009-10. Water rates are not expected to increase in fiscal year 2013-14.

All of these factors were considered in preparing the City's budget for the 2013-14 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

Administrative Services Department
Lake Havasu City
2330 McCulloch Blvd. N.
Lake Havasu City, AZ 86403
Telephone (928) 855-2116
Fax (928) 855-0551
Website: www.lhcaz.gov



Basic Financial Statements

LAKE HAVASU CITY, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and Investments	\$ 38,054,058	\$ 71,071,527	\$ 109,125,585
Receivables, Net			
Accounts Receivable	220,102	8,558,961	8,779,063
Taxes Receivable	130,846	210,436	341,282
Intergovernmental Receivable	3,344,974	1,478,517	4,823,491
Interest Receivable	34,644	87,178	121,822
Internal Balances	125,279	(125,279)	-
Inventories	241,387	3,234	244,621
Prepaid Items	199,230	187,045	386,275
Deferred Charges	-	4,284,360	4,284,360
Restricted Assets	-	23,409,492	23,409,492
Capital Assets			
Non-Depreciable	29,245,224	12,330,271	41,575,495
Depreciable (net)	62,028,224	403,105,188	465,133,412
Total Assets	133,623,968	524,600,930	658,224,898
Liabilities			
Accounts Payable	1,849,001	1,074,075	2,923,076
Accrued Wages and Benefits	591,147	98,470	689,617
Interest Payable	62,360	4,994,707	5,057,067
Intergovernmental Payable	308,060	135,078	443,138
Retainage Payable	283,077	1,537,612	1,820,689
Unearned Revenue	98,289	215,997	314,286
Performance Bonds Payable	53,054	-	53,054
Developer Agreements	85,696	-	85,696
Liabilities Payable from Restricted Assets	-	467,402	467,402
Noncurrent Liabilities			
Due Within One Year	1,767,576	11,048,854	12,816,430
Due in More Than One Year	7,946,011	295,878,202	303,824,213
Total Liabilities	13,044,271	315,450,397	328,494,668
Net Position			
Net Investment in Capital Assets	87,401,644	112,402,345	199,803,989
Restricted for:			
Highways and Streets	2,835,262	-	2,835,262
Debt Service	158,047	-	158,047
Capital Outlay	4,932,910	-	4,932,910
Tourism/Economic Development	263,643	-	263,643
Improvement Districts	18,771	-	18,771
Transit	3,346	-	3,346
Special Programs	273,765	-	273,765
Unrestricted	24,692,309	96,748,188	121,440,497
Total Net Position	\$ 120,579,697	\$ 209,150,533	\$ 329,730,230

The notes to the financial statements are an integral part of this statement

**LAKE HAVASU CITY, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 10,853,502	\$ 3,069,608	\$ 925,883	\$ -	\$ (6,858,011)	\$ -	\$ (6,858,011)
Public Safety	24,589,053	534,871	913,333	90,000	(23,050,849)	-	(23,050,849)
Highways and Streets	6,489,355	189,775	4,051,057	2,840,409	591,886	-	591,886
Culture and Recreation	2,084,097	597,730	110,382	-	(1,375,985)	-	(1,375,985)
Tourism and Promotion	1,485,300	-	-	-	(1,485,300)	-	(1,485,300)
Transportation Services	1,818,542	106,528	837,015	-	(874,999)	-	(874,999)
Interest on Long-term Debt	92,090	-	-	-	(92,090)	-	(92,090)
Total Governmental Activities	47,411,939	4,498,512	6,837,670	2,930,409	(33,145,348)	-	(33,145,348)
Business-Type Activities:							
Refuse	5,368,384	5,725,669	-	-	-	357,285	357,285
Recreation/Aquatic Center	1,329,378	372,160	-	-	-	(957,218)	(957,218)
Irrigation and Drainage	9,840,794	10,490,751	51,853	1,281,444	-	1,983,254	1,983,254
Wastewater	27,050,179	22,047,663	-	646,106	-	(4,356,410)	(4,356,410)
Airport	1,332,327	492,185	-	231,829	-	(608,313)	(608,313)
Total Business-Type Activities	44,921,062	39,128,428	51,853	2,159,379	-	(3,581,402)	(3,581,402)
Total Primary Government	\$ 92,333,001	\$ 43,626,940	\$ 6,889,523	\$ 5,089,788	(33,145,348)	(3,581,402)	(36,726,750)
General Revenues:							
Taxes							
Sales Taxes					14,157,677	-	14,157,677
Property Taxes					4,194,202	5,675,383	9,869,585
Franchise Taxes					1,705,943	-	1,705,943
Unrestricted State Revenue Sharing					5,365,520	-	5,365,520
Unrestricted State Sales Tax Revenue Sharing					4,299,431	-	4,299,431
Unrestricted Auto Lieu Tax Revenue Sharing					2,423,003	-	2,423,003
Investment Earnings					400,393	669,737	1,070,130
Other					47,499	-	47,499
Transfers					1,599,452	(1,599,452)	-
Total General Revenues and Transfers					34,193,120	4,745,668	38,938,788
Change in Net Position					1,047,772	1,164,266	2,212,038
Net Position, Beginning (Restated)					119,531,925	207,986,267	327,518,192
Net Position, Ending					\$ 120,579,697	\$ 209,150,533	\$ 329,730,230

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	HURF	Debt Service	Capital Projects	Nonmajor Funds	Totals
Assets						
Cash and Investments	\$19,213,294	\$ 2,384,390	\$ 195,855	\$ 8,534,530	\$ 478,813	\$30,806,882
Receivables						
Accounts Receivable	206,529	12,679	-	-	894	220,102
Taxes Receivable	127,578	-	-	-	3,268	130,846
Intergovernmental Receivable	2,471,006	395,506	-	-	478,462	3,344,974
Interest Receivable	16,246	2,610	93	6,956	276	26,181
Due from Other Funds	206,079	-	-	-	-	206,079
Inventories	191,887	49,500	-	-	-	241,387
Prepaid Items	88,134	73,080	-	-	3,583	164,797
Total Assets	<u>\$22,520,753</u>	<u>\$ 2,917,765</u>	<u>\$ 195,948</u>	<u>\$ 8,541,486</u>	<u>\$ 965,296</u>	<u>\$35,141,248</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 1,274,238	\$ 81,219	\$ -	\$ 341,143	\$ 82,448	\$ 1,779,048
Accrued Wages and Benefits	572,438	1,208	-	-	17,501	591,147
Interest Payable	24,383	76	37,901	-	-	62,360
Intergovernmental Payable	273,845	-	-	-	34,215	308,060
Due to Other Funds	-	-	-	-	80,800	80,800
Deferred Revenue	145,889	-	-	-	4,683	150,572
Retainage Payable	153,886	-	-	129,191	-	283,077
Performance Bonds Payable	53,054	-	-	-	-	53,054
Developer Agreements	-	-	-	85,696	-	85,696
Total Liabilities	<u>2,497,733</u>	<u>82,503</u>	<u>37,901</u>	<u>556,030</u>	<u>219,647</u>	<u>3,393,814</u>
Fund Balances						
Nonspendable	280,021	122,580			3,583	406,184
Restricted	43,053	2,712,682	158,047	4,932,910	555,942	8,402,634
Committed	73,885	-	-	1,228,334	-	1,302,219
Assigned	1,705,874	-	-	1,824,212	186,124	3,716,210
Unassigned	<u>17,920,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,920,187</u>
Total Fund Balance	<u>20,023,020</u>	<u>2,835,262</u>	<u>158,047</u>	<u>7,985,456</u>	<u>745,649</u>	<u>31,747,434</u>
Total Liabilities and Fund Balance	<u>\$22,520,753</u>	<u>\$ 2,917,765</u>	<u>\$ 195,948</u>	<u>\$ 8,541,486</u>	<u>\$ 965,296</u>	<u>\$35,141,248</u>

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balances for Governmental Funds	\$ 31,747,434
Amounts reported for governmental activities in the statement of net position are different because:	
Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.	52,283
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental Capital Assets	180,072,308
Less Accumulated Depreciation	<u>(89,927,512)</u>
Capital Assets Used in Governmental Activities	<u>90,144,796</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
GADA Loan	(2,090,000)
Capital Leases	(2,786,872)
Compensated Absences	(2,270,722)
Other Postemployment Benefits	(2,565,993)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	<u>8,348,771</u>
Total Net Position of Governmental Activities	<u><u>\$ 120,579,697</u></u>

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	General	HURF	Debt Service	Capital Projects	Nonmajor Funds	Totals
Revenues						
Taxes						
Sales Taxes	\$ 12,718,932	\$ -	\$ -	\$ -	\$ 1,438,745	\$ 14,157,677
Property Taxes	4,124,898	-	-	-	70,368	4,195,266
Franchise Taxes	1,705,943	-	-	-	-	1,705,943
Intergovernmental Revenue	12,613,853	4,049,126	-	2,840,409	2,190,940	21,694,328
Fines and Forfeitures	1,268,650	-	-	-	75,802	1,344,452
Licenses and Permits	1,434,927	-	-	-	-	1,434,927
Charges for Services	1,114,317	-	-	-	118,846	1,233,163
Rents and Royalties	88,445	-	-	-	-	88,445
Contributions and Donations	110,807	1,500	-	-	5,371	117,678
Investment Earnings	284,300	27,502	492	32,553	1,608	346,455
Other	246,155	175,159	-	-	5,188	426,502
Total Revenue	35,711,227	4,253,287	492	2,872,962	3,906,868	46,744,836
Expenditures						
Current						
General Government	10,436,570	-	-	93,985	440,646	10,971,201
Public Safety	22,560,823	-	-	-	1,026,436	23,587,259
Highways and Streets	-	4,712,463	-	-	8,720	4,721,183
Culture and Recreation	1,703,534	-	-	-	-	1,703,534
Tourism and Promotion	-	-	-	-	1,484,639	1,484,639
Transportation Services	-	-	-	-	1,570,998	1,570,998
Debt Service						
Principal Retirement	-	-	145,000	-	-	145,000
Interest on Long-Term Debt	-	-	92,090	-	-	92,090
Capital Outlay	-	-	-	3,278,455	-	3,278,455
Total Expenditures	34,700,927	4,712,463	237,090	3,372,440	4,531,439	47,554,359
Excess (Deficiency) of Revenue Over Expenditures	1,010,300	(459,176)	(236,598)	(499,478)	(624,571)	(809,523)
Other Financing Sources (Uses)						
Transfers In	4,692,218	635,111	240,000	507,060	763,100	6,837,489
Transfers Out	(2,335,477)	(8,776)	-	(377,285)	(16,499)	(2,738,037)
Proceeds from Capital Lease	1,280,765	-	-	395,096	-	1,675,861
Total Other Financing Sources (Uses)	3,637,506	626,335	240,000	524,871	746,601	5,775,313
Net Change in Fund Balance	4,647,806	167,159	3,402	25,393	122,030	4,965,790
Fund balances,						
Beginning of Year	15,375,214	2,668,103	154,645	7,960,063	623,619	26,781,644
End of Year	\$ 20,023,020	\$ 2,835,262	\$ 158,047	\$ 7,985,456	\$ 745,649	\$ 31,747,434

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 4,965,790

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	4,452,893
Less Current Year Depreciation	(4,117,696)
Excess Capital Expenditures Over Depreciation	335,197

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, transfers, and donations) to decrease net position.	48,862
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Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Property Taxes	(1,063)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position.

Principal Payments on Long-term Debt	644,195
Proceeds from Debt	(1,675,861)

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 the governmental funds.

Net Increase in Compensated Absences	(5,265)
Net Increase in Other Postemployment Benefits	(562,730)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

The net changes in net position of the internal service fund is reported with governmental activities	(2,701,353)
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Changes in Net Position of Governmental Activities	\$ 1,047,772
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The notes to the financial statements are an integral part of this statement

**LAKE HAVASU CITY, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES-BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amount	Variance with Final
	Original	Final	Budgetary Basis	Budget
Revenues				
Taxes	\$ 19,649,816	\$ 19,649,816	\$ 18,549,773	\$ (1,100,043)
Intergovernmental Revenue	12,764,570	12,764,570	12,613,853	(150,717)
Fines and Forfeitures	1,309,849	1,309,849	1,268,650	(41,199)
Licenses and Permits	923,606	923,606	1,434,927	511,321
Charges for Services	1,082,480	1,082,480	1,114,317	31,837
Rents and Royalties	92,436	92,436	88,445	(3,991)
Contributions and Donations	127,200	127,200	110,807	(16,393)
Investment Earnings	65,000	65,000	284,300	219,300
Other	202,540	202,540	246,155	43,615
Total Revenue	36,217,497	36,217,497	35,711,227	(506,270)
Expenditures				
Current				
General Government				
City Council	245,667	245,667	226,817	18,850
City Clerk	372,601	372,601	329,843	42,758
Magistrate Court	1,509,812	1,509,812	1,263,335	246,477
City Manager	536,485	606,485	498,475	108,010
Human Resources	386,958	386,958	380,910	6,048
Administrative Services	3,340,262	3,340,262	2,813,965	526,297
Information Systems	-	-	-	-
City Attorney	870,031	870,031	775,224	94,807
Non-Departmental	(2,123,835)	(2,123,835)	(2,680,314)	556,479
Government-Outside Contracts	138,250	138,250	138,215	35
Operations	916,366	916,366	738,736	177,630
Maintenance Services	3,114,003	3,114,003	3,011,098	102,905
Vehicle Maintenance	657,061	657,061	544,133	112,928
Development Services	3,055,871	3,027,442	1,988,558	1,038,884
Total General Government	13,019,532	13,061,103	10,028,995	3,032,108
Public Safety				
Police	13,440,277	13,440,277	12,533,243	907,034
Fire	10,955,049	10,810,219	10,027,580	782,639
Total Public Safety	24,395,326	24,250,496	22,560,823	1,689,673
Culture and Recreation				
Recreation Department	1,899,917	1,858,346	1,703,534	154,812
Total Culture and Recreation	1,899,917	1,858,346	1,703,534	154,812
Total Expenditures	39,314,775	39,169,945	34,293,352	4,876,593
Excess (Deficiency) of Revenue Over Expenditures	(3,097,278)	(2,952,448)	1,417,875	4,370,323
Other Financing Sources (Uses)				
Transfers In	4,913,110	4,913,110	4,692,218	(220,892)
Transfers Out	(3,813,815)	(3,834,263)	(2,335,477)	1,498,786
Total Other Financing Sources (Uses)	1,099,295	1,078,847	2,356,741	1,277,894
Net Change in Fund Balance	(1,997,983)	(1,873,601)	3,774,616	5,648,217
Fund Balance				
Beginning of Year	15,010,885	15,010,885	15,375,214	364,329
End of Year	\$ 13,012,902	\$ 13,137,284	\$ 19,149,830	\$ 6,012,546

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES-BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amount	Variance with Final
	Original	Final	Budgetary Basis	Budget
Revenues				
Intergovernmental Revenue	\$ 4,158,492	\$ 4,158,492	\$ 4,049,126	\$ (109,366)
Investment Earnings	12,000	12,000	27,502	15,502
Other	6,120	6,120	176,659	170,539
Total Revenue	4,176,612	4,176,612	4,253,287	76,675
Expenditures				
Current				
Highways and Streets	5,717,218	5,717,218	4,712,463	1,004,755
Excess (Deficiency) of Revenue over Expenditures	(1,540,606)	(1,540,606)	(459,176)	1,081,430
Other Financing Sources (Uses)				
Transfers In	616,673	640,177	635,111	(5,066)
Transfers Out	(32,948)	(32,948)	(8,776)	24,172
Total Other Financing Sources (Uses)	583,725	607,229	626,335	19,106
Net Change in Fund Balances	(956,881)	(933,377)	167,159	1,100,536
Fund Balance				
Beginning of Year	2,226,454	2,226,454	2,668,103	441,649
End of Year	\$ 1,269,573	\$ 1,293,077	\$ 2,835,262	\$ 1,542,185

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Total	
Assets						
Current Assets						
Cash and Cash Equivalents	\$ 16,765,221	\$ 47,818,441	\$ 6,306,964	\$ 180,901	\$ 71,071,527	\$ 7,247,176
Receivables, Net						
Accounts Receivable	1,236,198	6,761,131	548,203	13,429	8,558,961	-
Taxes Receivable	183,723	26,713	-	-	210,436	-
Intergovernmental Receivable	1,219,729	77,278	-	181,510	1,478,517	8,463
Interest Receivable	16,014	64,191	6,693	280	87,178	-
Inventory	-	-	-	3,234	3,234	-
Prepaid Items	133,726	41,127	-	12,192	187,045	34,433
Deferred Charges	80,397	4,203,963	-	-	4,284,360	-
Restricted Assets	1,456,316	21,929,543	-	23,633	23,409,492	-
Total Current Assets	21,091,324	80,922,387	6,861,860	415,179	109,290,750	7,290,072
Noncurrent Assets						
Capital Assets						
Non-Depreciable	9,859,645	1,467,840	-	1,002,786	12,330,271	-
Depreciable (net)	59,520,350	322,021,821	25,853	21,537,164	403,105,188	1,128,652
Total Noncurrent Assets	69,379,995	323,489,661	25,853	22,539,950	415,435,459	1,128,652
Total Assets	90,471,319	404,412,048	6,887,713	22,955,129	524,726,209	8,418,724
Liabilities						
Current Liabilities						
Accounts Payable	286,056	392,142	372,151	23,726	1,074,075	69,953
Accrued Wages and Benefits	49,370	34,640	-	14,460	98,470	-
Intergovernmental Payable	124,179	9,551	-	1,348	135,078	-
Due to Other Funds	-	-	-	125,279	125,279	-
Interest Payable	84,316	4,910,328	-	63	4,994,707	-
Retainage Payable	198,338	1,339,274	-	-	1,537,612	-
Deferred Revenue	175,311	2,161	-	38,525	215,997	-
Liabilities Payable From Restricted Assets	443,769	-	-	23,633	467,402	-
Claims Payable	-	-	-	-	-	-
Compensated Absences	79,657	64,768	-	12,484	156,909	-
Capital Leases Payable	31,264	27,943	-	87,345	146,552	-
Bonds and Notes Payable	383,929	10,361,464	-	-	10,745,393	-
Total Current Liabilities	1,856,189	17,142,271	372,151	326,863	19,697,474	69,953
Noncurrent Liabilities						
Compensated Absences	78,553	64,539	-	12,826	155,918	-
Landfill Closure and Postclosure Care Costs	-	-	2,721,258	-	2,721,258	-
Capital Leases Payable	165,722	205,524	-	1,277,266	1,648,512	-
Other Postemployment Benefits	542,625	279,259	-	37,973	859,857	-
Bonds and Notes Payable	4,091,795	286,400,862	-	-	290,492,657	-
Total Noncurrent Liabilities	4,878,695	286,950,184	2,721,258	1,328,065	295,878,202	-
Total Liabilities	6,734,884	304,092,455	3,093,409	1,654,928	315,575,676	69,953
Net Position						
Net Investment in Capital Assets	64,707,285	26,493,868	25,853	21,175,339	112,402,345	1,128,652
Unrestricted	19,029,150	73,825,725	3,768,451	124,862	96,748,188	7,220,119
Total Net Position	\$ 83,736,435	\$ 100,319,593	\$ 3,794,304	\$ 21,300,201	\$ 209,150,533	\$ 8,348,771

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Totals	Governmental Activities - Internal Service Funds
Operating Revenue						
Charges for Services	\$ 10,403,517	\$ 21,984,711	\$ 5,725,669	\$ 821,583	\$ 38,935,480	\$ -
Premiums Charged	-	-	-	-	-	205,040
Total Operating Revenue	<u>10,403,517</u>	<u>21,984,711</u>	<u>5,725,669</u>	<u>821,583</u>	<u>38,935,480</u>	<u>205,040</u>
Operating Expenses						
Cost of Sales and Services	7,503,781	6,705,193	5,367,209	1,716,059	21,292,242	-
Premiums Paid	-	-	-	-	-	-
Administration	-	-	-	-	-	47,195
Benefits	-	-	-	-	-	65,012
Depreciation	2,161,599	9,925,820	1,175	943,907	13,032,501	410,679
Total Operating Expenses	<u>9,665,380</u>	<u>16,631,013</u>	<u>5,368,384</u>	<u>2,659,966</u>	<u>34,324,743</u>	<u>522,886</u>
Operating Income (Loss)	<u>738,137</u>	<u>5,353,698</u>	<u>357,285</u>	<u>(1,838,383)</u>	<u>4,610,737</u>	<u>(317,846)</u>
Nonoperating Revenues (Expenses)						
Taxes	5,675,383	-	-	-	5,675,383	-
Intergovernmental	51,853	-	-	-	51,853	-
Interest Earnings	175,677	441,361	51,106	1,593	669,737	68,994
Interest Expense	(170,413)	(10,202,826)	-	(1,739)	(10,374,978)	-
Issuance Costs	(5,001)	(216,340)	-	-	(221,341)	-
Other Income	87,234	62,952	-	42,762	192,948	47,499
Total Nonoperating Revenues (Expenses)	<u>5,814,733</u>	<u>(9,914,853)</u>	<u>51,106</u>	<u>42,616</u>	<u>(4,006,398)</u>	<u>116,493</u>
Income (Loss) Before Capital Contributions and Transfers	6,552,870	(4,561,155)	408,391	(1,795,767)	604,339	(201,353)
Capital Contributions	1,281,444	646,106	-	231,829	2,159,379	-
Transfers In	-	-	-	1,076,183	1,076,183	-
Transfers Out	(2,030,211)	(55,930)	(507,060)	(82,434)	(2,675,635)	(2,500,000)
Change in Net Position	<u>5,804,103</u>	<u>(3,970,979)</u>	<u>(98,669)</u>	<u>(570,189)</u>	<u>1,164,266</u>	<u>(2,701,353)</u>
Net Position						
Beginning of Year (Restated)	<u>77,932,332</u>	<u>104,290,572</u>	<u>3,892,973</u>	<u>21,870,390</u>	<u>207,986,267</u>	<u>11,050,124</u>
End of Year	<u>\$ 83,736,435</u>	<u>\$ 100,319,593</u>	<u>\$ 3,794,304</u>	<u>\$ 21,300,201</u>	<u>\$ 209,150,533</u>	<u>\$ 8,348,771</u>

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities						
Receipts from Customers	\$ 10,695,431	\$ 21,970,298	\$ 5,681,723	\$ 813,463	\$ 39,160,915	\$ 205,230
Payments to Suppliers	(4,412,850)	(4,426,028)	(5,442,752)	(1,301,491)	(15,583,121)	(482,908)
Payments to Employees	(2,804,911)	(1,986,509)	-	(501,159)	(5,292,579)	-
Other Nonoperating Receipts	62,403	63,004	-	42,601	168,008	47,499
Customer Deposits (Payments)	38,039	-	-	1,031	39,070	-
Net Cash Flows from (used by)						
Operating Activities	<u>3,578,112</u>	<u>15,620,765</u>	<u>238,971</u>	<u>(945,555)</u>	<u>18,492,293</u>	<u>(230,179)</u>
Cash Flows from Noncapital						
Financing Activities						
Transfers In	-	-	-	1,076,183	1,076,183	-
Transfers Out	(2,030,211)	(55,930)	(507,060)	(82,434)	(2,675,635)	(2,500,000)
Due To Other Funds	-	-	-	125,279	125,279	-
Tax Receipts	<u>5,684,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,684,336</u>	<u>-</u>
Net Cash Flows from (used by)						
Financing Activities	<u>3,654,125</u>	<u>(55,930)</u>	<u>(507,060)</u>	<u>1,119,028</u>	<u>4,210,163</u>	<u>(2,500,000)</u>
Cash Flows from Capital and Related						
Financing Activities						
Proceeds from Capital Debt	-	1,241,649	-	-	1,241,649	-
Capital Grants and Contributions	378,416	2,570,117	-	183,981	3,132,514	-
Purchases of Capital Assets	(2,218,976)	(1,324,482)	-	(368,094)	(3,911,552)	(405,354)
Principal Paid on Capital Debt	(419,482)	(10,014,790)	-	(103,090)	(10,537,362)	-
Interest Paid on Capital Debt	(174,930)	(10,418,328)	-	(1,861)	(10,595,119)	-
Proceeds from Sale of Capital Assets	<u>24,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,831</u>	<u>-</u>
Net Cash Flows from (used by)						
Capital and Financing Activities	<u>(2,410,141)</u>	<u>(17,945,834)</u>	<u>-</u>	<u>(289,064)</u>	<u>(20,645,039)</u>	<u>(405,354)</u>
Cash Flows from Investing Activities						
Interest and Dividends	<u>165,622</u>	<u>413,253</u>	<u>48,123</u>	<u>1,702</u>	<u>628,700</u>	<u>66,306</u>
Net Change in Cash and Cash						
Equivalents	<u>4,987,718</u>	<u>(1,967,746)</u>	<u>(219,966)</u>	<u>(113,889)</u>	<u>2,686,117</u>	<u>(3,069,227)</u>
Cash and Cash Equivalents, Beginning of Year	<u>13,233,819</u>	<u>71,715,730</u>	<u>6,526,930</u>	<u>318,423</u>	<u>91,794,902</u>	<u>10,316,403</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,221,537</u>	<u>\$ 69,747,984</u>	<u>\$ 6,306,964</u>	<u>\$ 204,534</u>	<u>\$ 94,481,019</u>	<u>\$ 7,247,176</u>

Note: Cash and Cash Equivalents, End of Year on Statement of Cash Flows for Irrigation and Drainage reflects the total of Cash and Cash Equivalents (\$16,765,221) and Restricted Assets (\$1,456,316) on the Statement of Net Position. Wastewater reflects the total of Cash and Cash Equivalents (\$47,818,441) and Restricted Assets (\$21,929,543) on the Statement of Net Position. Total Nonmajor Business-Type Activities reflects the total of Cash and Cash Equivalents (\$180,901) and Restricted Assets (\$23,633) on the Statement of Net Position.

The notes to the financial statements are an integral part of this statement

LAKE HAVASU CITY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Irrigation and Drainage</u>	<u>Wastewater</u>	<u>Refuse</u>	<u>Total Nonmajor Business-Type Activities</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
(Continued)						
Reconciliation of Operating Income						
(Loss) to Net Cash from (used by)						
Operating Activities						
Operating Income (Loss)	\$ 738,137	\$ 5,353,698	\$ 357,285	\$ (1,838,383)	\$ 4,610,737	\$ (317,846)
Adjustments to Reconcile Operating						
Income (Loss) to Net Cash from						
(used by) Operating Activities						
Depreciation	2,161,599	9,925,820	1,175	943,907	13,032,501	410,679
Other Nonoperating Receipts (Expenses)	62,403	63,004	-	42,601	168,008	47,499
Change in Assets/Liabilities:						
Receivables, Net	277,543	(14,416)	(43,946)	1,712	220,893	190
Inventories	-	-	-	(532)	(532)	-
Prepaid Items	(3,153)	(1,382)	-	(601)	(5,136)	11,964
Accounts Payable	86,034	211,004	(189,120)	(88,010)	19,908	69,335
Retainage Payable	68,707	17,999	-	-	86,706	-
Intergovernmental Payable	(15,006)	(1,035)	-	522	(15,519)	-
Accrued Wages and Benefits	(773)	2,652	-	(3,059)	(1,180)	-
Compensated Absences	43,121	21,656	-	9,502	74,279	-
Deferred Revenue	14,371	11	-	(9,832)	4,550	-
Customer Deposits Payable	38,039	-	-	1,031	39,070	-
Other Postemployment Benefits	107,090	41,754	-	(4,413)	144,431	-
Claims Payable	-	-	-	-	-	(452,000)
Landfill Closure and Postclosure	-	-	-	-	-	-
Care Costs	-	-	113,577	-	113,577	-
Net Cash from (used by) Operating						
Activities	<u>\$ 3,578,112</u>	<u>\$ 15,620,765</u>	<u>\$ 238,971</u>	<u>\$ (945,555)</u>	<u>\$ 18,492,293</u>	<u>\$ (230,179)</u>

Noncash Investing, Capital and Financing Activities

Loan issuance costs of \$5,001 and \$216,340 were amortized in the Irrigation and Drainage District and Wastewater Funds, respectively, during the year. Capital assets of \$56,469, \$70,023 and \$435,196 were acquired through capital leases by Irrigation and Drainage, Wastewater and Non-major Funds, respectively.

The notes to the financial statements are an integral part of this statement



LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Havasu City, Arizona (City) was incorporated in 1978. The City operates under a council-manager form of government and provides services as authorized by Title 9, Arizona Revised Statutes including: public safety (police and fire), highway and streets, culture and recreation, planning and zoning, and general administrative services.

During the year ended June 30, 2013, the City implemented the provision of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

The accompanying financial statements of Lake Havasu City, Arizona have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the city's operations.

The City has blended the following entities into its Comprehensive Annual Financial Report:

1. Irrigation and Drainage District (District) – The City has a legally mandated status as Trustee over the Irrigation and Drainage District as a result of the City's alternative method of incorporation in 1978 under a special Arizona law. The District was established in 1963 to build infrastructure and construct a water system. The members of the City Council are the District's board members and have the ability to significantly influence operations.
2. Improvement Districts No. 2 and 4 - The City has two improvement districts that were created to fund maintenance and improvements for specific property owners. Financing is provided through the assessment of property taxes. The members of the City Council are the Improvement Districts' board members and have the ability to significantly influence operations.

B. Government-Wide and Fund 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. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term interest due early in the following year, the expenditures have been recognized in the current year in the Debt Service Fund.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The *HURF Fund* accounts for the operations of the street maintenance department. Financing is provided by the City's share of gasoline taxes.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The *Debt Service Fund* accounts for the accumulation of resources and the payment of long-term debt principal, interest and related costs.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The government reports the following major proprietary funds:

The *Irrigation and Drainage District Fund* accounts for the activities of the Irrigation and Drainage District, a blended component unit of the City. The District operates the City's water system.

The *Wastewater Fund* accounts for the activities of the City's sewer system.

The *Refuse Fund* accounts for the activities of the City's waste management system.

Additionally, the government reports the following fund types:

The *Internal Service Funds* account for the City's limited risk self-insurance program for employee and dependant medical care and the City's vehicle replacement program.

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

Proprietary funds distinguish operating revenues and expenses from 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 enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use for governmental activities, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, investments held by the State Treasurer and government securities held in a third party safekeeping custody account.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances.

Arizona Revised Statute, Title 35, allows public monies to be invested with maturities of five years for non-operating funds and a duration of no longer than three years for operating funds. The City's investment policy is empowered by state statute to invest in demand deposits, obligations of U.S. government, its instrumentalities, A-1/P-1 rated commercial paper, bankers' acceptances, repurchase agreements, money market funds and the State of Arizona's Local Government Investment Pool. The primary objectives in priority order of the City's investment activities shall be safety, liquidity, and yield. Investments in LGIP are stated at fair value which also approximates the value of the investments upon withdrawal.

2. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

Mohave County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Short-Term Interfund Receivables/Payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements. Receivables and payables between governmental and business-type funds are classified as Internal Balances on the Statement of Net Position.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

4. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the weighted average method. Inventories of governmental funds are recorded as expenditures 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 government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Customer deposits are also restricted.

6. Capital Assets

Capital assets, which include land, improvements to land, buildings and building improvements, furniture, machinery, equipment, vehicles, intangibles (e.g., water rights, software) and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Water Rights	40 years
Improvements other than buildings	10-20 years
Infrastructure	40-50 years
Furniture, machinery and equipment	3-10 years
Vehicles	3-10 years

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund financial statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

All benefit eligible employees accrue Paid Time Off (PTO) to be used for vacation and personal leave. The maximum PTO leave carry forward for all regular and probationary employees is 420 hours or 588 hours for Fire employees working 24-hour shifts. Hours accrued in excess of the maximum will be forfeited if not used by January 1 of each calendar year. The value of the forfeited hours, to a maximum of 48 hours annually for regular employees and 72 hours annually for Fire shift employees, will be automatically contributed to a retiree health savings account annually in January.

8. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Position

In the government-wide and proprietary fund financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because capital assets make up a significant portion of total net position. Restricted net position account for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

10. Fund Balance

In the fund financial statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned. Nonspendable and Restricted fund balance represent restricted classifications and Committed, Assigned, and Unassigned represent unrestricted classifications.

Nonspendable fund balance includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) it is legally or contractually required to be maintained intact. Restricted fund balance includes amounts that have externally (outside the City) enforceable limitations imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation. Committed fund balance is from self-imposed limitations imposed at the highest level of decision making authority, namely, Mayor and Council. Mayor and Council approval is required to commit resources or to rescind the commitment through formal adoption of City Ordinance. Assigned fund balance represents limitations imposed by City Council, City Manager, or designee, through approval for contract execution.

Unassigned fund balance represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specific expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed and assigned are considered spent (if available) before unassigned amounts.

The City approved a Fiscal Sustainability Policy in August 2007 which requires the City to maintain a General Fund reserve of 10 percent based on the average actual General Fund revenues for the preceding five fiscal years. The City will maintain a fund balance reserve of 5 percent of the average actual revenues for the preceding five fiscal years in the IDD Fund, Wastewater Fund and HURF Fund. These funds will not be appropriated except to cover emergencies and unexpected declines in revenue in the following budget year and must be replenished within three fiscal years following the fiscal year in which the event occurred.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

As of June 30, 2013, the governmental fund balance details by classification are listed below:

	<u>General Fund</u>	<u>HURF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Nonspendable:						
Inventory	\$ 191,887	\$ 49,500	\$ -	\$ -	\$ -	\$ 241,387
Prepaid Expenditures	88,134	73,080	-	-	3,583	164,797
Restricted:						
Debt Service	-	-	158,047	-	-	158,047
Highways and Streets	-	2,712,682	-	-	-	2,712,682
Capital Projects	-	-	-	4,932,910	-	4,932,910
Federal Grants	-	-	-	-	-	-
Public Safety	43,053	-	-	-	249,090	292,143
Economic Development	-	-	-	-	263,643	263,643
Other Purposes	-	-	-	-	43,209	43,209
Committed To:						
Highways and Streets	-	-	-	208,235	-	208,235
Culture and Recreation	-	-	-	1,007,469	-	1,007,469
Public Safety	26,320	-	-	10,700	-	37,020
Other Purposes	47,565	-	-	1,930	-	49,495
Assigned To:						
Culture and Recreation	99,112	-	-	-	21,974	121,086
Transportation	42,686	-	-	-	163,649	206,335
Public Safety	310,653	-	-	-	501	311,154
Other Purposes	1,253,423	-	-	1,824,212	-	3,077,635
Unassigned:	<u>17,920,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,920,187</u>
Total Fund Balances	<u>\$ 20,023,020</u>	<u>\$ 2,835,262</u>	<u>\$ 158,047</u>	<u>\$ 7,985,456</u>	<u>\$ 745,649</u>	<u>\$ 31,747,434</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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. State law requires that, prior to April 1, the Economic Estimates Commission provide the City with a final expenditure limit for the coming fiscal year. 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 basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described above of all fund types as a whole. The City adopts a budget by department for the General Fund and in total by fund for other funds, which is the legal level of budgetary control for these funds. The Administrative Services Director may at any time transfer any unencumbered appropriation balance or portion thereof within a department or activity. The adopted budget cannot be amended without City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures (see Note 4.C. for exception).

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

On June 11, 2013, the City Council authorized supplemental budgetary appropriations included in the following budget amendment. The Capital Projects Fund was decreased by \$4,494,110 to allow for: an increase of \$7,300 to Improvement District No. 2 to be used for additional landscape improvements; an increase of \$26,500 to the Vehicle Replacement Fund for the purchase of special beach cleaning equipment used to maintain white sand that was recently added to enhance various city beaches; an increase of \$21,310 to the Western Arizona Law Enforcement Training Academy (WALETA) Special Program to allow for the Police Department to hold a new dispatch training program; an increase of \$39,000 to the Tourism/Economic Development Fund for increased payments to the agency due to revenues exceeding the budget; and an increase to the Refuse Fund for \$4,400,000 to allow for a change in method of recording the gross revenues and expenditures to reflect true cost of operations. The General Fund was decreased by a total of \$144,830 in the Fire Department budget to increase the Staffing for Adequate Fire and Emergency Response (SAFER) Grant Fund to allow for an unexpected extension approval of the grant into the fiscal year. Decreases of \$28,429 and \$41,571 were also made from the Community Services Administration Department and the Recreation Division, respectively, to fund the transfer of staff positions totaling \$70,000 to establish the new Community Affairs Division.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

Also included with the budget amendment were the following operating transfers: An increase of \$23,504 to the Highway User Revenue Fund (HURF) for non-HURF eligible work performed by city staff at various wastewater utility sites for an amount transferred of \$23,175 from the Wastewater Utility Fund and \$329 from the WALETA Fund. An increase of \$20,448 was transferred to the Airport Fund from the General Fund for a Pavement Preservation Project approved by the Council on June 26, 2012.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable fund balance, is employed by the City during the year. Encumbrances (e.g., project purchase orders, contracts) outstanding at year end are reported as committed fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Prior Period Adjustment

The City's net position/capital assets as of July 1, 2012, in the previously issued financial statements required adjustments. Capitalized interest, recorded as a capital asset, which offset the debt interest expense in the Wastewater Fund, was improperly calculated in fiscal years 2002-03 through 2011-12. The following adjustments are necessary in order to properly state beginning net position:

Business-type Activities:

	Wastewater Fund
	<hr/>
Net Position at July 1, 2012, as previously reported	\$ 139,305,967
Capital Assets	(36,855,142)
Accumulated Depreciation	<hr/> 1,839,747
Net Position at July 1, 2012, as adjusted	<hr/> <u>\$ 104,290,572</u>
Capital Assets, Depreciable (net), as previously reported	\$ 364,821,100
Capitalized Interest	(36,855,142)
Depreciation Expense	<hr/> 1,839,747
Capital Assets, Depreciable at July 1, 2012, as restated	<hr/> <u>\$ 329,805,705</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2013 consist of the following:

Deposits	
Cash on Hand	\$ 10,350
Cash in Bank	15,884,835
Cash on Deposit with County Treasurer	379,506
Investments	
State Treasurer's Investment Pool (LGIP)	44,632,627
U.S. Government Securities	58,301,500
Collateralized Savings	5,014,459
Certificates of Deposit	3,250,000
Corporate Bonds	5,000,000
Money Market	<u>61,800</u>
Total Deposits and Investments	132,535,077
Restricted Assets	<u>(23,409,492)</u>
Total Cash and Investments	<u><u>\$ 109,125,585</u></u>

Investments - The City's Investment Policy, adopted on July 10, 2002 and updated October 11, 2011, authorizes the City to invest in obligations of the United States Treasury and United States Agencies, certificates of deposit in eligible depositories, Banker's Acceptances, repurchase agreements, money market funds, or any obligations guaranteed by the United States of America or any of its agencies as well as commercial paper rated in the highest tier by a nationally recognized rating agency. The City is also empowered to invest, by resolution, in the State of Arizona Local Government Investment Pool (LGIP).

The City's investments at June 30, 2013 consist of the following:

Investment	Amount	Investment Maturities (in Years)		
		Less than 1	1-3	4-5
State Treasurer's Investment Pools	\$ 44,632,627	\$ 44,632,627	\$ -	\$ -
Collateralized Savings	5,014,459	5,014,459	-	-
Certificates of Deposit	3,250,000	500,000	2,000,000	750,000
Money Market	61,800	61,800	-	-
U.S. Government Securities	58,301,500	-	-	58,301,500
Corporate Agency Bonds	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>
Total Investments	<u><u>\$ 116,260,386</u></u>	<u><u>\$ 50,208,886</u></u>	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 64,051,500</u></u>

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of five years.

Credit Risk – Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to invest in securities with the highest rating issued by NRSROs. Presented below is the rating as of June 30, 2013 for each investment type.

Investment Type	Total	AAA	AAAm	AA+	AA	A-	Exempt from Disclosure	Not Rated
State Treasurer's Investment Pools	\$ 44,632,627	\$ 4,867,296	\$ -	\$ 11,979,566	\$ 27,785,765	\$ -	\$ -	\$ -
Collateralized Savings	5,014,459	-	5,014,459	-	-	-	-	-
Certificates of Deposit*	3,250,000	-	-	-	-	-	-	3,250,000
Money Market	61,800	-	-	-	-	-	-	61,800
U.S. Government Securities	58,301,500	-	-	58,301,500	-	-	-	-
Corporate Agency Bonds	5,000,000	-	-	-	-	5,000,000	-	-
Total Investments	\$ 116,260,386	\$ 4,867,296	\$ 5,014,459	\$ 70,281,066	\$ 27,785,765	\$ 5,000,000	\$ -	\$ 3,311,800

*FDIC Insured

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2013, the City's deposits were covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name. No deposits were exposed to custodial credit risk.

The custodial credit risk for investments is the risk that, in the event of default by the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are held by a third party custodian.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

The City's investment in U.S. Government securities was rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk - The City's Investment Policy states that the City shall diversify its investments by security type and institution. With the exception of U. S. Treasury securities, authorized pools, and overnight repurchase agreements, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

2. Restricted Assets

Restricted assets in the proprietary funds at June 30, 2013 consisted of the following:

Customer Deposits	\$ 467,401
Future Debt Service	<u>22,942,091</u>
	<u><u>\$ 23,409,492</u></u>

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable (General Fund)	\$ 49,701	\$ -
Miscellaneous (General Fund)	-	96,188
Delinquent Property Taxes Receivable (Nonmajor Governmental Funds)	2,583	-
Prepaid Special Program Revenue (Nonmajor Governmental Funds)	<u>-</u>	<u>2,100</u>
Total Deferred Revenue for Governmental Funds	<u><u>\$ 52,284</u></u>	<u><u>\$ 98,288</u></u>

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

4. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 26,755,060	\$ -	\$ -	\$ -	\$ 26,755,060
Construction in Progress	<u>1,877,350</u>	<u>3,511,841</u>	<u>(3,085,857)</u>	<u>186,830</u>	<u>2,490,164</u>
Total Capital Assets, Not Being Depreciated	<u>28,632,410</u>	<u>3,511,841</u>	<u>(3,085,857)</u>	<u>186,830</u>	<u>29,245,224</u>
Capital Assets, Being Depreciated:					
Buildings and Improvements	23,891,086	1,403,635	-	-	25,294,721
Improvements to Land	14,041,175	-	-	-	14,041,175
Infrastructure	87,848,726	1,608,477	-	-	89,457,203
Furniture, Machinery and Equipment	<u>24,010,800</u>	<u>1,473,235</u>	<u>(439,079)</u>	<u>(275,132)</u>	<u>24,769,824</u>
Total Capital Assets, Being Depreciated	<u>149,791,787</u>	<u>4,485,347</u>	<u>(439,079)</u>	<u>(275,132)</u>	<u>153,562,923</u>
Accumulated Depreciation for:					
Buildings and Improvements	(9,295,606)	(682,451)	-	-	(9,978,057)
Improvements to Land	(3,992,872)	(429,084)	-	-	(4,421,956)
Infrastructure	(54,608,934)	(1,728,692)	-	-	(56,337,626)
Furniture, Machinery and Equipment	<u>(19,632,071)</u>	<u>(1,688,148)</u>	<u>434,857</u>	<u>88,302</u>	<u>(20,797,060)</u>
Total Accumulated Depreciation:	<u>(87,529,483)</u>	<u>(4,528,375)</u>	<u>434,857</u>	<u>88,302</u>	<u>(91,534,699)</u>
Total Capital Assets, Being Depreciated, Net	<u>62,262,304</u>	<u>(43,028)</u>	<u>(4,222)</u>	<u>(186,830)</u>	<u>62,028,224</u>
Governmental Activities Capital Assets, Net	<u>\$ 90,894,714</u>	<u>\$ 3,468,813</u>	<u>\$ (3,090,079)</u>	<u>\$ -</u>	<u>\$ 91,273,448</u>

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

4. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
	(As Restated)				
Capital Assets, Not Being Depreciated:					
Land	\$ 3,288,029	\$ -	\$ -	\$ -	\$ 3,288,029
Water Allocation Rights	6,165,681	-	-	-	6,165,681
Construction in Progress	3,553,409	4,348,859	(5,025,707)	-	2,876,561
Total Capital Assests, Not Being Depreciated	13,007,119	4,348,859	(5,025,707)	-	12,330,271
Capital Assets, Being Depreciated:					
Buildings and Improvements	34,982,923	1,842,056	-	-	36,824,979
Other Improvements	471,278,565	3,215,826	-	-	474,494,391
Machinery, Equipment and Vehicles	5,438,622	92,202	(50,439)	88,302	5,568,687
Water Allocation Rights	2,374,554	-	-	-	2,374,554
Total Capital Assets, Being Depreciated:	514,074,664	5,150,084	(50,439)	88,302	519,262,611
Accumulated Depreciation for:					
Buildings and Improvements	(8,724,027)	(924,959)	-	-	(9,648,986)
Other Improvements	(89,645,053)	(11,627,593)	-	-	(101,272,646)
Machinery, Equipment and Vehicles	(4,594,304)	(420,585)	50,439	(88,302)	(5,052,752)
Water Allocation Rights	(123,675)	(59,364)	-	-	(183,039)
Total Accumulated Depreciation:	(103,087,059)	(13,032,501)	50,439	(88,302)	(116,157,423)
Total Capital Assets, Being Depreciated, Net	410,987,605	(7,882,417)	-	-	403,105,188
Business-Type Activities Capital Assets, Net	<u>\$ 423,994,724</u>	<u>\$ (3,533,558)</u>	<u>\$ (5,025,707)</u>	<u>\$ -</u>	<u>\$ 415,435,459</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

4. Capital Assets (Continued)

Governmental activities:

General Government	\$ 530,191
Public Safety - Police	664,300
Public Safety - Fire	494,255
Highways and Streets	1,642,042
Culture and Recreation	489,107
Transportation Services	297,140
Tourism and Promotion	661
Capital Assets Held by the City's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	<u>410,679</u>

Total Depreciation Expense	<u><u>\$ 4,528,375</u></u>
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Business-type activities:

Refuse	\$ 1,175
Recreation/Aquatic Center	203,747
Irrigation and Drainage	2,161,599
Wastewater	9,925,820
Airport	<u>740,160</u>

Total Depreciation Expense	<u><u>\$ 13,032,501</u></u>
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5. Construction Commitments

The City had active construction projects at June 30, 2013. The projects include various street and park projects, water master plan and water system upgrades, and wastewater system expansion and new treatment plant. At fiscal year end the City's commitments with contractors were as follows:

Governmental Activities		
Project	Spent-to-date	Remaining Commitment
General Government	\$ 69,945	\$ 3,329
Public Safety - Police	68,829	10,700
Highways and Streets	1,365,597	188,345
Culture and Recreation	491,480	649,530
Total Governmental Activities	<u><u>\$ 1,995,851</u></u>	<u><u>\$ 851,904</u></u>

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

5. Construction Commitments (Continued)

Business-type Activities		
Project	Spent-to-date	Remaining Commitment
Water system	\$ 2,454,693	\$ 3,740,687
Wastewater system expansion	26,772,681	857,652
Airport improvements	-	29,800
Total business-type activities	<u>\$ 29,227,374</u>	<u>\$ 4,628,139</u>

C. Interfund Receivables, Payables and Transfers

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

Due To	Due From Nonmajor Governmental Funds	Due From Nonmajor Enterprise Funds
General Fund	<u>\$80,800</u>	<u>\$125,279</u>

The above interfund receivables and payables reflect short-term loans to the Grants Fund, CDBG/ Home Fund, and Airport Fund for negative ending cash balances.

Interfund transfers for the year ended June 30, 2013 consisted of the following:

Transfers to	Transfers From									Total
	General Fund	Capital Projects	Refuse	Irrigation & Drainage	Wastewater	HURF	Nonmajor Business-Type Funds	Nonmajor Governmental Funds	Internal Service Funds	
HURF	\$ 357,079	\$ 276,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,632	\$ -	\$ 635,111
Debt Service	240,000	-	-	-	-	-	-	-	-	240,000
General fund	-	-	-	2,030,211	55,930	8,776	82,434	14,867	2,500,000	4,692,218
Capital Projects	-	-	507,060	-	-	-	-	-	-	507,060
Nonmajor Business-Type Funds	975,298	100,885	-	-	-	-	-	-	-	1,076,183
Nonmajor Governmental Funds	763,100	-	-	-	-	-	-	-	-	763,100
	<u>\$ 2,335,477</u>	<u>\$ 377,285</u>	<u>\$ 507,060</u>	<u>\$ 2,030,211</u>	<u>\$ 55,930</u>	<u>\$ 8,776</u>	<u>\$ 82,434</u>	<u>\$ 16,499</u>	<u>\$ 2,500,000</u>	<u>\$ 7,913,672</u>

Transfers were made for general operating purposes and to fund capital projects. The \$2.5 million transferred from Internal Service Funds (EBT) to General Fund was for budget stabilization.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Obligations Under Leases

The City has entered into lease agreements as a lessee for financing the acquisition of equipment and vehicles. These lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the present value of their future minimum lease payments as of the inception date providing they meet the capitalization threshold.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Vehicles, Equipment, and Facility Improvements	\$ 2,927,582	\$ 807,508
Less: Accumulated Depreciation	(1,532,822)	(637,421)
Total	<u>\$ 1,394,760</u>	<u>\$ 170,087</u>

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

<u>Year Ending June 30,</u>	Governmental Activities	Business-Type Activities
2014	\$ 609,908	\$ 246,987
2015	472,299	196,196
2016	472,649	196,679
2017	459,789	196,816
2018	269,136	197,138
2019-2021	1,162,373	1,518,810
Total Minimum Lease Payments	3,446,154	2,552,626
Less: Amount Representing Interest	(659,281)	(757,561)
Present Value of Minimum Lease Payments	<u>\$ 2,786,873</u>	<u>\$ 1,795,065</u>

E. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by the Debt Service, Irrigation and Drainage and Wastewater Funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund. Capital leases are paid by the applicable fund where the vehicles and equipment purchased will be used, primarily the General Fund, Capital Projects Fund, IDD Fund, Wastewater Fund, Recreation/Aquatic Fund and Airport Fund. The City's other postemployment benefits (OPEB) are paid by the applicable fund for each employee, primarily the General Fund.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The City has pledged revenue derived from an annual assessment and levy of taxes upon the real property of the Irrigation and Drainage District to repay \$4,120,000 at 6.625% in refunding bonds issued February 1993. Proceeds of the bonds were used to advance refund all of the District's outstanding bonds and payment of the costs of issuance of the Series 1993 bonds. The bonds are payable solely from tax assessments on the property owners and are payable through 2023. The total principal and interest remaining to be paid on the bonds is \$129,813. Principal and interest paid for the current year and total assessed taxes were \$16,625 and \$16,625, respectively.

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay \$308,662,286 in authorized wastewater system loans from the Water Infrastructure Financing Authority (WIFA). Loans were issued October 2002 (\$17,015,000) at 3.171%, April 2004 (\$5,940,000) at 3.120%, December 2004 (\$50,065,000) at 3.255%, October 2006 (\$60,835,000) at 2.672%, August 2007 (\$52,914,430) at 3.185%, and October 2008 (\$45,585,000) at 3.750%, July 2009 (\$5,147,488) at 3.241%, and October 2009 (\$87,734,728) at 3.098%. Proceeds from the loans provided financing for the construction of the Wastewater System Expansion Program. The loans are payable solely from wastewater customer net revenues and are payable through 2040 with the exception of \$2,000,000, which was principal paid with ARRA funds directly to WIFA. The August 2007 loan was de-obligated for \$210,962 for a net obligation of \$52,703,467; the October 2008 loan was de-obligated for \$16,116,741 for a net obligation of \$29,468,259 and the July 2009 loan was de-obligated for \$246,655 for a net obligation of \$4,900,832. The total principal and interest paid for the current year was \$17,364,292. The total principal and interest remaining to be paid on the WIFA loans is \$362,674,093.

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay a \$58,070,000 wastewater system loan at 5.0% issued by Greater Arizona Development Authority (GADA) in August 2005. Proceeds from the loan provided financing for the Wastewater System Expansion Program. The loan is payable solely from wastewater customer net revenues and is payable through 2036. The total interest paid for the current year was \$2,808,242 (net of premium). The total principal and interest remaining to be paid on the loan is \$109,081,708.

Loan covenants on the wastewater debt (WIFA and GADA) requires the City to maintain 1.2 times coverage of net revenues to current year debt service payments. Principal and interest paid for the current year and total customer net revenues were \$20,172,534 (WIFA loans - \$17,364,292, GADA Loan - \$2,808,242 (net of premium)) and \$22,866,985 respectively. In May 2007 City Council approved Resolution No. 07-2160 pledging a rate stabilization fund in the amount of \$5 million for debt coverage to ensure loan covenant requirements are met. In December 2010 Council approved Resolution No. 10-2505 increasing the rate stabilization fund by \$1.5 million for a total rate stabilization fund of \$6.5 million for additional pledged coverage. Debt coverage on the Senior Lien loans is 2.38 and debt coverage on the Junior Lien loans is 1.26.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$8,922,300 in authorized water system loans from the Water Infrastructure Financing Authority (WIFA) issued June 2007 (\$5,700,000) at 3.504% and July 2010 (\$11,400,000) at 2.775%. Proceeds from the loans provided financing for construction of water service line replacement and water main line replacement within the Wastewater System Expansion Program. The loans are payable solely from water customer net revenues and are payable through 2031.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

with the exception of \$8,177,700, which was principal paid directly to WIFA with Federal funds. Total principal and interest remaining to be paid on the WIFA loans is \$9,591,621. Principal and interest paid for the current year and total customer net revenues were \$519,195 and \$4,293,410, respectively. Loan covenants require the City to maintain 1.2 times coverage of net revenues to current year debt service payments. Debt coverage to current year debt service payments is 8.27.

The City has pledged future excise tax revenues, which include the City's sales and transaction privilege, franchise taxes, all license and permit fees and fines and forfeitures to repay \$2,615,000 at 4.50% in governmental excise tax revenue obligations in the form of a loan from GADA issued in April 2008. Proceeds of the loan were used to purchase a parcel of land from the Arizona State Land Department for the Freedom Bridge (the second bridge to the Island). The loan is payable solely from excise taxes and is payable through 2024. Loan covenants require the City to maintain 1.25 times coverage of excise tax revenues to current year debt service payments. Total principal and interest to be paid on the loan is \$2,597,905. Principal and interest paid for the current year and total excise taxes were \$236,446 and \$26,526,205, respectively. Debt coverage of net revenues to current year debt service payments is 112.19.

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

Governmental Activities:	June 30, 2012	Increases	Decreases	June 30, 2013	Due Within One Year
Bonds and Loans Payable:					
GADA Loan Payable	\$ 2,235,000	\$ -	\$ (145,000)	\$ 2,090,000	\$ 150,000
Total Bonds and Loans Payable	2,235,000	-	(145,000)	2,090,000	150,000
Other Liabilities:					
Capital Leases	1,610,207	1,675,860	(499,195)	2,786,872	491,689
Compensated Absences	2,265,458	1,994,181	(1,988,917)	2,270,722	1,125,887
Other Postemployment Benefits	2,003,259	1,058,238	(495,504)	2,565,993	-
Governmental Activities Long-term Liabilities	\$ 8,113,924	\$ 4,728,279	\$ (3,128,616)	\$ 9,713,587	\$ 1,767,576

Business-type Activities:	June 30, 2012	Increases	Decreases	June 30, 2013	Due Within One Year
Bonds, Notes, and Loans Payable:					
General Obligation Bonds	\$ 115,000	\$ -	\$ (10,000)	\$ 105,000	\$ 15,000
GADA Loan Payable	58,070,000	-	-	58,070,000	-
WIFA Loan Payable	250,861,327	434,542	(10,328,498)	240,967,371	10,635,136
Plus: Deferred Amount on Premium	2,190,935	-	(95,258)	2,095,677	95,258
Total Bonds, Notes and Loans Payable	311,237,262	434,542	(10,433,756)	301,238,048	10,745,394
Other Liabilities:					
Capital Leases	1,432,240	561,691	(198,865)	1,795,066	146,551
Compensated Absences	238,548	418,944	(344,665)	312,827	156,909
Other Postemployment Benefits	715,426	241,372	(96,941)	859,857	-
Landfill Closure and Postclosure	2,607,681	113,577	-	2,721,258	-
Business-type Activities Long-term Liabilities	\$ 316,231,157	\$ 1,770,126	\$ (11,074,227)	\$ 306,927,056	\$ 11,048,854

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2013 are as follows:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	150,000	85,463	10,650,134	11,175,422
2015	160,000	79,096	11,063,295	10,835,704
2016	165,000	71,000	11,513,186	10,481,882
2017	175,000	63,896	11,970,032	10,113,726
2018	180,000	56,713	12,689,056	9,722,735
2019-2023	1,025,000	150,857	71,843,622	42,131,805
2024-2028	235,000	880	71,533,542	30,278,474
2029-2033	-	-	61,311,887	18,229,701
2034-2038	-	-	59,575,175	5,491,495
2039-2040	-	-	10,727,497	143,865
	<u>\$ 2,090,000</u>	<u>\$ 507,905</u>	<u>\$ 332,877,426</u>	<u>\$ 148,604,809</u>

The \$332,877,426 principal amount above includes \$33,735,055 of authorized WIFA loan proceeds not drawn down by the City as of June 30, 2013.

F. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require that Lake Havasu City, Arizona place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$2,721,258 as of June 30, 2013, which is based on 47% usage of the landfill. It is estimated that an additional \$3,066,592 will be recognized as closure and postclosure care expense between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2040). The estimated total current cost of the landfill closure and postclosure care (\$5,787,850) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2013. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. No assets have been restricted for the payment of closure and postclosure costs as of June 30, 2013.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 OTHER INFORMATION

A. Risk Management

Lake Havasu City, Arizona is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City is insured by Travelers Indemnity Company for potential worker related accidents. Settlements have not exceeded the City's coverage for the past three fiscal years.

During fiscal year 1995, the City established the Lake Havasu City Employee Benefit Trust (LHCEBT) (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. On February 28, 2012, through resolution, the LHCEBT would no longer be used by the City to provide employee benefits to eligible employees of the City and their dependents effective June 30, 2012. Trustees will remain as Trustees for up to 27 months following the termination date in order to close out any outstanding claims in the LHCEBT. The City joined the Northwest Arizona Employee Benefit Trust (NAEBT) as the employee benefits pool to provide employee benefits to eligible employees of the City and their dependents effective July 1, 2012.

Changes in the claims liability amount for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Claims Payable, Beginning of Year	\$ 452,000	\$ 476,000
Current Year Claims and Changes in Estimates	65,012	4,816,835
Claims Payments	(517,012)	(4,840,835)
Claims Payable, End of Year	<u>\$ -</u>	<u>\$ 452,000</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Contingent Liabilities

Lawsuits - The City is a defendant in various lawsuits and other claims incidental to the ordinary course of its operations. As of June 30, 2013, one claim in particular alleged damages exceeding \$7 million, but the parties came to a settlement agreement in November 2013 (see subsequent events below). Other than this claim, in the opinion of the City's attorney, the other matters will not have a material adverse effect on the City's financial position at June 30, 2013.

C. Budgetary Basis of Accounting

The adopted budget of the City was prepared on a basis consistent with accounting principles generally accepted in the United States of America, with one exception. The present value of net minimum capital lease payments was not budgeted as General Fund expenditures and other financing sources. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis in order to provide a meaningful comparison.

	General Fund	
	Total Expenditures	Total Other Financing Sources (Uses)
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 34,700,927	\$ 3,637,506
Present value of net minimum Capital lease payments	(407,575)	(1,280,765)
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund	<u>\$ 34,293,352</u>	<u>\$ 2,356,741</u>

D. Related Party Transactions

The City expended \$2,614 for services from an electrical contractor which is partially owned by one of the City Council members. At June 30, 2013, there was no amount owed to this vendor.

E. Subsequent Events

In Fiscal year 2013-2014 the City created a Metropolitan Planning Organization Fund (MPO). This fund was established to account for funding derived from the area's status as a designated MPO. The MPO receives Federal funding administered through the Arizona Department of Transportation.

The City de-obligated \$25.2 million of WIFA authorized loan for the wastewater system expansion project which is now complete. This de-obligation reduced the 2009 Senior Construction loan from \$87.7 million to \$62.5 million.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Subsequent Events (Continued)

In November of 2013, the City settled a lawsuit with a construction contractor of the City's. The City's contribution toward the settlement was \$2 million. Of this settlement, \$1.4 million was funded with retainage funds held on the project.

F. Retirement Plans

Arizona State Retirement System (ASRS)

Plan Descriptions - Lake Havasu City, Arizona contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The 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 Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or email at www.azasrs.gov.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and Lake Havasu City, Arizona's contribution rates. For the year ended June 30, 2013, 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. The City's contributions to ASRS were equal to the required contributions for each fiscal year.

Arizona State Retirement System Contributions
Last Three Fiscal Years

<u>Years ended June 30,</u>	<u>Retirement Fund</u>	<u>Long-Term Disability Fund</u>	<u>Percent of Required Contribution</u>
2011	\$ 1,435,992	\$ 39,778	100.0 %
2012	1,504,297	34,322	100.0%
2013	1,619,338	35,625	100.0%

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement, death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The 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, by calling (602) 255-5575 or at www.psprs.com.

Funding Policy - Covered employees are required to contribute 9.55 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 27.13 percent of annual covered payroll for police and 27.63 percent of annual covered payroll for fire.

Annual Pension Cost - During the year ended June 30, 2013, Lake Havasu City, Arizona's annual pension cost of \$1,188,266 for police and \$1,291,870 for fire was equal to the City's required and actual contributions.

The required contribution was determined as part of the June 30, 2013, actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, (b) projected salary increases of 5.0 percent per year compounded annually, and (c) additional projected salary increases of 0.0 percent to 4.0 percent per year attributable to seniority/merit.

Funding Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the plan was 60.4 percent funded for police and 60.7 percent funded for fire. For police, the actuarial accrued liability for benefits was \$35.4 million, and the actuarial value of assets was \$21.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.0 million. For fire, the actuarial accrued liability for benefits was \$35.2 million, and the actuarial value of assets was \$21.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$13.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.3 million for police and \$4.4 million for fire, and the ratio of the UAAL to the covered payroll was 322.9 percent for police and 317.7 percent for fire.

The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years.

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

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

Lake Havasu City Police

Fiscal Year Ended June 30,	Annual Required Contribution*	Percent Contributed	Net Pension Obligation
2011	\$ 1,169,857	100.0%	-
2012	1,184,756	100.0%	-
2013	1,188,266	100.0%	-

* Includes insurance premium tax, where applicable.

Lake Havasu City Fire Fighters

Fiscal Year Ended June 30,	Annual Required Contribution*	Percent Contributed	Net Pension Obligation
2011	\$ 972,205	100.0%	-
2012	1,041,255	100.0%	-
2013	1,291,870	100.0%	-

* Includes insurance premium tax, where applicable.

Additional historical trend information for the City's PSPRS is disclosed on pages 83 - 84. 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.

G. Other Postemployment Benefits

During the fiscal year ended June 30, 2013, the City complied with Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The City engaged an actuary to determine the City's liability for postemployment healthcare benefits other than pensions as of June 30, 2013. The plan does not issue a separate financial report.

Plan Description – Lake Havasu City provides single employer defined benefit postemployment benefit plans for retirees. Active employees, who started before July 1, 2004, are eligible for medical coverage for themselves and their eligible dependent(s) under the City's health benefits program for a period not longer than ten (10) years after the date of retirement, until age 65 or Medicare eligible, or a covered dependent ceases to be an eligible dependent as defined under the Northwest Arizona Employee Benefit Trust Plan (NAEBT).

Pursuant to the provisions of the plan, employees hired before July 1, 2004 may be retained on the City's health insurance plan, provided they make required premium contributions and comply with all other provisions of the NAEBT, in accordance with the following provisions, with the condition that the employees have no vested rights:

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

G. Other Postemployment Benefits (Continued)

Plan Description (Continued)

- a) The employee must retire from Lake Havasu City, Arizona.
- b) Eligible employees have earned sixty (60) points, which is a combination of age and years of service with Lake Havasu City, Arizona.
- c) Eligible employees have worked a minimum of ten (10) years of full-time, benefit-eligible service with Lake Havasu City, Arizona.
- d) Eligible employees retire under the applicable Arizona State Retirement System and elect to receive the State health insurance subsidy.
- e) Retiree must elect to be retained on the Plan with no break in coverage following their retirement and must waive all rights to COBRA continuation coverage.

As of July 1, 2012 there were approximately 192 active participants and 67 retired participants receiving benefits from the City's health plans.

Other eligible active employees, who started on or after July 1, 2004, will be covered under a defined contribution Health Retirement Savings Plan adopted by Council on November 24, 2009. This plan will not generate any GASB 45 liability.

Funding Policy – The City funds its other postemployment benefits (OPEB) obligation on a pay as you go basis. For fiscal year 2013, the City contributed \$592,444 to the plan, funded primarily by the General Fund.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), 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 over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the City's net OPEB obligation.

Annual Required Contribution	\$ 1,360,964
Interest on Net OPEB Obligation	108,747
Adjustment to Annual Required Contribution	<u>(170,101)</u>
Annual OPEB Cost (Expense)	1,299,610
Contributions Made	<u>(592,444)</u>
Increase in Net OPEB Obligation	707,166
Net OPEB Obligation-Beginning of Year	<u>2,718,684</u>
Net OPEB Obligation-End of Year	<u><u>\$ 3,425,850</u></u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

G. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2012 and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 1,144,914	38.3%	\$ 2,081,684
2012	1,138,289	44.0%	2,718,684
2013	1,299,610	45.6%	3,425,850

Funding Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the City's unfunded actuarial accrued liability (UAAL) was \$12.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$14.1 million and the ratio of the UAAL to the covered payroll was 89.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed 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.

In the July 1, 2012 actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 9 percent, reduced by decrements to an ultimate rate of 5 percent after eight years. Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll. The UAAL is being amortized as a level dollar of projected payrolls on a closed basis. The remaining amortization period at June 30, 2013, was 25 years.

Required Supplementary Information



**LAKE HAVASU CITY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Lake Havasu City Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2010	\$ 18,944,336	\$ 28,782,800	65.8%	\$ (9,838,464)	\$ 5,137,294	(191.5%)
2011	20,033,909	32,580,941	61.5%	(12,547,032)	4,900,907	(256.0%)
2012	21,369,064	35,395,518	60.4%	(14,026,454)	4,343,430	(322.9%)

Lake Havasu City Fire Fighters

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2010	\$ 20,717,588	\$ 30,702,101	67.5%	\$ (9,984,513)	\$ 4,137,630	(241.3%)
2011	20,573,636	33,172,043	62.0%	(12,598,407)	4,550,439	(276.9%)
2012	21,400,897	35,245,673	60.7%	(13,844,776)	4,358,509	(317.6%)

**LAKE HAVASU CITY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS**

Lake Havasu City Other Postemployment Benefits

Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
2008	-	\$ 9,877,174	-	\$ (9,877,074)	\$ 20,880,821	(47.3%)
2010	-	12,465,566	-	(12,465,566)	17,025,507	(73.2%)
2012	-	12,595,322	-	(12,595,322)	14,077,743	(89.5%)

Schedule of Employer Contribution

Fiscal Year Ended June 30,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2011	\$ 438,327	\$ 1,166,375	37.6%
2012	501,289	1,177,967	42.6%
2013	592,444	1,360,964	43.5%

Combining and Individual Fund Statements and Schedules



NONMAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

Tourism/Economic Development Fund – To account for expenditures made to promote, develop and enhance the tourism industry and economic development in the City. Financing is from a 3% citywide “Bed Tax” imposed on local hotel/motel establishments and a 1% restaurant and bar tax.

Havasu Area Transit Fund – To account for federal grants and City contributions to provide a low-cost, door-to-door demand response transportation and scheduled bus route services for the general public.

Grants Fund – To account for the activity of the miscellaneous federal and state grants.

Community Development Block Grant (CDBG)/State Home Fund (Home) – To account for Community Development Block Grants and State Home Fund monies, which are federal and state funds to be used for the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities.

Improvement Districts Fund – To account for the maintenance and improvements to Improvement District No. 2, the London Bridge shopping area and Improvement District No. 4 for the gas lights, utility service, and median center for the lower McCulloch Boulevard Business District. Financing is provided to all districts through the assessment of property taxes.

Special Programs Fund – To account for the activity of various City programs funded with program generated revenues and outside agency contributions.

**LAKE HAVASU CITY, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	Special Revenue						Total Nonmajor Governmental Funds
	Tourism/ Economic Development	Havasu Area Transit	Grants	CDBG/Home	Improvement Districts	Special Programs	
Assets							
Cash and Investments	\$ 131,744	\$ 39,619	\$ -	\$ -	\$ 17,847	\$ 289,603	\$ 478,813
Receivables							
Accounts Receivable	155	739	-	-	-	-	894
Taxes Receivable	-	-	-	-	3,268	-	3,268
Intergovernmental Receivable	131,744	156,899	93,853	48,254	696	47,016	478,462
Interest Receivable	-	-	-	-	26	250	276
Prepaid Items	-	3,346	-	-	237	-	3,583
Total Assets	<u>\$ 263,643</u>	<u>\$ 200,603</u>	<u>\$ 93,853</u>	<u>\$ 48,254</u>	<u>\$ 22,074</u>	<u>\$ 336,869</u>	<u>\$ 965,296</u>
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$ -	\$ 17,898	\$ 59,493	\$ 23	\$ 720	\$ 4,314	\$ 82,448
Accrued Wages and Benefits	-	15,710	1,791	-	-	-	17,501
Intergovernmental Payable	-	-	-	-	-	34,215	34,215
Due to Other Funds	-	-	32,569	48,231	-	-	80,800
Deferred Revenue	-	-	-	-	2,583	2,100	4,683
Total Liabilities	<u>-</u>	<u>33,608</u>	<u>93,853</u>	<u>48,254</u>	<u>3,303</u>	<u>40,629</u>	<u>219,647</u>
Fund Balance							
Nonspendable	-	3,346	-	-	237	-	3,583
Restricted	263,643	-	-	-	18,534	273,765	555,942
Committed	-	-	-	-	-	-	-
Assigned	-	163,649	-	-	-	22,475	186,124
Unassigned	-	-	-	-	-	-	-
Total Fund Balance	<u>263,643</u>	<u>166,995</u>	<u>-</u>	<u>-</u>	<u>18,771</u>	<u>296,240</u>	<u>745,649</u>
Total Liabilities and Fund Balance	<u>\$ 263,643</u>	<u>\$ 200,603</u>	<u>\$ 93,853</u>	<u>\$ 48,254</u>	<u>\$ 22,074</u>	<u>\$ 336,869</u>	<u>\$ 965,296</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	Special Revenue						Total Nonmajor Governmental Funds
	Tourism/ Economic Development	Havasu Area Transit	Grants	CDBG/Home	Improvement Districts	Special Programs	
Revenues							
Taxes							
Sales Taxes	\$ 1,438,745	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,438,745
Property Taxes	-	-	-	-	70,368	-	70,368
Intergovernmental Revenue	-	828,270	721,165	344,919	-	296,586	2,190,940
Fines and Forfeitures	-	-	-	-	-	75,802	75,802
Charges for Services	-	106,396	-	-	-	12,450	118,846
Contributions and Donations	-	-	-	-	-	5,371	5,371
Investment Earnings	-	195	-	-	152	1,261	1,608
Other	-	158	-	-	-	5,030	5,188
Total Revenue	<u>1,438,745</u>	<u>935,019</u>	<u>721,165</u>	<u>344,919</u>	<u>70,520</u>	<u>396,500</u>	<u>3,906,868</u>
Expenditures							
Current							
General Government	-	-	-	344,919	89,912	5,815	440,646
Public Safety	-	-	712,445	-	-	313,991	1,026,436
Highways and Streets	-	-	8,720	-	-	-	8,720
Culture and Recreation	-	-	-	-	-	-	-
Tourism and Promotion	1,484,639	-	-	-	-	-	1,484,639
Transportation Services	-	1,570,998	-	-	-	-	1,570,998
Total Expenditures	<u>1,484,639</u>	<u>1,570,998</u>	<u>721,165</u>	<u>344,919</u>	<u>89,912</u>	<u>319,806</u>	<u>4,531,439</u>
Excess (Deficiency) of Revenue Over							
Expenditures	<u>(45,894)</u>	<u>(635,979)</u>	<u>-</u>	<u>-</u>	<u>(19,392)</u>	<u>76,694</u>	<u>(624,571)</u>
Other Financing Sources (Uses)							
Transfers In	-	763,100	-	-	-	-	763,100
Transfers Out	-	<u>(1,664)</u>	-	-	-	<u>(14,835)</u>	<u>(16,499)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>761,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,835)</u>	<u>746,601</u>
Net Change in Fund Balance	(45,894)	125,457	-	-	(19,392)	61,859	122,030
Fund Balance							
Beginning of Year	<u>309,537</u>	<u>41,538</u>	<u>-</u>	<u>-</u>	<u>38,163</u>	<u>234,381</u>	<u>623,619</u>
End of Year	<u>\$ 263,643</u>	<u>\$ 166,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,771</u>	<u>\$ 296,240</u>	<u>\$ 745,649</u>

LAKE HAVASU CITY, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Special Assessments	\$ -	\$ -	\$ -
Investment Earnings	500	492	(8)
Total Revenue	<u>500</u>	<u>492</u>	<u>(8)</u>
Expenditures			
Debt Service			
Principal Retirement	145,000	145,000	-
Interest on Long-Term Debt	<u>92,346</u>	<u>92,090</u>	<u>256</u>
Total Expenditures	<u>237,346</u>	<u>237,090</u>	<u>256</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(236,846)</u>	<u>(236,598)</u>	<u>248</u>
Other Financing Sources (Uses)			
Transfers In	240,000	240,000	-
Net Change in Fund Balance	3,154	3,402	248
Fund Balance			
Beginning of Year	<u>165,736</u>	<u>154,645</u>	<u>(11,091)</u>
End of Year	<u>\$ 168,890</u>	<u>\$ 158,047</u>	<u>\$ (10,843)</u>

**LAKE HAVASU CITY, ARIZONA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental Revenue	\$ 3,375,000	\$ 3,375,000	\$ 2,840,409	\$ (534,591)
Contributions and Donations	500,000	500,000	-	(500,000)
Impact Fees	-	-	-	-
Investment Earnings	55,500	55,500	32,553	(22,947)
Total Revenue	3,930,500	3,930,500	2,872,962	(1,057,538)
Expenditures				
General Government	231,190	231,190	93,985	137,205
Capital Outlay	12,451,018	7,956,908	3,278,455	4,678,453
Total Expenditures	12,682,208	8,188,098	3,372,440	4,815,658
Excess (Deficiency) of Revenue Over Expenditures	(8,751,708)	(4,257,598)	(499,478)	3,758,120
Other Financing Sources (Uses)				
Transfers In	3,021,801	3,021,801	507,060	(2,514,741)
Transfers Out	(825,854)	(594,664)	(377,285)	217,379
Proceeds from Capital Lease	125,423	125,423	395,096	269,673
Total Other Financing Sources (Uses)	2,321,370	2,552,560	524,871	(2,027,689)
Special Item				
Sale of Capital Assets	200,000	200,000	-	(200,000)
Net Change in Fund Balance	(6,230,338)	(1,505,038)	25,393	1,530,431
Fund Balance				
Beginning of Year	8,947,013	8,947,013	7,960,063	(986,950)
End of Year	\$ 2,716,675	\$ 7,441,975	\$ 7,985,456	\$ 543,481

LAKE HAVASU CITY, ARIZONA
TOURISM/ECONOMIC DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Taxes				
Sales Taxes	\$ 1,450,000	\$ 1,450,000	\$ 1,438,745	\$ (11,255)
Total Revenue	1,450,000	1,450,000	1,438,745	(11,255)
Expenditures				
Current				
Tourism and Promotion	1,485,000	1,524,000	1,484,639	39,361
Excess (Deficiency) of Revenue Over Expenditures	(35,000)	(74,000)	(45,894)	28,106
Fund Balance				
Beginning of Year	354,087	354,087	309,537	(44,550)
End of Year	\$ 319,087	\$ 280,087	\$ 263,643	\$ (16,444)

**LAKE HAVASU CITY, ARIZONA
HAVASU AREA TRANSIT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental Revenue	\$ 1,319,342	\$ 828,270	\$ (491,072)
Charges for Services	103,000	106,396	3,396
Investment Earnings	-	195	195
Other	-	158	158
Total Revenue	<u>1,422,342</u>	<u>935,019</u>	<u>(487,323)</u>
Expenditures			
Current			
Transportation Services	<u>2,150,397</u>	<u>1,570,998</u>	<u>579,399</u>
Excess (deficiency) of revenues over expenditures	(728,055)	(635,979)	92,076
Other Financing Sources (Uses)			
Transfers In	725,000	763,100	38,100
Transfers Out	(5,817)	(1,664)	4,153
Capital Leases	<u>3,817</u>	<u>-</u>	<u>(3,817)</u>
Total Other Financing Sources (Uses)	<u>723,000</u>	<u>761,436</u>	<u>38,436</u>
Net Change in Fund Balance	(5,055)	125,457	130,512
Fund Balance			
Beginning of Year	<u>41,123</u>	<u>41,538</u>	<u>415</u>
End of Year	<u>\$ 36,068</u>	<u>\$ 166,995</u>	<u>\$ 130,927</u>

LAKE HAVASU CITY, ARIZONA
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenue				
Intergovernmental Revenue	\$ 1,033,385	\$ 1,033,385	\$ 721,165	\$ (312,220)
Total Revenue	<u>1,033,385</u>	<u>1,033,385</u>	<u>721,165</u>	<u>(312,220)</u>
Expenditures				
Current				
Public Safety	1,033,385	1,178,215	712,445	465,770
Highways and Streets	-	-	8,720	(8,720)
Total Expenditures	<u>1,033,385</u>	<u>1,178,215</u>	<u>721,165</u>	<u>457,050</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(144,830)	-	144,830
Fund Balance				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ (144,830)</u>	<u>\$ -</u>	<u>\$ 144,830</u>

LAKE HAVASU CITY, ARIZONA
CDBG / HOME FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental Revenue	\$ 1,260,000	\$ 344,919	\$ (915,081)
Expenditures			
Current			
General Government	1,260,000	344,919	915,081
Excess (Deficiency) of Revenue Over Expenditures	-	-	-
Fund Balance			
Beginning of Year	-	-	-
End of Year	\$ -	\$ -	\$ -

**LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

	Budget Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Taxes				
Property Taxes	\$ 80,800	\$ 80,800	\$ 70,368	\$ (10,432)
Investment Earnings	160	160	152	(8)
Total Revenue	80,960	80,960	70,520	(10,440)
Expenditures				
Current				
General Government	86,600	93,900	89,912	3,988
Excess (Deficiency) of Revenue Over Expenditures	(5,640)	(12,940)	(19,392)	(6,452)
Fund Balance				
Beginning of Year	54,272	54,272	38,163	(16,109)
End of Year	\$ 48,632	\$ 41,332	\$ 18,771	\$ (22,561)

**LAKE HAVASU CITY, ARIZONA
SPECIAL PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Intergovernmental Revenue	\$ 248,777	\$ 248,777	\$ 296,586	\$ 47,809
Fines and Forfeitures	72,215	72,215	75,802	3,587
Charges for Services	11,000	11,220	12,450	1,230
Contributions and Donations	5,000	5,000	5,371	371
Investment Earnings	1,315	915	1,261	346
Other	68,456	68,456	5,030	(63,426)
Total Revenue	406,763	406,583	396,500	(10,083)
Expenditures				
Current				
General Government	10,000	10,000	5,815	4,185
Public Safety	332,558	353,868	313,991	39,877
Culture and Recreation	-	-	-	-
Total Expenditures	342,558	363,868	319,806	44,062
Excess (Deficiency) of Revenues Over Expenditures	64,205	42,715	76,694	33,979
Other Financing Sources (Uses)				
Transfers Out	(65,000)	(65,329)	(14,835)	(50,494)
Total Other Financing Sources (Uses)	(65,000)	(65,329)	(14,835)	(50,494)
Net Change in Fund Balance	(795)	(22,614)	61,859	84,473
Fund Balance				
Beginning of Year	269,229	269,229	234,381	(34,848)
End of Year	\$ 268,434	\$ 246,615	\$ 296,240	\$ 49,625



**NONMAJOR BUSINESS-TYPE ACTIVITIES FUNDS
ENTERPRISE FUNDS**

Recreation/Aquatic Center Fund – To account for the operation of the City’s aquatic center.

Airport Fund – To account for the activities of the City’s airport.

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2013

	Recreation/ Aquatic Center	Airport	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 180,901	\$ -	\$ 180,901
Receivables, Net			
Accounts Receivable	2,055	11,374	13,429
Intergovernmental Receivable	-	181,510	181,510
Interest Receivable	275	5	280
Inventory	3,234	-	3,234
Prepaid Items	6,980	5,212	12,192
Restricted Assets	-	23,633	23,633
Total Current Assets	<u>193,445</u>	<u>221,734</u>	<u>415,179</u>
Noncurrent Assets			
Capital Assets			
Non-Depreciable	-	1,002,786	1,002,786
Depreciable (Net)	<u>5,474,935</u>	<u>16,062,229</u>	<u>21,537,164</u>
Total Noncurrent Assets	<u>5,474,935</u>	<u>17,065,015</u>	<u>22,539,950</u>
Total Assets	<u>5,668,380</u>	<u>17,286,749</u>	<u>22,955,129</u>
Liabilities			
Current Liabilities			
Accounts Payable	10,484	13,242	23,726
Accrued Wages and Benefits	11,484	2,976	14,460
Intergovernmental Payable	658	690	1,348
Due to Other Funds	-	125,279	125,279
Interest Payable	-	63	63
Deferred Revenue	29,794	8,731	38,525
Liabilities Payable from Restricted Assets	-	23,633	23,633
Compensated Absences	7,497	4,987	12,484
Capital Leases Payable	<u>64,696</u>	<u>22,649</u>	<u>87,345</u>
Total Current Liabilities	<u>124,613</u>	<u>202,250</u>	<u>326,863</u>
Noncurrent Liabilities			
Compensated Absences	7,750	5,076	12,826
Capital Leases Payable	1,235,275	41,991	1,277,266
Other Postemployment Benefits	<u>37,973</u>	<u>-</u>	<u>37,973</u>
Total Noncurrent Liabilities	<u>1,280,998</u>	<u>47,067</u>	<u>1,328,065</u>
Total Liabilities	<u>1,405,611</u>	<u>249,317</u>	<u>1,654,928</u>
Net Position			
Net Investment in Capital Assets	4,174,964	17,000,375	21,175,339
Unrestricted	<u>87,805</u>	<u>37,057</u>	<u>124,862</u>
Total Net Position	<u>\$ 4,262,769</u>	<u>\$ 17,037,432</u>	<u>\$ 21,300,201</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Total Nonmajor Business-Type Activities</u>
Operating Revenue			
Charges for Services	\$ 354,973	\$ 466,610	\$ 821,583
Total operating revenues	<u>354,973</u>	<u>466,610</u>	<u>821,583</u>
Operating Expenses			
Costs of Sales and Services	1,125,631	590,428	1,716,059
Depreciation	<u>203,747</u>	<u>740,160</u>	<u>943,907</u>
Total Operating Expenses	<u>1,329,378</u>	<u>1,330,588</u>	<u>2,659,966</u>
Operating Income (Loss)	<u>(974,405)</u>	<u>(863,978)</u>	<u>(1,838,383)</u>
Nonoperating Revenues (Expenses)			
Interest Earnings	1,427	166	1,593
Interest Expense	-	(1,739)	(1,739)
Other Income	<u>17,187</u>	<u>25,575</u>	<u>42,762</u>
Total Nonoperating Revenue (Expenses)	<u>18,614</u>	<u>24,002</u>	<u>42,616</u>
Income (Loss) Before Contributions and Transfers	(955,791)	(839,976)	(1,795,767)
Capital Contributions	-	231,829	231,829
Transfers In	875,000	201,183	1,076,183
Transfers Out	<u>(79,081)</u>	<u>(3,353)</u>	<u>(82,434)</u>
Change in Net Position	<u>(159,872)</u>	<u>(410,317)</u>	<u>(570,189)</u>
Net Position			
Beginning of Year	<u>4,422,641</u>	<u>17,447,749</u>	<u>21,870,390</u>
End of Year	<u>\$ 4,262,769</u>	<u>\$ 17,037,432</u>	<u>\$ 21,300,201</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers	\$ 349,823	\$ 463,640	\$ 813,463
Payments to Suppliers	(765,657)	(535,834)	(1,301,491)
Payments to Employees	(344,224)	(156,935)	(501,159)
Other Nonoperating Receipts	17,026	25,575	42,601
Customer Deposits (Payments)	<u>-</u>	<u>1,031</u>	<u>1,031</u>
Net Cash Flows from (used by)			
Operating Activities	<u>(743,032)</u>	<u>(202,523)</u>	<u>(945,555)</u>
Cash Flows from Noncapital			
Financing Activities			
Transfers In	875,000	201,183	1,076,183
Transfers Out	(79,081)	(3,353)	(82,434)
Due to Other Funds	<u>-</u>	<u>125,279</u>	<u>125,279</u>
Net Cash Flows from (used by)			
Noncapital Financing Activities	<u>795,919</u>	<u>323,109</u>	<u>1,119,028</u>
Cash Flows from Capital and			
Financing Activities			
Capital Grants and Contributions	-	183,981	183,981
Purchases of Capital Assets	(14,932)	(353,162)	(368,094)
Principal Paid on Capital Debt	(61,222)	(41,868)	(103,090)
Interest Paid on Capital Debt	<u>-</u>	<u>(1,861)</u>	<u>(1,861)</u>
Net Cash Flows from (used by)			
Capital and Financing Activities	<u>(76,154)</u>	<u>(212,910)</u>	<u>(289,064)</u>
Cash Flows from Investing Activities			
Interest and Dividends	<u>1,427</u>	<u>275</u>	<u>1,702</u>
Net Change in Cash and Cash			
Equivalents	(21,840)	(92,049)	(113,889)
Cash and Cash Equivalents, Beginning			
of Year	<u>202,741</u>	<u>115,682</u>	<u>318,423</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 180,901</u></u>	<u><u>\$ 23,633</u></u>	<u><u>\$ 204,534</u></u>

Note: Cash and Cash Equivalents, End of Year on Statement of Cash Flows in Airport reflects the total of Cash and Cash Equivalents (\$0) and Restricted Assets (\$23,633) on the Statement of Net Position.

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Totals</u>
(Continued)			
Reconciliation of Operating Income (Loss) to Net Cash from (used by) Operating Activities			
Operating Income (Loss)	\$ (974,405)	\$ (863,978)	\$ (1,838,383)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from (used by) Operating Activities			
Depreciation	203,747	740,160	943,907
Other Nonoperating Receipts (Expenses)	17,026	25,575	42,601
Change in Assets/Liabilities:			
Receivables, Net	(1,481)	3,193	1,712
Inventories	(532)	-	(532)
Prepaid Items	(505)	(96)	(601)
Accounts Payable	1,570	(89,580)	(88,010)
Intergovernmental Payable	(168)	690	522
Accrued Wages and Benefits	(48)	(3,011)	(3,059)
Compensated Absences	8,606	896	9,502
Deferred Revenue	(3,669)	(6,163)	(9,832)
Customer Deposits Payable	-	1,031	1,031
Other Postemployment Benefits	<u>6,827</u>	<u>(11,240)</u>	<u>(4,413)</u>
Net Cash from (used by) Operating Activities	<u>\$ (743,032)</u>	<u>\$ (202,523)</u>	<u>\$ (945,555)</u>

Noncash Investing, Capital and Financing Activities

Capital assets of \$420,885 and \$14,311 were acquired through capital leases by the Recreation/Aquatic Center and Airport, respectively, during the year.



INTERNAL SERVICE FUNDS

Vehicle Replacement Fund – To account for the City's vehicle and equipment replacement program.

Employee Benefit Trust Fund – To account for the City's uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents.

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2013

	<u>Vehicle Replacement</u>	<u>Employee Benefit Trust</u>	<u>Totals</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,154,946	\$ 4,092,230	\$ 7,247,176
Receivables, Net			
Accounts Receivable	-	-	-
Interest Receivable	3,398	5,065	8,463
Prepaid Items	-	34,433	34,433
Total Current Assets	<u>3,158,344</u>	<u>4,131,728</u>	<u>7,290,072</u>
Noncurrent Assets			
Capital Assets			
Depreciable (net)	<u>1,128,652</u>	<u>-</u>	<u>1,128,652</u>
Total Assets	<u>4,286,996</u>	<u>4,131,728</u>	<u>8,418,724</u>
Liabilities			
Current Liabilities			
Accounts Payable	69,953	-	69,953
Claims Payable	-	-	-
Total Current Liabilities	<u>69,953</u>	<u>-</u>	<u>69,953</u>
Total Liabilities	<u>69,953</u>	<u>-</u>	<u>69,953</u>
Net Position			
Net Investment in Capital Assets	1,128,652	-	1,128,652
Unrestricted	<u>3,088,391</u>	<u>4,131,728</u>	<u>7,220,119</u>
Total Net Position	<u>\$ 4,217,043</u>	<u>\$ 4,131,728</u>	<u>\$ 8,348,771</u>

**LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013**

	Vehicle Replacement	Employee Benefit Trust	Totals
Operating Revenue			
Premiums	\$ -	\$ 205,040	\$ 205,040
Total Operating Revenues	<u>-</u>	<u>205,040</u>	<u>205,040</u>
Operating Expenses			
Premiums	-	-	-
Administration	5,633	41,562	47,195
Benefits	-	65,012	65,012
Depreciation	410,679	-	410,679
Total Operating Expenses	<u>416,312</u>	<u>106,574</u>	<u>522,886</u>
Operating Income (Loss)	<u>(416,312)</u>	<u>98,466</u>	<u>(317,846)</u>
Nonoperating Revenues (Expenses)			
Investment Earnings	20,316	48,678	68,994
Other Income	9,859	37,640	47,499
Total Nonoperating Revenues (Expenses)	<u>30,175</u>	<u>86,318</u>	<u>116,493</u>
Income (Loss) Before Transfers	(386,137)	184,784	(201,353)
Transfers In	-	-	-
Transfers Out	-	(2,500,000)	(2,500,000)
Change in Net Position	<u>(386,137)</u>	<u>(2,315,216)</u>	<u>(2,701,353)</u>
Net Position			
Beginning of Year	<u>4,603,180</u>	<u>6,446,944</u>	<u>11,050,124</u>
End of Year	<u>\$ 4,217,043</u>	<u>\$ 4,131,728</u>	<u>\$ 8,348,771</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Vehicle Replacement</u>	<u>Employee Benefit Trust</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers	\$ -	\$ 205,230	\$ 205,230
Payments to Suppliers	64,320	(547,228)	(482,908)
Other Nonoperating Receipts	<u>9,859</u>	<u>37,640</u>	<u>47,499</u>
Net Cash Flows from (used by)			
Operating Activities	<u>74,179</u>	<u>(304,358)</u>	<u>(230,179)</u>
Cash Flows from Noncapital			
Financing Activities			
Transfers Out	-	(2,500,000)	(2,500,000)
Cash Flows from Capital and Related			
Financing Activities			
Purchases of Capital Assets	(405,354)	-	(405,354)
Cash Flows from Investing Activities			
Interest and Dividends	<u>18,963</u>	<u>47,343</u>	<u>66,306</u>
Net Change in Cash and Cash Equivalents	(312,212)	(2,757,015)	(3,069,227)
Cash and Cash Equivalents, Beginning of			
Year	<u>3,467,158</u>	<u>6,849,245</u>	<u>10,316,403</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,154,946</u>	<u>\$ 4,092,230</u>	<u>\$ 7,247,176</u>
Reconciliation of Operating Income (Loss)			
to Net Cash from (used by) Operating			
Activities			
Operating Income (Loss)	\$ (416,312)	\$ 98,466	\$ (317,846)
Adjustments to Reconcile Operating Loss			
to Net Cash from (used by)			
Operating Activities:			
Depreciation	410,679	-	410,679
Other Nonoperating Receipts (Expenses)	9,859	37,640	47,499
Change in Assets/Liabilities:			
Receivables, Net	-	190	190
Prepaid Items	-	11,964	11,964
Accounts Payable	69,953	(618)	69,335
Claims Payable	<u>-</u>	<u>(452,000)</u>	<u>(452,000)</u>
Net Cash from (used by) Operating			
Activities	<u>\$ 74,179</u>	<u>\$ (304,358)</u>	<u>\$ (230,179)</u>

STATISTICAL SECTION

This part of the Lake Havasu City, Arizona's, Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends – These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity – These schedules contain information to help readers assess the City's most significant local revenue source, the sales tax.

Debt Capacity – These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information – These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



**LAKE HAVASU CITY, ARIZONA
NET POSITION BY COMPONENT (1)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011 (As Restated)	2012 (As Restated)	2013
Governmental Activities										
Net Investment in Capital Assets	\$ 44,518,547	\$ 46,769,169	\$ 49,705,688	\$ 69,549,691	\$ 84,717,176	\$ 89,771,829	\$ 86,672,300	\$ 87,690,122	\$ 87,049,507	\$ 87,401,644
Net Position-Restricted	5,849,813	6,895,895	10,075,093	9,473,106	7,502,504	7,913,264	12,583,976	10,279,119	8,223,996	8,485,744
Net Position-Unrestricted	19,298,873	18,947,577	24,154,802	30,241,127	25,019,618	19,192,814	18,837,995	21,634,832	24,258,422	24,692,309
Total Governmental Activities Net Position	<u>\$ 69,667,233</u>	<u>\$ 72,612,641</u>	<u>\$ 83,935,583</u>	<u>\$ 109,263,924</u>	<u>\$ 117,239,298</u>	<u>\$ 116,877,907</u>	<u>\$ 118,094,271</u>	<u>\$ 119,604,073</u>	<u>\$ 119,531,925</u>	<u>\$ 120,579,697</u>
Business-type Activities										
Net Investment in Capital Assets	\$ 98,939,694	\$ 106,779,037	\$ 143,521,523	\$ 135,934,350	\$ 147,265,013	\$ 120,519,205	\$ 128,661,852	\$ 113,244,315	\$ 111,325,222	\$ 112,402,345
Net Position-Restricted	-	-	-	-	-	-	-	-	-	-
Net Position-Unrestricted	23,289,617	29,642,653	8,508,879	32,101,132	33,854,356	71,808,903	81,173,618	91,498,031	96,661,045	96,748,188
Total Business-type Activities Net Position	<u>\$ 122,229,311</u>	<u>\$ 136,421,690</u>	<u>\$ 152,030,402</u>	<u>\$ 168,035,482</u>	<u>\$ 181,119,369</u>	<u>\$ 192,328,108</u>	<u>\$ 209,835,470</u>	<u>\$ 204,742,346</u>	<u>\$ 207,986,267</u>	<u>\$ 209,150,533</u>
Primary Government										
Net Investment in Capital Assets	\$ 143,458,241	\$ 153,548,206	\$ 193,227,211	\$ 205,484,041	\$ 231,982,189	\$ 210,291,034	\$ 215,334,152	\$ 200,934,437	\$ 198,374,729	\$ 199,803,989
Net Position-Restricted	5,849,813	6,895,895	10,075,093	9,473,106	7,502,504	7,913,264	12,583,976	10,279,119	8,223,996	8,485,744
Net Position-Unrestricted	42,588,490	48,590,230	32,663,681	62,342,259	58,873,974	91,001,717	100,011,613	113,132,863	120,919,467	121,440,497
Total Primary Government Net Position	<u>\$ 191,896,544</u>	<u>\$ 209,034,331</u>	<u>\$ 235,965,985</u>	<u>\$ 277,299,406</u>	<u>\$ 298,358,667</u>	<u>\$ 309,206,015</u>	<u>\$ 327,929,741</u>	<u>\$ 324,346,419</u>	<u>\$ 327,518,192</u>	<u>\$ 329,730,230</u>

(1) Government Accounting Standards Board (GASB) Statement 63 was implemented by the City in fiscal year ended June 30, 2013. Net position was reported as net assets prior to GASB 63 implementation.

**LAKE HAVASU CITY, ARIZONA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011 (As Restated)	2012 (As Restated)	2013
Expenses										
Governmental Activities:										
General Government	\$ 8,476,152	\$ 8,368,982	\$ 8,659,589	\$ 8,939,846	\$ 11,443,459	\$ 11,587,628	\$ 11,523,143	\$ 9,621,283	\$ 8,476,893	\$ 10,853,502
Public Safety	14,960,107	16,646,139	18,067,192	21,061,456	24,929,038	24,101,607	22,048,520	22,372,576	21,686,997	24,589,053
Highways and Streets	6,445,426	7,214,688	6,167,089	8,150,105	7,785,062	7,212,143	5,425,314	5,918,563	6,233,637	6,489,355
Transportation Services	1,761,356	1,796,054	1,888,322	1,841,324	2,236,456	2,081,649	1,820,974	1,461,976	1,879,024	2,084,097
Tourism and Promotion	1,264,920	1,398,228	1,529,094	1,577,687	1,582,985	1,357,250	1,357,407	1,390,134	1,496,816	1,485,300
Culture and Recreation	3,724,502	4,533,104	4,566,607	5,005,653	5,708,732	5,560,189	4,590,764	4,722,202	4,073,659	1,818,542
Interest on Long-Term Debt	<u>732,398</u>	<u>581,320</u>	<u>450,892</u>	<u>314,557</u>	<u>192,875</u>	<u>126,647</u>	<u>115,351</u>	<u>108,188</u>	<u>99,411</u>	<u>92,090</u>
Total Governmental Activities	37,364,861	40,538,515	41,328,785	46,890,628	53,878,607	52,027,113	46,881,473	45,594,922	43,946,437	47,411,939
Business-type Activities:										
Refuse	395,178	433,897	437,916	432,118	796,755	788,325	1,081,376	1,085,990	5,410,612	5,368,384
Recreation / Aquatic Center	1,165,795	1,220,529	1,182,535	1,293,160	1,421,768	1,238,856	1,079,224	1,079,984	1,246,005	1,329,378
Irrigation and Drainage	7,424,603	9,452,177	9,852,891	10,545,850	12,082,578	11,865,294	10,220,643	10,523,588	10,044,185	9,840,794
Wastewater	6,395,900	7,308,945	9,426,955	9,824,124	12,244,284	14,776,656	15,205,648	24,963,122	25,793,737	27,050,179
Airport	<u>2,128,119</u>	<u>1,499,059</u>	<u>1,518,477</u>	<u>1,578,872</u>	<u>1,569,121</u>	<u>1,638,496</u>	<u>1,391,318</u>	<u>1,356,632</u>	<u>1,364,933</u>	<u>1,332,327</u>
Total Business-type Activities	<u>17,509,595</u>	<u>19,914,607</u>	<u>22,418,774</u>	<u>23,674,124</u>	<u>28,114,506</u>	<u>30,307,627</u>	<u>28,978,209</u>	<u>39,009,316</u>	<u>43,859,472</u>	<u>44,921,062</u>
Total Primary Government Expenses	<u>\$ 54,874,456</u>	<u>\$ 60,453,122</u>	<u>\$ 63,747,559</u>	<u>\$ 70,564,752</u>	<u>\$ 81,993,113</u>	<u>\$ 82,334,740</u>	<u>\$ 75,859,682</u>	<u>\$ 84,604,238</u>	<u>\$ 87,805,909</u>	<u>\$ 92,333,001</u>
Program Revenues										
Governmental Activities:										
Fines, Fees and Charges for Services:										
General Government	\$ 4,362,919	\$ 4,312,475	\$ 5,419,483	\$ 4,591,229	\$ 3,803,583	\$ 2,714,374	\$ 2,883,613	\$ 2,697,578	\$ 2,496,454	\$ 3,069,608
Public Safety	122,690	145,296	150,248	131,148	161,717	110,643	138,856	131,855	107,777	534,871
Highways and Streets	28,743	39,402	23,773	105,697	7,880	105,763	26,885	22,861	21,023	189,775
Culture and Recreation	575,014	551,165	635,464	654,523	670,950	535,640	639,748	570,009	565,388	597,730
Transportation Services	382,816	367,310	354,059	171,779	91,617	102,469	103,165	106,000	119,262	106,528
Interest	41,746	80,978	-	16,040	29,091	3,201	7,308	5,765	2,086	-
Operating Grants and Contributions	5,817,861	6,874,258	6,938,568	8,737,113	9,255,906	7,093,164	7,656,464	7,755,856	6,522,104	6,837,670
Capital Grants and Contributions	<u>4,697,048</u>	<u>367,726</u>	<u>643,939</u>	<u>17,022,840</u>	<u>6,215,355</u>	<u>7,088,714</u>	<u>3,672,012</u>	<u>3,264,826</u>	<u>1,525,462</u>	<u>2,930,409</u>
Total Governmental Activities Program Revenues	<u>16,028,837</u>	<u>12,738,610</u>	<u>14,165,534</u>	<u>31,430,369</u>	<u>20,236,099</u>	<u>17,753,968</u>	<u>15,128,051</u>	<u>14,554,750</u>	<u>11,359,556</u>	<u>14,266,591</u>

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Business-type Activities:										
Charges for Services:										
Refuse	\$ 847,270	\$ 917,215	\$ 967,991	\$ 1,042,200	\$ 1,269,783	\$ 1,180,596	\$ 1,193,935	\$ 1,198,732	\$ 5,589,465	\$ 5,725,669
Recreation / Aquatic Center	457,219	422,279	429,222	497,842	433,782	376,044	349,804	332,304	388,600	372,160
Irrigation and Drainage	11,187,833	11,945,099	12,322,158	12,690,337	11,590,238	11,000,962	11,299,977	10,970,391	10,792,533	10,490,751
Wastewater	4,441,473	5,110,191	7,333,204	11,071,344	13,331,015	14,514,990	16,836,789	21,241,682	21,865,171	22,047,663
Airport	484,506	545,364	551,921	557,926	581,215	534,797	1,125,623	521,022	510,311	492,185
Operating Grants and Contributions	1,247,605	1,360,656	1,908,002	85,129	1,000	46,076	25,000	86,000	88,717	51,853
Capital Grants and Contributions	4,235,562	6,552,540	7,320,449	6,569,117	9,196,982	7,112,526	10,373,301	13,547,954	3,161,306	2,159,379
Total Business-type Activities Program Revenues	<u>22,901,468</u>	<u>26,853,344</u>	<u>30,832,947</u>	<u>32,513,895</u>	<u>36,404,015</u>	<u>34,765,991</u>	<u>41,204,429</u>	<u>47,898,085</u>	<u>42,396,103</u>	<u>41,339,660</u>
Total Primary Government Program Revenues	<u>\$ 38,930,305</u>	<u>\$ 39,591,954</u>	<u>\$ 44,998,481</u>	<u>\$ 63,944,264</u>	<u>\$ 56,640,114</u>	<u>\$ 52,519,959</u>	<u>\$ 56,332,480</u>	<u>\$ 62,452,835</u>	<u>\$ 53,755,659</u>	<u>\$ 55,606,251</u>
Net (Expense)/Revenue										
Governmental Activities	\$ (21,336,024)	\$ (27,799,905)	\$ (27,163,251)	\$ (15,460,259)	\$ (33,642,508)	\$ (34,273,145)	\$ (31,753,421)	\$ (31,040,172)	\$ (32,586,881)	\$ (33,145,348)
Business-type Activities	5,391,873	6,938,737	8,414,173	8,839,771	8,289,509	4,458,364	12,226,220	8,888,769	(1,463,369)	(3,581,402)
Total Primary Government Net Expense	<u>\$ (15,944,151)</u>	<u>\$ (20,861,168)</u>	<u>\$ (18,749,078)</u>	<u>\$ (6,620,488)</u>	<u>\$ (25,352,999)</u>	<u>\$ (29,814,781)</u>	<u>\$ (19,527,201)</u>	<u>\$ (22,151,403)</u>	<u>\$ (34,050,250)</u>	<u>\$ (36,726,750)</u>
General Revenues and Other										
Changes in Net Position										
Governmental Activities:										
Taxes:										
Sales Taxes	\$ 19,055,160	\$ 20,558,443	\$ 22,880,568	\$ 21,552,577	\$ 18,825,309	\$ 15,366,885	\$ 13,979,108	\$ 14,379,370	\$ 14,400,439	\$ 14,157,677
Property Taxes	3,107,290	3,497,095	4,042,201	4,442,505	4,659,276	4,875,880	5,106,364	4,135,595	4,150,569	4,194,202
Franchise Taxes	258,528	254,675	227,038	746,815	1,733,704	1,921,624	1,687,909	1,722,878	1,684,173	1,705,943
Impact Fees	-	-	-	185,562	10,674	97,045	318,232	295,355	-	-
State Revenue Sharing	3,781,523	3,855,258	4,390,884	6,066,778	7,519,909	7,979,307	6,899,020	5,200,976	4,433,318	5,365,520
State Sales Tax Revenue Sharing	3,528,252	3,885,149	4,520,559	5,078,851	4,910,888	4,251,458	3,921,350	4,081,876	4,104,475	4,299,431
Auto Lieu Tax Revenue Sharing	2,389,482	2,620,537	3,008,101	3,244,184	3,102,207	2,840,324	2,665,669	2,621,452	2,451,516	2,423,003
Investment Earnings (Loss)	480,411	621,096	1,066,812	1,198,654	1,193,238	467,629	253,403	187,740	(81,420)	400,393
Other	36,861	17,325	71,692	18,705	14,912	12,590	16,124	78,417	119,074	47,499
Transfers	<u>(3,436,818)</u>	<u>(4,564,265)</u>	<u>(1,721,662)</u>	<u>(1,746,031)</u>	<u>561,289</u>	<u>(3,900,988)</u>	<u>(1,877,395)</u>	<u>(153,685)</u>	<u>1,252,589</u>	<u>1,599,452</u>
Total Governmental Activities	<u>29,200,689</u>	<u>30,745,313</u>	<u>38,486,193</u>	<u>40,788,600</u>	<u>42,531,406</u>	<u>33,911,754</u>	<u>32,969,784</u>	<u>32,549,974</u>	<u>32,514,733</u>	<u>34,193,120</u>
Business-type activities:										
Property Taxes	2,052,192	1,992,909	2,034,044	2,111,867	2,156,284	2,134,068	3,237,149	4,460,402	5,703,105	5,675,383
Investment Earnings (Loss)	336,066	696,468	3,438,833	3,757,572	2,285,859	715,319	200,593	266,125	256,774	669,737
Transfers	<u>3,436,818</u>	<u>4,564,265</u>	<u>1,721,662</u>	<u>1,746,031</u>	<u>(561,289)</u>	<u>3,900,988</u>	<u>1,877,395</u>	<u>153,685</u>	<u>(1,252,589)</u>	<u>(1,599,452)</u>
Total Business-type Activities	<u>5,825,076</u>	<u>7,253,642</u>	<u>7,194,539</u>	<u>7,615,470</u>	<u>3,880,854</u>	<u>6,750,375</u>	<u>5,315,137</u>	<u>4,880,212</u>	<u>4,707,290</u>	<u>4,745,668</u>
Total Primary Government	<u>\$ 35,025,765</u>	<u>\$ 37,998,955</u>	<u>\$ 45,680,732</u>	<u>\$ 48,404,070</u>	<u>\$ 46,412,260</u>	<u>\$ 40,662,129</u>	<u>\$ 38,284,921</u>	<u>\$ 37,430,186</u>	<u>\$ 37,222,023</u>	<u>\$ 38,938,788</u>
Change in Net Position										
Governmental Activities	\$ 7,864,665	\$ 2,945,408	\$ 11,322,942	\$ 25,328,341	\$ 8,888,898	\$ (361,391)	\$ 1,216,364	\$ 1,509,802	\$ (72,148)	\$ 1,047,772
Business-type Activities	<u>11,216,949</u>	<u>14,192,379</u>	<u>15,608,712</u>	<u>16,455,241</u>	<u>12,170,363</u>	<u>11,208,739</u>	<u>17,541,357</u>	<u>13,768,981</u>	<u>3,243,921</u>	<u>1,164,266</u>
Total Primary Government	<u>\$ 19,081,614</u>	<u>\$ 17,137,787</u>	<u>\$ 26,931,654</u>	<u>\$ 41,783,582</u>	<u>\$ 21,059,261</u>	<u>\$ 10,847,348</u>	<u>\$ 18,757,721</u>	<u>\$ 15,278,783</u>	<u>\$ 3,171,773</u>	<u>\$ 2,212,038</u>

**LAKE HAVASU CITY, ARIZONA
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities:										
General Government	\$ 4,990,776	\$ 5,112,021	\$ 6,051,764	\$ 5,442,971	\$ 6,070,080	\$ 4,553,454	\$ 4,369,104	\$ 3,726,647	\$ 3,535,789	\$ 3,995,491
Public Safety	254,668	475,607	416,702	1,467,555	667,438	545,061	1,033,934	1,155,283	941,184	1,538,204
Highways and Streets	5,441,918	5,408,483	6,038,682	22,362,852	10,788,458	10,370,964	7,734,943	6,984,204	5,084,235	7,081,241
Culture and Recreation	4,212,127	656,829	647,903	1,057,891	697,866	1,188,244	654,545	693,518	707,343	708,112
Transportation Services	1,087,602	1,004,692	1,010,483	1,083,060	1,983,166	1,093,044	1,328,218	1,989,333	1,088,919	943,543
Interest on Long-term Debt	41,746	80,978	-	16,040	29,091	3,201	7,308	5,765	2,086	-
Subtotal Governmental Activities	16,028,837	12,738,610	14,165,534	31,430,369	20,236,099	17,753,968	15,128,052	14,554,750	11,359,556	14,266,591
Business-type Activities:										
Refuse	847,270	917,215	967,991	1,064,929	1,269,783	1,180,596	1,193,935	1,198,732	5,589,465	5,725,669
Recreation/Aquatic Center	457,219	422,279	429,222	497,842	433,782	501,550	349,804	332,304	388,600	372,160
Irrigation and Drainage	12,435,438	13,253,505	14,230,160	12,752,737	11,591,238	12,469,059	11,750,407	13,875,204	12,496,186	11,824,048
Wastewater	7,651,686	10,519,987	12,107,493	17,636,027	22,055,956	19,416,038	26,728,765	31,611,051	23,241,431	22,693,769
Airport	1,509,855	1,740,358	3,098,081	562,360	1,053,256	1,198,748	1,181,518	880,794	680,421	724,014
Subtotal Business-type Activities	22,901,468	26,853,344	30,832,947	32,513,895	36,404,015	34,765,991	41,204,429	47,898,085	42,396,103	41,339,660
Total Primary Government	<u>\$ 38,930,305</u>	<u>\$ 39,591,954</u>	<u>\$ 44,998,481</u>	<u>\$ 63,944,264</u>	<u>\$ 56,640,114</u>	<u>\$ 52,519,959</u>	<u>\$ 56,332,481</u>	<u>\$ 62,452,835</u>	<u>\$ 53,755,659</u>	<u>\$ 55,606,251</u>

LAKE HAVASU CITY, ARIZONA
FUND BALANCES 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										
Reserved	\$ 212,631	\$ 236,978	\$ 221,242	\$ 239,771	\$ 289,716	\$ 245,625	\$ 510,785	\$ -	\$ -	\$ -
Unreserved	16,517,487	16,177,818	1,938,201	22,381,025	15,770,483	10,941,973	12,028,929	-	-	-
Nonspendable	-	-	-	-	-	-	-	461,612	349,232	280,021
Restricted	-	-	-	-	-	-	-	8,663	16,815	43,053
Committed	-	-	-	-	-	-	-	1,199,646	533,133	73,885
Assigned	-	-	-	-	-	-	-	2,708,530	-	1,705,874
Unassigned	-	-	-	-	-	-	-	8,616,221	14,476,034	17,920,187
Total General Fund	<u>\$ 16,730,118</u>	<u>\$ 16,414,796</u>	<u>\$ 2,159,443</u>	<u>\$ 22,620,796</u>	<u>\$ 16,060,199</u>	<u>\$ 11,187,598</u>	<u>\$ 12,539,714</u>	<u>\$ 12,994,672</u>	<u>\$ 15,375,214</u>	<u>\$ 20,023,020</u>
All Other Governmental Funds										
Reserved	\$ 1,165,554	\$ 1,031,329	\$ 866,633	\$ 777,537	\$ 260,745	\$ 161,487	\$ 161,447	-	-	-
Unreserved, Reported in:										
Special Revenue Funds	458,524	1,410,111	2,016,653	2,023,123	1,337,693	1,307,293	2,951,892	-	-	-
Debt Service Funds	-	-	-	-	-	-	-	-	-	-
Capital Projects Funds	<u>4,252,007</u>	<u>4,576,046</u>	<u>7,312,618</u>	<u>6,883,115</u>	<u>5,904,066</u>	<u>6,444,484</u>	<u>9,470,637</u>	-	-	-
Total Unreserved	4,710,531	5,986,157	9,329,271	8,906,238	7,241,759	7,751,777	12,422,529	-	-	-
Nonspendable	-	-	-	-	-	-	-	116,394	123,655	126,163
Restricted	-	-	-	-	-	-	-	10,166,279	8,100,341	8,359,581
Committed	-	-	-	-	-	-	-	2,654,787	153,466	1,228,334
Assigned	-	-	-	-	-	-	-	496,230	3,028,968	2,010,336
Unassigned	-	-	-	-	-	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 5,876,085</u>	<u>\$ 7,017,486</u>	<u>\$ 10,195,904</u>	<u>\$ 9,683,775</u>	<u>\$ 7,502,504</u>	<u>\$ 7,913,264</u>	<u>\$ 12,583,976</u>	<u>\$ 13,433,690</u>	<u>\$ 11,406,430</u>	<u>\$ 11,724,414</u>

Notes: Beginning in FY 2011, GASB Statement No. 54 was implemented. See Note 1.D.10. of the Notes to Basic Financial Statements.

LAKE HAVASU CITY, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes	\$ 22,452,872	\$ 24,284,788	\$ 27,243,475	\$ 26,745,506	\$ 25,069,101	\$ 22,251,293	\$ 20,752,317	\$ 20,303,864	\$ 20,226,164	\$ 20,058,886
Intergovernmental	20,201,471	17,581,248	19,487,017	25,771,964	28,683,671	26,413,424	24,711,004	22,707,886	18,727,568	21,694,328
Fines and Forfeitures	1,209,200	1,159,289	1,373,678	1,501,738	1,491,271	1,369,529	1,486,805	1,368,057	1,309,072	1,344,452
Licenses and Permits	3,054,053	3,063,436	3,925,346	2,913,384	1,961,920	992,742	1,193,690	1,033,320	1,072,635	1,434,927
Charges for Services	1,079,752	1,055,558	1,131,132	970,168	836,573	711,345	931,886	817,168	803,069	1,233,163
Rents and Royalties	17,170	28,875	28,006	22,958	27,732	58,785	51,889	46,494	64,824	88,445
Contributions and Donations	12,695	21,680	15,034	11,921	6,910	11,018	6,939	142,715	112,576	117,678
Impact Fees	-	-	-	185,562	10,674	97,045	318,232	295,355	137,207	-
Special Assessments	124,514	181,027	155,733	106,040	124,318	131,602	68,996	66,283	65,357	-
Investment Earnings (Loss)	404,262	500,624	910,746	960,145	801,582	325,534	212,547	169,181	(53,402)	346,455
Other	112,007	108,490	124,865	246,128	418,251	436,488	224,576	337,648	119,827	426,502
Total Revenues	<u>48,667,996</u>	<u>47,985,015</u>	<u>54,395,032</u>	<u>59,435,514</u>	<u>59,432,003</u>	<u>52,798,805</u>	<u>49,958,881</u>	<u>47,287,971</u>	<u>42,584,897</u>	<u>46,744,836</u>
Expenditures										
General Government	8,141,073	8,270,651	9,096,156	10,184,269	12,752,567	10,778,205	9,320,011	9,511,503	9,806,857	10,971,201
Public Safety	14,283,381	16,727,791	18,909,689	22,896,305	24,966,721	24,280,422	20,448,619	21,230,032	20,867,623	23,587,259
Highways and Streets	4,990,748	6,501,669	5,628,498	6,936,589	6,668,408	5,203,661	3,821,793	4,418,689	4,522,249	4,721,183
Culture and Recreation	3,585,349	4,530,472	4,637,482	5,490,982	6,075,524	5,307,096	4,038,440	3,835,394	3,707,822	1,703,534
Transportation Services	1,950,290	1,666,808	1,775,815	1,865,392	2,951,865	1,919,213	1,605,268	1,847,708	1,649,359	1,570,998
Tourism and Promotion	1,264,259	1,397,567	1,528,433	1,577,026	1,582,324	1,356,589	1,356,746	1,389,473	1,496,155	1,484,639
Capital Outlay	7,582,000	6,737,122	2,838,789	5,935,886	11,727,752	4,147,830	1,187,425	3,345,613	2,288,782	3,278,455
Debt Service										
Principal Retirement	2,700,000	3,235,000	3,375,000	3,480,000	3,605,000	240,000	165,000	200,000	200,000	145,000
Interest on Long-term Debt	732,398	581,320	450,892	314,557	192,875	126,647	115,351	108,188	99,411	92,090
Total Expenditures	<u>45,229,498</u>	<u>49,648,400</u>	<u>48,240,754</u>	<u>58,681,006</u>	<u>70,523,036</u>	<u>53,359,663</u>	<u>42,058,653</u>	<u>45,886,600</u>	<u>44,638,258</u>	<u>47,554,359</u>
Excess of Revenues over (under) Expenditures	3,438,498	(1,663,385)	6,154,278	754,508	(11,091,033)	(560,858)	7,900,228	1,401,371	(2,053,361)	(809,523)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Other financing sources (uses)										
Transfers In	\$ 9,276,457	\$ 12,402,838	\$ 10,214,298	\$ 8,227,998	\$ 9,977,784	\$ 2,107,983	\$ 2,395,347	\$ 2,210,751	\$ 4,160,552	\$ 6,837,490
Transfers Out	(12,713,275)	(12,815,973)	(11,935,960)	(10,060,429)	(9,416,495)	(6,008,971)	(4,272,742)	(2,364,436)	(2,907,963)	(2,738,038)
Issuance of Debt	89,369	2,902,599	1,934,849	3,582,747	2,615,000	-	-	56,986	1,154,054	1,675,861
Total Other Financing Sources (uses)	(3,347,449)	2,489,464	213,187	1,750,316	3,176,289	(3,900,988)	(1,877,395)	(96,699)	2,406,643	5,775,313
Net Change in Fund Balance	<u>\$ 91,049</u>	<u>\$ 826,079</u>	<u>\$ 6,367,465</u>	<u>\$ 2,504,824</u>	<u>\$ (7,914,744)</u>	<u>\$ (4,461,846)</u>	<u>\$ 6,022,833</u>	<u>\$ 1,304,672</u>	<u>\$ 353,282</u>	<u>\$ 4,965,790</u>
Debt Service as a Percentage of Noncapital Expenditures	9.1%	8.9%	8.4%	7.2%	6.5%	0.8%	0.7%	0.7%	0.7%	0.5%

Note: Proceeds from sale of capital assets are classified as miscellaneous revenues and are included in the Other revenue total.

**LAKE HAVASU CITY, ARIZONA
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Property Taxes</u>	<u>Franchise Taxes</u>	<u>Transient Occupancy Tax</u>	<u>Bar and Restaurant Tax</u>	<u>Total</u>
2004	\$ 17,767,870	\$ 3,139,184	\$ 258,528	\$ 634,257	\$ 653,033	\$ 22,452,872
2005	19,112,838	3,471,670	254,675	656,110	789,495	24,284,788
2006	21,337,895	4,135,869	227,038	699,405	843,268	27,243,475
2007	19,945,157	4,446,114	746,815	751,122	856,298	26,745,506
2008	17,305,120	4,510,088	1,733,704	645,782	874,407	25,069,101
2009	14,030,536	4,962,784	1,921,624	574,442	761,907	22,251,293
2010	12,627,628	5,085,300	1,687,909	557,900	793,580	20,752,317
2011	12,992,151	4,201,614	1,722,878	550,922	836,299	20,303,864
2012	12,872,154	4,141,509	1,684,173	637,377	890,951	20,226,164
2013	12,718,932	4,195,266	1,705,943	626,398	812,347	20,058,886
Change, 2004-2013	(28.4%)	33.6%	559.9%	(1.2%)	24.4%	(10.7%)

Source: Lake Havasu City, Arizona's Administrative Services Department.

LAKE HAVASU CITY, ARIZONA TAXABLE SALES BY CATEGORY LAST TEN FISCAL YEARS

Sales Category	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Mining	\$ -	\$ 621,000	\$ 2,649,142	\$ 1,637,109	\$ 2,238,146	\$ 1,502,091	\$ 957,338	\$ 679,224	\$ 947,593	\$ 1,114,700
Communications & Utilities	N/A	89,352,250	107,586,616	85,848,353	43,192,822	45,438,961	43,187,392	44,157,693	43,354,901	32,644,750
Transportation & Warehousing	N/A	828,450	1,297,067	1,719,521	1,370,195	825,406	610,037	476,664	287,021	425,100
Construction	189,835,700	187,626,750	210,074,556	203,114,606	174,759,818	104,429,178	59,267,145	69,777,264	60,465,951	69,637,950
Manufacturing	16,662,850	38,247,150	40,484,661	38,529,152	32,292,739	27,051,299	25,263,121	22,203,330	25,536,642	26,772,600
Wholesale Trade	15,321,750	11,458,300	16,112,220	16,468,758	18,348,808	12,097,298	10,438,461	10,563,544	14,791,777	16,101,650
Retail Trade	398,373,800	425,905,350	472,769,867	461,287,506	416,971,743	368,990,071	368,767,470	367,590,435	384,360,559	399,932,900
Finance & Insurance	N/A	2,022,000	857,392	1,967,267	2,213,297	1,563,165	1,295,523	868,042	958,820	1,267,800
Real Estate, Rental & Leasing	N/A	20,303,900	22,929,529	19,808,226	21,511,506	18,474,750	13,903,727	15,116,990	13,944,336	16,918,800
Restaurant & Bars	81,840,100	99,646,950	107,735,614	109,166,457	66,018,944	53,496,452	55,204,958	57,201,379	59,414,264	61,374,627
Hotels & Other Lodging (1)	20,793,450	22,242,450	23,807,000	24,080,294	26,786,943	27,752,236	28,709,923	26,843,295	28,080,440	58,834,500
Public Administration	N/A	70,450	308,237	146,659	310,450	493,218	318,627	(185,615)	83,740	(31,950)
Services	48,760,150	33,456,850	34,582,787	35,897,971	32,340,521	27,984,637	23,674,619	22,870,852	26,771,435	29,466,300
Arts & Entertainment	N/A	14,211,950	15,291,189	15,650,494	12,128,912	7,334,109	7,783,062	7,176,416	6,590,677	7,156,600
All Others	62,271,700	28,840,450	30,838,124	27,361,014	18,575,934	12,616,449	11,544,005	16,950,308	16,782,553	13,917,300
Transportation, Communications & Utilities	78,915,700	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fire, Insurance & Real Estate	6,315,800	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	<u>\$ 919,091,000</u>	<u>\$ 974,834,250</u>	<u>\$1,087,324,001</u>	<u>\$1,042,683,387</u>	<u>\$ 869,060,778</u>	<u>\$ 710,049,320</u>	<u>\$ 650,925,408</u>	<u>\$ 662,289,821</u>	<u>\$ 682,370,709</u>	<u>\$ 735,533,627</u>
City Sales Tax Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

(1) In fiscal year 2011-12 the Arizona Department of Revenue took over collections of Transient Occupancy Tax. This was previously collected in-house by Lake Havasu City and is not reflected in fiscal years 2003-2011.

Note: Beginning with reporting for fiscal year 2005, Arizona Department of Revenue implemented a new reporting format for industry classification codes. As such, comparisons of industry classifications for fiscal year 2005 and forward may not be comparable to fiscal year 2004 and prior.

Source: Arizona Department of Revenue

**LAKE HAVASU CITY, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS
RATES AS OF JUNE 30**

<u>Fiscal Year</u>	<u>City Sales Tax</u>	<u>City Restaurant and Bar Tax</u>	<u>(2) City Transient Occupancy Tax</u>	<u>(1) Mohave County</u>	<u>(1) State of Arizona</u>
2004	2.00%	1.00%	3.00%	0.25%	5.60%
2005	2.00	1.00	3.00	0.25	5.60
2006	2.00	1.00	3.00	0.25	5.60
2007	2.00	1.00	3.00	0.25	5.60
2008	2.00	1.00	3.00	0.25	5.60
2009	2.00	1.00	3.00	0.25	5.60
2010	2.00	1.00	3.00	0.25	6.60
2011	2.00	1.00	3.00	0.25	6.60
2012	2.00	1.00	3.00	0.25	6.60
2013	2.00	1.00	3.00	0.25	5.60

(1) For most Business Classifications. Shown here is the retail rate.

Due to an absence of change in law, the temporary sales tax increase of 1% ended effective May 31, 2013.

(2) The State of Arizona began collecting the Transient Occupancy Tax on February 1, 2012.

Source: Arizona Department of Revenue (www.azdor.gov) and Arizona Secretary of State (www.azsos.gov)

LAKE HAVASU CITY, ARIZONA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Real Property		Personal Property		Total		Direct Tax Rate	Ratio of Total Assessed Value to Total Estimated Actual Value
	Net Assessed Value	Estimated Actual Value	Net Assessed Value	Estimated Actual Value	Net Assessed Value	Estimated Actual Value		
2004	P \$ 360,067,071	\$ 3,222,522,010	\$ 11,291,589	\$ 59,052,690	\$ 371,358,660	\$ 3,281,574,700	0.7958	11.32
	S 367,828,704	3,495,046,718	11,291,589	59,052,690	379,120,293	3,554,099,408	-	plus \$ 100.77 per acre
2005	P 404,042,223	3,766,661,010	11,251,148	58,514,070	415,293,371	3,825,175,080	0.7958	10.86
	S 439,586,745	4,592,640,988	11,251,148	58,514,070	450,837,893	4,651,155,058	-	plus \$ 100.74 per acre
2006	P 469,199,441	4,501,675,755	12,485,845	63,701,806	481,685,286	4,565,377,561	0.7958	10.55
	S 572,701,653	6,001,328,492	12,485,845	63,701,806	585,187,498	6,065,030,298	-	plus \$ 100.74 per acre
2007	P 554,952,080	4,489,089,206	15,071,124	72,940,245	570,023,204	4,562,029,451	0.7310	12.49
	S 735,930,709	5,989,310,731	15,071,124	72,940,245	751,001,833	6,062,250,976	-	plus \$ 100.74 per acre
2008	P 658,147,759	5,340,068,133	11,375,884	57,452,096	669,523,643	5,397,520,229	0.6704	12.40
	S 918,338,959	7,419,032,491	11,375,884	57,452,096	929,714,843	7,476,484,587	-	plus \$ 100.74 per acre
2009	P 760,861,319	6,233,527,611	16,515,213	86,520,314	777,376,532	6,320,047,925	0.6038	12.30
	S 1,021,911,138	8,397,863,760	16,515,213	86,520,314	1,038,426,351	8,484,384,074	-	plus \$ 100.74 per acre
2010	P 825,515,085	6,795,625,244	16,137,850	85,087,121	841,652,935	6,880,712,365	0.5834	12.23
	S 911,190,948	7,429,703,446	16,137,850	85,087,121	927,328,798	7,514,790,567	-	plus \$ 156.78 per acre
2011	P 687,352,145	5,655,648,551	14,778,091	80,768,628	702,130,236	5,736,417,179	0.5834	12.24
	S 697,590,433	5,725,231,881	14,778,091	80,768,628	712,368,524	5,806,000,509	-	plus \$ 212.75 per acre
2012	P 553,723,386	4,632,576,319	10,215,877	58,066,238	563,939,263	4,690,642,557	0.7264	12.02
	S 557,526,241	4,660,114,966	10,215,877	58,066,238	567,742,118	4,718,181,204	-	plus \$ 268.85 per acre
2013	P 549,921,360	4,642,019,040	13,932,103	79,171,973	563,853,463	4,721,191,013	0.7332	11.94
	S 559,962,410	4,720,897,913	13,932,103	79,171,973	573,894,513	4,800,069,886	-	plus \$ 268.85 per acre

**LAKE HAVASU CITY, ARIZONA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year		City Direct Rate			Special Districts							Overlapping Rates			
		Operating Rate	Debt Service Rate	Total City Rate	Irrigation Drainage District	Sanitary District	Improvement District #1	Improvement District #2	Improvement District #3	Improvement District #4	Improvement District #5	Total County Rate	Total School Rate	Total State Rate	Rate Total
2004	P	0.7958	-	0.7958	-	-	-	-	-	-	-	2.6973	5.2253	0.4717	9.1901
	S	-	-	-	\$ 100.77/acre	-	0.4998	1.4001	3.4221	0.3969	-	1.0103	1.3034	-	8.0326 plus \$ 100.77/acre
2005	P	0.7958	-	0.7958	-	-	-	-	-	-	-	2.6983	4.3420	0.4560	8.2921
	S	-	-	-	\$ 100.74/acre	-	0.5491	1.2822	3.0983	0.4051	-	1.0103	0.9646	-	7.3096 plus \$ 100.74/acre
2006	P	0.7958	-	0.7958	-	-	-	-	-	-	-	2.6904	3.4288	0.4358	7.3508
	S	-	-	-	\$ 100.74/acre	-	0.4595	1.0855	1.9907	0.3536	-	1.0103	1.2740	-	6.1736 plus \$ 100.74/acre
2007	P	0.7310	-	0.7310	-	-	-	-	-	-	-	2.5759	3.3079	-	6.6148
	S	-	-	-	\$ 100.74/acre	-	0.5360	1.1091	1.9907	0.3538	-	1.0103	0.8625	-	5.8624 plus \$ 100.74/acre
2008	P	0.6704	-	0.6704	-	-	-	-	-	-	-	2.3519	3.0141	-	6.0364
	S	-	-	-	\$ 100.74/acre	-	0.3216	0.4672	-	0.2788	-	1.0103	0.8567	-	2.9346 plus \$ 100.74/acre
2009	P	0.6038	-	0.6038	-	-	-	-	-	-	-	1.3309	2.8005	-	4.7352
	S	-	-	-	\$ 100.74/acre	-	0.3113	0.5425	-	0.2840	-	1.0103	0.7547	-	2.9028 plus \$ 100.74/acre
2010	P	0.5834	-	0.5834	-	-	-	-	-	-	-	1.2637	2.7367	0.3306	4.9144
	S	-	-	-	\$ 156.78/acre	-	0.4769	0.4661	-	0.3153	-	1.0103	0.8410	-	3.1096 plus \$ 156.78/acre
2011	P	0.5834	-	0.5834	-	-	-	-	-	-	-	1.4637	2.7462	0.3564	5.1497
	S	-	-	-	\$ 212.75/acre	-	-	0.2719	-	0.4925	-	1.0103	0.8978	-	2.6725 plus \$ 212.75/acre
2012	P	0.7264	-	0.7264	-	-	-	-	-	-	-	1.8196	3.3785	0.4259	6.3504
	S	-	-	-	\$ 268.85/acre	-	-	0.1905	-	0.6095	-	1.0103	0.9888	-	2.7991 plus \$ 268.85/acre
2013	P	0.7332	-	0.7332	-	-	-	-	-	-	-	1.8196	3.2644	0.4717	6.2889
	S	-	-	-	\$ 268.85/acre	-	-	0.1942	-	0.5872	-	1.0103	0.7828	-	2.5745 plus \$ 268.85/acre

**LAKE HAVASU CITY, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT AND SEVEN YEARS AGO**

Taxpayer	2013			2006		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
PHC Lake Havasu Inc	\$ 5,039,372	1	0.88%	\$ 9,194,016	1	1.91%
SFT Havasu LLC Etal	3,416,006	2	0.59%			
Walmart Stores Inc	1,774,566	3	0.31%	1,503,854	8	0.31%
London Bridge Resort	1,520,680	4	0.26%	2,009,951	5	0.42%
Sterilite Corporation	1,484,105	5	0.26%	2,303,118	4	0.48%
Anderson Family LLC	1,465,103	6	0.25%			
Havasu Regional Medical Center LLC	1,372,107	7	0.24%			
Lowes HIW Inc	1,354,143	8	0.24%			
Island Development Group LLC	1,292,000	9	0.22%			
LHHL Partners LLC	1,066,927	10	0.19%			
Unisource Energy Corporation				8,212,498	2	1.70%
Citizens Utilities Inc				4,300,792	3	0.89%
Grace Investment Co				1,874,177	6	0.39%
Lake Havasu City Hotel Partners LLC				1,663,296	7	0.35%
Havasu Mart Long Heine LLC (1)				1,352,836	9	0.28%
Palo Verde Investments LLC				1,254,069	10	0.26%
TOTALS	<u>\$ 19,785,009</u>		3.44%	<u>\$ 33,668,607</u>		6.99%
Net Assessed Value	\$ 574,818,414			\$ 481,685,286		

(1) Formerly named Havasu Plaza (Kmart) in 1997

NOTE: 2003 principal property taxpayers data not available, 2006 earliest information available.

Source: Abstract for the County of Mohave

**LAKE HAVASU CITY, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS**

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Adjusted Levy		Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2004	\$ 2,947,709	\$ 2,889,381	98.02%	\$ 58,328	\$ 2,947,709	100.00%
2005	3,310,822	3,183,551	96.16	127,269	3,310,820	100.00
2006	3,836,086	3,750,741	97.78	85,278	3,836,019	100.00
2007	4,152,633	4,031,318	97.08	121,257	4,152,575	100.00
2008	4,505,493	4,302,624	95.50	202,798	4,505,422	100.00
2009	4,674,836	4,510,022	96.47	164,752	4,674,774	100.00
2010	4,885,663	4,701,200	96.22	183,918	4,885,118	99.99
2011	4,078,121	3,952,993	96.93	124,146	4,077,139	99.98
2012	4,080,039	3,965,111	97.18	113,071	4,078,182	99.95
2013	4,126,230	4,011,502	97.22	-	4,011,502	97.22

(1) Mohave County is responsible for assessing and collecting property taxes.

**LAKE HAVASU CITY, ARIZONA
IRRIGATION AND DRAINAGE DISTRICT (1)
PROPERTY TAX LEVIES AND COLLECTIONS (2)
LAST TEN FISCAL YEARS**

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Adjusted Levy		Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2004	\$ 2,026,009	\$ 2,012,055	99.31%	\$ 13,953	\$ 2,026,008	100.00%
2005	2,025,509	1,966,752	97.10	58,758	2,025,510	100.00
2006	2,029,901	2,009,295	98.98	20,798	2,030,093	100.01
2007	2,071,502	2,027,101	97.86	44,188	2,071,289	99.99
2008	2,091,005	1,993,102	95.32	97,579	2,090,681	99.98
2009	2,092,838	2,037,986	97.38	54,430	2,092,416	99.98
2010	3,259,052	3,167,426	97.19	90,158	3,257,584	99.95
2011	4,423,441	4,330,276	97.89	90,386	4,420,662	99.94
2012	5,589,949	5,408,979	96.76	175,486	5,584,465	99.90
2013	5,582,326	5,409,765	96.91	-	5,409,765	96.91

(1) Lake Havasu Irrigation and Drainage District was organized on September 30, 1963. The District was to be dissolved in fiscal year 2004 upon the retirement of all outstanding obligations of the District. However, on February 1, 1993, \$4,120,000 in general obligation refunding bonds were issued. The District will be dissolved in fiscal year 2022 upon the retirement of this general obligation debt.

(2) Mohave County is responsible for assessing and collecting property taxes.

LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICT NO. 1 - SPECIAL ASSESSMENT (1)
PROPERTY TAX LEVIES AND COLLECTIONS (2)
LAST TEN FISCAL YEARS

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Adjusted Levy		Total Tax Collections	Ratio of Total Tax Collection to Total Tax Levy
2004	\$ 80,167	\$ 78,949	98.48%	\$ 1,218	\$ 80,167	100.00%
2005	102,919	99,899	97.07	3,020	102,919	100.00
2006	102,660	100,719	98.11	1,941	102,660	100.00
2007	149,059	145,447	97.58	3,612	149,059	100.00
2008	109,984	105,526	95.95	4,458	109,984	100.00
2009	109,338	107,041	97.90	2,297	109,338	100.00
2010	149,612	145,722	97.40	3,890	149,612	100.00
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-

(1) On July 1, 1998, the operation and maintenance of the Improvement Districts became the responsibility of Lake Havasu City, Arizona instead of Mohave County. Improvement District No. 1 operates the gas lights in the golf course area tracts. This Improvement District was dissolved on April 13, 2010.

(2) Mohave County is responsible for assessing and collecting property taxes.

**LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICT NO. 2 - SPECIAL ASSESSMENT (1)
PROPERTY TAX LEVIES AND COLLECTIONS (2)
LAST TEN FISCAL YEARS**

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Adjusted Levy		Total Tax Collections	Ratio of Total Tax Collection to Total Tax Levy
2004	\$ 23,455	\$ 22,888	97.58%	\$ 567	\$ 23,455	100.00%
2005	22,998	20,448	88.91	2,550	22,998	100.00
2006	22,993	20,939	91.07	2,054	22,993	100.00
2007	36,939	33,293	90.13	3,646	36,939	100.00
2008	18,035	16,472	91.33	1,563	18,035	100.00
2009	16,710	14,902	89.18	1,808	16,710	100.00
2010	15,006	14,057	93.67	949	15,006	100.00
2011	8,066	7,275	90.19	791	8,066	100.00
2012	3,826	3,647	95.33	179	3,826	100.00
2013	3,966	3,589	90.49	-	3,589	90.49

(1) On July 1, 1998, the operation and maintenance of the Improvement Districts became the responsibility of Lake Havasu City, Arizona instead of Mohave County. Improvement District No. 2 maintains and operates the parking lot, utilities, landscaping and related capital improvements in the London Bridge Shopping Center.

(2) Mohave County is responsible for assessing and collecting property taxes.

LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICT NO. 3 - SPECIAL ASSESSMENT (1)
PROPERTY TAX LEVIES AND COLLECTIONS (2)
LAST TEN FISCAL YEARS

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Adjusted Levy		Total Tax Collections	Ratio of Total Tax Collection to Total Tax Levy
2004	\$ 23,469	\$ 23,035	98.15%	\$ 434	\$ 23,469	100.00%
2005	22,172	20,749	93.58	1,423	22,172	100.00
2006	23,455	22,771	97.08	684	23,455	100.00
2007	27,935	26,511	94.90	1,424	27,935	100.00
2008	-	-	-	-	-	-
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-

(1) On July 1, 1998, the operation and maintenance of the Improvement Districts became the responsibility of Lake Havasu City, Arizona instead of Mohave County. Improvement District No. 3 was established for the purpose of maintaining and operating the gas lights and landscape strips in the Lakeview Mobile Home Park. This improvement District was dissolved on January 8, 2008.

(2) Mohave County is responsible for assessing and collecting property taxes.

**LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICT NO. 4 - SPECIAL ASSESSMENT (1)
PROPERTY TAX LEVIES AND COLLECTIONS (2)
LAST TEN FISCAL YEARS**

Fiscal Year	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy			Total Collections to Date	
		Amount	Percent of Adjusted Levy	Collections in Subsequent Years	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2004	\$ 60,780	\$ 59,605	98.07%	\$ 1,175	\$ 60,780	100.00%
2005	61,523	59,981	97.49	1,542	61,523	100.00
2006	61,716	61,420	99.52	296	61,716	100.00
2007	64,323	63,878	99.31	445	64,323	100.00
2008	55,294	53,644	97.02	1,650	55,294	100.00
2009	55,600	55,053	99.02	547	55,600	100.00
2010	54,981	54,003	98.22	687	54,690	99.47
2011	68,435	67,831	99.12	604	68,435	100.00
2012	68,649	68,007	99.06	482	68,489	99.77
2013	68,267	65,770	96.34	-	65,770	96.34

(1) On July 1, 1998, the operation and maintenance of the Improvement Districts became the responsibility of Lake Havasu City, Arizona instead of Mohave County. Improvement District No. 4 maintains the gas lights on Civic Center Boulevard and median landscaping on McCulloch Boulevard from Smoketree to Lake Havasu Avenue.

(2) Mohave County is responsible for assessing and collecting property taxes.

LAKE HAVASU CITY, ARIZONA
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	Special Assessment Bonds	Revenue Bonds	Capital Leases	Sewer Bonds	Irrigation and Drainage District	General Obligation Bonds	Capital Leases			
2004	\$ 775,000	\$ 13,345,000	\$ 113,006	\$ 32,142,869	\$ -	\$ 235,000	\$ 14,907	\$ 46,625,782	4.49%	\$ 953
2005	695,000	10,190,000	2,518,386	61,570,539	-	215,000	595,203	75,784,128	6.88	1,466
2006	610,000	6,900,000	3,768,074	139,685,545 (1)	-	195,000	1,286,112	152,444,731	13.57	2,853
2007	520,000	3,510,000	6,032,598	169,865,746 (1)	1,103,163	175,000	1,995,812	183,202,319	15.68	3,355
2008	425,000	2,615,000	4,485,455	218,411,503 (1)	3,462,247	155,000	1,669,632	231,223,837	19.36	4,184
2009	185,000	2,615,000	3,009,616	243,266,488 (1)	4,582,821	145,000	1,236,248	255,040,173	17.55	4,601
2010	125,000	2,510,000	1,951,828	276,829,369 (1)	5,253,043	135,000	812,444	287,616,684	24.11	5,182
2011	60,000	2,375,000	1,181,330	306,508,389 (1)	5,074,148	125,000	422,469	315,746,336	22.65	6,011
2012	-	2,235,000	1,610,207	306,394,210 (1)	4,728,052	115,000	1,432,240	316,514,709	23.94	6,040
2013	-	2,090,000	2,786,873	296,762,325 (1)	4,496,819	105,000	1,795,066	308,036,083	21.15	5,843

(1) Net of related premium

Note: Balances reflect reduction for principal payment made on July 1, 2013.

LAKE HAVASU CITY, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2013

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Debt			
Lake Havasu Unified School District No. 1	\$ 8,885,000	95.10%	\$ 8,449,635
Total overlapping debt			<u>8,449,635</u>
City Direct Debt			
Lake Havasu City Freedom Bridge Land Acquisition	2,090,000	100.00%	2,090,000
Lake Havasu City, Arizona Direct Debt			<u>2,090,000</u>
Total Direct and Overlapping Debt			<u>\$ 10,539,635</u>

- (1) Overlapping governments are those that coincide, at least in part with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Lake Havasu City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and business should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

LAKE HAVASU CITY, ARIZONA LEGAL DEBT MARGIN INFORMATION LAST TEN FISCAL YEARS

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>20% Limitation (1)</u>										
Debt Limit	\$ 75,824,059	\$ 90,167,579	\$ 117,037,500	\$ 150,200,367	\$ 185,942,969	\$ 207,685,270	\$ 185,465,760	\$ 142,473,705	\$ 113,548,424	\$ 114,778,903
Total Net Debt Applicable to 20% Limit (Restated to Account for Amount Set Aside for Repayment of Debt)	<u>8,722,500</u>	<u>40,634,726</u>	<u>94,688,680</u>	<u>141,365,953</u>	<u>140,113,909</u>	<u>182,493,498</u>	<u>155,003,212</u>	<u>146,343,638</u>	<u>140,427,574</u>	<u>136,101,397</u>
Legal Debt Margin (Available Borrowing Capacity)	<u>\$ 67,101,559</u>	<u>\$ 49,532,853</u>	<u>\$ 22,348,820</u>	<u>\$ 8,834,414</u>	<u>\$ 45,829,060</u>	<u>\$ 25,191,772</u>	<u>\$ 30,462,548</u>	<u>\$ (3,869,933)</u>	<u>\$ (26,879,150)</u>	<u>\$ (21,322,494)</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	11.50%	45.07%	80.90%	94.12%	75.35%	87.87%	83.58%	102.72%	123.67%	118.58%
<u>6% Limitation (2)</u>										
Debt Limit	\$ 22,747,218	\$ 27,050,274	\$ 35,111,250	\$ 45,060,110	\$ 55,782,891	\$ 62,305,581	\$ 55,639,728	\$ 42,742,111	\$ 34,064,527	\$ 34,433,671
Total Net Debt Applicable to 6% Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin (Available Borrowing Capacity)	<u>\$ 22,747,218</u>	<u>\$ 27,050,274</u>	<u>\$ 35,111,250</u>	<u>\$ 45,060,110</u>	<u>\$ 55,782,891</u>	<u>\$ 62,305,581</u>	<u>\$ 55,639,728</u>	<u>\$ 42,742,111</u>	<u>\$ 34,064,527</u>	<u>\$ 34,433,671</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-	-	-	-	-	-

(1) Additional bonds amounting to 20% of the assessed valuation of taxable property can be issued for supplying such services as water, artificial light, or sewers, when the works for supplying such water, light, or sewers are or shall be owned and controlled by the municipality, and for the acquisition and development by the incorporated city or town of land or interest therein for open space preserves, parks, playgrounds and recreational facilities, public safety, law enforcement, fire and emergency service facilities and streets and transportation facilities.

(2) The Arizona Constitution states that for general municipal purposes a municipality cannot incur a debt exceeding 6% of the assessed valuation of taxable property.

**LAKE HAVASU CITY, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2013**

Net secondary assessed valuation (1)	<u>\$ 573,894,513</u>
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Water, Sewer, Light, Parks, Open Space Preserves, Playgrounds,
Recreational Facilities, Public Safety, Law Enforcement, Fire and
Emergency Facilities, and Streets and Transportation Facilities

Debt limit - 20% of secondary net assessed valuation	\$ 114,778,903
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Debt applicable to limit

General Obligation bonds outstanding	\$ 159,043,488
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Less amount set aside for repayment of debt	<u>(22,942,091)</u>
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Net debt applicable to limit	<u>136,101,397</u>
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20% legal debt margin	<u>(21,322,494)</u>
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All other general obligation bonds

Debt Limit - 6% of secondary net assessed valuation	34,433,671
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Debt applicable to limit

General Obligation bonds outstanding	\$ -
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Less amount set aside for repayment of debt	<u>-</u>
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Net debt applicable to limit	<u>-</u>
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All other general obligation bonds debt margin	<u>34,433,671</u>
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Total legal debt margin	<u>\$ 13,111,177</u>
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(1) Source: Mohave County Assessor's Office.

**LAKE HAVASU CITY, ARIZONA
PLEDGED-REVENUE COVERAGE
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

Fiscal Year	Municipal Property Corporation Bonds (1)				Excise Tax Revenue Bonds (2)				Special Assessment Bonds (3)			
	Excise Tax (2)	Debt Service Principal	Debt Service Interest	Coverage	Excise Tax (2)	Debt Service Principal	Debt Service Interest	Coverage	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage
2004	\$ 30,628,188	\$ 2,425,000	\$ 136,406	11.96	\$ 30,628,188	\$ 200,000	\$ 548,500	40.92	\$ 124,514	\$ 75,000	\$ 41,641	1.07
2005	-	-	-	-	32,521,575	3,155,000	540,700	8.80	181,027	80,000	37,669	1.54
2006	-	-	-	-	36,991,755	3,290,000	414,500	9.99	155,733	85,000	33,441	1.31
2007	-	-	-	-	37,021,321	3,390,000	282,900	10.08	106,040	90,000	28,956	0.89
2008	-	-	-	-	34,612,756	3,510,000	143,910	9.47	124,319	95,000	24,216	1.04
2009	-	-	-	-	29,875,827	-	110,005	271.59	131,602	240,000	15,631	0.51
2010	-	-	-	-	27,395,795	105,000	106,675	129.42	68,996	60,000	7,944	1.02
2011	-	-	-	-	25,979,260	135,000	102,700	109.29	66,283	65,000	4,741	0.95
2012	-	-	-	-	25,248,684	140,000	97,229	106.43	65,357	60,000	1,538	1.06
2013	-	-	-	-	26,526,205	145,000	91,446	112.19	-	-	-	-

(1) Includes debt service payments paid out of revenue from IDD (Water) and Airport.

(2) Excise Tax revenues are pledged for both Municipal Property Corporation Bonds and Excise Tax Bonds.

(3) D7 Special Assessment Bonds were retired in Fiscal Year 2011-12.

LAKE HAVASU CITY, ARIZONA PLEDGED-REVENUE COVERAGE PROPRIETARY FUNDS LAST TEN FISCAL YEARS

Fiscal Year	Sewer Revenue Bonds												
	(1) Operating Revenue	(2) Plus: Rate Stabilization	Less: Operating Expenses	Net Available Revenue for SR Debt	Senior Debt Principal	Senior Debt Interest	Total Senior Debt Service	(2) Senior Debt Coverage	Net Available Revenue for Junior Debt	Junior Debt Principal	Junior Debt Interest	Total Junior Debt Service	(2) Junior Debt Coverage
2004	\$ 7,837,338	\$ -	\$ 4,182,008	\$ 3,655,330	\$ -	\$ 155,277	\$ 155,277	23.54	\$ 3,500,053	\$ -	\$ 256,661	\$ 256,661	13.64
2005	10,965,873	-	3,674,565	7,291,308	-	447,798	447,798	16.28	6,843,510	5,765,000	545,948	6,310,948	1.08
2006	15,055,202	-	4,323,846	10,731,356	357,774	687,803	1,045,577	10.26	9,685,779	357,774	3,743,753	4,101,527	2.36
2007	20,593,753	-	4,028,938	16,564,815	1,293,449	1,034,328	2,327,777	7.12	14,237,038	4,429,119	4,209,600	8,638,719	1.65
2008	23,703,017	5,000,000	6,955,929	21,747,088	1,334,925	1,292,596	2,627,521	8.28	19,119,567	6,205,823	5,016,735	11,222,558	1.70
2009	19,916,120	5,000,000	7,272,649	17,643,471	1,887,732	2,384,482	4,272,214	4.13	13,371,257	8,277,899	5,346,758	13,624,657	0.98
2010	26,810,286	5,000,000	6,710,135	25,100,151	5,083,762	2,683,741	7,767,503	3.23	17,332,648	2,285,358	5,993,530	8,278,888	2.09
2011	31,765,529	6,500,000	7,409,668	30,855,861	3,244,183	3,557,825	6,802,008	4.54	24,053,853	3,308,953	6,210,561	9,519,514	2.53
2012	23,380,304	6,500,000	6,303,028	23,577,276	5,249,416	4,226,331	9,475,747	2.49	14,101,529	3,120,546	6,117,489	9,238,035	1.53
2013	23,072,178	6,500,000	6,705,193	22,866,985	5,404,372	4,220,890	9,625,262	2.38	13,241,723	4,566,798	5,980,474	10,547,272	1.26

Water Revenue Bonds						
	(1)	Less:				
	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2004	\$ 11,247,609	\$ 6,413,094	\$ 4,834,515	\$ 135,000	\$ 15,100	32.21
2005	12,044,926	7,719,678	4,325,248	20,000	13,800	127.97
2006	12,594,163	8,257,603	4,336,560	20,000	12,500	133.43
2007	12,876,316	8,597,673	4,278,643	20,000	11,200	137.14
2008	11,841,750	10,025,454	1,816,296	20,000	61,578	22.26
2009	10,917,741	9,632,388	1,285,353	211,475	130,486	3.76
2010	11,081,387	7,890,122	3,191,265	218,535	169,680	8.22
2011	10,898,753	8,080,253	2,818,500	225,842	185,363	6.85
2012	12,158,839	7,558,432	4,600,407	356,095	177,258	8.63
2013	11,797,191	7,503,781	4,293,410	357,328	161,868	8.27

(1) Includes investment income and contributed capital.

(2) In May 2007 City Council approved Resolution No. 07-2160 pledging a rate stabilization fund in the amount of \$5 million for debt coverage to ensure loan covenant requirements are met. In December 2010 Council approved Resolution No. 10-2505 increasing the rate stabilization fund by \$1.5 million for a total rate stabilization fund of \$6.5 million for additional pledged coverage.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Bond covenants may include revenue for purposes of debt service coverage.

**LAKE HAVASU CITY, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>Personal Income</u>	<u>(2) Per Capita Personal Income</u>	<u>(2) Median Age</u>	<u>(3) School Enrollment</u>	<u>(4) Unemployment Rate</u>
2004	48,945	\$ 1,039,543,000	\$ 21,239	48.5	6,545	4.5%
2005	51,700	1,102,037,000	21,316	48.3	6,549	4.2
2006	53,435	1,123,471,000	21,025	48.3	6,453	4.3
2007	54,610	1,168,053,000	21,389	47.9	6,463	4.3
2008	55,263	1,194,068,000	21,607	48.0	6,227	6.6
2009	55,429	1,453,293,000	26,219	47.7	6,175	9.8
2010	55,502	1,192,960,000	21,494	47.8	6,163	8.1
2011	52,527	1,394,014,000	26,539	51.4	5,833	8.3
2012	52,406	1,321,889,000	25,224	50.2	5,677	10.3
2013	52,720	1,456,548,000	27,628	50.7	5,622	10.7

(1) Fiscal year 2011 from the U.S. Census.
All other years from the Arizona Economic Estimates Commission and
the Arizona Office of Employment and Population Statistics www.azstats.gov

(2) Demographics Now

(3) Lake Havasu Unified School District No. 1

(4) Fiscal year 2012 to present Arizona Department of Administration, Office of Employment & Population Statistics
All other years from Arizona Workforce Informer.

LAKE HAVASU CITY, ARIZONA PRINCIPAL EMPLOYERS CURRENT AND SEVEN YEARS AGO

Employer	2013			2006		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Havasu Regional Medical Center	695	1	3.08%	695	1	2.85%
Lake Havasu City	643	2	2.85%	671	2	2.75%
Lake Havasu School District	590	3	2.61%	530	3	2.17%
Sterilite Corporation	425	4	1.88%	425	4	1.74%
Walmart	300	5	1.33%	259	6	1.06%
London Bridge Resort	250	6	1.11%	315	5	1.29%
Shugrue's Restaurants	200	7	0.89%	250	7	1.03%
Bashas' (2 locations)	182	8	0.81%			
River Medical	165	9	0.73%			
Mohave Community College	156	10	0.69%	183	9	0.75%
Mission of Nevada, Inc.				200	8	0.82%
Bradley Chevrolet & Ford				160	10	0.66%
New Horizons Center				160	10	0.66%
TOTAL	3,606		15.98%	3,848		15.78%

Total Employees in Lake Havasu City

22,579 (1)

24,375 (2)

(1) Arizona Department of Administration-Office of Employment and Population Statistics www.azstats.gov.

(2) Arizona Workforce Infomer.

Note: 2003 principal employers data not available for comparison, 2006 earliest information available.

Source: Lake Havasu Partnership for Economic Development.

LAKE HAVASU CITY, ARIZONA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	Authorized Positions as of Fiscal Year Ended									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	65.0	72.0	77.0	81.0	83.0	83.0	70.0	62.0	59.0	67.0
Community Development	26.0	26.0	30.0	29.0	29.0	29.0	25.0	22.0	21.0	19.0
Public Safety										
Police	101.0	105.0	108.0	123.0	127.0	127.0	123.0	123.0	116.0	117.0
Fire	71.0	75.0	80.0	95.0	95.0	95.0	85.0	93.0	86.0	85.0
Operations										
Administration/Engineering	19.0	22.0	22.0	22.0	26.0	26.0	22.0	17.0	18.0	19.0
Airport	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	2.0
Transportation	19.0	19.0	19.0	19.0	19.0	19.0	15.0	15.0	14.0	12.0
Street Maintenance	32.0	32.0	32.0	32.0	32.0	32.0	29.5	31.0	30.0	25.0
Buildings and Grounds (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	28.0
Vehicle Maintenance	11.0	11.0	12.0	12.0	12.0	12.0	8.5	8.0	9.0	7.0
Wastewater	18.0	20.0	21.5	25.5	25.5	26.0	26.0	26.0	26.0	24.0
Water	40.0	41.0	41.5	42.5	40.5	40.0	39.0	43.0	42.0	38.0
Culture and Recreation (1)	39.0	41.0	41.0	44.0	45.0	45.0	39.0	39.0	34.0	6.0
Total	<u>446.0</u>	<u>469.0</u>	<u>489.0</u>	<u>530.0</u>	<u>539.0</u>	<u>539.0</u>	<u>487.0</u>	<u>484.0</u>	<u>460.0</u>	<u>449.0</u>

(1) Parks Division moved from Culture and Recreation to Operations-Building and Grounds

Source: Lake Havasu City, Arizona's Administration Services.

LAKE HAVASU CITY, ARIZONA

OPERATING INDICATORS BY FUNCTION

LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Police</u>										
Number of Sworn Officers	79	83	95	96	96	92	91	91	83	83
Number of Incidents Handled	58,552	60,610	60,440	59,951	76,759	77,014	67,189	64,024	58,652	60,940
Number of Report Numbers Issued	9,394	9,893	10,316	9,612	8,740	8,637	7,441	8,242	7,001	7,788
Response Time, Priority 1 Calls (Minutes)	6:04	6:10	6:10	5:54	5:26	5:17	5:32	5:51	5:56	6:23
<u>Fire</u>										
Number of Field Suppression Personnel	55	58	60	72	78	72	69	85	72	75
Number of Structural Fires	65	62	68	43	53	41	36	35	37	57
Number of Emergency Responses	5,603	5,719	6,234	6,113	6,457	6,996	7,311	7,487	7,542	8,358
Response Time (Minutes)	5:20	5:25	5:16	5:14	5:34	5:26	5:24	5:25	5:27	5:29
Inspections	4,041	4,452	4,224	4,496	4,924	5,443	4,418	4,055	3,102	1,880
<u>Highways and streets</u>										
Street Resurfacing (Miles)	32.00	27.00	23.00	51.50	31.50	11.50	5.00	11.00	15.00	37.00
Utility Patches	777	731	699	645	494	468	269	219	380	224
Skin Patches	280	511	526	187	270	178	98	39	211	52
Crackfilling (Miles)	40.12	18.43	41.05	30.00	35.50	18.00	13.00	26.20	40.50	15.00
<u>Wastewater</u>										
Connections	4,891	7,394	8,991	11,983	16,112	18,320	19,014	25,066	31,771	31,790
Average Daily Flowage (mg)	2.12	1.99	2.33	2.50	3.08	3.03	3.38	3.64	3.69	3.60
<u>Municipal Parks</u>										
Park Uses	2,575	3,055	3,849	3,025	3,969	3,684	2,587	2,410	2,311	2,418
<u>Water</u>										
Miles of Line	496	498	500	500	500	500	500	500	500	500
New Connections	1,435	1,255	889	308	388	216	245	127	130	230
Main Breaks	64	47	49	47	52	57	60	44	55	71
Service Line Leaks	925	798	915	723	612	510	366	280	225	239
Average Daily Consumption (Gallons) per Capita	259	246	240	230	250	250	250	199	199	199
<u>Airport</u>										
Based Aircraft	230	240	243	240	234	180	180	159	153	138
Operations	49,733	51,996	53,892	55,844	51,900	60,000	60,000	60,000	60,000	55,000
Fuel Flowage	359,881	368,822	314,501	502,137	536,175	627,628	704,175	659,121	522,144	447,599
<u>Transit</u>										
Total Ridership	143,873	138,112	137,658	82,803	82,955	115,070	122,500	123,999	114,548	110,414
Miles Driven	595,784	550,925	571,279	448,267	412,270	443,900	438,003	404,497	347,841	342,391
<u>General</u>										
Building Permits Issued	3,284	3,233	2,916	2,124	1,485	894	908	871	895	1,573
Building Inspections Conducted	29,222	28,532	26,658	19,513	15,687	10,849	7,486	5,812	5,432	7,605
Land Use Actions	617	491	405	333	370	229	210	202	75	65

Source: Lake Havasu City, Arizona departments.

**LAKE HAVASU CITY, ARIZONA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Public Safety</u>										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units										
Cars	28	30	32	38	34	37	37	37	40	34
Boats	4	4	4	4	4	4	4	5	3	3
Quads	6	6	6	6	6	7	7	5	5	4
Fire:										
Stations	5	5	6	6	6	6	6	6	6	6
Apparatus										
Fire Trucks	9	10	11	12	10	11	11	11	11	11
Vehicles	20	23	22	21	21	27	24	23	23	23
Boats	1	1	1	2	2	1	1	1	1	1
<u>Highways and Streets</u>										
Streets (Miles)	424.0	424.5	425.0	426.0	428.0	428.0	428.0	435.0	435.0	435.0
Streetlights	84	84	84	84	84	84	84	84	84	84
Traffic Signals	12	12	12	12	12	12	12	13	13	13
<u>Culture and Recreation</u>										
Parks Acreage	77.3	77.3	85.0	108.7	123.7	125.0	125.0	125.0	125.0	125.0
Parks Acreage - Sara Park	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082
Parks	6	6	10	14	15	15	15	15	15	15
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Water Launching Facility	1	1	1	1	1	1	1	1	1	1
Community Centers	1	1	1	1	1	1	1	1	1	1
<u>Water</u>										
Water Mains (Miles)	496.0	498.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
Installed Meters	25,339	26,417	27,789	28,097	27,983	27,826	29,304	28,068	31,108	31,338
Fire Hydrants	n/a	n/a	2,645	2,684	2,684	2,695	2,708	2,708	2,708	2,676
Available Acre Feet	25,180	25,180	25,180	25,180	25,180	27,319	21,271	28,318	28,318	28,318
<u>Sewer</u>										
Sanitary Sewers (Miles)	155.0	165.0	175.3	203.4	237.8	267.0	292.4	352.9	352.9	352.9
<u>Transportation</u>										
Transit Buses	19	19	19	15	16	18	19	19	23	21
<u>Airport</u>										
Enclosed Hangars	72	78	78	78	101	78	78	78	78	78
Shade Ports	27	27	27	27	25	16	16	16	16	16

Source: Lake Havasu City, Arizona departments.

**LAKE HAVASU CITY, ARIZONA
MISCELLANEOUS STATISTICS
JUNE 30, 2013**

Date of Incorporation	October 2, 1978
Form of Government	Council-Manager
Area	44 square miles
Education	
Number of Schools:	
Public Elementary	6
Public Middle School	1
Public High School	1
Alternative Schools	3
Private	2
Charter Schools	2
Community College (Mohave)	1
State University (NAU)	1
State University (ASU)	1
Number of Students	
L.H.C. Unified School District	5,622
Alternative	85
Private	142
Charter	681
Community College (MCC)	2,694
State University (NAU/ASU)	306
Employees as of June 30, 2013	
Full-Time	420
Part-Time	223
Elected Officials	7
Total Payroll Wages for Fiscal Year 2013	\$ 26,857,731
Elections	
Last Municipal General Election - November 2012	
Number of Registered Voters	31,682
Number of Votes Cast	22,508
Percentage of Registered Voters	71.04%
Last Municipal Primary Election - August 2012	
Number of Registered Voters	30,585
Number of Votes Cast	9,470
Percentage of Registered Voters	30.96%
At the time of incorporation	
Number of Registered Voters	6,053
Active Business Licenses	2,220
Economy:	
Number of Annual Visitors (Estimate by the Convention and Visitors Bureau)	750,000
Lake Havasu City Municipal Airport (2013 Arizona Airport of the Year)	
Fixed Based Operators	3
Runway Length (in Feet)	8,001

**LAKE HAVASU CITY, ARIZONA
MISCELLANEOUS STATISTICS
JUNE 30, 2013**

Population

Census Population Count (Calendar Year)

2012***	52,720
2011***	52,406
2010**	52,527
2009*	55,502
2008*	55,429
2007*	55,263
2006*	54,610
2005*	53,435
2004*	51,700
2003*	48,945
1990**	24,363
1980**	15,926

*Arizona Department of Economic Security

**United States Census

***Arizona Office of Employment and Population Statistics

2010 Census Information:

Age Distribution of Population

1-4 Years	2,354	4.5%
5-19 Years	8,079	15.4%
20-29 Years	4,578	8.7%
30-44 Years	7,530	14.3%
45-64 Years	15,878	30.2%
65+ Years	14,108	26.9%
	<u>52,527</u>	100.0%

Median Age	50.7
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Median Household Income	\$	43,580
Per Capita Income (2013)		27,628

2010 Census information available at the following websites:

<http://factfinder2.census.gov>

www.demographicsnow.com