



LAKE HAVASU CITY, ARIZONA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
for the year ended June 30, 2012

Lake Havasu City, Arizona
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

CITY COUNCIL

Mark S. Nexsen
Mayor

David McAtlin
Vice Mayor

Crystal Alger
Councilmember

Dean Barlow
Councilmember



Lee Barnes
Councilmember

Don Callahan
Councilmember

Jeni Coke
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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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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LAKE HAVASU CITY

ADMINISTRATIVE SERVICES DEPARTMENT

November 16, 2012

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

The 2012 Comprehensive Annual Financial Report (CAFR) of Lake Havasu City, Arizona (City) for the fiscal year ended June 30, 2012, 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 unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2012. 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 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 52,527 as of the 2010 U.S. Census. 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 control, 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 have continued throughout fiscal year 2011-12, mirroring the national and state economic climate. Construction and retail have exhibited the heaviest downturn and have impacted the City's related sales tax revenues. The City is faced with balancing the declining revenue sources with many critical growth and expenditure issues, but is 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.

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 33 percent from the previous year's total of 73 to a total of 97 in fiscal year 2011-12. 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 foreclosures and bankruptcies. The estimated building valuation of the permits issued this fiscal year reflect an increase from \$13,809,503 in 2010-11 to \$17,415,593 in 2011-12, representing a 26 percent increase in building valuations.

New commercial building permits increased 200 percent from the previous year with 9 commercial building permits in fiscal year 2011-12 as compared to 3 permits in fiscal year 2010-11. Total permits increased significantly, as did the average commercial permit value in fiscal year 2011-12. In fiscal year 2011-12 the average commercial permit was valued at \$556,823 representing an increase of 17 percent over the previous year's estimated average valuation of \$474,766. Commercial addition permits increased 2 percent in fiscal year 2011-12, with 84 permits compared to the previous fiscal year's permits of 80. Commercial addition valuations in fiscal year 2011-12 averaged \$63,454, an increase of .15 percent when compared to the fiscal year 2010-11 average valuation of \$66,355. Overall the trending follows the state and national economic conditions related to the construction industry, which should start a gradual recovery once the housing market stabilizes, the recession comes to an end 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 2012-13 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.
- **Nautical Inn** – The Nautical Inn has a zoning approval to allow for the expansion of an additional 188 residential units, new pool area, reservation building, convention center and boat storage building. Phase I has been completed and includes a new pool area and administration building.
- **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. One storefront remains vacant.
- **Old Basha's Center** – The Basha's Center underwent a renovation and was occupied in fiscal year 2011-12 by a Ross Dress for Less retail store and a Dollar Tree retail location.
- **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. Renovation began on the old Daytona Junior High School in fiscal year 2011-12 and the first semester of ASU will begin in summer of 2012.

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 has infrastructure in place, a community building and pool area completed with 10 percent residential completed. Phase III has infrastructure in place and lots available for sale. Phase IV "Mesquite Bay" has infrastructure in place, several homes constructed and has the remaining lots for sale. Phase V has infrastructure in place and is 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 10 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 a decline with an average unemployment rate of 10.3 percent, as reported by Arizona Department of Economic Security. This rate increased as compared to last year's average rate of 8.3 percent in June 2011. 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 2012 the state's average unemployment rate was 8.3 percent, down from 9.3 percent from the prior year. The national unemployment average in June 2012 was 8.5 percent.

Lake Havasu City had no new major employers recruited to the area during fiscal year 2011-12. The average annual salary is \$25,224. 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 are currently in remodel stages for new businesses establishing in fiscal year 2012-13. 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. The financial position of the City at the close of fiscal year 2011-12 reflected higher than expected reserves. The City took drastic measures back 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 2012-13 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).

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) and the Highway Users Revenue 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. In fiscal year 2006-07 the City implemented impact fees for acquisition and construction of a second bridge to the Island and in 2007-08 Council approved implementation of impact fees for future infrastructure and equipment needs of police, fire, parks, transportation, and general administration that went into effect beginning in fiscal year 2008-09. The collection of future impact fees was repealed by Council on October 11, 2012. The fees collected to date will be used to fund a portion of the designated projects for infrastructure and equipment costs only, not operating costs.

Major Initiatives

During fiscal year 2011-12 the City moved into program year ten of the \$463 million sewer expansion project, which voters approved in November 2001. 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 construction project, which began in October 2002, was completed by the end of fiscal year 2011-12 and is financed with voter-approved borrowing authority. During fiscal year 2011-12 the City completed approximately 384 new connections to sewer, bringing the total new connections to 21,151 at the end of fiscal year 2011-12. 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.

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 ARRA grant from the federal government. The remaining balance on this allocation from WIFA is \$7 million, \$3.7 million remaining on the forgivable grant award.

The City will be in the research and development stages of other major projects during 2012-13. These projects are the development of Body Beach, Freedom Bridge and Park, 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, 2011. This was the 25th 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 CAFR, 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, 2011 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, 2012.

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

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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, 2011

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



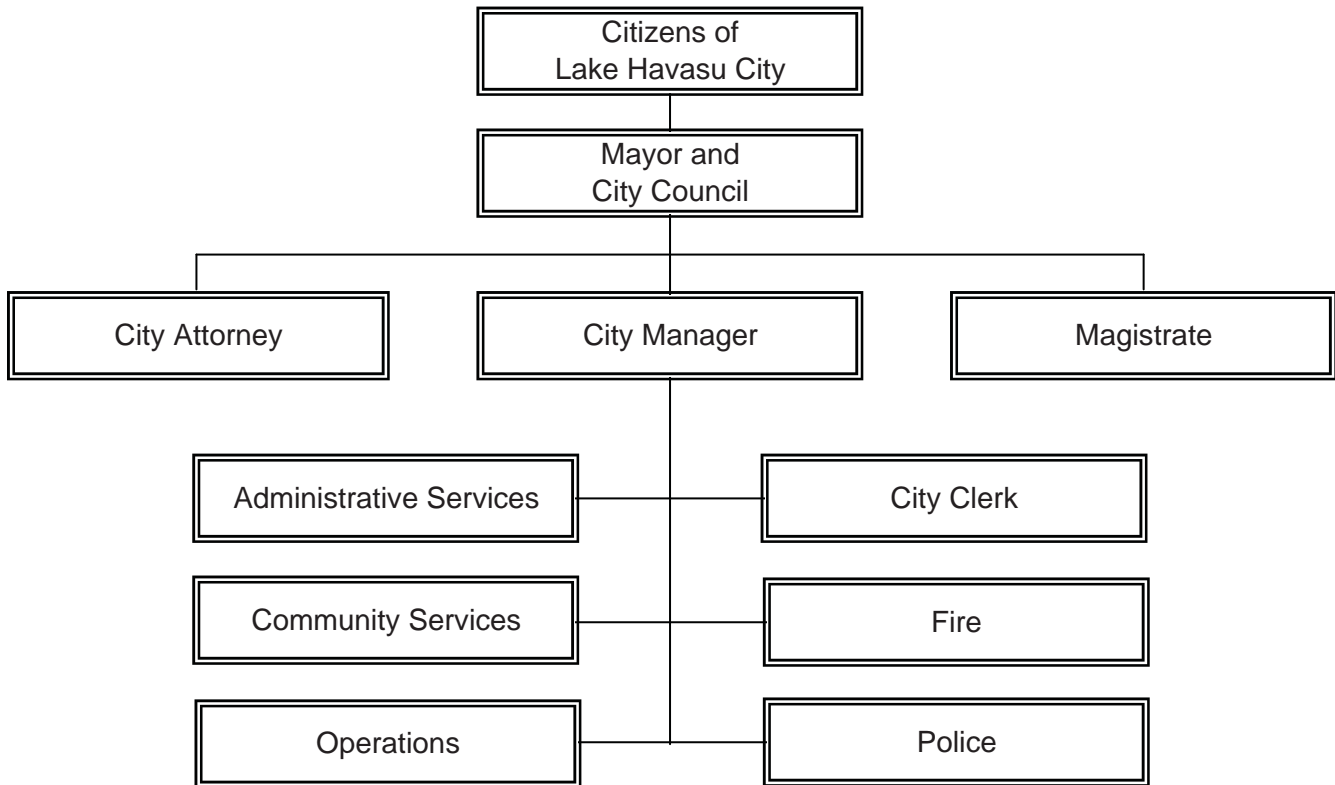
Linda C. Sandison

President

Jeffrey R. Emer

Executive Director

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, Acting City Clerk

MAYOR & CITY COUNCIL



Mark S. Nexsen
Mayor

Term Expires 11/2014



David McAtlin
Vice Mayor
Term Expires 11/2014



Lee Barnes
Councilmember
Term Expires 11/2012



Crystal Alger
Councilmember
Term Expires 11/2014



Don Callahan
Councilmember
Term Expires 11/2012



Dean Barlow
Councilmember
Term Expires 11/2012



Jeni Coke
Councilmember
Term Expires 11/2014

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
Lake Havasu City, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Havasu City, Arizona (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Havasu City, Arizona, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 37 and Public Safety Personnel Retirement Systems and Other Post Employment Benefit Plan Schedules of Funding Progress on pages 82 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information such as 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

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

November 16, 2012

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012. 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 assets increased by \$11.5 million (3.3 percent) in fiscal year 2011-12. The increase was attributed almost entirely to the business type activities, which reflected a 5.0 percent change.
- The assets of the City exceeded liabilities at the close of fiscal year 2011-12 by \$362.5 million (net assets). Governmental funds reflected \$119.5 million of net assets and \$243.0 million were in business-type activities. Of this amount, \$120.9 million is unrestricted net assets, (\$24.2 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 \$26.8 million, an increase of \$353,282 (1.3 percent) in comparison with the prior fiscal year. The unassigned fund balance for the General Fund was \$14.5 million or 43.8 percent of total General Fund expenditures.
- The City's total debt increased by \$1.6 million (0.5 percent) in fiscal year 2011-12.
- The business-type activities program revenues decreased by \$5.5 million (11.5 percent) in fiscal year 2011-12, primarily due to the conclusion of the sewer expansion project in the wastewater utility.
- The General Fund fund balance increased \$2.4 million in fiscal year 2011-12, an 18.3% 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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets 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, 2012**

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in 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. 2 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 two categories: governmental funds and proprietary 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, 2012**

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 is 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 53-79 of this report.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 82-84 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 Assets 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 assets may serve, over time, as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$362.5 million at the close of fiscal year 2011-12 and \$351.0 million at the close of fiscal year 2010-11.

**Lake Havasu City, Arizona
Condensed Statement of Net Assets
June 30, 2012, and 2011
(In millions of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
Current and Other Assets	\$ 39.8	\$ 38.3	\$ 108.7	\$ 105.7	\$ 148.5	\$ 144.0	3.1%
Capital Assets							
Non-depreciable	28.6	27.7	13.0	11.6	41.6	39.3	5.9%
Depreciable (net)	62.3	63.6	446.0	440.5	508.3	504.1	0.8%
Total Assets	130.7	129.6	567.7	557.8	698.4	687.4	
Other Liabilities	3.1	2.7	8.5	10.9	11.6	13.6	(14.7%)
Non-current Liabilities							
Due Within One Year	1.6	2.6	10.7	9.1	12.3	11.7	5.1%
Due in More Than One Year	6.5	4.7	305.5	306.4	312.0	311.1	0.3%
Total Liabilities	11.2	10.0	324.7	326.4	335.9	336.4	
Net Assets:							
Invested in Capital Assets, Net of Related Debt	87.0	87.7	146.3	139.9	233.3	227.6	2.5%
Restricted	8.2	10.3	-	-	8.2	10.3	(20.4%)
Unrestricted	24.3	21.6	96.7	91.5	121.0	113.1	7.0%
Total Net Assets	<u>\$ 119.5</u>	<u>\$ 119.6</u>	<u>\$ 243.0</u>	<u>\$ 231.4</u>	<u>\$ 362.5</u>	<u>\$ 351.0</u>	

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

By far the largest portion of the City's net assets in fiscal year 2011-12 and fiscal year 2010-11, \$233.3 million (64.4 percent) and \$227.6 million (64.8 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 assets, in the amount of \$8.2 million (2.3 percent) in fiscal year 2011-12, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$121.0 million (33.4 percent) may be used to meet the government's ongoing obligations to citizens and creditors. In fiscal year 2010-11, \$10.3 million (2.9 percent) of the City's net assets were subject to external restrictions and \$113.1 million (32.2 percent) was available to be used to meet the government's ongoing obligations to citizens and creditors.

Business type net assets have increased overall by \$11.6 million (5.0 percent) primarily due to capital asset additions. Investment in capital assets, net of related debt increased \$6.4 million (4.6 percent) in fiscal year 2011-12 due to the additions of wastewater infrastructure for the sewer expansion project.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, 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 Assets

The City's total net assets increased by \$11.5 million (3.3 percent) in fiscal year 2011-12 and by \$23.1 (7.0 percent) million during fiscal year 2010-11. 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 into fiscal year 2011-12.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

**Lake Havasu City, Arizona
Statement of Activities
Fiscal Years Ended June 30, 2012, and June 30, 2011
(in thousands of dollars)**

	Governmental		Business-Type		Total		Percent Change
	Activities		Activities				
	2012	2011	2012	2011	2012	2011	
REVENUES							
Program Revenues:							
Charges for Services	\$ 3,312	\$ 3,534	\$ 39,146	\$ 34,264	\$ 42,458	\$ 37,798	12.3%
Operating Grants and Contributions	6,522	7,756	89	86	6,611	7,842	(15.7%)
Capital Grants and Contributions	1,525	3,265	3,161	13,548	4,686	16,813	(72.1%)
General Revenues:							
Property Taxes	4,151	4,136	5,703	4,460	9,854	8,596	14.6%
Business Taxes	14,400	14,379	-	-	14,400	14,379	0.1%
Other Taxes and State Shared Revenues	12,673	13,627	-	-	12,673	13,627	(7.0%)
Investment Earnings	(81)	188	257	266	176	454	(61.2%)
Other	119	374	-	-	119	374	(68.2%)
Total Revenues	<u>42,621</u>	<u>47,259</u>	<u>48,356</u>	<u>52,624</u>	<u>90,977</u>	<u>99,883</u>	
EXPENSES							
General Government	8,477	9,621	-	-	8,477	9,621	(11.9%)
Public Safety	21,687	22,373	-	-	21,687	22,373	(3.1%)
Highways and Streets	6,233	5,919	-	-	6,233	5,919	5.3%
Culture and Recreation	4,074	4,722	-	-	4,074	4,722	(13.7%)
Tourism and Promotion	1,497	1,390	-	-	1,497	1,390	7.7%
Transportation	1,879	1,462	-	-	1,879	1,462	28.5%
Interest on Long Term Debt	99	108	-	-	99	108	(8.3%)
Refuse	-	-	5,410	1,086	5,410	1,086	398.2%
Recreation/Aquatic Center	-	-	1,246	1,080	1,246	1,080	15.4%
Irrigation and Drainage	-	-	10,044	10,523	10,044	10,523	(4.6%)
Wastewater	-	-	17,441	17,162	17,441	17,162	1.6%
Airport	-	-	1,365	1,357	1,365	1,357	0.6%
Total Expenses	<u>43,946</u>	<u>45,595</u>	<u>35,506</u>	<u>31,208</u>	<u>79,452</u>	<u>76,803</u>	
CHANGE IN NET ASSETS BEFORE TRANSFERS	(1,325)	1,664	12,850	21,416	11,525	23,080	(50.1%)
Transfers	1,253	(154)	(1,253)	154	-	-	
CHANGE IN NET ASSETS	(72)	1,510	11,597	21,570	11,525	23,080	
Net Assets - Beginning of Year	119,604	118,094	231,405	209,835	351,009	327,929	7.0%
Net Assets - End of Year	<u>\$ 119,532</u>	<u>\$ 119,604</u>	<u>\$ 243,002</u>	<u>\$ 231,405</u>	<u>\$ 362,534</u>	<u>\$ 351,009</u>	

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

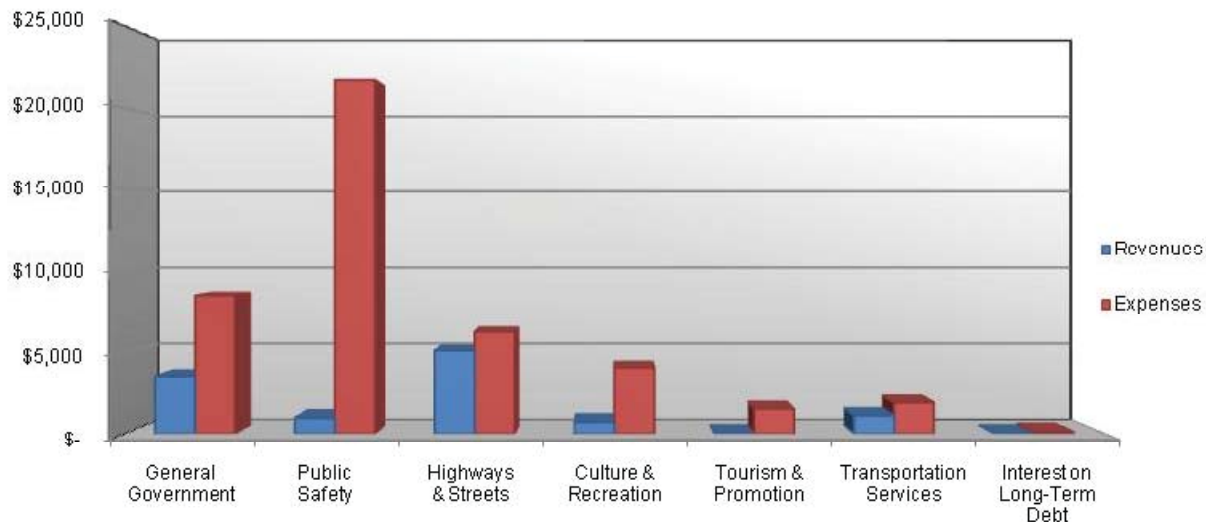
Governmental activities. Governmental activities decreased the City's net assets by \$72,148 (0.1 percent) in fiscal year 2011-12, as compared to the fiscal year 2010-11 increase of \$1.5 million (1.3 percent). Key elements of this increase are as follows

- Total expenses decreased \$1.6 million (3.6 percent) due to a combination of factors. General Government had a decrease in fiscal year 2011-12 (\$1.1 million, 11.9 percent) as did Public Safety (\$685,579, 3.1 percent) and Culture and Recreation (\$648,543, 13.7 percent) but these decreases were offset by increases in Highways and Streets, Tourism and Promotion and Transportation Services totaling \$838,804. This overall decrease in expenses in General Government, Public Safety and Culture and Recreation were due to the continuing budget strategy that began in fiscal year 2008-09 and included reductions in workforce, salary freezes, postponement of vehicle rents to the replacement fund and other cost saving measures to minimize the change in net assets for the fiscal year. In fiscal year 2010-11, total expenses had decreased \$1.3 million (2.7 percent). The majority of the decreases were reflected in General Government (\$1.9 million, 16.5 percent) but were offset by increases in Public Safety, Highways and Streets and Culture and Recreation totaling \$948,741.
- Transfers into governmental funds from enterprise funds increased in fiscal year 2011-12 by \$1.4 million (915.0 percent) from fiscal year 2010-11. This increase in transfers is 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. In fiscal year 2010-11 transfers out from the governmental funds to enterprise funds decreased by \$1.7 million (91.8 percent) from fiscal year 2009-10. This decrease in transfers was due primarily to elimination of the General Fund transfer to Wastewater for the wastewater system expansion in the amount of \$2.3 million.
- Capital grants and contributions declined by \$1.7 million (53.3 percent) in fiscal year 2011-12. This decline can be attributed mainly to an unanticipated reduction of Flood Control funding from Mohave County for drainage improvements in the amount of \$1.2 million (46.9 percent). In fiscal year 2010-11 capital grants and contributions reflected a slight decline from the prior fiscal year with a decrease of \$407,187 (11.1 percent).
- Business tax (sales tax) revenues showed no mentionable change in fiscal year 2011-12. This may indicate that sales tax revenues are stabilizing while still not reflecting significant improvement in construction and retail activity from the economic downturn. In fiscal year 2010-11 sales tax revenues increased \$400,262 (2.9 percent), continuing the economic condition from the prior fiscal year.
- In fiscal year 2011-12 property taxes remained stable with little change. In fiscal year 2010-11 property taxes declined by \$1.0 million (19.0 percent) due to a decline in assessed values. The assessed values declined in fiscal year 2011-12 but the City held the levy and raised the tax rate to avoid additional decline in property tax revenues.
- Other taxes and state shared revenues decreased \$953,700 (7.0 percent) during fiscal year 2011-12 and decreased \$1.5 million (10.2 percent) in fiscal year 2010-11. State shared revenues reflected the majority of this decrease in fiscal year 2011-12 by \$767,658 (14.8 percent) reflecting an allocation adjustment for state shared revenues.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

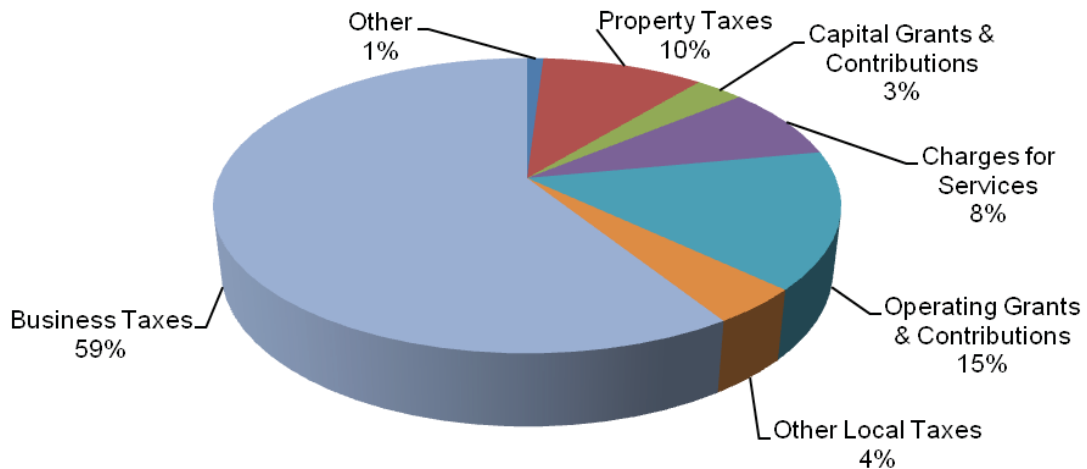
- Investment Earnings in fiscal year 2011-12 reflect negative earnings of \$81,420 due to the write off of the Lehman Brothers holdings in the Local Government Investment Pool (LGIP) in the amount \$350,770 in the governmental funds. These holdings have been pending bankruptcy resolution since 2008. Actual investment earnings prior to the write-off were \$269,350, an increase in actual earnings over fiscal year 2010-11 of \$81,610 (43.5 percent). This was due to a focused restructuring of the City's investment portfolio to increase earnings on idle cash. In fiscal year 2010-11 investment earnings reflected a decrease of \$65,720 (25.9 percent) due to low interest rates available on investments.
- Operating grants and contributions reflected a decrease of \$1.2 million (15.9 percent) in fiscal year 2011-12. This decline was due to a decrease of grant funding for public safety (\$251,915, 24.6 percent) and transportation (\$312,547, 25.5 percent), as well as a decline in gasoline tax in streets and highways of \$699,962 (15.9 percent). In fiscal year 2010-11 operating grants and contributions reflected no significant change (increase of \$99,392, 1.3 percent).
- Total governmental revenues decreased overall by \$4.6 million (9.8 percent) in fiscal year 2011-12. As mentioned earlier, this 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). In fiscal year 2010-11 total governmental revenues decreased overall by \$2.7 million (5.4 percent). The decline in overall revenue was from collection of less property tax (\$1.0 million, 19.0 percent) and a reduction in state shared revenue (\$1.6 million, 11.7 percent).

**Lake Havasu City, Arizona
Program Revenues and Expenses
Governmental Activities
Fiscal Year 2011-12
(in thousands of dollars)**



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

**Lake Havasu City, Arizona
Revenues by Source
Governmental Activities
Fiscal Year 2011-12**



Business-type activities. Business-type activities increased the City's net assets by \$11.6 million, accounting for almost 100.0 percent of the total growth in the government's net assets in fiscal year 2011-12. Key elements of the fiscal year 2011-12 increase are as follows:

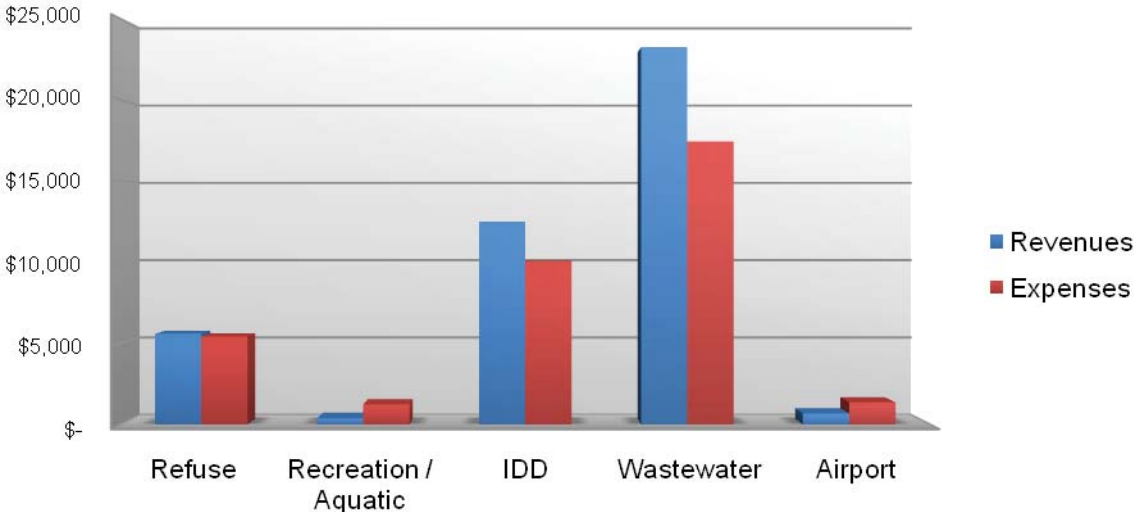
- Charges for services for business-type activities increased \$4.9 million (14.2 percent) overall during the year. Most of this increase can be attributed to Refuse, which reflects an increase of \$4.4 million (366.3 percent) due to a change in accounting methods implemented in fiscal year 2011-12. 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. Recreation/Aquatic Center, IDD, Wastewater and Airport realized very little change. In fiscal year 2010-11 charges for services for business-type activities increased \$3.5 million (11.2 percent) overall during the year. Recreation/Aquatic, and IDD realized very little change. Wastewater had an increase of \$4.4 million (26.2 percent) over the prior year. This increase was due to the increasing customer base from the ongoing wastewater system expansion project that was accelerated in fiscal year 2010-11. Airport realized a decrease of \$604,601 (53.7 percent) from the prior year due mainly to a sale of land in the prior fiscal year in the amount of \$589,946.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

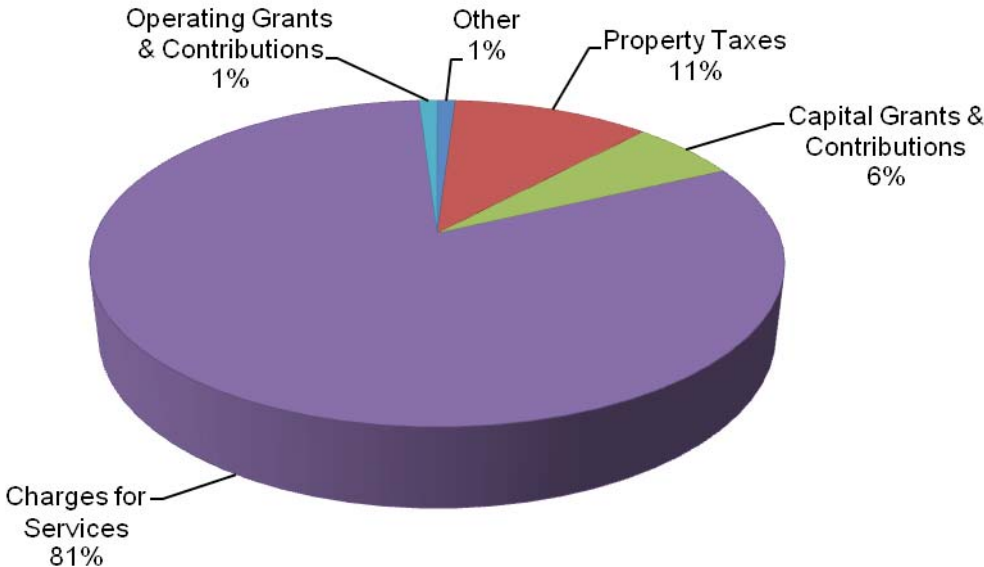
- Capital grants and contributions decreased by \$10.4 million (76.7 percent) in fiscal year 2011-12. Wastewater completed the sewer expansion project in this fiscal year and realized \$8.5 million (86.6 percent) less in Treatment Capacity Fees for new connections to the sewer. Water received \$1.2 million (42.7 percent) less on a Water Infrastructure Financing Authority (WIFA) loan with forgivable principle from an American Recovery and Reinvestment Authority (ARRA) grant for the waterline replacement project in the current fiscal year, as compared to fiscal year 2010-11, due to the progress on the infrastructure project. In fiscal year 2010-11 capital grants and contributions increased by \$3.2 million (30.6 percent). This increase was due to a contribution in the form of an ARRA federal award in the amount of \$2.8 million as forgivable principal on a WIFA loan for construction costs associated with the water line replacements. Contributions in the form of treatment capacity fees for new connections in Wastewater increased by \$477,393 (4.8 percent) for the sewer system in fiscal year 2010-11 due to acceleration of the sewer expansion project.
- Property taxes increased \$1.2 million (27.9 percent) in fiscal year 2011-12 in the IDD Fund due to an increase in the per acre tax. Property taxes reflected an increase of \$1.2 million (37.8 percent) in fiscal year 2010-11. This increase was also due to a higher per acre tax for the IDD Fund.
- In fiscal year 2011-12 total expenses reflected an increase of \$4.3 million (13.8 percent). As mentioned earlier, a change in accounting methods in the Refuse fund 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. In fiscal year 2010-11 total expenses reflected an increase of \$2.2 million (7.7 percent). The most significant change occurred in wastewater where expenses increased by \$2.0 million (12.9 percent) due to an increase in operating and maintenance costs associated with an increased customer base from the sewer system expansion.
- Transfers from business-type funds to governmental funds increased \$1.4 million (915.0 percent) in fiscal year 2011-12. 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 that did not occur in fiscal year 2010-11. In fiscal year 2010-11 transfers in from governmental funds decreased by \$1.7 million (91.8 percent) from the prior fiscal year due to the elimination of the General Fund transfer to Wastewater to subsidize the sewer expansion project. This transfer was stopped mid-year in 2010-11.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

**Lake Havasu City
Program Revenues and Expenses
Business-Type Activities
Fiscal Year 2011-12
(in thousands of dollars)**



**Lake Havasu City
Revenues by Source
Business-Type Activities
Fiscal Year 2011-12**



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 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 fiscal year 2010-11, which reflected combined ending fund balance of \$26.4 million, an increase of \$1.3 million (5.2 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 2011-12 fund balance of \$26.8 million, \$472,887 (1.8 percent) is nonspendable, the portion of net resources that cannot be spent because of their form (inventory, prepaid expenses). Approximately \$8.1 million (30.3 percent) is restricted in its use by externally enforceable limitations. The committed fund balance of \$686,599 (2.6 percent) is limited for use on certain expenditures through formal action of the Council. Approximately \$3.0 million (11.3 percent) is assigned for use by management for specific intentions and \$14.5 million (54.1 percent) is unassigned and available for use at the government's discretion.

At the end of fiscal year 2010-11, the City's governmental funds reported combined ending fund balances of \$26.4 million, an increase of \$1.3 million (5.2 percent) in comparison with the prior fiscal year. Of the fiscal year 2010-11 fund balance, \$578,006 (2.2 percent) is nonspendable and approximately \$10.2 million (38.5 percent) is restricted in its use by externally enforceable limitations. The committed fund balance was \$3.9 million (14.6 percent) and \$3.2 million (12.1 percent) was assigned for use by management for specific intentions. The unassigned balance was \$8.6 million (32.6 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 2011-12 the total fund balance of the General Fund reached \$15.4 million. The nonspendable portion of the fund balance is \$349,232 (2.3 percent), reflecting inventory and prepaid expenses. The restricted portion of the fund balance is \$16,815 (0.1 percent). The portion that is committed totals \$533,133 (3.5 percent) and the unassigned fund balance is \$14.5 million (94.2 percent), which is available for use at the City's discretion. At the end of fiscal year 2010-11, total fund balance reached \$13.0 million. Of that fund balance, \$461,612 (3.6 percent) was nonspendable, \$8,663 (0.1 percent) was restricted, \$1.2 million (9.2 percent) was committed, \$2.7 million (20.8 percent) was assigned and \$8.6 million (66.3 percent) was unassigned.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The fund balance of the City's General Fund increased \$2.4 million (18.3 percent) during fiscal year 2011-12. Key factors for this increase in fiscal year 2011-12 are:

- Overall total revenues in fiscal year 2011-12 reflected a decrease of \$1.5 million (4.2 percent). Expenditures increased by \$297,267 (0.9 percent) overall. In fiscal year 2010-11 revenues reflected an overall decrease of \$2.3 million (6.2 percent). Expenditures increased by \$401,271 (1.2 percent). Revenues were expected to decrease both years but the City was successful in offsetting this decrease to realize a positive net change in fund balance.
- Intergovernmental revenues reflected the largest decrease of \$873,023 (7.0 percent) due to a decline in state shared revenue. The same held true for fiscal year 2010-11 which reflected a decrease of \$1.6 million (11.3 percent). State shared revenues related to income tax have a delay of 2 years in reflecting the true economic condition and resulting distribution from the state. Fiscal year 2009-10 was the first year of the two year lag to reflect the full impact of the economic condition.
- All other major revenues (taxes, licenses and permits, fines and forfeitures, charges for services) stayed fairly level in fiscal year 2011-12, as was also reported for fiscal year 2010-11. Interest earnings in fiscal year 2011-12 reflect a loss of \$138,496 which is a decrease of \$264,399 (210.0 percent) from fiscal year 2010-11. The actual earnings were \$106,837; however, the write-off of the Lehman Brothers bankruptcy in fiscal year 2011-12 of \$245,334 offset those earnings to net a loss.
- General Government expenditures reflected an increase of \$641,333 (7.4 percent) in fiscal year 2011-12. Public Safety reflected a slight decrease of \$219,220 (1.1 percent) and Culture and Recreation a decrease of \$124,846 (3.3 percent), netting the change in expenditures overall to \$297,267. There were no significant changes in expenditures for any one function to note in fiscal year 2010-11 as the most drastic expenditure cuts took place previously in fiscal year 2009-10. The continued level of expenditure reductions in fiscal year 2011-12 and fiscal year 2010-11 were again the result of 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 \$2.7 million (242,606 percent) due to the payback from the IDD Fund for the funding provided for the Water Treatment Plant. Transfers out of the General Fund held steady in fiscal year 2011-12 when compared to fiscal year 2010-11. In fiscal year 2010-11 a decrease of \$1.8 million (53.3 percent) is reflected in transfers out from the General Fund. This was due to the reduction of capital projects after management implemented the budget reductions, therefore reducing the subsidies to the enterprise and capital project funds. 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 highways and streets activities, had a net decrease in fund balance of \$144,931 (5.2 percent) in fiscal year 2011-12. Revenues decreased by \$689,635 (15.6 percent) due to a decline in gasoline tax revenue and expenditures increased \$103,560 (2.3 percent) from continued efforts to maintain street repairs. In fiscal year 2010-11 the HURF fund realized an increase in fund balance of \$599,741 (27.1 percent) over the prior fiscal year. Revenues remained level with no notable change while expenditures increased \$607,410 (15.9 percent) due to regularly scheduled street repair contractual services.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The City's debt service fund has a total fund balance of \$154,645 which is restricted for the payment of debt service. The Debt Service Fund 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. Fund balance decreased \$38,507 (19.9 percent) due to payoff of the McCulloch Boulevard Streetscape Improvement District debt in fiscal year 2011-12. 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 a decrease of \$1.8 million (18.7 percent) to fund balance in fiscal year 2011-12. This was due to a number of factors. The City's allocation of Flood Control funding from the County was reduced by \$1.2 million (46.9 percent) over fiscal year 2010-11. The City was able to decrease expenditures by \$1.1 million (31.6 percent) for this decrease in allocation. Transfers in also decreased by \$531,273 (99.9 percent) due to fewer projects with eligible funding from other funds. Transfers out increased by \$519,808 (85.6 percent) due to the reimbursement to the General Fund of impact fees in the amount of \$577,434 for eligible projects that were funded in prior years. In fiscal year 2010-11 the capital projects fund had an increase to fund balance of only \$315,586. Revenues decreased by \$265,318 (6.6 percent) while expenditures totaled \$3.3 million, an increase of \$2.2 million (181.8 percent) from the prior fiscal year.

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 assets reflected an increase of \$11.6 million (5.0 percent). The most significant increases occurred in Wastewater, showing an increase of \$7.9 million (6.0 percent) followed by the IDD Fund with an increase of \$4.2 million (5.7 percent). Refuse remained stable with a slight increase over fiscal year 2010-11. Recreation/Aquatic and Airport realized a decrease totaling \$673,972 (3.0 percent) for the non-major funds combined. Recreation/Aquatics had an increase in operating expenses of \$166,021 (15.4 percent) but transfers in increased in the amount of \$216,000 (39.6 percent). Airport's capital contributions (grant funding) decreased \$189,662 (52.7 percent) due to fewer airport projects in fiscal year 2011-12.

The change to net assets in Wastewater was due to revenues exceeding the expenses by \$4.6 million, 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. When compared to fiscal year 2010-11, there was not a significant change in income from revenues exceeding expenses. There was a significant decrease of \$9.0 million (86.7 percent) in capital contributions in fiscal year 2011-12 due to the acceleration of the sewer expansion project in fiscal year 2010-11 and the amount of Treatment Capacity Fees collected on fewer new connections. In fiscal year 2010-11 the change to net assets in Wastewater of \$16.7 million (14.5 percent) was due to an increase in operating revenues of \$4.4 million (26.3 percent) while operating expenses increased by only \$1.9 million (12.7 percent). The increase in revenues was due to increased charges for service revenues related to an expanding customer base due to the wastewater system expansion, as was the increase in expenses for maintaining a system with more connections.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The increase to the IDD Fund's net assets in fiscal year 2011-12 of \$4.2 million (5.7 percent) was due mainly to revenues exceeding expenditures by \$6.6 million. Operating revenues decreased by \$392,766 (3.6 percent) with operating expenses decreasing \$466,498 (4.5 percent). Additionally, property taxes increased by \$1.2 million (27.9 percent) due to a per acre tax rate increase. Although intergovernmental revenues reflect a decrease of \$2.8 million (96.9 percent), capital contributions increased \$1.6 million in fiscal year 2011-12. This federal grant funding was forgivable principal awarded on the WIFA loan proceeds used for waterline replacement projects. Transfers out of the IDD Fund increased by \$2.0 million (102.1 percent) due to the reimbursement to the General Fund for the Water Treatment Plant project. In fiscal year 2010-11 the IDD Fund's increase in net assets was due to an increase in revenue of \$3.8 million over the prior fiscal year. Property taxes increased by \$1.2 million (37.8 percent) due to the increase in the per acre tax on assessed property value. Intergovernmental revenues increased by \$2.9 million (11519.3 percent) due to the federal funding of \$8.2 million of forgivable principal awarded on a WIFA loan used for water line replacements.

Net assets invested in capital assets net of related debt increased by \$6.8 million (12.6 percent) in Wastewater and \$413,811 (0.6 percent) in the IDD Fund. These increases are due to capital asset activity exceeding debt activity. 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 assets in fiscal year 2011-12 for the IDD Fund were \$13.7 million, (17.6 percent of the total IDD Fund net assets.) This reflects an increase of \$3.8 million (38.0 percent) over fiscal year 2010-11. Unrestricted net assets in Wastewater were \$78.9 million, (56.6 percent of total Wastewater net assets.) This reflects an increase of \$1.2 million (1.5 percent) over fiscal year 2010-11. The Refuse Fund's unrestricted net assets were \$3.9 million (99.3 percent of total Refuse net assets). This reflects only a \$146,092 (3.9 percent) increase from fiscal year 2010-11. Unrestricted net assets in fiscal year 2010-11 for the IDD Fund were \$9.9 million, up \$3.2 million (47.1 percent) over fiscal year 2009-10. Unrestricted net assets in Wastewater were \$77.7 million, up \$7.5 million (10.7 percent). Refuse Fund unrestricted net assets were \$3.7 million, down \$237,478 (6.0 percent) from prior year.

The internal service funds' total net assets increased \$614,482 (5.9 percent) in fiscal year 2011-12. The vehicle replacement fund, which accounts for the vehicle and equipment replacement program, had net assets of \$4.6 million, a decrease of \$302,070 (6.2 percent) from fiscal year 2010-11. 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 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 assets. In fiscal year 2010-11 the vehicle replacement fund had \$4.9 million in net assets, a decrease from the prior fiscal year of \$339,322 (6.5 percent). This decrease in net assets reflects the same decline as fiscal year 2011-12 for the depreciation expense.

The Employee Benefit Trust Fund (EBT) is used to account for the City's limited risk self-insurance program for employee and dependent medical care. The EBT had unrestricted net assets of \$6.4 million, an increase of \$916,552 (16.6 percent) from the fiscal year 2010-11 balance of \$5.5 million. Premium revenues increased \$297,880 (4.7 percent) due to a rise in premium costs for coverage. Operating expenses were \$5.7 million in fiscal year 2011-12, reflecting a decrease of \$420,191 (6.9 percent) from fiscal year 2010-11.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 2011-12. Total increase in expenditure appropriations was \$250,200 (0.7 percent). An increase of \$286,603 (12.9 percent) was approved for transfers in and an increase of \$20,000 (1.1 percent) for transfers out was also approved by City Council. 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.

Total revenues reflect a positive variance to budget in the amount of \$358,698 (1.1 percent) for fiscal year 2011-12. In fiscal year 2010-11 revenues reflected a positive variance to budget in the amount of \$1.4 million (4.2 percent). The variance in fiscal year 2010-11 was due to conservative budgeting in anticipation of declining tax revenue and intergovernmental revenue due to the economic climate.

The actual expenditures reflect a favorable variance to final budget in the amount of \$4.3 million, 11.9 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 Parks and Maintenance expenditures. The savings can be attributed to the budget restrictions already mentioned. These restrictions are also the reason for the favorable variance to final budget in fiscal year 2010-11 in the amount of \$4.0 million, or 11.0 percent less than the total appropriations.

Tax revenues show a positive variance of \$386,939 (2.1 percent) between actual and final budget. This was due to an increase in sales tax collections from construction, tourism and retail activity. Tax revenues appear to be stabilizing from the recessionary levels experienced in prior years. In fiscal year 2010-11 tax revenues showed a positive variance between actual and final budget in the amount of \$794,739.

The end of year actual fund balance to projected fund balance reflects an additional \$5.0 million due to the favorable variances in expenditures for fiscal year 2011-12. In fiscal year 2010-11 the ending fund balance reflected an additional \$6.1 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, 2012, totals \$549.9 million (net of accumulated depreciation). In fiscal year 2010-11, the capital asset investment was \$543.3 million, representing an increase of \$6.6 million (1.2 percent) in fiscal year 2011-12 and \$38.1 million (7.5 percent) in fiscal year 2010-11. This investment in capital assets includes land, buildings and improvements, other improvements, water rights, machinery and equipment, park facilities, roads, and highways. The total decrease in fiscal year 2011-12 for governmental activities was \$351,738, a 0.4 percent decrease due to the current year depreciation in excess of the net of asset additions and deletions. The total increase for business-type activities was \$7.0 million, or 1.5 percent increase. This increase was due mainly to the last year of the sewer expansion project.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

**Lake Havasu City, Arizona
Capital Assets, Net of Depreciation
June 30, 2012, and 2011
(In thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
Land	\$ 26,755	\$ 26,301	\$ 3,288	\$ 3,288	\$ 30,043	\$ 29,589	1.5%
Improvements to Land	10,048	10,416	-	-	10,048	10,416	(3.5%)
Buildings, Structures & Improvements	14,596	15,213	26,259	26,864	40,855	42,077	(2.9%)
Other Improvements	-	-	416,649	409,984	416,649	409,984	1.6%
Equipment, Furniture & Fixtures	4,379	5,476	844	1,323	5,223	6,799	(23.2%)
Construction in Progress	1,877	1,376	3,553	2,102	5,430	3,478	56.1%
Infrastructure	33,240	32,464	-	-	33,240	32,464	2.4%
Water Allocation	-	-	8,417	8,476	8,417	8,476	(0.7%)
Total	\$ 90,895	\$ 91,246	\$ 459,010	\$ 452,037	\$ 549,905	\$ 543,283	

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

- The majority of the increase in capital assets in fiscal year 2011-12 was in the Wastewater Fund. The capital asset additions to this fund totaled \$17.0 million (4.7 percent) with an offset of current year depreciation of \$10.5 million for a net increase of \$6.7 million (1.9 percent). Construction was completed on the City's sewer system expansion project during the fiscal year. The total sewer expansion system cost included \$16.6 million for the expanded sewer connections and the rest of the additions were on various other projects of the Wastewater Fund.
- The remaining increases in the proprietary funds were mainly in the IDD Fund, which had additions of assets in the amount of \$2.3 million (3.4 percent) with an offset of current year depreciation of \$2.3 million for a net increase of \$69,283 (0.1 percent). The additions were \$2.0 million for Booster Station No. 1 and the remainder was on waterline replacements, booster station improvements and water treatment plant improvements.
- The governmental capital assets decreased by \$351,738. Although new additions of \$4.4 million occurred, an offset of current year depreciation brought the net change to a decrease of 0.4 percent. The capital asset additions included the dedication of land parcels totaling \$454,323, drainage improvements of \$441,927, energy improvements of \$853,586, acquisition of a new phone system for \$319,608 and various equipment and network infrastructure.

Additional information on the City's capital assets can be found in Note 3 A. 4 on pages 65-68 of this report.

Long-term debt. At the end of fiscal year 2011-12, the City had total bonded debt outstanding of \$313.5 million (net of related premium), a decrease of \$670,275 (0.2 percent). At the end of fiscal year 2010-11 the bonded debt totaled \$314.1 million. Of the fiscal year 2011-12 total bonded debt, \$115,000 are general obligation bonds backed by the full faith and credit of the IDD Fund (water utilities), \$2.2 million are excise tax revenue bonds for the Freedom Bridge, \$250.9 million are loans from WIFA for the wastewater system expansion and water system improvements and \$60.3 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, 2012**

During fiscal year 2011-12, the City received \$8.4 million from WIFA for wastewater capital improvements. The City also received \$1.6 million from WIFA for water capital improvements but no debt was incurred on this because it is forgivable principal from an ARRA federal grant passed through WIFA. The City retired \$60,000 in special assessment debt, \$10,000 in general obligation bonds of the IDD, \$140,000 on the GADA excise tax bonds for the Freedom Bridge and \$8.8 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, 2012, is \$34.1 million in the 6 percent capacity and (\$26.9) million in the 20 percent capacity. In fiscal year 2010-11, the 6 percent capacity limit was \$42.7 million and the 20 percent capacity limit was (\$3.9) million. This deficit in available debt margin in fiscal year 2011-12 and fiscal year 2010-11 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 C and D on pages 69-72 to the financial statements for further information regarding capital leases and long-term bonds and loans.

**Lake Havasu City, Arizona
Outstanding Obligations
June 30, 2012, and 2011
(In thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
General Obligation Bonds	\$ -	\$ -	\$ 115	\$ 125	\$ 115	\$ 125	(8.0%)
GADA Loan	2,235	2,375	-	-	2,235	2,375	(5.9%)
Special Assessments Debt with Government Commitment	-	60	-	-	-	60	(100.0%)
GADA Loan (net of related premium), G/O Loan	-	-	60,261	60,356	60,261	60,356	(0.2%)
LHC WIFA 2002 Jr. Lien Revenue, G/O Loan	-	-	5,752	6,183	5,752	6,183	(7.0%)
LHC WIFA 2002 Sr. Lien Revenue	-	-	5,752	6,183	5,752	6,183	(7.0%)
LHC WIFA 2004 Sr. Lien Revenue	-	-	4,423	4,696	4,423	4,696	(5.8%)
LHC WIFA 2004A Jr. Construction, G/O Loan	-	-	27,265	28,290	27,265	28,290	(3.6%)
LHC WIFA 2004A Sr. Construction	-	-	13,279	14,090	13,279	14,090	(5.8%)
LHC WIFA 2006 Jr. Construction, G/O Loan	-	-	44,550	45,615	44,550	45,615	(2.3%)
LHC WIFA 2006 Sr. Construction	-	-	10,300	10,855	10,300	10,855	(5.1%)
LHC WIFA 2007 Drinking Water	-	-	4,851	5,074	4,851	5,074	(4.4%)
LHC WIFA 2007 Sr. Construction	-	-	49,185	50,394	49,185	50,394	(2.4%)
LHC WIFA 2008 Jr. Construction, G/O Loan	-	-	27,973	28,573	27,973	28,573	(2.1%)
LHC WIFA 2009 Sr. Construction	-	-	2,777	2,837	2,777	2,837	(2.1%)
LHC WIFA 2009A Sr. Construction	-	-	54,877	48,437	54,877	48,437	13.3%
LHC WIFA 2010 Sr. Drinking Water (1)	-	-	(123)	-	(123)	-	-
Total Bonds Payable	2,235	2,435	311,237	311,708	313,472	314,143	
Capital Leases	1,610	1,181	1,432	423	3,042	1,604	89.7%
Compensated Absences	2,266	2,181	239	279	2,505	2,460	1.8%
Other Postemployment Benefits	2,003	1,511	715	571	2,718	2,082	30.5%
Landfill Closure and Post-Closure Costs	-	-	2,608	2,498	2,608	2,498	4.4%
Total Long-Term Liabilities	<u>\$ 8,114</u>	<u>\$ 7,308</u>	<u>\$ 316,231</u>	<u>\$ 315,479</u>	<u>\$ 324,345</u>	<u>\$ 322,787</u>	

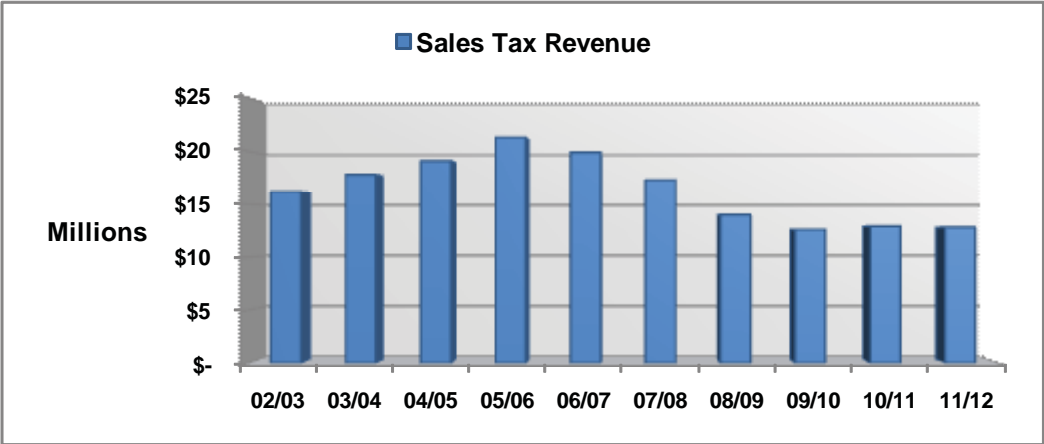
(1) The WIFA 2010 Sr. Drinking Water loan is for \$11.4 million with forgivable principle of \$8.2 million from a pass through ARRA federal grant. The net obligation to the City is \$3.2 million. Principle payments are now due in accordance with the WIFA loan documents on the debt obligation of \$3.2 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, 2012.

**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 38.7 percent (\$12.9 million) of the total General Fund revenues in fiscal year 2011-12. This represents a decrease of \$119,997 (0.9 percent) from fiscal year 2010-11, which reflected an increase of \$364,523 (2.9 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 flat during the current economic climate; however, future planned commercial development is expected to generate sales tax to offset the decline in residential construction. The City expects to maintain a sustainable long-term economic outlook which can be attributed to new tenants continually opening at the new regional mall, continued tourism and major commercial growth in the City.



**LAKE HAVASU CITY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The unemployment rate for the City is currently 10.3 percent, which has increased 2.0 percent from last year's rate of 8.3 percent. This does not compare favorably to the state's average unemployment rate of 8.3 percent and the national average rate of 8.5 percent at June 30, 2012. This can be attributed to the remote location of the City and its past reliance on the construction industry.

During fiscal year 2012-13, the City has designated \$2.5 million of its projected \$15.4 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 continue growing the reserves of the General Fund through implementation of budget restraints, efficiency measures and increased fees for services and programs in fiscal year 2012-13. It is also intended to obviate the need for the transfer of additional resources to the General Fund.

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 policy (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 \$0.7264 per \$100 assessed value in fiscal year 2011-12. This was an increase over the prior fiscal year in which the assessment was \$0.5834 per \$100 assessed value. In fiscal year 2012-13 the property tax levy rates will be increased to \$0.7332, 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 commercial growth and increased valuation of the permitted improvements, in addition to the establishment of the ASU campus, renovations of vacant commercial property by new retail establishments and continued tenant expansion at the regional mall will improve permit activity as well as generate additional retail sales to help carry the City through the ongoing economic climate.

During fiscal year 2011-12 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 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, 2012**

Trash rates will increase slightly in the 2012-13 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 2011-12, resulting in a small rate increase in January 2012.

The City conducted an in-house water rate study in fiscal year 2010-11 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 2010-11 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 2012-13.

All of these factors were considered in preparing the City's budget for the 2012-13 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

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Basic Financial Statements

LAKE HAVASU CITY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and Investments	\$ 33,823,818	\$ 68,183,857	\$ 102,007,675
Receivables, Net			
Accounts Receivable	264,381	10,754,648	11,019,029
Taxes Receivable	131,348	219,432	350,780
Intergovernmental Receivable	5,079,463	1,230,060	6,309,523
Interest Receivable	19,087	45,984	65,071
Inventories	246,397	2,702	249,099
Prepaid Items	272,887	181,909	454,796
Deferred Charges	-	4,505,701	4,505,701
Restricted Assets	-	23,611,045	23,611,045
Capital Assets			
Non-Depreciable	28,632,410	13,007,119	41,639,529
Depreciable (net)	62,262,304	446,003,000	508,265,304
Total Assets	130,732,095	567,745,457	698,477,552
Liabilities			
Accounts Payable	1,474,533	1,054,166	2,528,699
Accrued Wages and Benefits	644,428	99,649	744,077
Interest Payable	64,296	5,119,590	5,183,886
Intergovernmental Payable	253,145	150,597	403,742
Retainage Payable	2,772	1,450,906	1,453,678
Unearned Revenue	74,371	209,398	283,769
Performance Bonds Payable	35,005	-	35,005
Developer Agreements	85,696	-	85,696
Claims Payable	452,000	-	452,000
Liabilities Payable from Restricted Assets	-	428,332	428,332
Noncurrent Liabilities			
Due Within One Year	1,577,182	10,747,883	12,325,065
Due in More Than One Year	6,536,742	305,483,274	312,020,016
Total Liabilities	11,200,170	324,743,795	335,943,965
Net Assets			
Invested in Capital Assets, Net of Related Debt	87,049,507	146,340,617	233,390,124
Restricted for:			
Highways and Streets	2,668,103	-	2,668,103
Debt Service	154,645	-	154,645
Capital Outlay	4,836,024	-	4,836,024
Tourism/Economic Development	309,537	-	309,537
Improvement Districts	38,163	-	38,163
Transit	3,237	-	3,237
Special Programs	214,287	-	214,287
Unrestricted	24,258,422	96,661,045	120,919,467
Total Net Assets	\$ 119,531,925	\$ 243,001,662	\$ 362,533,587

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, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		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	\$ 8,476,893	\$ 2,496,454	\$ 1,025,566	\$ 13,769	\$ (4,941,104)	\$ -	\$ (4,941,104)
Public Safety	21,686,997	107,777	771,513	61,894	(20,745,813)	-	(20,745,813)
Highways and Streets	6,233,637	21,023	3,703,968	1,359,244	(1,149,402)	-	(1,149,402)
Culture and Recreation	4,073,659	565,388	109,999	31,956	(3,366,316)	-	(3,366,316)
Tourism and Promotion	1,496,816	-	-	-	(1,496,816)	-	(1,496,816)
Transportation Services	1,879,024	119,262	911,058	58,599	(790,105)	-	(790,105)
Interest on Long-term Debt	99,411	2,086	-	-	(97,325)	-	(97,325)
Total Governmental Activities	43,946,437	3,311,990	6,522,104	1,525,462	(32,586,881)	-	(32,586,881)
Business-Type Activities:							
Refuse	5,410,612	5,589,465	-	-	-	178,853	178,853
Recreation/Aquatic Center	1,246,005	388,600	-	-	-	(857,405)	(857,405)
Irrigation and Drainage	10,044,185	10,792,533	88,717	1,614,936	-	2,452,001	2,452,001
Wastewater	17,441,173	21,865,171	-	1,376,260	-	5,800,258	5,800,258
Airport	1,364,933	510,311	-	170,110	-	(684,512)	(684,512)
Total Business-Type Activities	35,506,908	39,146,080	88,717	3,161,306	-	6,889,195	6,889,195
Total Primary Government	\$ 79,453,345	\$ 42,458,070	\$ 6,610,821	\$ 4,686,768	(32,586,881)	6,889,195	(25,697,686)
General Revenues:							
Taxes							
Sales Taxes					14,400,439	-	14,400,439
Property Taxes					4,150,569	5,703,105	9,853,674
Franchise Taxes					1,684,173	-	1,684,173
Unrestricted State Revenue Sharing					4,433,318	-	4,433,318
Unrestricted State Sales Tax Revenue Sharing					4,104,475	-	4,104,475
Unrestricted Auto Lieu Tax Revenue Sharing					2,451,516	-	2,451,516
Investment Earnings					(81,420)	256,774	175,354
Other					119,074	-	119,074
Transfers					1,252,589	(1,252,589)	-
Total General Revenues and Transfers					32,514,733	4,707,290	37,222,023
Change in Net Assets					(72,148)	11,596,485	11,524,337
Net Assets, Beginning					119,604,073	231,405,177	351,009,250
Net Assets, Ending					\$ 119,531,925	\$ 243,001,662	\$ 362,533,587

**LAKE HAVASU CITY, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	HURF	Debt Service	Capital Projects	Nonmajor Funds	Totals
Assets						
Cash and Investments	\$ 13,898,174	\$ 2,235,641	\$ 194,913	\$ 6,716,308	\$ 462,379	\$ 23,507,415
Receivables						
Accounts Receivable	262,953	55	-	-	457	263,465
Taxes Receivable	130,190	-	-	-	1,158	131,348
Intergovernmental Receivable	2,653,369	377,278	-	1,378,352	670,464	5,079,463
Interest Receivable	6,478	1,516	50	5,118	150	13,312
Due from Other Funds	464,200	-	-	-	-	464,200
Inventories	196,897	49,500	-	-	-	246,397
Prepaid Items	152,335	70,918	-	-	3,237	226,490
Total Assets	<u>\$ 17,764,596</u>	<u>\$ 2,734,908</u>	<u>\$ 194,963</u>	<u>\$ 8,099,778</u>	<u>\$ 1,137,845</u>	<u>\$ 29,932,090</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 1,377,286	\$ 29,650	\$ -	\$ 54,019	\$ 12,234	\$ 1,473,189
Accrued Wages and Benefits	587,752	36,932	-	-	19,744	644,428
Interest Payable	23,755	223	40,318	-	-	64,296
Intergovernmental Payable	235,917	-	-	-	17,228	253,145
Due to Other Funds	-	-	-	-	464,200	464,200
Deferred Revenue	126,895	-	-	-	820	127,715
Retainage Payable	2,772	-	-	-	-	2,772
Performance Bonds Payable	35,005	-	-	-	-	35,005
Developer Agreements	-	-	-	85,696	-	85,696
Total Liabilities	<u>2,389,382</u>	<u>66,805</u>	<u>40,318</u>	<u>139,715</u>	<u>514,226</u>	<u>3,150,446</u>
Fund Balances						
Nonspendable	349,232	120,418	-	-	3,237	472,887
Restricted	16,815	2,547,685	154,645	4,836,024	561,987	8,117,156
Committed	533,133	-	-	153,466	-	686,599
Assigned	-	-	-	2,970,573	58,395	3,028,968
Unassigned	14,476,034	-	-	-	-	14,476,034
Total Fund Balance	<u>15,375,214</u>	<u>2,668,103</u>	<u>154,645</u>	<u>7,960,063</u>	<u>623,619</u>	<u>26,781,644</u>
Total Liabilities and Fund Balance	<u>\$ 17,764,596</u>	<u>\$ 2,734,908</u>	<u>\$ 194,963</u>	<u>\$ 8,099,778</u>	<u>\$ 1,137,845</u>	<u>\$ 29,932,090</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 ASSETS
JUNE 30, 2012**

Total Fund Balances for Governmental Funds	\$ 26,781,644
Amounts reported for governmental activities in the statement of net assets are different because:	
Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.	53,344
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental Capital Assets	176,093,711
Less Accumulated Depreciation	<u>(86,332,974)</u>
Capital Assets Used in Governmental Activities	<u>89,760,737</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	(2,235,000)
Capital Leases	(1,610,207)
Compensated Absences	(2,265,458)
Other Postemployment Benefits	(2,003,259)
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 assets.	
	<u>11,050,124</u>
Total Net Assets of Governmental Activities	<u><u>\$ 119,531,925</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, 2012

	<u>General</u>	<u>HURF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Revenues						
Taxes						
Sales Taxes	\$ 12,872,154	\$ -	\$ -	\$ -	\$ 1,528,328	\$ 14,400,482
Property Taxes	4,069,780	-	-	-	71,729	4,141,509
Franchise Taxes	1,684,173	-	-	-	-	1,684,173
Intergovernmental Revenue	11,556,020	3,703,968	-	1,387,155	2,080,425	18,727,568
Fines and Forfeitures	1,237,774	-	-	-	71,298	1,309,072
Licenses and Permits	1,072,635	-	-	-	-	1,072,635
Charges for Services	688,383	-	-	-	114,686	803,069
Rents and Royalties	64,824	-	-	-	-	64,824
Contributions and Donations	106,403	-	-	-	6,173	112,576
Impact Fees	-	-	-	137,207	-	137,207
Special Assessments	-	-	65,357	-	-	65,357
Investment Earnings	(138,496)	16,961	745	65,459	1,929	(53,402)
Other	79,531	21,023	-	-	19,273	119,827
Total Revenue	<u>33,293,181</u>	<u>3,741,952</u>	<u>66,102</u>	<u>1,589,821</u>	<u>3,893,841</u>	<u>42,584,897</u>
Expenditures						
Current						
General Government	9,285,504	-	-	-	521,353	9,806,857
Public Safety	20,079,426	-	-	-	788,197	20,867,623
Highways and Streets	-	4,522,249	-	-	-	4,522,249
Culture and Recreation	3,706,383	-	-	-	1,439	3,707,822
Tourism and Promotion	-	-	-	-	1,496,155	1,496,155
Transportation Services	-	-	-	-	1,649,359	1,649,359
Debt Service						
Principal Retirement	-	-	200,000	-	-	200,000
Interest on Long-Term Debt	-	-	99,411	-	-	99,411
Capital Outlay	-	-	-	2,288,782	-	2,288,782
Total Expenditures	<u>33,071,313</u>	<u>4,522,249</u>	<u>299,411</u>	<u>2,288,782</u>	<u>4,456,503</u>	<u>44,638,258</u>
Excess (Deficiency) of Revenue Over Expenditures	221,868	(780,297)	(233,309)	(698,961)	(562,662)	(2,053,361)
Other Financing Sources (Uses)						
Transfers In	2,740,149	650,366	194,802	235	575,000	4,160,552
Transfers Out	(1,735,529)	(15,000)	-	(1,127,434)	(30,000)	(2,907,963)
Proceeds from Capital Lease	1,154,054	-	-	-	-	1,154,054
Total Other Financing Sources (Uses)	<u>2,158,674</u>	<u>635,366</u>	<u>194,802</u>	<u>(1,127,199)</u>	<u>545,000</u>	<u>2,406,643</u>
Net Change in Fund Balance	2,380,542	(144,931)	(38,507)	(1,826,160)	(17,662)	353,282
Fund balances,						
Beginning of Year	12,994,672	2,813,034	193,152	9,786,223	641,281	26,428,362
End of Year	<u>\$ 15,375,214</u>	<u>\$ 2,668,103</u>	<u>\$ 154,645</u>	<u>\$ 7,960,063</u>	<u>\$ 623,619</u>	<u>\$ 26,781,644</u>

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 353,282

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

Governmental funds report capital outlays as expenditure. 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	3,813,037
Less Current Year Depreciation	<u>(4,353,334)</u>
Excess Capital Expenditures Over Depreciation	<u>(540,297)</u>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, transfers, and donations) to decrease net assets. 360,878

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	9,060
Special Assessments	(63,270)

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 assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets.

Principal Payments on Long-term Debt	925,177
Proceeds from Debt	(1,154,054)

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	(84,737)
Net Increase in Other Postemployment Benefits	(492,669)

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

The net changes in net assets of the internal service fund is reported with governmental activities	<u>614,482</u>
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Changes in Net Assets of Governmental Activities	<u><u>\$ (72,148)</u></u>
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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, 2012**

	Budgeted Amounts		Actual Amount Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 18,239,168	\$ 18,239,168	\$ 18,626,107	\$ 386,939
Intergovernmental Revenue	11,505,836	11,505,836	11,556,020	50,184
Fines and Forfeitures	1,285,000	1,285,000	1,237,774	(47,226)
Licenses and Permits	923,606	923,606	1,072,635	149,029
Charges for Services	733,937	733,937	688,383	(45,554)
Rents and Royalties	62,436	62,436	64,824	2,388
Contributions and Donations	10,000	10,000	106,403	96,403
Investment Earnings	115,000	115,000	(138,496)	(253,496)
Other	59,500	59,500	79,531	20,031
Total Revenue	<u>32,934,483</u>	<u>32,934,483</u>	<u>33,293,181</u>	<u>358,698</u>
Expenditures				
Current				
General Government				
City Council	63,726	83,808	69,223	14,585
City Clerk	121,412	121,412	106,009	15,403
Magistrate Court	1,332,219	1,338,841	1,200,113	138,728
City Manager	162,390	162,390	148,944	13,446
Human Resources	150,740	166,199	131,840	34,359
Finance	717,766	740,242	700,485	39,757
Information Systems	812,083	653,520	616,420	37,100
City Attorney	441,717	449,396	388,653	60,743
Non-Departmental	3,325,000	3,407,597	1,750,399	1,657,198
Government-Outside Contracts	1,429,291	1,429,291	1,332,399	96,892
Public Works Administration and Engineering	452,808	465,904	249,255	216,649
Vehicle Maintenance	387,852	446,531	341,573	104,958
Development Services	1,234,594	1,263,020	1,096,137	166,883
Total General Government	<u>10,631,598</u>	<u>10,728,151</u>	<u>8,131,450</u>	<u>2,596,701</u>
Public Safety				
Police	11,311,175	11,419,504	11,134,618	284,886
Fire	9,149,226	9,187,911	8,944,808	243,103
Total Public Safety	<u>20,460,401</u>	<u>20,607,415</u>	<u>20,079,426</u>	<u>527,989</u>
Culture and Recreation				
Parks and Recreation Administration	272,041	280,618	273,123	7,495
Recreation Department	1,798,948	1,812,335	1,529,507	282,828
Parks and Maintenance	2,807,552	2,792,221	1,903,753	888,468
Total Culture and Recreation	<u>4,878,541</u>	<u>4,885,174</u>	<u>3,706,383</u>	<u>1,178,791</u>
Total Expenditures	<u>35,970,540</u>	<u>36,220,740</u>	<u>31,917,259</u>	<u>4,303,481</u>
Excess (Deficiency) of Revenue Over Expenditures	(3,036,057)	(3,286,257)	1,375,922	4,662,179
Other Financing Sources (Uses)				
Transfers In	2,215,000	2,501,603	2,740,149	238,546
Transfers Out	(1,887,473)	(1,907,473)	(1,735,529)	171,944
Total Other Financing Sources (Uses)	<u>327,527</u>	<u>594,130</u>	<u>1,004,620</u>	<u>410,490</u>
Net Change in Fund Balance	(2,708,530)	(2,692,127)	2,380,542	5,072,669
Fund Balance				
Beginning of Year	<u>10,918,933</u>	<u>10,918,933</u>	<u>12,994,672</u>	<u>2,075,739</u>
End of Year	<u>\$ 8,210,403</u>	<u>\$ 8,226,806</u>	<u>\$ 15,375,214</u>	<u>\$ 7,148,408</u>

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, 2012**

	Budgeted Amounts		Actual Amount Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 3,793,299	\$ 3,793,299	\$ 3,703,968	\$ (89,331)
Investment Earnings	3,000	3,000	16,961	13,961
Other	6,000	6,000	21,023	15,023
Total Revenue	<u>3,802,299</u>	<u>3,802,299</u>	<u>3,741,952</u>	<u>(60,347)</u>
Expenditures				
Current				
Highways and Streets	<u>5,967,261</u>	<u>5,986,858</u>	<u>4,522,249</u>	<u>1,464,609</u>
Excess (Deficiency) of Revenue over Expenditures	(2,164,962)	(2,184,559)	(780,297)	1,404,262
Other Financing Sources (Uses)				
Transfers In	711,598	711,598	650,366	(61,232)
Transfers Out	<u>(140,233)</u>	<u>(140,233)</u>	<u>(15,000)</u>	<u>125,233</u>
Total Other Financing Sources (Uses)	<u>571,365</u>	<u>571,365</u>	<u>635,366</u>	<u>64,001</u>
Net Change in Fund Balances	(1,593,597)	(1,613,194)	(144,931)	1,468,263
Fund Balance				
Beginning of Year	<u>2,226,454</u>	<u>2,226,454</u>	<u>2,813,034</u>	<u>586,580</u>
End of Year	<u>\$ 632,857</u>	<u>\$ 613,260</u>	<u>\$ 2,668,103</u>	<u>\$ 2,054,843</u>

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

LAKE HAVASU CITY, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities				Total	Governmental Activities - Internal Service Funds
	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities		
Assets						
Current Assets						
Cash and Cash Equivalents	\$ 11,852,905	\$ 49,508,201	\$ 6,526,930	\$ 295,821	\$ 68,183,857	\$ 10,316,403
Receivables, Net						
Accounts Receivable	1,513,741	8,721,509	504,257	15,141	10,754,648	916
Taxes Receivable	192,676	26,756	-	-	219,432	-
Intergovernmental Receivable	264,848	831,550	-	133,662	1,230,060	5,775
Interest Receivable	5,959	36,088	3,709	228	45,984	-
Inventory	-	-	-	2,702	2,702	-
Prepaid Items	130,573	39,745	-	11,591	181,909	46,397
Deferred Charges	85,398	4,420,303	-	-	4,505,701	-
Restricted Assets	1,380,914	22,207,529	-	22,602	23,611,045	-
Total Current Assets	<u>15,427,014</u>	<u>85,791,681</u>	<u>7,034,896</u>	<u>481,747</u>	<u>108,735,338</u>	<u>10,369,491</u>
Noncurrent Assets						
Capital Assets						
Non-Depreciable	9,094,282	2,215,277	-	1,697,560	13,007,119	-
Depreciable (net)	60,171,867	364,821,100	27,029	20,983,004	446,003,000	1,133,977
Total Noncurrent Assets	<u>69,266,149</u>	<u>367,036,377</u>	<u>27,029</u>	<u>22,680,564</u>	<u>459,010,119</u>	<u>1,133,977</u>
Total Assets	<u>84,693,163</u>	<u>452,828,058</u>	<u>7,061,925</u>	<u>23,162,311</u>	<u>567,745,457</u>	<u>11,503,468</u>
Liabilities						
Current Liabilities						
Accounts Payable	200,022	181,138	561,271	111,735	1,054,166	1,344
Accrued Wages and Benefits	50,143	31,988	-	17,518	99,649	-
Intergovernmental Payable	139,185	10,586	-	826	150,597	-
Interest Payable	88,833	5,030,572	-	185	5,119,590	-
Retainage Payable	129,631	1,321,275	-	-	1,450,906	-
Deferred Revenue	160,940	102	-	48,356	209,398	-
Liabilities Payable From Restricted Assets	405,730	-	-	22,602	428,332	-
Claims Payable	-	-	-	-	-	452,000
Compensated Absences	53,277	49,955	-	7,031	110,263	-
Capital Leases Payable	52,154	43,620	-	103,090	198,864	-
Bonds and Notes Payable	372,328	10,066,428	-	-	10,438,756	-
Total Current Liabilities	<u>1,652,243</u>	<u>16,735,664</u>	<u>561,271</u>	<u>311,343</u>	<u>19,260,521</u>	<u>453,344</u>
Noncurrent Liabilities						
Compensated Absences	61,812	57,696	-	8,777	128,285	-
Landfill Closure and Postclosure Care Costs	-	-	2,607,681	-	2,607,681	-
Capital Leases Payable	140,516	163,444	-	929,415	1,233,375	-
Other Postemployment Benefits	435,535	237,505	-	42,386	715,426	-
Bonds and Notes Payable	4,470,725	296,327,782	-	-	300,798,507	-
Total Noncurrent Liabilities	<u>5,108,588</u>	<u>296,786,427</u>	<u>2,607,681</u>	<u>980,578</u>	<u>305,483,274</u>	<u>-</u>
Total Liabilities	<u>6,760,831</u>	<u>313,522,091</u>	<u>3,168,952</u>	<u>1,291,921</u>	<u>324,743,795</u>	<u>453,344</u>
Net assets						
Invested in Capital Assets, Net of Related Debt	64,230,426	60,435,103	27,029	21,648,059	146,340,617	1,133,977
Unrestricted	13,701,906	78,870,864	3,865,944	222,331	96,661,045	9,916,147
Total Net Assets	<u>\$ 77,932,332</u>	<u>\$ 139,305,967</u>	<u>\$ 3,892,973</u>	<u>\$ 21,870,390</u>	<u>\$ 243,001,662</u>	<u>\$ 11,050,124</u>

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 ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Totals	Governmental Activities - Internal Service Funds
Operating Revenue						
Charges for Services	\$ 10,468,489	\$ 21,819,282	\$ 5,588,872	\$ 856,174	\$ 38,732,817	\$ -
Premiums Charged	-	-	-	-	-	6,593,648
Total Operating Revenue	<u>10,468,489</u>	<u>21,819,282</u>	<u>5,588,872</u>	<u>856,174</u>	<u>38,732,817</u>	<u>6,593,648</u>
Operating Expenses						
Cost of Sales and Services	7,558,432	6,303,028	5,409,437	1,626,764	20,897,661	-
Premiums Paid	-	-	-	-	-	430,802
Administration	-	-	-	-	-	435,013
Benefits	-	-	-	-	-	4,816,835
Depreciation	<u>2,298,522</u>	<u>10,510,894</u>	<u>1,175</u>	<u>980,662</u>	<u>13,791,253</u>	<u>387,528</u>
Total Operating Expenses	<u>9,856,954</u>	<u>16,813,922</u>	<u>5,410,612</u>	<u>2,607,426</u>	<u>34,688,914</u>	<u>6,070,178</u>
Operating Income (Loss)	<u>611,535</u>	<u>5,005,360</u>	<u>178,260</u>	<u>(1,751,252)</u>	<u>4,043,903</u>	<u>523,470</u>
Nonoperating Revenues (Expenses)						
Taxes	5,703,105	-	-	-	5,703,105	-
Intergovernmental	88,717	-	-	-	88,717	-
Interest Earnings	75,414	184,762	(5,986)	2,584	256,774	(28,062)
Interest Expense	(182,230)	(410,911)	-	(3,512)	(596,653)	-
Issuance Costs	(5,001)	(216,340)	-	-	(221,341)	-
Other Income	<u>324,044</u>	<u>45,889</u>	<u>593</u>	<u>42,737</u>	<u>413,263</u>	<u>119,074</u>
Total Nonoperating Revenues (Expenses)	<u>6,004,049</u>	<u>(396,600)</u>	<u>(5,393)</u>	<u>41,809</u>	<u>5,643,865</u>	<u>91,012</u>
Income (Loss) Before Capital						
Contributions and Transfers	6,615,584	4,608,760	172,867	(1,709,443)	9,687,768	614,482
Capital Contributions	1,614,936	1,376,260	-	170,110	3,161,306	-
Transfers In	-	2,000,000	-	865,361	2,865,361	-
Transfers Out	<u>(4,045,000)</u>	<u>(45,000)</u>	<u>(27,950)</u>	<u>-</u>	<u>(4,117,950)</u>	<u>-</u>
Change in Net Assets	<u>4,185,520</u>	<u>7,940,020</u>	<u>144,917</u>	<u>(673,972)</u>	<u>11,596,485</u>	<u>614,482</u>
Net Assets						
Beginning of Year	<u>73,746,812</u>	<u>131,365,947</u>	<u>3,748,056</u>	<u>22,544,362</u>	<u>231,405,177</u>	<u>10,435,642</u>
End of Year	<u>\$ 77,932,332</u>	<u>\$ 139,305,967</u>	<u>\$ 3,892,973</u>	<u>\$ 21,870,390</u>	<u>\$ 243,001,662</u>	<u>\$ 11,050,124</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, 2012**

	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities						
Receipts from Customers	\$10,117,322	\$21,760,896	\$ 5,590,660	\$ 861,628	\$ 38,330,506	\$ 6,598,797
Payments to Suppliers	(4,987,444)	(6,664,896)	(5,274,835)	(555,371)	(17,482,546)	(5,657,690)
Payments to Employees	(2,961,620)	(1,861,034)	-	(967,796)	(5,790,450)	-
Other Nonoperating Receipts	327,261	57,041	593	42,623	427,518	119,074
Customer Deposits (Payments)	18,305	(100)	-	(4,592)	13,613	-
Net Cash Flows from (used by) Operating Activities	<u>2,513,824</u>	<u>13,291,907</u>	<u>316,418</u>	<u>(623,508)</u>	<u>15,498,641</u>	<u>1,060,181</u>
Cash Flows from Noncapital Financing Activities						
Transfers In	-	2,000,000	-	865,361	2,865,361	-
Transfers Out	(4,045,000)	(45,000)	(27,950)	-	(4,117,950)	-
Tax Receipts	5,672,329	-	-	-	5,672,329	-
Net Cash Flows from (used by) Financing Activities	<u>1,627,329</u>	<u>1,955,000</u>	<u>(27,950)</u>	<u>865,361</u>	<u>4,419,740</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities						
Proceeds from Capital Debt	-	15,882,102	-	-	15,882,102	-
Capital Grants and Contributions	2,708,561	4,130,796	-	107,182	6,946,539	-
Purchases of Capital Assets	(2,245,337)	(7,156,753)	-	(174,471)	(9,576,561)	(215,212)
Principal Paid on Capital Debt	(470,690)	(8,446,247)	-	(54,228)	(8,971,165)	-
Interest Paid on Capital Debt	(186,815)	(10,251,640)	-	(3,676)	(10,442,131)	-
Loan Issuance Costs	-	-	-	-	-	-
Proceeds from Sale of Capital Assets	475	-	-	-	475	-
Net Cash Flows from (used by) Capital and Financing Activities	<u>(193,806)</u>	<u>(5,841,742)</u>	<u>-</u>	<u>(125,193)</u>	<u>(6,160,741)</u>	<u>(215,212)</u>
Cash Flows from Investing Activities						
Interest and Dividends	69,761	154,994	(3,337)	2,470	223,888	(33,836)
Net Change in Cash and Cash Equivalents						
	4,017,108	9,560,159	285,131	119,130	13,981,528	811,133
Cash and Cash Equivalents, Beginning of Year						
	9,216,711	62,155,571	6,241,799	199,293	77,813,374	9,505,270
Cash and Cash Equivalents, End 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>

Note: Cash and Cash Equivalents, End of Year on Statement of Cash Flows reflects the total of Cash and Cash Equivalent and Restricted Assets on the Statement of Net Assets.

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, 2012**

	Irrigation and Drainage	Wastewater	Refuse	Total Nonmajor Business-Type Activities	Totals	Governmental Activities - Internal Service Funds
(Continued)						
Reconciliation of Operating Income (Loss) to Net Cash from (used by) Operating Activities						
Operating Income (Loss)	\$ 611,535	\$ 5,005,360	\$ 178,260	\$ (1,751,252)	\$ 4,043,903	\$ 523,470
Adjustments to Reconcile Operating Income (Loss) to Net Cash from (used by) Operating Activities						
Depreciation	2,298,522	10,510,894	1,175	980,662	13,791,253	387,528
Other Nonoperating Receipts (Expenses)	327,261	57,041	593	42,623	427,518	119,074
Change in Assets/Liabilities:						
Receivables, Net	(360,889)	(58,386)	1,788	1,798	(415,689)	5,149
Inventories	-	-	-	178	178	-
Prepaid Items	(7,439)	(2,549)	1,531	199	(8,258)	47,746
Accounts Payable	(303,241)	(1,743,282)	23,805	105,976	(1,916,742)	1,214
Retainage Payable	(165,433)	(519,721)	-	-	(685,154)	-
Intergovernmental Payable	13,172	442	-	3,656	17,270	-
Accrued Wages and Benefits	3,272	3,617	-	1,076	7,965	-
Compensated Absences	(21,977)	3,879	-	(22,437)	(40,535)	-
Deferred Revenue	9,722	-	-	-	9,722	-
Customer Deposits Payable	18,305	(100)	-	(4,592)	13,613	-
Other Postemployment Benefits	91,014	34,712	-	18,605	144,331	-
Claims Payable	-	-	-	-	-	(24,000)
Landfill Closure and Postclosure Care Costs	-	-	109,266	-	109,266	-
Net Cash from (used by) Operating Activities	<u>\$ 2,513,824</u>	<u>\$ 13,291,907</u>	<u>\$ 316,418</u>	<u>\$ (623,508)</u>	<u>\$ 15,498,641</u>	<u>\$ 1,060,181</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 \$126,159, \$156,439 and \$972,280 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

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LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

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.

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 assets 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.

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*.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The 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.

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

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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

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 practice 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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**
- D. Assets, Liabilities, and Net Assets 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.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets 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 assets 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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets 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 assets. 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. Claims Incurred But Not Reported

The estimated liability for claims incurred but not reported accrued as a current liability in the Internal Service Fund is based on historic monthly claims paid factored by a percentage of completion by month for the preceding twelve months.

10. Net Assets

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

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. 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 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 City Ordinance or approval for contract execution. Assigned fund balance represents limitations imposed by management. Assigned fund balance requests are authorized by the Chief Financial Officer.

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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As of June 30, 2012, 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	\$ 196,897	\$ 49,500	\$ -	\$ -	\$ -	\$ 246,397
Prepaid Expenditures	152,335	70,918			3,237	226,490
Restricted:						
Debt Service			154,645			154,645
Highways and Streets		2,547,685				2,547,685
Capital Projects				4,836,024		4,836,024
Federal Grants						-
Public Safety	16,815				212,898	229,713
Economic Development					309,537	309,537
Other Purposes					39,552	39,552
Committed To:						
Highways and Streets	56,501			153,466		209,967
Culture and Recreation	70,198					70,198
Public Safety	244,684					244,684
Other Purposes	161,750					161,750
Assigned To:						
Culture and Recreation					19,091	19,091
Transportation					38,301	38,301
Public Safety					1,003	1,003
Other Purposes				2,970,573		2,970,573
Unassigned:	14,476,034					14,476,034
Total Fund Balances	\$ 15,375,214	\$ 2,668,103	\$ 154,645	\$ 7,960,063	\$ 623,619	\$ 26,781,644

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

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.

City Council authorized several supplemental budgetary appropriations during the fiscal year. On October 11, 2011, Council approved the following budget amendments: The Capital Projects Fund budget was reduced by \$57,000 to increase the Airport Fund budget by \$57,000 for additional grant funding awarded to cover costs associated with an ongoing Airport project; An increase was authorized to the Police Department budget for \$130,000 with a reduction to the General Government Jail Contract budget to increase the Schedule of Authorized positions by 2 for a total of 460 authorized positions citywide; Transit Division's budget was increased by \$58,000 with a corresponding decrease in the Capital Project Fund for a grant award for the purchase of an additional bus; The IT Division budget was reduced by \$392,185 to transfer computer-related expenditures directly attributable to a department to the respective departments' budgets; an operating transfer was authorized for \$258,888 from the Capital Project Fund to the General Fund to accommodate a change in interfund cost allocation methodology for flood control administration costs.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

On June 12, 2012, Council also approved an increase to the Improvement District #2 utility appropriation in the amount of \$7,000 transferred from the Capital Project Fund; The General Fund non-departmental capital lease appropriation was increased by \$109,203 offset by reductions to the various departments' utility expenditure accounts; The IT Division computer hardware appropriation was increased by \$233,622 with a reduction of technology capital lease appropriation in the non-departmental budget; The HR Division employment hearing appropriation was increased by \$10,000 with a reduction to the general insurance liability appropriation; The Police Department Towing Fund was increased by \$1,000 with a reduction in the Capital Project Fund; Public Works Engineering Division was increased by \$27,715 for street improvements by a transfer from Capital Project Fund offset by an operating transfer from the Refuse Fund; The Capital Project Fund was decreased for transfers to the General Fund and the Refuse Fund for the write off expense appropriation for the Lehman Brothers bankruptcy investment; The operating transfer to the Transit Fund was increased by \$20,000 due to a loss of grant funding.

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 reservations of 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. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2012 consist of the following:

Deposits	
Cash on Hand	\$ 9,700
Cash in Bank	16,793,348
Cash on Deposit with County Treasurer	306,626
Investments	
State Treasurer's Investment Pool (LGIP)	57,989,610
U.S. Government Securities	40,944,038
Collateralized Savings	5,000,219
Certificates of Deposit	2,000,000
Money Market	<u>2,575,179</u>
Total Deposits and Investments	125,618,720
Restricted Assets	<u>(23,611,045)</u>
Total Cash and Investments	<u><u>\$ 102,007,675</u></u>

LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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. 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, 2012 consist of the following:

Investment	Amount	Investment Maturities (in Years)		
		Less than 1	1-3	4-5
State Treasurer's Investment Pools	\$ 57,989,610	\$ 57,989,610	\$ -	\$ -
Collateralized Savings	5,000,219	5,000,219	-	-
Certificates of Deposit	2,000,000	-	2,000,000	-
Money Market	2,575,179	2,575,179	-	-
U.S. Government Securities	40,944,038	-	-	40,944,038
Total Investments	\$ 108,509,046	\$ 65,565,008	\$ 2,000,000	\$ 40,944,038

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, 2012 for each investment type.

Investment Type	Total	AAA	AAAm	AA+	AA	Exempt from Disclosure	Not Rated
State Treasurer's Investment Pools	\$ 57,989,610	\$ 13,244,648	\$ -	\$ 11,985,398	\$ 32,759,564	\$ -	\$ -
Collateralized Savings	5,000,219	-	5,000,219	-	-	-	-
Certificates of Deposit*	2,000,000	-	-	-	-	-	2,000,000
Money Market	2,575,179	-	-	-	-	-	2,575,179
U.S. Government Securities	40,944,038	-	-	40,944,038	-	-	-
Total Investments	\$ 108,509,046	\$ 13,244,648	\$ 5,000,219	\$ 52,929,436	\$ 32,759,564	\$ -	\$ 4,575,179

*FDIC Insured

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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, 2012, 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.

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.

In the current fiscal year the City is reporting a decrease in fair value of \$835,731 consisting of the City's share of a loss on an investment within the LGIP due to the uncertainty of the outcome of the final distribution amount. The state and numerous other bondholders are named as creditors of the Lehman Brothers Holdings Inc. bankruptcy filing in September 2008. The City's original holdings were \$889,358. The City has recovered \$53,627 during this fiscal year.

2. Restricted Assets

Restricted assets in the proprietary funds at June 30, 2012 consisted of the following:

Customer Deposits	\$ 428,331
Future Debt Service	<u>23,182,714</u>
	<u>\$ 23,611,045</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

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)	\$ 52,524	\$ -
Miscellaneous (General Fund)	-	74,371
Delinquent Property Taxes Receivable (Nonmajor Governmental Funds)	820	-
	<u> </u>	<u> </u>
Total Deferred Revenue for Governmental Funds	<u>\$ 53,344</u>	<u>\$ 74,371</u>

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 26,300,737	\$ 454,323	\$ -	\$ 26,755,060
Construction in Progress	<u>1,376,277</u>	<u>3,142,367</u>	<u>(2,641,294)</u>	<u>1,877,350</u>
Total Capital Assets, Not Being Depreciated	<u>27,677,014</u>	<u>3,596,690</u>	<u>(2,641,294)</u>	<u>28,632,410</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	23,838,100	52,986	-	23,891,086
Improvements to Land	13,982,309	58,866	-	14,041,175
Infrastructure	85,384,668	2,464,058	-	87,848,726
Furniture, Machinery and Equipment	<u>23,840,345</u>	<u>866,889</u>	<u>(696,434)</u>	<u>24,010,800</u>
Total Capital Assets, Being Depreciated	<u>147,045,422</u>	<u>3,442,799</u>	<u>(696,434)</u>	<u>149,791,787</u>
Accumulated Depreciation for:				
Buildings and Improvements	(8,625,515)	(670,091)	-	(9,295,606)
Improvements to Land	(3,566,205)	(426,667)	-	(3,992,872)
Infrastructure	(52,920,281)	(1,688,653)	-	(54,608,934)
Furniture, Machinery and Equipment	<u>(18,363,983)</u>	<u>(1,955,451)</u>	<u>687,363</u>	<u>(19,632,071)</u>
Total Accumulated Depreciation:	<u>(83,475,984)</u>	<u>(4,740,862)</u>	<u>687,363</u>	<u>(87,529,483)</u>
Total Capital Assets, Being Depreciated, Net	<u>63,569,438</u>	<u>(1,298,063)</u>	<u>(9,071)</u>	<u>62,262,304</u>
Governmental Activities Capital Assets, Net	<u>\$ 91,246,452</u>	<u>\$ 2,298,627</u>	<u>\$ (2,650,365)</u>	<u>\$ 90,894,714</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 3,288,029	\$ -	\$ -	\$ 3,288,029
Water Allocation Rights	6,165,681	-	-	6,165,681
Construction in Progress	2,101,714	20,751,018	(19,299,323)	3,553,409
Total Capital Assets, Not Being Depreciated	<u>11,555,424</u>	<u>20,751,018</u>	<u>(19,299,323)</u>	<u>13,007,119</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	34,684,960	297,963	-	34,982,923
Other Improvements	489,115,454	19,018,253	-	508,133,707
Machinery, Equipment and Vehicles	5,683,148	-	(244,526)	5,438,622
Water Allocation Rights	2,374,554	-	-	2,374,554
Total Capital Assets, Being Depreciated:	<u>531,858,116</u>	<u>19,316,216</u>	<u>(244,526)</u>	<u>550,929,806</u>
Accumulated Depreciation for:				
Buildings and Improvements	(7,820,681)	(903,346)	-	(8,724,027)
Other Improvements	(79,131,869)	(12,352,931)	-	(91,484,800)
Machinery, Equipment and Vehicles	(4,359,527)	(475,612)	240,835	(4,594,304)
Water Allocation Rights	(64,311)	(59,364)	-	(123,675)
Total Accumulated Depreciation:	<u>(91,376,388)</u>	<u>(13,791,253)</u>	<u>240,835</u>	<u>(104,926,806)</u>
Total Capital Assets, Being Depreciated, Net	<u>440,481,728</u>	<u>5,524,963</u>	<u>(3,691)</u>	<u>446,003,000</u>
Business-Type Activities Capital Assets, Net	<u>\$ 452,037,152</u>	<u>\$ 26,275,981</u>	<u>\$ (19,303,014)</u>	<u>\$ 459,010,119</u>

During fiscal year 2011-12, the Wastewater Fund capitalized net interest costs of \$9,936,471. Total interest expense in this fund before capitalization was \$10,343,820.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General Government	\$ 569,952
Public Safety - Police	706,459
Public Safety - Fire	579,438
Highways and Streets	1,654,676
Culture and Recreation	469,882
Transportation Services	372,266
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	387,528

Total Depreciation Expense	\$ 4,740,862
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Business-type activities:

Refuse	\$ 1,175
Recreation/Aquatic Center	195,941
Irrigation and Drainage	2,298,522
Wastewater	10,510,894
Airport	784,721

Total Depreciation Expense	\$ 13,791,253
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5. Construction Commitments

The City has active construction projects at June 30, 2012. The projects include various street and park projects, water master plan and water system upgrades, and wastewater system expansion and treatment plant. At fiscal year end the City's commitments with contractors were as follows:

Governmental Activities		
Project	Spent-to-date	Remaining Commitment
Public Safety - Police	\$ -	\$ 11,072
Highways and Streets	1,792,767	156,966
Total Governmental Activities	\$ 1,792,767	\$ 168,038

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments (Continued)

Business-type Activities		
Project	Spent-to-date	Remaining Commitment
Water system	\$ 3,622,658	\$ 817,187
Wastewater system expansion	16,602,071	1,665,929
Airport improvements	145,525	31,462
Total business-type activities	<u>\$ 20,370,254</u>	<u>\$ 2,514,578</u>

B. Interfund Receivables, Payables and Transfers

As of June 30, 2012 interfund receivables and payables were as follows:

Due To	Due From Nonmajor Governmental Funds
General Fund	<u>\$464,200</u>

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

Interfund transfers for the year ended June 30, 2012 consisted of the following:

Transfers to	Transfers From							Total
	General Fund	Capital Projects	Refuse	Irrigation & Drainage	Wastewater	HURF	Nonmajor Governmental Funds	
HURF	\$ 100,366	\$ 550,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650,366
Debt Service	194,802	-	-	-	-	-	-	194,802
General fund	-	577,434	27,715	2,045,000	45,000	15,000	30,000	2,740,149
Capital Projects	-	-	235	-	-	-	-	235
Wastewater	-	-	-	2,000,000	-	-	-	2,000,000
Nonmajor Business- Type Funds	865,361	-	-	-	-	-	-	865,361
Nonmajor Governmental Funds	575,000	-	-	-	-	-	-	575,000
	<u>\$ 1,735,529</u>	<u>\$ 1,127,434</u>	<u>\$ 27,950</u>	<u>\$ 4,045,000</u>	<u>\$ 45,000</u>	<u>\$ 15,000</u>	<u>\$ 30,000</u>	<u>\$ 7,025,913</u>

Transfers were made for general operating purposes and to fund capital projects.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. 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	\$ 3,145,131	\$ 2,062,387
Less: Accumulated Depreciation	(1,153,476)	(522,063)
Total	<u>\$ 1,991,655</u>	<u>\$ 1,540,324</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2013	503,032	308,376
2014	357,733	246,987
2015	220,124	196,196
2016	220,474	196,679
2017	207,614	196,816
2018-2021	1,265,849	1,755,519
Total Minimum Lease Payments	2,774,826	2,900,573
Less: Amount Representing Interest	(728,330)	(867,073)
Present Value of Minimum Lease Payments	<u>\$ 2,046,496</u>	<u>\$ 2,033,500</u>

The \$2,046,496 principal amount above for governmental activities and the \$2,033,500 principal amount for business-type activities includes \$436,289 and \$601,260, respectively of authorized lease financing for Facilities Improvements that remains undrawn.

D. 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, 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, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. 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 \$146,438. Principal and interest paid for the current year and total assessed taxes were \$17,288 and \$17,288, respectively.

The City has pledged assessed taxes from each of the property owners within the McCulloch Boulevard Streetscape Improvement District to repay \$891,000 at 5.125% in governmental special assessment obligations issued in May 2001. Special assessment districts are created only by petition of the City Council by property owners within the District areas. Proceeds of the bonds provided financing for the improvements in the McCulloch Boulevard Streetscape Improvement District. In case of default, the City has the responsibility to cover delinquencies of special assessment bonds with other sources until foreclosure proceeds are received. The bonds are payable solely from property assessments and were payable through 2012. The debt was retired on January 1, 2012. There is no principal and interest remaining to be paid on the bonds. Principal and interest paid for the current year and total assessments collected were \$61,538 and \$63,269, 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 (\$52,703,467) at 3.185%, and October 2008 (\$29,468,259) at 3.750%, July 2009 (\$4,900,832) 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 total principal and interest paid for the current year was \$15,865,541. The total principal and interest remaining to be paid on the WIFA loans is \$380,534,389.

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 \$2,903,500. The total principal and interest remaining to be paid on the loan is \$111,985,208.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

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 \$18,809,040 (WIFA loans - \$15,905,540, GADA Loan - \$2,903,500) and \$17,077,276 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 using solely net revenues to current year debt service payments is .91; however, debt coverage including the rate stabilization fund is 1.25.

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 with the exception of \$8,177,700, which was principal paid directly to WIFA with Federal funds. Loan covenants require the City to maintain 1.2 times coverage of net revenues to current year debt service payments. Total principal and interest remaining to be paid on the WIFA loans is \$10,193,335. Principal and interest paid for the current year and total customer net revenues were \$516,065 and \$4,600,407, respectively.

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 \$2,840,351. Principal and interest paid for the current year and total excise taxes were \$237,229 and \$25,248,684, respectively.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

Governmental Activities:	June 30, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Bonds and Loans Payable:					
GADA Loan Payable	\$ 2,375,000	\$ -	\$ (140,000)	\$ 2,235,000	\$ 145,000
Special Assessment Debt with Government Commitment	60,000	-	(60,000)	-	-
Total Bonds and Loans Payable	<u>2,435,000</u>	<u>-</u>	<u>(200,000)</u>	<u>2,235,000</u>	<u>145,000</u>
Other Liabilities:					
Capital Leases	1,181,330	1,154,054	(725,177)	1,610,207	384,027
Compensated Absences	2,180,721	2,177,659	(2,092,922)	2,265,458	1,048,155
Other Postemployment Benefits	1,510,589	926,893	(434,223)	2,003,259	-
Governmental Activities Long-term Liabilities	<u>\$ 7,307,640</u>	<u>\$ 4,258,606</u>	<u>\$ (3,452,322)</u>	<u>\$ 8,113,924</u>	<u>\$ 1,577,182</u>

Business-type Activities:	June 30, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Bonds, Notes, and Loans Payable:					
General Obligation Bonds	\$ 125,000	\$ -	\$ (10,000)	\$ 115,000	\$ 15,000
GADA Loan Payable	58,070,000	-	-	58,070,000	-
WIFA Loan Payable	251,226,344	8,351,041	(8,716,058)	250,861,327	10,328,499
Plus: Deferred Amount on Premium	2,286,193	-	(95,258)	2,190,935	95,258
Total Bonds, Notes and Loans Payable	<u>311,707,537</u>	<u>8,351,041</u>	<u>(8,821,316)</u>	<u>311,237,262</u>	<u>10,438,757</u>
Other Liabilities:					
Capital Leases	422,469	1,254,879	(245,108)	1,432,240	198,864
Compensated Absences	279,083	221,521	(262,056)	238,548	110,262
Other Postemployment Benefits	571,095	211,397	(67,066)	715,426	-
Landfill Closure and Postclosure	2,498,414	109,267	-	2,607,681	-
Business-type Activities Long-term Liabilities	<u>\$ 315,478,598</u>	<u>\$ 10,148,105</u>	<u>\$ (9,395,546)</u>	<u>\$ 316,231,157</u>	<u>\$ 10,747,883</u>

Debt service requirements on long-term debt at June 30, 2012 are as follows:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	145,000	91,446	10,343,499	11,502,070
2014	150,000	85,463	10,645,134	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 - 2021	940,000	238,563	66,120,718	46,480,620
2022 - 2026	675,000	33,784	75,258,470	35,173,954
2027 - 2031	-	-	62,248,652	23,029,107
2032 - 2036	-	-	68,305,501	10,318,059
2037 - 2040	-	-	27,717,470	1,110,062
	<u>\$ 2,235,000</u>	<u>\$ 599,352</u>	<u>\$ 343,215,925</u>	<u>\$ 160,106,880</u>

The \$343,215,925 principal amount above includes \$34,169,598 of authorized WIFA loan proceeds not drawn down by the City as of June 30, 2012.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. 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 \$2,607,681 as of June 30, 2012, which is based on 46% usage of the landfill. It is estimated that an additional \$3,059,459 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 (\$5,667,140) 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, 2012. 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, 2012.

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 (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. The City purchases commercial insurance for claims in excess of coverage provided by the Trust. For the fiscal year ended June 30, 2012, the Employee Benefit Trust provided coverage for up to \$150,000 for each insured's health care claim with an additional \$29,000 in aggregate liability to the Trust for amounts over the \$150,000 threshold. Amounts in excess of these deductibles are commercially insured through a specific stop loss policy. Specific reimbursements in the amount of \$162,584 were due the Trust for fiscal year 2011-2012. The trust received \$161,678 during the year and \$906 was outstanding as of June 30, 2012. Additionally, the Plan maintains an Aggregate stop loss policy with an annual reimbursable limit of \$1,000,000. Settled claims were less than the aggregate stop loss attachment point for the year ended June 30, 2012 thus no reimbursements were due the Trust under this policy.

All funds of the City with employees participate in the program and make payments to the Employee Benefit Trust based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for catastrophic losses. The claims liability reported at June 30, 2012 is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. All claims booked as payable in Employee Benefit Trust are incurred but not recorded and are anticipated to be paid in the next fiscal year.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

Changes in the claims liability amount for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Claims Payable, Beginning of Year	\$ 476,000	\$ 542,000
Current Year Claims and Changes in Estimates	4,816,835	5,227,147
Claims Payments	<u>(4,840,835)</u>	<u>(5,293,147)</u>
Claims Payable, End of Year	<u>\$ 452,000</u>	<u>\$ 476,000</u>

B. Contingent Liabilities

Lawsuits - The City is a defendant in various lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of the City's attorney such matters will not have a material adverse effect on the City's financial position at June 30, 2012.

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.

	<u>General Fund</u>	
	<u>Total Expenditures</u>	<u>Total Other Financing Sources</u>
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 33,071,313	\$ 2,158,674
Present value of net minimum Capital lease payments	<u>(1,154,054)</u>	<u>(1,154,054)</u>
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund	<u>\$ 31,917,259</u>	<u>\$ 1,004,620</u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Related Party Transactions

The City expended \$1,246 for services from an electrical contractor which is partially owned by one of the City Council members. At June 30, 2012, there was no amount owed to this vendor.

E. Subsequent Events

In fiscal year 2012-13 the City will be dissolving the Lake Havasu City Employee Benefit Trust Fund to partner with Kingman, Arizona and Bullhead City, Arizona to establish the Northwest Arizona Employment Benefit Trust Fund (NAEBT). The City's medical benefits will be administered through the NAEBT to realize significant savings in premiums.

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 or by calling (602) 240-2000 or (800) 621-3778 or 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, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 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>
2010	\$ 1,382,667	\$ 65,975	100.0%
2011	1,435,992	39,778	100.0
2012	1,504,297	34,322	100.0

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

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 8.65 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 22.35 percent of annual covered payroll for police and 24.25 percent of annual covered payroll for fire.

Annual Pension Cost - During the year ended June 30, 2011 (the date of the latest available information), Lake Havasu City, Arizona's annual pension cost of \$1,169,857 for police and \$972,205 for fire was equal to the City's required and actual contributions.

The required contribution was determined as part of the June 30, 2011, 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 8.25 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 3.0 percent per year attributable to seniority/merit.

Funding Status and Funding Progress - As of June 30, 2011, the most recent actuarial valuation date, the plan was 61.5 percent funded for police and 62.0 percent funded for fire. For police, the actuarial accrued liability for benefits was \$32.6 million, and the actuarial value of assets was \$20.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$12.6 million. For fire, the actuarial accrued liability for benefits was \$33.2 million, and the actuarial value of assets was \$20.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$12.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.9 million for police and \$4.6 million for fire, and the ratio of the UAAL to the covered payroll was 256.0 percent for police and 276.9 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, 2011, was 25 years.

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

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

<u>Fiscal Year Ended June 30,</u>	<u>Annual Required Contribution*</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 1,173,118	100.0 %	\$ -
2010	997,663	100.0	-
2011	1,169,857	100.0	-

* Includes insurance premium tax, where applicable.

Lake Havasu City Fire Fighters

<u>Fiscal Year Ended June 30,</u>	<u>Annual Required Contribution*</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 919,921	100.0 %	\$ -
2010	1,022,307	100.0	-
2011	972,205	100.0	-

* Includes insurance premium tax, where applicable.

Additional historical trend information for the City's PSPRS is disclosed on pages 82 - 83. 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, 2012, 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, 2012. The plan does not issue a separate financial report.

Plan Description – Lake Havasu City provides single employer 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 Lake Havasu City Employee Benefit Trust Plan (LHCEBT).

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 LHCEBT, 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, 2012**

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 210 active participants and 68 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 2012, the City contributed \$501,289 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	\$ 1,177,967
Interest on Net OPEB Obligation	83,267
Adjustment to Annual Required Contribution	<u>(122,945)</u>
Annual OPEB Cost (Expense)	1,138,289
Contributions Made	<u>(501,289)</u>
Increase in Net OPEB Obligation	637,000
Net OPEB Obligation-Beginning of Year	<u>2,081,684</u>
Net OPEB Obligation-End of Year	<u><u>\$ 2,718,684</u></u>

**LAKE HAVASU CITY, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2012**

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 2010, 2011 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 1,040,137	34.1%	\$ 1,375,097
2011	1,144,914	38.3%	2,081,684
2012	1,138,289	44.0%	2,718,684

Funding Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the City's unfunded actuarial accrued liability (UAAL) was \$13.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$17.8 million and the ratio of the UAAL to the covered payroll was 74.1 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, 2010 actuarial valuation, the entry age normal 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 8 percent, reduced by decrements to an ultimate rate of 5 percent after five 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 percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2012, was 26 years.

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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
2009	\$ 18,395,786	\$ 26,488,623	69.4%	\$ (8,092,837)	\$ 6,002,632	(134.8%)
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%)

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

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
2009	\$ 21,111,450	\$ 29,557,447	71.4%	\$ (8,445,997)	\$ 4,490,899	(188.1%)
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%)

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

Lake Havasu City Other Postemployment Benefits

Valuation Date June 30,	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
2010	\$ -	\$ 10,580,736	-%	\$ (10,580,736)	\$ 17,519,891	(60.4%)
2011	-	12,465,566	-	(12,465,566)	17,025,507	(73.2%)
2012	-	13,190,160	-	(13,190,680)	17,792,595	(74.1%)

Schedule of Employer Contribution

Fiscal Year Ended June 30,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2010	\$ 354,740	\$ 1,050,900	33.8%
2011	438,327	1,166,375	37.6%
2012	501,289	1,177,967	42.6%

Combining and Individual Fund Statements and Schedules

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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, 2012**

	Special Revenue						Total Nonmajor Governmental Funds
	Tourism/ Economic Development	Havasu Area Transit	Grants	CDBG/Home	Improvement Districts	Special Programs	
Assets							
Cash and Investments	\$ 188,435	\$ -	\$ -	\$ -	\$ 38,621	\$ 235,323	\$ 462,379
Receivables							
Accounts Receivable	155	302	-	-	-	-	457
Taxes Receivable	-	-	-	-	1,158	-	1,158
Intergovernmental Receivable	120,947	337,408	84,369	109,984	101	17,655	670,464
Interest Receivable	-	-	-	-	24	126	150
Prepaid Items	-	3,237	-	-	-	-	3,237
Total Assets	<u>\$ 309,537</u>	<u>\$ 340,947</u>	<u>\$ 84,369</u>	<u>\$ 109,984</u>	<u>\$ 39,904</u>	<u>\$ 253,104</u>	<u>\$ 1,137,845</u>
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$ -	\$ 9,818	\$ -	\$ -	\$ 921	\$ 1,495	\$ 12,234
Accrued Wages and Benefits	-	17,461	2,283	-	-	-	19,744
Intergovernmental Payable	-	-	-	-	-	17,228	17,228
Due to Other Funds	-	272,130	82,086	109,984	-	-	464,200
Deferred Revenue	-	-	-	-	820	-	820
Total Liabilities	<u>-</u>	<u>299,409</u>	<u>84,369</u>	<u>109,984</u>	<u>1,741</u>	<u>18,723</u>	<u>514,226</u>
Fund Balance							
Nonspendable	-	3,237	-	-	-	-	3,237
Restricted	309,537	-	-	-	38,163	214,287	561,987
Committed	-	-	-	-	-	-	-
Assigned	-	38,301	-	-	-	20,094	58,395
Unassigned	-	-	-	-	-	-	-
Total Fund Balance	<u>309,537</u>	<u>41,538</u>	<u>-</u>	<u>-</u>	<u>38,163</u>	<u>234,381</u>	<u>623,619</u>
Total Liabilities and Fund Balance	<u>\$ 309,537</u>	<u>\$ 340,947</u>	<u>\$ 84,369</u>	<u>\$ 109,984</u>	<u>\$ 39,904</u>	<u>\$ 253,104</u>	<u>\$ 1,137,845</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue						Total Nonmajor Governmental Funds
	Tourism/ Economic Development	Havasu Area Transit	Grants	CDBG/Home	Improvement Districts	Special Programs	
Revenues							
Taxes							
Sales Taxes	\$ 1,528,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,528,328
Property Taxes	-	-	-	-	71,729	-	71,729
Intergovernmental Revenue	-	912,158	622,717	413,811	-	131,739	2,080,425
Fines and Forfeitures	-	-	-	-	-	71,298	71,298
Charges for Services	-	105,986	-	-	-	8,700	114,686
Contributions and Donations	-	-	-	-	-	6,173	6,173
Investment Earnings	(43)	-	-	-	308	1,664	1,929
Other	-	13,275	-	-	-	5,998	19,273
Total Revenue	<u>1,528,285</u>	<u>1,031,419</u>	<u>622,717</u>	<u>413,811</u>	<u>72,037</u>	<u>225,572</u>	<u>3,893,841</u>
Expenditures							
Current							
General Government	-	-	-	413,811	85,762	21,780	521,353
Public Safety	-	-	622,717	-	-	165,480	788,197
Highways and Streets	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	1,439	1,439
Tourism and Promotion	1,496,155	-	-	-	-	-	1,496,155
Transportation Services	-	1,649,359	-	-	-	-	1,649,359
Total Expenditures	<u>1,496,155</u>	<u>1,649,359</u>	<u>622,717</u>	<u>413,811</u>	<u>85,762</u>	<u>188,699</u>	<u>4,456,503</u>
Excess (Deficiency) of Revenue Over							
Expenditures	<u>32,130</u>	<u>(617,940)</u>	<u>-</u>	<u>-</u>	<u>(13,725)</u>	<u>36,873</u>	<u>(562,662)</u>
Other Financing Sources (Uses)							
Transfers In	-	575,000	-	-	-	-	575,000
Transfers Out	-	-	-	-	-	(30,000)	(30,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>575,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>545,000</u>
Net Change in Fund Balance	<u>32,130</u>	<u>(42,940)</u>	<u>-</u>	<u>-</u>	<u>(13,725)</u>	<u>6,873</u>	<u>(17,662)</u>
Fund Balance							
Beginning of Year	<u>277,407</u>	<u>84,478</u>	<u>-</u>	<u>-</u>	<u>51,888</u>	<u>227,508</u>	<u>641,281</u>
End 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>

**LAKE HAVASU CITY, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Special Assessments	\$ 61,538	\$ 65,357	\$ 3,819
Investment Earnings	32	745	713
Total Revenue	<u>61,570</u>	<u>66,102</u>	<u>4,532</u>
Expenditures			
Debt Service			
Principal Retirement	200,000	200,000	-
Interest on Long-Term Debt	<u>99,947</u>	<u>99,411</u>	<u>536</u>
Total Expenditures	<u>299,947</u>	<u>299,411</u>	<u>536</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(238,377)</u>	<u>(233,309)</u>	<u>5,068</u>
Other Financing Sources (Uses)			
Transfers In	212,000	194,802	(17,198)
Net Change in Fund Balance	(26,377)	(38,507)	(12,130)
Fund Balance			
Beginning of Year	<u>196,085</u>	<u>193,152</u>	<u>(2,933)</u>
End of Year	<u>\$ 169,708</u>	<u>\$ 154,645</u>	<u>\$ (15,063)</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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 5,021,790	\$ 5,021,790	\$ 1,387,155	\$ (3,634,635)
Contributions and Donations	500,000	500,000	-	(500,000)
Impact Fees	232,000	232,000	137,207	(94,793)
Investment Earnings	34,000	34,000	65,459	31,459
Total Revenue	5,787,790	5,787,790	1,589,821	(4,197,969)
Expenditures				
Capital Outlay	16,426,397	15,999,856	2,288,782	13,711,074
Excess (Deficiency) of Revenue Over Expenditures	(10,638,607)	(10,212,066)	(698,961)	9,513,105
Other Financing Sources (Uses)				
Transfers In	4,876,094	4,876,094	235	(4,875,859)
Transfers Out	(620,000)	(878,888)	(1,127,434)	(248,546)
Proceeds from Capital Lease	-	-	-	-
Total Other Financing Sources (Uses)	4,256,094	3,997,206	(1,127,199)	(5,124,405)
Net Change in Fund Balance	(6,382,513)	(6,214,860)	(1,826,160)	4,388,700
Fund Balance				
Beginning of Year	11,021,058	11,021,058	9,786,223	(1,234,835)
End of Year	\$ 4,638,545	\$ 4,806,198	\$ 7,960,063	\$ 3,153,865

**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, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Taxes			
Sales Taxes	\$ 1,400,600	\$ 1,528,328	\$ 127,728
Investment Earnings	-	(43)	(43)
Total Revenue	<u>1,400,600</u>	<u>1,528,285</u>	<u>127,685</u>
Expenditures			
Current			
Tourism and Promotion	<u>1,500,000</u>	<u>1,496,155</u>	<u>3,845</u>
Excess (Deficiency) of Revenue Over Expenditures	(99,400)	32,130	131,530
Fund Balance			
Beginning of Year	<u>150,489</u>	<u>277,407</u>	<u>126,918</u>
End of Year	<u>\$ 51,089</u>	<u>\$ 309,537</u>	<u>\$ 258,448</u>

**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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 1,062,788	\$ 1,062,788	\$ 912,158	\$ (150,630)
Charges for Services	91,000	91,000	105,986	14,986
Other	-	-	13,275	13,275
Total Revenue	<u>1,153,788</u>	<u>1,153,788</u>	<u>1,031,419</u>	<u>(122,369)</u>
Expenditures				
Current				
Transportation Services	<u>1,799,570</u>	<u>1,859,095</u>	<u>1,649,359</u>	<u>209,736</u>
Excess (deficiency) of revenues over expenditures	(645,782)	(705,307)	(617,940)	87,367
Other Financing Sources (Uses)				
Transfers In	570,000	590,000	575,000	(15,000)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>570,000</u>	<u>590,000</u>	<u>575,000</u>	<u>(15,000)</u>
Net Change in Fund Balance	(75,782)	(115,307)	(42,940)	72,367
Fund Balance				
Beginning of Year	<u>80,915</u>	<u>80,915</u>	<u>84,478</u>	<u>3,563</u>
End of Year	<u>\$ 5,133</u>	<u>\$ (34,392)</u>	<u>\$ 41,538</u>	<u>\$ 75,930</u>

**LAKE HAVASU CITY, ARIZONA
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental Revenue	\$ 1,927,917	\$ 622,717	\$ (1,305,200)
Total Revenue	<u>1,927,917</u>	<u>622,717</u>	<u>(1,305,200)</u>
Expenditures			
Current			
General Government	9,710	-	9,710
Public Safety	<u>1,918,207</u>	<u>622,717</u>	<u>1,295,490</u>
Total Expenditures	<u>1,927,917</u>	<u>622,717</u>	<u>1,305,200</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	-
Fund Balance			
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Intergovernmental Revenue	<u>\$ 1,224,254</u>	<u>\$ 413,811</u>	<u>\$ (810,443)</u>
Expenditures			
Current			
General Government	<u>1,224,254</u>	<u>413,811</u>	<u>810,443</u>
Excess (Deficiency) of Revenue Over Expenditures	-	-	-
Fund Balance			
Beginning of Year	<u>1,178</u>	<u>-</u>	<u>(1,178)</u>
End of Year	<u><u>\$ 1,178</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,178)</u></u>

**LAKE HAVASU CITY, ARIZONA
IMPROVEMENT DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Property Taxes	\$ 80,000	\$ 80,000	\$ 71,729	\$ (8,271)
Investment Earnings	-	-	308	308
Total Revenue	<u>80,000</u>	<u>80,000</u>	<u>72,037</u>	<u>(7,963)</u>
Expenditures				
Current				
General Government	<u>80,961</u>	<u>87,961</u>	<u>85,762</u>	<u>2,199</u>
Excess (Deficiency) of Revenue Over Expenditures	(961)	(7,961)	(13,725)	(5,764)
Fund Balance				
Beginning of Year	<u>47,439</u>	<u>47,439</u>	<u>51,888</u>	<u>4,449</u>
End of Year	<u>\$ 46,478</u>	<u>\$ 39,478</u>	<u>\$ 38,163</u>	<u>\$ (1,315)</u>

**LAKE HAVASU CITY, ARIZONA
SPECIAL PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 185,040	\$ 185,040	\$ 131,739	\$ (53,301)
Fines and Forfeitures	71,500	71,500	71,298	(202)
Charges for Services	11,000	11,000	8,700	(2,300)
Contributions and Donations	5,000	5,000	6,173	1,173
Investment Earnings	-	-	1,664	1,664
Other	67,976	67,976	5,998	(61,978)
Total Revenue	<u>340,516</u>	<u>340,516</u>	<u>225,572</u>	<u>(114,944)</u>
Expenditures				
Current				
General Government	25,723	25,723	21,780	3,943
Public Safety	259,341	260,341	165,480	94,861
Culture and Recreation	10,000	10,000	1,439	8,561
Total Expenditures	<u>295,064</u>	<u>296,064</u>	<u>188,699</u>	<u>107,365</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>45,452</u>	<u>44,452</u>	<u>36,873</u>	<u>(7,579)</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(65,000)</u>	<u>(65,000)</u>	<u>(30,000)</u>	<u>(35,000)</u>
Total Other Financing Sources (Uses)	(65,000)	(65,000)	(30,000)	(35,000)
Net Change in Fund Balance	(19,548)	(20,548)	6,873	27,421
Fund Balance				
Beginning of Year	<u>221,671</u>	<u>221,671</u>	<u>227,508</u>	<u>5,837</u>
End of Year	<u>\$ 202,123</u>	<u>\$ 201,123</u>	<u>\$ 234,381</u>	<u>\$ 33,258</u>

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**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 ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012**

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 202,741	\$ 93,080	\$ 295,821
Receivables, Net			
Accounts Receivable	574	14,567	15,141
Intergovernmental Receivable	-	133,662	133,662
Interest Receivable	114	114	228
Inventory	2,702	-	2,702
Prepaid Items	6,475	5,116	11,591
Restricted Assets	<u>-</u>	<u>22,602</u>	<u>22,602</u>
Total Current Assets	<u>212,606</u>	<u>269,141</u>	<u>481,747</u>
Noncurrent Assets			
Capital Assets			
Non-Depreciable	940,308	757,252	1,697,560
Depreciable (Net)	<u>4,302,556</u>	<u>16,680,448</u>	<u>20,983,004</u>
Total Noncurrent Assets	<u>5,242,864</u>	<u>17,437,700</u>	<u>22,680,564</u>
Total Assets	<u>5,455,470</u>	<u>17,706,841</u>	<u>23,162,311</u>
Liabilities			
Current Liabilities			
Accounts Payable	8,913	102,822	111,735
Accrued Wages and Benefits	11,532	5,986	17,518
Intergovernmental Payable	826	-	826
Interest Payable	-	185	185
Deferred Revenue	33,463	14,893	48,356
Liabilities Payable from Restricted Assets	-	22,602	22,602
Compensated Absences	2,924	4,107	7,031
Capital Leases Payable	<u>61,222</u>	<u>41,868</u>	<u>103,090</u>
Total Current Liabilities	<u>118,880</u>	<u>192,463</u>	<u>311,343</u>
Noncurrent Liabilities			
Compensated Absences	3,717	5,060	8,777
Capital Leases Payable	879,086	50,329	929,415
Other Postemployment Benefits	<u>31,146</u>	<u>11,240</u>	<u>42,386</u>
Total Noncurrent Liabilities	<u>913,949</u>	<u>66,629</u>	<u>980,578</u>
Total Liabilities	<u>1,032,829</u>	<u>259,092</u>	<u>1,291,921</u>
Net assets			
Invested in Capital Assets, Net of Related Debt	4,302,556	17,345,503	21,648,059
Unrestricted	<u>120,085</u>	<u>102,246</u>	<u>222,331</u>
Total Net Assets	<u>\$ 4,422,641</u>	<u>\$ 17,447,749</u>	<u>\$ 21,870,390</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Total Nonmajor Business-Type Activities</u>
Operating Revenue			
Charges for Services	\$ 371,484	\$ 484,690	\$ 856,174
Operating Expenses			
Costs of Sales and Services	1,050,064	576,700	1,626,764
Depreciation	<u>195,941</u>	<u>784,721</u>	<u>980,662</u>
Total Operating Expenses	<u>1,246,005</u>	<u>1,361,421</u>	<u>2,607,426</u>
Operating Income (Loss)	<u>(874,521)</u>	<u>(876,731)</u>	<u>(1,751,252)</u>
Nonoperating Revenues (Expenses)			
Interest Earnings	1,366	1,218	2,584
Interest Expense	-	(3,512)	(3,512)
Other Income	<u>17,116</u>	<u>25,621</u>	<u>42,737</u>
Total Nonoperating Revenue (Expenses)	<u>18,482</u>	<u>23,327</u>	<u>41,809</u>
Income (Loss) Before Contributions and Transfers	(856,039)	(853,404)	(1,709,443)
Capital Contributions	-	170,110	170,110
Transfers In	761,000	104,361	865,361
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>(95,039)</u>	<u>(578,933)</u>	<u>(673,972)</u>
Net Assets			
Beginning of Year	<u>4,517,680</u>	<u>18,026,682</u>	<u>22,544,362</u>
End of Year	<u>\$ 4,422,641</u>	<u>\$ 17,447,749</u>	<u>\$ 21,870,390</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Recreation/ Aquatic Center</u>	<u>Airport</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers	\$ 378,101	\$ 483,527	\$ 861,628
Payments to Suppliers	(413,766)	(141,605)	(555,371)
Payments to Employees	(621,754)	(346,042)	(967,796)
Other Nonoperating Receipts	17,002	25,621	42,623
Customer Deposits (Payments)	<u>-</u>	<u>(4,592)</u>	<u>(4,592)</u>
Net Cash Flows from (used by) Operating Activities	<u>(640,417)</u>	<u>16,909</u>	<u>(623,508)</u>
Cash Flows from Noncapital Financing Activities			
Transfers In	761,000	104,361	865,361
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Flows from (used by) Noncapital Financing Activities	<u>761,000</u>	<u>104,361</u>	<u>865,361</u>
Cash Flows from Capital and Financing Activities			
Proceeds from Capital Debt	-	-	-
Capital Grants and Contributions	-	107,182	107,182
Purchases of Capital Assets	-	(174,471)	(174,471)
Principal Paid on Capital Debt	-	(54,228)	(54,228)
Interest Paid on Capital Debt	-	(3,676)	(3,676)
Proceeds from Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Flows from (used by) Capital and Financing Activities	<u>-</u>	<u>(125,193)</u>	<u>(125,193)</u>
Cash Flows from Investing Activities			
Interest and Dividends	<u>1,366</u>	<u>1,104</u>	<u>2,470</u>
Net Change in Cash and Cash Equivalents			
	121,949	(2,819)	119,130
Cash and Cash Equivalents, Beginning of Year			
	<u>80,792</u>	<u>118,501</u>	<u>199,293</u>
Cash and Cash Equivalents, End of Year			
	<u>\$ 202,741</u>	<u>\$ 115,682</u>	<u>\$ 318,423</u>

Note: Cash and Cash Equivalents, End of Year on Statement of Cash Flows reflects the total of Cash and Cash Equivalents and Restricted Assets on the Statement of Net Assets.

**LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2012**

	<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)	\$ (874,521)	\$ (876,731)	\$ (1,751,252)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from (used by) Operating Activities			
Depreciation	195,941	784,721	980,662
Other Nonoperating Receipts (Expenses)	17,002	25,621	42,623
Change in Assets/Liabilities:			
Receivables, Net	(127)	1,925	1,798
Inventories	178	-	178
Prepaid Items	631	(432)	199
Accounts Payable	7,289	98,687	105,976
Intergovernmental Payable	6,744	(3,088)	3,656
Accrued Wages and Benefits	520	556	1,076
Compensated Absences	(10,335)	(12,102)	(22,437)
Deferred Revenue	-	-	-
Customer Deposits Payable	-	(4,592)	(4,592)
Other Postemployment Benefits	16,261	2,344	18,605
Net Cash from (used by) Operating Activities	<u>\$ (640,417)</u>	<u>\$ 16,909</u>	<u>\$ (623,508)</u>

Noncash Investing, Capital and Financing Activities

Capital assets of \$940,308 and \$31,972 were acquired through capital leases by the Recreation/Aquatic Center and Airport, respectively, during the year.

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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 ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012**

	<u>Vehicle Replacement</u>	<u>Employee Benefit Trust</u>	<u>Totals</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,467,158	\$ 6,849,245	\$ 10,316,403
Receivables, Net			
Accounts Receivable	-	916	916
Interest Receivable	2,045	3,730	5,775
Prepaid Items	-	46,397	46,397
Total Current Assets	<u>3,469,203</u>	<u>6,900,288</u>	<u>10,369,491</u>
Noncurrent Assets			
Capital Assets			
Depreciable (net)	<u>1,133,977</u>	<u>-</u>	<u>1,133,977</u>
Total Assets	<u>4,603,180</u>	<u>6,900,288</u>	<u>11,503,468</u>
Liabilities			
Current Liabilities			
Accounts Payable	-	1,344	1,344
Claims Payable	-	452,000	452,000
Total Current Liabilities	<u>-</u>	<u>453,344</u>	<u>453,344</u>
Total Liabilities	<u>-</u>	<u>453,344</u>	<u>453,344</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,133,977	-	1,133,977
Unrestricted	<u>3,469,203</u>	<u>6,446,944</u>	<u>9,916,147</u>
Total Net Assets	<u>\$ 4,603,180</u>	<u>\$ 6,446,944</u>	<u>\$ 11,050,124</u>

**LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Vehicle Replacement</u>	<u>Employee Benefit Trust</u>	<u>Totals</u>
Operating Revenue			
Premiums	\$ -	\$ 6,593,648	\$ 6,593,648
Total Operating Revenues	<u>-</u>	<u>6,593,648</u>	<u>6,593,648</u>
Operating Expenses			
Premiums	-	430,802	430,802
Administration	5,926	429,087	435,013
Benefits	-	4,816,835	4,816,835
Depreciation	387,528	-	387,528
Total Operating Expenses	<u>393,454</u>	<u>5,676,724</u>	<u>6,070,178</u>
Operating Income (Loss)	<u>(393,454)</u>	<u>916,924</u>	<u>523,470</u>
Nonoperating Revenues (Expenses)			
Investment Earnings	(16,850)	(11,212)	(28,062)
Other Income	108,234	10,840	119,074
Total Nonoperating Revenues (Expenses)	<u>91,384</u>	<u>(372)</u>	<u>91,012</u>
Change in Net Assets	(302,070)	916,552	614,482
Net Assets			
Beginning of Year	<u>4,905,250</u>	<u>5,530,392</u>	<u>10,435,642</u>
End of Year	<u>\$ 4,603,180</u>	<u>\$ 6,446,944</u>	<u>\$ 11,050,124</u>

LAKE HAVASU CITY, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Vehicle Replacement</u>	<u>Employee Benefit Trust</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers	\$ -	\$ 6,598,797	\$ 6,598,797
Payments to Suppliers	(5,926)	(5,651,764)	(5,657,690)
Other Nonoperating Receipts	<u>108,234</u>	<u>10,840</u>	<u>119,074</u>
Net Cash Flows from (used by) Operating Activities	<u>102,308</u>	<u>957,873</u>	<u>1,060,181</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(215,212)	-	(215,212)
Cash Flows from Investing Activities			
Interest and Dividends	<u>(18,894)</u>	<u>(14,942)</u>	<u>(33,836)</u>
Net Change in Cash and Cash Equivalents	(131,798)	942,931	811,133
Cash and Cash Equivalents, Beginning of Year	<u>3,598,956</u>	<u>5,906,314</u>	<u>9,505,270</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,467,158</u>	<u>\$ 6,849,245</u>	<u>\$ 10,316,403</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used by) Operating Activities			
Operating Income (Loss)	\$ (393,454)	\$ 916,924	\$ 523,470
Adjustments to Reconcile Operating Loss to Net Cash from (used by) Operating Activities:			
Depreciation	387,528	-	387,528
Other Nonoperating Receipts (Expenses)	108,234	10,840	119,074
Change in Assets/Liabilities:			
Receivables, Net	-	5,149	5,149
Prepaid Items	-	47,746	47,746
Accounts Payable	-	1,214	1,214
Claims Payable	<u>-</u>	<u>(24,000)</u>	<u>(24,000)</u>
Net Cash from (used by) Operating Activities	<u>\$ 102,308</u>	<u>\$ 957,873</u>	<u>\$ 1,060,181</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.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 36,170,959	\$ 44,518,547	\$ 46,769,169	\$ 49,705,688	\$ 69,549,691	\$ 84,717,176	\$ 89,771,829	\$ 86,672,300	\$ 87,690,122	\$ 87,049,508
Restricted	4,755,999	5,849,813	6,895,895	10,075,093	9,473,106	7,502,504	7,913,264	12,583,976	10,279,119	8,223,995
Unrestricted	20,875,610	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
Total Governmental Activities Net Assets	\$ 61,802,568	\$ 69,667,233	\$ 72,612,641	\$ 83,935,583	\$ 109,263,924	\$ 117,239,298	\$ 116,877,907	\$ 118,094,271	\$ 119,604,073	\$ 119,531,925
Business-type Activities										
Invested in Capital Assets, Net of Related Debt	\$ 96,686,600	\$ 98,939,694	\$ 106,779,037	\$ 143,521,523	\$ 135,934,350	\$ 147,265,013	\$ 120,519,205	\$ 128,661,852	\$ 139,907,146	\$ 146,340,617
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	14,325,762	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
Total Business-type Activities Net Assets	\$ 111,012,362	\$ 122,229,311	\$ 136,421,690	\$ 152,030,402	\$ 168,035,482	\$ 181,119,369	\$ 192,328,108	\$ 209,835,470	\$ 231,405,177	\$ 243,001,662
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$ 132,857,559	\$ 143,458,241	\$ 153,548,206	\$ 193,227,211	\$ 205,484,041	\$ 231,982,189	\$ 210,291,034	\$ 215,334,152	\$ 227,597,268	\$ 233,390,125
Restricted	4,755,999	5,849,813	6,895,895	10,075,093	9,473,106	7,502,504	7,913,264	12,583,976	10,279,119	8,223,995
Unrestricted	35,201,372	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
Total Primary Government Net Assets	\$ 172,814,930	\$ 191,896,544	\$ 209,034,331	\$ 235,965,985	\$ 277,299,406	\$ 298,358,667	\$ 309,206,015	\$ 327,929,741	\$ 351,009,250	\$ 362,533,587

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
General Government	\$ 7,158,240	\$ 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
Public Safety	13,067,015	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
Highways and Streets	6,197,856	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
Transportation Services	1,518,401	1,761,356	1,796,054	1,888,322	1,841,324	2,236,456	2,081,649	1,820,974	1,461,975	1,879,024
Tourism and Promotion	1,201,872	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
Culture and Recreation	3,262,316	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
Interest on Long-Term Debt	903,514	732,398	581,320	450,892	314,557	192,875	126,647	115,351	108,188	99,411
Total Governmental Activities	<u>33,309,214</u>	<u>37,364,861</u>	<u>40,538,515</u>	<u>41,328,785</u>	<u>46,890,628</u>	<u>53,878,607</u>	<u>52,027,113</u>	<u>46,881,473</u>	<u>45,594,921</u>	<u>43,946,437</u>
Business-type Activities:										
Refuse	384,014	395,178	433,897	437,916	432,118	796,755	788,325	1,081,376	1,085,990	5,410,612
Recreation / Aquatic Center	1,118,978	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
Irrigation and Drainage	6,967,361	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
Wastewater	4,545,242	6,395,900	7,308,945	9,426,955	9,824,124	12,244,284	14,776,656	15,205,648	17,162,396	17,441,173
Airport	1,650,741	2,128,119	1,499,059	1,518,477	1,578,872	1,569,121	1,638,496	1,391,318	1,356,632	1,364,933
Total Business-type Activities	<u>14,666,336</u>	<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>31,208,590</u>	<u>35,506,908</u>
Total Primary Government Expenses	<u>\$ 47,975,550</u>	<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>\$ 76,803,511</u>	<u>\$ 79,453,345</u>
Program Revenues										
Governmental Activities:										
Fines, Fees and Charges for Services:										
General Government	\$ 4,201,970	\$ 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
Public Safety	109,301	122,690	145,296	150,248	131,148	161,717	110,643	138,856	131,855	107,777
Highways and Streets	74,765	28,743	39,402	23,773	105,697	7,880	105,763	26,885	22,861	21,023
Culture and Recreation	551,332	575,014	551,165	635,464	654,523	670,950	535,640	639,748	570,009	565,388
Transportation Services	336,825	382,816	367,310	354,059	171,779	91,617	102,469	103,165	106,000	119,262
Interest	66,728	41,746	80,978	-	16,040	29,091	3,201	7,308	5,765	2,086
Operating Grants and Contributions	5,289,206	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
Capital Grants and Contributions	868,693	4,697,048	367,726	643,939	17,022,840	6,215,355	7,088,714	3,672,012	3,264,826	1,525,462
Total Governmental Activities Program Revenues	<u>11,498,820</u>	<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>

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Business-type Activities:										
Charges for Services:										
Refuse	\$ 744,172	\$ 847,270	\$ 917,215	\$ 967,991	\$ 1,042,200	\$ 1,269,783	\$ 1,180,596	\$ 1,193,935	\$ 1,198,732	\$ 5,589,465
Recreation / Aquatic Center	412,350	457,219	422,279	429,222	497,842	433,782	376,044	349,804	332,304	388,600
Irrigation and Drainage	9,556,571	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
Wastewater	4,107,757	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
Airport	443,613	484,506	545,364	551,921	557,926	581,215	534,797	1,125,623	521,022	510,311
Operating Grants and Contributions	1,185,737	1,247,605	1,360,656	1,908,002	85,129	1,000	46,076	25,000	86,000	88,717
Capital Grants and Contributions	2,871,542	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
Total Business-type Activities Program Revenues	19,321,742	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
Total Primary Government Program Revenues	\$ 30,820,562	\$ 38,930,305	\$ 39,591,954	\$ 44,998,481	\$ 63,944,264	\$ 56,640,114	\$ 52,519,959	\$ 56,332,480	\$ 62,452,835	\$ 53,755,659
Net (Expense)/Revenue										
Governmental Activities	\$ (21,810,394)	\$ (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)
Business-type Activities	4,655,406	5,391,873	6,938,737	8,414,173	8,839,771	8,289,509	4,458,364	12,226,220	16,689,495	6,889,195
Total Primary Government Net Expense	\$ (17,154,988)	\$ (15,944,151)	\$ (20,861,168)	\$ (18,749,078)	\$ (6,620,488)	\$ (25,352,999)	\$ (29,814,781)	\$ (19,527,201)	\$ (14,350,677)	\$ (25,697,686)
General Revenues and Other										
Changes in Net Assets										
Governmental Activities:										
Taxes:										
Sales Taxes	\$ 17,455,115	\$ 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
Property Taxes	2,983,706	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
Franchise Taxes	224,516	258,528	254,675	227,038	746,815	1,733,704	1,921,624	1,687,909	1,722,878	1,684,173
State Revenue Sharing	4,463,510	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
State Sales Tax Revenue Sharing	3,279,879	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
Auto Lieu Tax Revenue Sharing	2,308,162	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
Investment Earnings (Loss)	(371,813)	480,411	621,096	1,066,812	1,198,654	1,193,238	467,629	253,403	187,740	(81,420)
Other	90,871	36,861	17,325	71,692	18,705	14,912	12,590	16,124	78,417	119,074
Transfers	(11,983,144)	(3,436,818)	(4,564,265)	(1,721,662)	(1,746,031)	561,289	(3,900,988)	(1,877,395)	(153,685)	1,252,589
Total Governmental Activities	18,450,802	29,200,689	30,745,313	38,486,193	40,603,038	42,520,732	33,814,709	32,651,552	32,254,619	32,514,733
Business-type activities:										
Property Taxes	2,149,954	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
Investment Earnings (Loss)	(166,709)	336,066	696,468	3,438,833	3,757,572	2,285,859	715,319	200,593	266,125	256,774
Transfers	11,983,144	3,436,818	4,564,265	1,721,662	1,746,031	(561,289)	3,900,988	1,877,395	153,685	(1,252,589)
Total Business-type Activities	13,966,389	5,825,076	7,253,642	7,194,539	7,615,470	3,880,854	6,750,375	5,315,137	4,880,212	4,707,290
Total Primary Government	\$ 32,417,191	\$ 35,025,765	\$ 37,998,955	\$ 45,680,732	\$ 48,218,508	\$ 46,401,586	\$ 40,565,084	\$ 37,966,689	\$ 37,134,831	\$ 37,222,023
Change in Net Assets										
Governmental Activities	\$ (3,359,592)	\$ 7,864,665	\$ 2,945,408	\$ 11,322,942	\$ 25,142,779	\$ 8,878,224	\$ (458,436)	\$ 1,216,364	\$ 1,509,802	\$ (72,148)
Business-type Activities	18,621,795	11,216,949	14,192,379	15,608,712	16,455,241	12,170,363	11,208,739	17,541,357	21,569,707	11,596,485
Total Primary Government	\$ 15,262,203	\$ 19,081,614	\$ 17,137,787	\$ 26,931,654	\$ 41,598,020	\$ 21,048,587	\$ 10,750,303	\$ 18,757,721	\$ 23,079,509	\$ 11,524,337

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

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:										
General Government	\$ 4,928,269	\$ 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
Public Safety	442,252	254,668	475,607	416,702	1,467,555	667,438	545,061	1,033,934	1,155,283	941,184
Highways and Streets	4,662,669	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
Culture and Recreation	562,044	4,212,127	656,829	647,903	1,057,891	697,866	1,188,244	654,545	693,518	707,343
Transportation Services	836,858	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
Interest on Long-term Debt	66,728	41,746	80,978	-	16,040	29,091	3,201	7,308	5,765	2,086
Subtotal Governmental Activities	11,498,820	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
Business-type Activities:										
Refuse	744,172	847,270	917,215	967,991	1,064,929	1,269,783	1,180,596	1,193,935	1,198,732	5,589,465
Recreation/Aquatic Center	412,350	457,219	422,279	429,222	497,842	433,782	501,550	349,804	332,304	388,600
Irrigation and Drainage	10,670,135	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
Wastewater	5,962,794	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
Airport	1,532,291	1,509,855	1,740,358	3,098,081	562,360	1,053,256	1,198,748	1,181,518	880,794	680,421
Subtotal Business-type Activities	19,321,742	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
Total Primary Government	\$ 30,820,562	\$ 38,930,305	\$ 39,591,954	\$ 44,998,481	\$ 63,944,264	\$ 56,640,114	\$ 52,519,959	\$ 56,332,481	\$ 62,452,835	\$ 53,755,659

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 241,494	\$ 212,631	\$ 236,978	\$ 221,242	\$ 239,771	\$ 289,716	\$ 245,625	\$ 510,785	\$ -	\$ -
Unreserved	17,013,903	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
Restricted	-	-	-	-	-	-	-	-	8,663	16,815
Committed	-	-	-	-	-	-	-	-	1,199,646	533,133
Assigned	-	-	-	-	-	-	-	-	2,708,530	-
Unassigned	-	-	-	-	-	-	-	-	8,616,221	14,476,034
Total General Fund	<u>\$ 17,255,397</u>	<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>
 All Other Governmental Funds										
Reserved	\$ 1,461,901	\$ 1,165,554	\$ 1,031,329	\$ 866,633	\$ 777,537	\$ 260,745	\$ 161,487	\$ 161,447	-	-
Unreserved, Reported in:										
Special Revenue Funds	1,551,618	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>2,246,238</u>	<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	3,797,856	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
Restricted	-	-	-	-	-	-	-	-	10,166,279	8,100,341
Committed	-	-	-	-	-	-	-	-	2,654,787	153,466
Assigned	-	-	-	-	-	-	-	-	496,230	3,028,968
Unassigned	-	-	-	-	-	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 5,259,757</u>	<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>

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Notes: Beginning in FY 2011, GASB Statement No. 54 was implemented. See Note 1.D.11. 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 20,669,273	\$ 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
Intergovernmental	16,189,913	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
Fines and Forfeitures	1,054,494	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
Licenses and Permits	2,943,803	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
Charges for Services	1,040,759	1,079,752	1,055,558	1,131,132	970,168	836,573	711,345	931,886	817,168	803,069
Rents and Royalties	23,485	17,170	28,875	28,006	22,958	27,732	58,785	51,889	46,494	64,824
Contributions and Donations	19,537	12,695	21,680	15,034	11,921	6,910	11,018	6,939	142,715	112,576
Impact Fees	-	-	-	-	185,562	10,674	97,045	318,232	295,355	137,207
Special Assessments	119,374	124,514	181,027	155,733	106,040	124,318	131,602	68,996	66,283	65,357
Investment Earnings (Loss)	(364,958)	404,262	500,624	910,746	960,145	801,582	325,534	212,547	169,181	(53,402)
Other	349,564	112,007	108,490	124,865	246,128	418,251	436,488	224,576	337,648	119,827
Total Revenues	42,045,244	48,667,996	47,985,015	54,395,032	59,435,514	59,432,003	52,798,805	49,958,881	47,287,971	42,584,897
Expenditures										
General Government	7,035,908	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
Public Safety	12,725,332	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
Highways and Streets	4,646,201	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
Culture and Recreation	3,014,259	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
Transportation Services	1,414,090	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
Tourism and Promotion	1,201,211	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
Capital Outlay	2,399,915	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
Debt Service										
Principal Retirement	2,906,000	2,700,000	3,235,000	3,375,000	3,480,000	3,605,000	240,000	165,000	200,000	200,000
Interest on Long-term Debt	903,514	732,398	581,320	450,892	314,557	192,875	126,647	115,351	108,188	99,411
Total Expenditures	36,246,430	45,229,498	49,648,400	48,240,754	58,681,006	70,523,036	53,359,663	42,058,653	45,886,600	44,638,258
Excess of Revenues over (under) Expenditures	5,798,814	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)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other financing sources (uses)										
Transfers In	\$ 9,124,156	\$ 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
Transfers Out	(21,107,300)	(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)
Issuance of Debt	13,134	89,369	2,902,599	1,934,849	3,582,747	2,615,000	-	-	56,986	1,154,054
Total Other Financing Sources (uses)	(11,970,010)	(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
Net Change in Fund Balance	<u>\$ (6,171,196)</u>	<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>
Debt Service as a Percentage of Noncapital Expenditures	11.3%	9.1%	8.9%	8.4%	7.2%	6.5%	0.8%	0.7%	0.7%	0.7%

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)**

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Transient Occupancy Tax	Bar and Restaurant Tax	Total
2003	\$ 16,240,531	\$ 2,989,642	\$ 224,516	\$ 575,556	\$ 639,028	\$ 20,669,273
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
Change, 2003-2012	-20.7%	38.5%	650.1%	10.7%	39.4%	-2.1%

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Mining	\$ 39,000	\$ -	\$ 621,000	\$ 2,649,142	\$ 1,637,109	\$ 2,238,146	\$ 1,502,091	\$ 957,338	\$ 679,224	\$ 947,593
Communications & Utilities	N/A	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
Transportation & Warehousing	N/A	N/A	828,450	1,297,067	1,719,521	1,370,195	825,406	610,037	476,664	287,021
Construction	163,485,100	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
Manufacturing	8,502,250	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
Wholesale Trade	25,142,200	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
Retail Trade	380,034,700	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
Finance & Insurance	N/A	N/A	2,022,000	857,392	1,967,267	2,213,297	1,563,165	1,295,523	868,042	958,820
Real Estate, Rental & Leasing	N/A	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
Restaurant & Bars	80,836,700	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
Hotels & Other Lodging (1)	19,050,950	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
Public Administration	N/A	N/A	70,450	308,237	146,659	310,450	493,218	318,627	(185,615)	83,740
Services	58,695,300	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
Arts & Entertainment	N/A	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
All Others	17,056,350	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
Transportation, Communications & Utilities	70,415,050	78,915,700	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fire, Insurance & Real Estate	5,404,600	6,315,800	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$ 828,662,200	\$ 919,091,000	\$ 974,834,250	\$1,087,324,001	\$1,042,683,387	\$ 869,060,778	\$ 710,049,320	\$ 650,925,408	\$ 662,289,819	\$ 682,370,709
City Sales Tax Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Source: Arizona Department of Revenue

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.

**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>
2003	2.00%	1.00%	3.00%	0.25%	5.60%
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

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

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

Source: Arizona Department of Revenue

**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		
2003	P	\$ 325,840,542	\$ 2,848,610,186	\$ 10,778,445	\$ 56,227,733	\$ 336,618,987	\$ 2,904,837,919	0.8413	11.59
	S	332,033,998	2,888,473,152	10,778,445	56,227,733	342,812,443	2,944,700,885	-	plus \$ 101.11 per acre
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

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

Fiscal Year		City Direct Rate			Special Districts							Overlapping Rates			Rate Total
		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	
2003	P	0.8413	-	0.8413	-	-	-	-	-	-	-	2.6898	4.3377	0.4889	8.3577
	S	-	-	-	\$ 101.11/acre	-	0.5538	1.4600	3.1579	0.1243	-	1.0103	1.0535	-	7.3598 plus \$ 101.11/acre
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

**LAKE HAVASU CITY, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2012
CURRENT AND SIX YEARS AGO**

Taxpayer	2012			2006		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Unisource Energy Corporation	\$ 9,552,853	1	1.66%	\$ 8,212,498	2	1.70%
PHC Lake Havasu Inc	5,312,480	2	0.93%	9,194,016	1	1.91%
Shops at Lake Havasu City LLC	3,651,759	3	0.64%			
Citizens Rural Division	3,409,493	4	0.59%			
Walmart Stores Inc	1,862,200	5	0.32%	1,503,854	8	0.31%
Sterilite Corporation	1,713,597	6	0.30%	2,303,118	4	0.48%
London Bridge Resort	1,519,478	7	0.26%	2,009,951	5	0.42%
Steinle Janice A Chapter 11 Trustee	1,514,855	8	0.26%			
Havasu Regional Medical Center LLC	1,490,046	9	0.26%			
Lowes HIW Inc	1,403,308	10	0.24%			
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	\$ 31,430,069		5.46%	\$ 33,668,607		6.99%

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

Net Assessed Value \$ 573,894,513

\$ 481,685,286

Source: Abstract for the County of Mohave
(1) Formerly named Havasu Plaza (Kmart) in 1997

**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			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
2003	\$ 2,828,474	\$ 2,705,073	95.64%	\$ 123,042	\$ 2,828,115	99.99%
2004	2,947,709	2,889,381	98.02	58,289	2,947,670	100.00
2005	3,310,822	3,183,551	96.16	127,150	3,310,701	100.00
2006	3,836,086	3,750,741	97.78	85,193	3,835,934	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	202,529	4,505,153	99.99
2009	4,674,836	4,510,022	96.47	164,520	4,674,542	99.99
2010	4,885,663	4,701,200	96.22	183,573	4,884,773	99.98
2011	4,078,121	3,952,993	96.93	121,618	4,074,611	99.91
2012	4,080,039	3,965,111	97.18	-	3,965,111	97.18

(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			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
2003	\$ 1,923,479	\$ 2,004,113	104.19%	\$ (80,845)	\$ 1,923,268	99.99%
2004	2,026,009	2,012,055	99.31	13,954	2,026,009	100.00
2005	2,025,509	1,966,752	97.10	58,756	2,025,508	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	97,468	2,090,570	99.98
2009	2,092,838	2,037,986	97.38	54,396	2,092,382	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	84,503	4,414,779	99.80
2012	5,589,949	5,408,979	96.76	-	5,408,979	96.76

(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			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
2003	\$ 79,997	\$ 77,612	97.02%	\$ 2,385	\$ 79,997	100.00%
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	-	-	-	-	-	-

(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			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
2003	\$ 23,466	\$ 22,474	95.77%	\$ 992	\$ 23,466	100.00%
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	-	3,647	95.33

(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			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
2003	\$ 21,130	\$ 20,881	98.82%	\$ 249	\$ 21,130	100.00%
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	-	-	-	-	-	-

(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
2003	\$ 17,252	\$ 15,433	89.45%	\$ 1,818	\$ 17,251	99.99%
2004	60,780	59,605	98.07	1,165	60,770	99.98
2005	61,523	59,981	97.49	1,526	61,507	99.97
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	528	55,581	99.97
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	-	68,007	99.06

(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			
2003	\$ 850,000	\$ 15,970,000	\$ 49,408	\$ 8,549,414	\$ -	\$ 370,000	\$ 9,151	\$ 25,797,973	2.65%	\$ 556
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

(1) Net of related premium

Note: Balances reflect reduction for principal payment made on July 1, 2012.

**LAKE HAVASU CITY, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2012**

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Debt			
Lake Havasu Unified School District No. 1	\$ 13,040,000	95.10%	\$ 12,401,040
Total overlapping debt			<u>12,401,040</u>
City Direct Debt			
Lake Havasu City Freedom Bridge Land Acquisition	2,235,000	100.00%	2,235,000
Lake Havasu City, Arizona Direct Debt			<u>2,235,000</u>
Total Direct and Overlapping Debt			<u>\$ 14,636,040</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 businesses 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
20% Limitation (1)										
Debt Limit	\$ 68,562,489	\$ 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
Total Net Debt Applicable to 20% Limit (Restated to Account for Amount Set Aside for Repayment of Debt)	<u>8,742,500</u>	<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>
Legal Debt Margin (Available Borrowing Capacity)	<u>\$ 59,819,989</u>	<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>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	12.75%	11.50%	45.07%	80.90%	94.12%	75.35%	87.87%	83.58%	102.72%	123.67%
6% Limitation (2)										
Debt Limit	\$ 20,568,747	\$ 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
Total Net Debt Applicable to 6% Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin (Available Borrowing Capacity)	<u>\$ 20,568,747</u>	<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>
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, 2012**

Net secondary assessed valuation (1)		<u>\$ 567,742,118</u>
<u>Water, Sewer, Light, Parks, Open Space Preserves, Playgrounds, Recreational Facilities, Public Safety, Law Enforcement, Fire and Emergency Facilities, and Streets and Transportation Facilities</u>		
Debt limit - 20% of secondary net assessed valuation		\$ 113,548,424
Debt applicable to limit		
General Obligation bonds outstanding	\$ 163,610,287	
Less amount set aside for repayment of debt	<u>(23,182,713)</u>	
Net debt applicable to limit		<u>140,427,574</u>
20% legal debt margin		<u>(26,879,150)</u>
<u>All other general obligation bonds</u>		
Debt Limit - 6% of secondary net assessed valuation		34,064,527
Debt applicable to limit		
General Obligation bonds outstanding	\$ -	
Less amount set aside for repayment of debt	<u>-</u>	
Net debt applicable to limit		<u>-</u>
All other general obligation bonds debt margin		<u>34,064,527</u>
Total legal debt margin		<u>\$ 7,185,377</u>

(1) Source: Mohave County Assessor's Office.

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

Fiscal Year	Municipal Property Corporation Bonds (1)				Excise Tax Revenue Bonds (1)				Special Assessment Bonds			
	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
2003	\$ 29,196,801	\$ 2,675,000	\$ 283,531	9.87	\$ 29,196,801	\$ 190,000	\$ 555,720	39.15	\$ 119,374	\$ 41,000	\$ 61,613	1.16
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

(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.

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

Fiscal Year	Sewer Revenue Bonds						Water Revenue Bonds					
	(1) Operating Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	(2) Coverage	(1) Operating Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2003	\$ 5,575,694	\$ 3,253,324	\$ 2,322,370	\$ 3,090,000	\$ 102,096	0.73	\$ 9,454,625	\$ 6,002,888	\$ 3,451,737	\$ 140,000	\$ 23,605	21.10
2004	7,837,338	4,182,008	3,655,330	-	411,938	8.87	11,247,609	6,413,094	4,834,515	135,000	15,100	32.21
2005	10,965,873	3,674,565	7,291,308	5,765,000	993,746	1.08	12,044,926	7,719,678	4,325,248	20,000	13,800	127.97
2006	15,055,202	4,323,846	10,731,356	715,547	4,431,556	2.08	12,594,163	8,257,603	4,336,560	20,000	12,500	133.43
2007	20,593,753	4,028,938	16,564,815	5,722,568	5,243,928	1.51	12,876,316	8,597,673	4,278,643	20,000	11,200	137.14
2008	23,703,017	6,955,929	16,747,088	7,540,749	6,309,330	1.21	11,841,750	10,025,454	1,816,296	20,000	61,578	22.26
2009	19,916,120	7,272,649	12,643,471	10,165,631	7,731,240	0.71	10,917,741	9,632,388	1,285,353	211,475	130,486	3.76
2010	26,810,286	6,710,135	20,100,151	7,369,121	8,677,270	1.25	11,081,387	7,890,122	3,191,265	218,535	169,680	8.22
2011	31,765,529	7,409,668	24,355,861	6,553,136	9,768,386	1.49	10,898,753	8,080,253	2,818,500	225,842	185,363	6.85
2012	23,380,304	6,303,028	17,077,276	8,369,962	10,439,078	0.91	12,158,839	7,558,432	4,600,407	356,095	177,258	8.63

(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 other revenue for purposes of debt service coverage.

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

Fiscal Year	(1) Population	Personal Income	(2) Per Capita Personal Income	(3) Median Age	(4) School Enrollment	(5) Unemployment Rate
2003	46,400	\$ 972,219,000	\$ 20,953	48.0	6,345	5.2
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

(1) Fiscal year 2011 from the U.S. Census.
All other years from the Arizona Economic Estimates Commission.

(2) Demographics Now

(3) Demographics Now

(4) Lake Havasu Unified School District No. 1

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

**LAKE HAVASU CITY, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2012
CURRENT AND SIX YEARS AGO**

Employer	2012			2006		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Lake Havasu School District	670	1	2.89%	530	3	2.17%
Lake Havasu City	630	2	2.71%	671	2	2.75%
Havasu Regional Medical Center	615	3	2.65%	695	1	2.85%
Sterilite Corporation	425	4	1.83%	425	4	1.74%
Walmart	300	5	1.29%	259	6	1.06%
London Bridge Resort	300	6	1.29%	315	5	1.29%
Shugrue's Restaurants	200	7	0.86%	250	7	1.03%
Bashas' (2 locations)	186	8	0.80%			
Mohave Community College	169	9	0.73%	183	9	0.75%
River Medical	150	10	0.65%			
Mission of Nevada, Inc.				200	8	0.82%
Bradley Chevrolet & Ford				160	10	0.66%
New Horizons Center				160	10	0.66%
TOTAL	3,645		15.70%	3,848		15.78%

Total Employees in Lake Havasu City

23,208 (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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	65.0	65.0	72.0	77.0	81.0	83.0	83.0	70.0	62.0	59.0
Community Development	26.0	26.0	26.0	30.0	29.0	29.0	29.0	25.0	22.0	21.0
Public Safety										
Police	101.0	101.0	105.0	108.0	123.0	127.0	127.0	123.0	123.0	116.0
Fire	70.0	71.0	75.0	80.0	95.0	95.0	95.0	85.0	93.0	86.0
Public Works										
Administration/Engineering	19.0	19.0	22.0	22.0	22.0	26.0	26.0	22.0	17.0	18.0
Airport	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Transportation	19.0	19.0	19.0	19.0	19.0	19.0	19.0	15.0	15.0	14.0
Highways and Streets	31.0	32.0	32.0	32.0	32.0	32.0	32.0	29.5	31.0	30.0
Vehicle Maintenance	10.0	11.0	11.0	12.0	12.0	12.0	12.0	8.5	8.0	9.0
Wastewater	19.0	18.0	20.0	21.5	25.5	25.5	26.0	26.0	26.0	26.0
Water	33.0	40.0	41.0	41.5	42.5	40.5	40.0	39.0	43.0	42.0
Culture and Recreation	39.0	39.0	41.0	41.0	44.0	45.0	45.0	39.0	39.0	34.0
Total	<u>436.0</u>	<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>

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

**LAKE HAVASU CITY, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Police</u>										
Number of Sworn Officers	75	79	83	95	96	96	92	91	91	83
Number of Incidents Handled	57,969	58,552	60,610	60,440	59,951	76,759	77,014	67,189	64,024	58,652
Number of Report Numbers Issued	8,495	9,394	9,893	10,316	9,612	8,740	8,637	7,441	8,242	7,001
Response Time, Priority 1 Calls (Minutes)	6:17	6:04	6:10	6:10	5:54	5:26	5:17	5:32	5:51	5:56
<u>Fire</u>										
Number of Field Suppression Personnel	55	55	58	60	72	78	72	69	85	72
Number of Structural Fires	55	65	62	68	43	53	41	36	35	37
Number of Emergency Responses	5,276	5,603	5,719	6,234	6,113	6,457	6,996	7,311	7,487	7,542
Response Time (Minutes)	5:24	5:20	5:25	5:16	5:14	5:34	5:26	5:24	5:25	5:27
Inspections	3,999	4,041	4,452	4,224	4,496	4,924	5,443	4,418	4,055	3,102
<u>Highways and streets</u>										
Street Resurfacing (Miles)	37.00	32.00	27.00	23.00	51.50	31.50	11.50	5.00	11.00	15.00
Utility Patches	843	777	731	699	645	494	468	269	219	380
Skin Patches	240	280	511	526	187	270	178	98	39	211
Crackfilling (Miles)	32.42	40.12	18.43	41.05	30.00	35.50	18.00	13.00	26.20	40.50
<u>Wastewater</u>										
Connections	3,450	4,891	7,394	8,991	11,983	16,112	18,320	19,014	25,066	31,771
Average Daily Flowage (mg)	1.74	2.12	1.99	2.33	2.50	3.08	3.03	3.38	3.64	3.69
<u>Municipal Parks</u>										
Park Uses	2,308	2,575	3,055	3,849	3,025	3,969	3,684	2,587	2,410	2,311
<u>Water</u>										
Miles of Line	494	496	498	500	500	500	500	500	500	500
New Connections	946	1,435	1,255	889	308	388	216	245	127	130
Main Breaks	56	64	47	49	47	52	57	60	44	55
Service Line Leaks	874	925	798	915	723	612	510	366	280	225
Average Daily Consumption (Gallons) per Capita	268	259	246	240	230	250	250	250	199	199
<u>Airport</u>										
Based Aircraft	226	230	240	243	240	234	180	180	159	153
Operations	49,853	49,733	51,996	53,892	55,844	51,900	60,000	60,000	60,000	60,000
Fuel Flowage	436,541	359,881	368,822	314,501	502,137	536,175	627,628	704,175	659,121	522,144
<u>Transit</u>										
Total Ridership	135,299	143,873	138,112	137,658	82,803	82,955	115,070	122,500	123,999	114,548
Miles Driven	568,925	595,784	550,925	571,279	448,267	412,270	443,900	438,003	404,497	347,841
<u>General</u>										
Building Permits Issued	3,161	3,284	3,233	2,916	2,124	1,485	894	908	871	895
Building Inspections Conducted	29,623	29,222	28,532	26,658	19,513	15,687	10,849	7,486	5,812	5,432
Land Use Actions	469	617	491	405	333	370	229	210	202	75

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

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Public Safety</u>										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units										
Cars	28	28	30	32	38	34	37	37	37	40
Boats	4	4	4	4	4	4	4	4	5	3
Quads	6	6	6	6	6	6	7	7	5	5
Fire:										
Stations	5	5	5	6	6	6	6	6	6	6
Apparatus										
Fire Trucks	9	9	10	11	12	10	11	11	11	11
Vehicles	20	20	23	22	21	21	27	24	23	23
Boats	1	1	1	1	2	2	1	1	1	1
<u>Highways and Streets</u>										
Streets (Miles)	423.5	424.0	424.5	425.0	426.0	428.0	428.0	428.0	435.0	435.0
Streetlights	80	84	84	84	84	84	84	84	84	84
Traffic Signals	12	12	12	12	12	12	12	12	13	13
<u>Culture and Recreation</u>										
Parks Acreage	77.3	77.3	77.3	85.0	108.7	123.7	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	6	10	14	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)	494.0	496.0	498.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
Installed Meters	24,845	25,339	26,417	27,789	28,097	27,983	27,826	29,304	28,068	31,108
Fire Hydrants	n/a	n/a	n/a	2,645	2,684	2,684	2,695	2,708	2,708	2,708
Available Acre Feet	25,180	25,180	25,180	25,180	25,180	25,180	27,319	21,271	28,318	28,318
<u>Sewer</u>										
Sanitary Sewers (Miles)	146.0	155.0	165.0	175.3	203.4	237.8	267.0	292.4	352.9	352.9
<u>Transportation</u>										
Transit Buses	19	19	19	19	15	16	18	19	19	23
<u>Airport</u>										
Enclosed Hangars	72	72	78	78	78	101	78	78	78	78
Shade Ports	27	27	27	27	27	25	16	16	16	16

Source: Lake Havasu City, Arizona departments.

**LAKE HAVASU CITY, ARIZONA
MISCELLANEOUS STATISTICS
JUNE 30, 2012**

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	3
Charter Schools	2
Community College (Mohave)	1
State University (NAU)	1
Number of Students	
L.H.C. Unified School District	5,677
Alternative	156
Private	159
Charter	633
MCC Lake Havasu City Campus	2,712
NAU Lake Havasu City Extended Campus Site	166
Employees as of June 30, 2012	
Full-Time	421
Part-Time	209
Elected Officials	7
Total Payroll Fiscal Year 2012	\$ 26,361,752
Elections	
Last Special Referendum Election - May 2011	
Number of Registered Voters	33,440
Number of Votes Cast	13,733
Percentage of Registered Voters	41.07%
Last Municipal General Election - November 2010	
Number of Registered Voters	33,139
Number of Votes Cast	18,224
Percentage of Registered Voters	54.99%
Last Municipal Primary Election - August 2010	
Number of Registered Voters	32,596
Number of Votes Cast	8,575
Percentage of Registered Voters	26.31%
At the time of incorporation	
Number of Registered Voters	6,053
Active Business Licenses	5,488
Economy:	
Number of Annual Visitors (Estimate by the Convention and Visitors Bureau)	750,000
Lake Havasu City Municipal Airport	
Fixed Based Operators	3
Runway Length (in Feet)	8,001

**LAKE HAVASU CITY, ARIZONA
MISCELLANEOUS STATISTICS
JUNE 30, 2012**

Population

Census Population Count (Calendar Year)

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
2002*	46,400
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>	<u>100.0%</u>

Median Age 50.2

Median Household Income \$ 42,243
Per Capita Income (2011) 25,224

2010 Census information available at the following websites:

<http://factfinder2.census.gov>

<http://www.demographicsnow.com>