MINUTES OF THE REGULAR MEETING OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, JANUARY 6, 2026, AT 7:00 PM IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

   Mayor Leech called the meeting to order at 7:00 p.m.

2. Roll Call.

   COUNCIL MEMBERS PRESENT: Mayor Leech, Vice Mayor Kakavas, Councilman Adams, Councilman Clark, Councilman Judd, and Councilman Whipple

   COUNCIL MEMBERS ABSENT: Councilman Hatch.

   STAFF MEMBERS PRESENT: F. Morgan Brown, City Manager; Justin Johnson, Deputy City Manager; Jeff McNeil, Police Commander; Shane Hemesath, Public Works Director; Trampas Johnston, Engineering Project Manager; Rick Austin, Public Works Operations Manager; Mischa Steinbrecher, Finance Manager; and Rachael Hall, City Clerk.

   GUESTS: Angie McMillan, Karen Stone, Doug Roberts, Jim Reidhead and others.

3. Invocation.

   Councilman Judd gave the invocation.

4. Pledge of Allegiance.

   Councilman Clark led the Council and audience in the pledge of allegiance.

5. **<u>CALL TO THE PUBLIC</u>:**

   Any citizen desiring to speak on a matter that is within the jurisdiction of the City Council may do so at this time. Comments shall be limited to three minutes per person and shall be addressed to the City Council as a whole, and not to any individual member. Issues raised shall be limited to those within the jurisdiction of the City Council. Pursuant to the Arizona Open Meeting Law, the City Council cannot discuss or act on items presented at this time. At the conclusion of the call to the public, individual City Council members may (1) respond to criticism made by those who have spoken, (2) ask staff to review a matter, and (3) ask that a matter be put on a future agenda.

   Karen Stone, 1370 East Pine Oaks Drive, asked if the City Council had plans to invite ICE (U.S. Immigration and Customs Enforcement) into the City.

   Angie McMillan, 8435 Deer Run Drive, presented the City Council with a series of questions, such as whether the Council was sworn to the Constitution, if the

Council would stand up to ICE if they began to illegally detain people, and if the Council would be informing the public regarding the Flock surveillance system.

6. **SPECIAL EVENTS:**

A. Presentation of Annual Comprehensive Financial Report for Fiscal Year 2025
Mr. Johnson said that Hinton Burdick would present a financial report on the audit, but before the presentation he thanked the staff for all their efforts and hard work, and he thanked Chantry Jensen at Hinton Burdick for his efforts during the audit.

Mr. Jensen presented the results of the Fiscal Year 2025 Annual Comprehensive Financial Report, see Attachment “A”.

Vice Mayor Kakavas inquired about the recent increases in sales tax revenues and whether the growth was attributable to a specific category. Ms. Steinbrecher responded that sales tax revenues have increased across all categories. She noted that staff could further review the detailed reports to determine if any single area accounted for a significant portion of the increase and would report back to the City Council.

Vice Mayor Kakavas commended staff and the City’s advisors for maintaining the City’s health insurance fund for employees in a strong and stable financial position.

Mr. Johnson said the bed tax also boosted the sales tax revenues and staff saw an upward trend in all sales tax revenue areas such as construction, retail, and restaurants within the City.

7. **CONSENT CALENDAR:**

A. Consideration of Resolution No. R2026-01 Designating Authorized Agents to Provide Financial Information Regarding Arizona Department of Emergency and Military Affairs Grants (Mischa Steinbrecher)

B. Consideration of Acceptance of Well 4 Emergency Repairs, City of Show Low Project No. W-1821 J011 (Rick Austin)

C. Consideration of Acceptance of Well 13 Repairs, City of Show Low Project No. W-1821 JO19 (Rick Austin)

D. Consideration of Minutes of Show Low City Council meetings:

1. Regular Meeting of December 9, 2025

VICE MAYOR KAKAVAS MOVED TO APPROVE THE CONSENT CALENDAR AS PRESENTED; SECONDED BY COUNCILMAN ADAMS; PASSED 6 TO 0 WITH MAYOR LEECH, VICE MAYOR KAKAVAS,

COUNCILMAN ADAMS, COUNCILMAN CLARK, COUNCILMAN JUDD, AND COUNCILMAN WHIPPLE VOTING IN FAVOR.

8. **NEW BUSINESS:**

A. Consideration of Acceptance of Updated Programming for the Show Low Sports and Events Center and Programming Stage Cost Estimate, City of Show Low Project No. FM-4625 (Shane Hemesath)

Mr. Hemesath said at its regular meeting on July 15, 2025, the City Council awarded the pre-construction contract to Haydon Companies LLC for the Show Low Sports and Event Center. The scope of the work for this contract was the first phase of the design build contract for the facility. Over the past few months, the design team had been working to identify the possible programming elements of the facility. A public comment open-house was held on September 16, 2025, followed by a City Council meeting to discuss possible additional items that could be included in the final building programming. Based on that direction, the design team had finalized the initial programming for the facility. The Haydon, Architekton and 4-Line Studio team were in attendance to present a review of the final programming document, including a review of the program phase cost estimate for the facilities and items included.

Chris Ford, Principal Architect, 4Line Studio LLC, briefly reviewed the facility since he went into detail at the last Council meeting in December. He said the project site was situated off Woolford Road, positioned between Woolford Road and Lewis Street and to the east of the Show Low Bluff residential area. The main building occupied the southeast corner of the site and featured a four-sided architectural orientation. The primary public entrance was located on the building's northeast corner, with vehicular access from a future thoroughfare currently designated as "Road X." The site plan placed the majority of the main parking lot to the north, directly facing the building's entrance. To meet parking requirements, additional off-site parking would need to be developed to the east or south. The first-floor plan was centered around several key spaces. The main entry plaza, accessible from the northeast corner, led to a 500-person meeting room. A large commercial kitchen was situated in the northwest corner, while the remainder of the building was predominantly occupied by a six-court gymnasium, supplemented by core facilities such as bathrooms and extensive storage areas. A second-level mezzanine featured a walking track encircling the gym, connected by stairs and elevators, and included extra breakout spaces for activities like stretching.

Mr. Ford said the exterior renderings illustrated an inviting and functional design. The northeast view highlighted a large covered entry, designed to provide a pleasant queuing experience in all weather conditions. From the southwest, at a future roundabout connecting Woolford Road and Road X, the building showcased extensive glazing to create a strong aesthetic presence from the street. The design incorporated landscape and architectural features to minimize visual impact on the adjacent residential community. Aerial views emphasized the prominent entry plaza and the main gym volume along Woolford Road, reinforcing the open and welcoming feel of the building's corners. Architectural integrity was maintained on all sides, with even the "back of house" spaces featuring a private, secured plaza.

Fritz Behrhorst, Vice President of Pre-Construction with Haydon Company LLC, reviewed the estimated program cost, detailing the budget's growth from an initial concept of over $50 million to a current program estimate of $56.4 million. The updated budget was broken down into approximately $47 million for construction, $4.7 million for design and pre-construction, and an 8% contingency of about $3.5 million. An allowance for Furniture, Fixtures, and Equipment (FF&E) was also included in the total. The Council had previously approved over $4 million for design and pre-construction. He said the budget increase was attributed to nearly $5 million in added scope and refined program requirements. A primary driver was the increase in the building's footprint, which expanded from an anticipated 110,000 square feet to over 120,000 square feet to accommodate the full functionality of the six-court gym and its surrounding support spaces. Key enhancements contributing to the cost increase include building size, architectural features, kitchen equipment, design fees, specialized equipment, facility enhancements, and safety systems. The larger footprint added approximately $2 million to the cost. A proposed wood soffit extending from the exterior entry into the interior lobby added $750,000, and the addition of skylights and a concrete entry plaza also increased costs. He said following a detailed program review with Sports Facilities Companies (SFC), the kitchen equipment budget increased by $500,000 over the initial allowance. The overall program growth led to a $300,000 increase in design costs. A portable, full-overlay wood floor for the championship court was added for superior playability. An all-weather cover for the loading dock was included for improved functionality and a generator, fire pump, and a public safety radio repeater system were budgeted to meet potential code requirements for a large-scale event space, ensuring first responder communication and fire safety.

Mayor Leech and Vice Mayor Kakavas asked for more information regarding the increased size of the building. Mr. Behrhorst, Mr. Ford and Mr. Hemesath explained that the building's size increase was a cascading effect driven by the need to accommodate a 12-court volleyball layout (by rotating courts 90 degrees on the six basketball courts), a key requirement for attracting major tournaments. This change enlarged the gym, which in turn expanded the necessary hallways, bathrooms, and other accessory spaces.

Vice Mayor Kakavas asked for clarification regarding the portable championship court. Mike Mays, SFC representative, explained that while a portable overlay court offered a "premier experience" and enabled horseshoe seating for large ticketed events like the Harlem Globetrotters, it was labor-intensive and expensive. He noted that such major events might only occur once a year and that a comparable championship experience could be achieved by designating an existing court and using portable bleachers. Nonetheless, a dedicated championship court was deemed very important for the venue's prestige and experience.

Mayor Leech expressed concern regarding the size of the kitchen. Several Council members acknowledged the risk of being short-sighted and expressed a desire to avoid cutting corners on a legacy project. Councilman Clark commented that sports tourism seemed to be a recession-proof investment for the community, and with all growth indicators for Show Low trending positive, constructing the best possible facility was a sensible long-term strategy.

Mr. Behrhorst said their team would be conducting a follow-up focus meeting with the kitchen vendor and end-users to downsize the kitchen, reduce equipment costs, and potentially future-proof for later expansion. He said the next steps were to advance the project to the schematic design phase to refine the design, tighten up the building's square footage, and produce a more accurate cost estimate.

VICE MAYOR KAKAVAS MOVED TO APPROVE THE UPDATED PROGRAMMING/CONCEPTUAL DESIGN FOR THE SHOW LOW SPORTS AND EVENTS CENTER AND THE PROGRAMMING STAGE COST ESTIMATE, CITY OF SHOW LOW PROJECT NO. FM-4625; SECONDED BY COUNCILMAN ADAMS; PASSED 6 TO 0 WITH MAYOR LEECH, VICE MAYOR KAKAVAS, COUNCILMAN ADAMS, COUNCILMAN CLARK, COUNCILMAN JUDD, AND COUNCILMAN WHIPPLE VOTING IN FAVOR.

B. Discussion and Consideration of Improvements of Huning House located at 100 North 11th Street (Shane Hemesath)

Mr. Hemesath said on October 1, 2025, during the City Council retreat, staff reviewed options for the development of the downtown parcels near the City Library along 11th Street. The Downtown Parking Lot project had been completed, and further improvements were being considered in that area. Landscaping with grass, pavers, and concrete were preliminary suggestions to create a downtown plaza area to be enjoyed by the citizens. A public restroom as well as a large ramada structure for gatherings was also planned. The existing structure on the property had aged and would need to be removed or relocated to be preserved due to the requirements in the City's floodplain management code. Staff investigated options for the removal or relocation. If the City Council would like the structure removed, staff would include the demolition of the building with the restroom project expected to be bid this spring. A conceptual layout of what future improvements could look like had been provided in the Council packet.

Mr. Hemesath said staff also reached out to A-Arid State House Movers and Enterprises Inc. to investigate relocating the structure to a new location and to a proper height required by the floodplain requirements. A proposal to lift the building and place it on a new two-foot high stem wall closer to the southern boundary of the property was provided. The cost to lift and relocate the structure and provide a new higher stem wall was approximately $77,000. That cost only included relocating the structure. In order to get the structure in a condition to rent or utilize, the following additional improvements would need to be completed: asbestos removal, new plumbing, new electrical, and complete internal and external remodeling. To identify the costs for the remodeling improvements, staff would need direction from the City Council on the future use of the building (restaurant, offices, etc.).

Mr. Hemesath said staff was seeking direction to move forward with the disposal of the existing structure or scope of improvements and budget to consider for remodeling.

Vice Mayor Kakavas emphasized the home's unique place in the community and family history, identifying it as her childhood home and a rare survivor from the old Main Street era. She said that restoration of her family home would honor local heritage.

Several Council members expressed preferences for preserving the building and moving it toward the south (toward Huning), noting that relocation would improve land use efficiency while retaining a piece of local history. Staff requested clear guidance on the building's future so that the stem wall design can anticipate appropriate plumbing/electrical stubs and internal layout needs.

Councilman Judd highlighted cost risks and uncertainty around asbestos and uncertainty around the usage for the building. He suggested memorializing the home and its history with a plaque, which was discussed previously at the Council Retreat.

Councilman Whipple asked if the house could be remodeled using funds from the state's historical grants. Mr. Brown said state historical grants were currently closed and not an option.

Councilman Clark suggested exploring Community Development Block Grant funding viability based on the building's eventual use.

The Council provided direction to save and move the historic structure, relocating it towards the south near Huning and elevating it on a new stem wall. Staff was authorized to proceed with the ramada and restroom planning under this assumption, ensuring the restroom's bidding timeline (this spring) and the overall urgency of delivering the restroom and ramada this year were not disrupted. While the building's specific future use remains undecided, the stem wall and utility design should anticipate reasonable future scenarios, such as offices or a small retail shop.

9. **SUMMARY OF CURRENT EVENTS:**

A. Council Members

None.

B. Mayor

None.

C. City Manager

Mr. Brown said the City has begun the process to prepare for the fiscal year 2027 budget. The City would be holding a town hall budget meeting specifically for citizen input on January 22, at 6:00 p.m. at the Council Chambers. All budget meetings were open to the public. A list of meeting dates was on the City's website at showlowaz.gov.

Mr. Brown said the recreation department was hosting the annual Daddy Daughter Dance on February 6, tickets could be purchased at the Show Low Family Aquatic Center. Please call 532-4130 for more information.

Mr. Brown said in public works projects, the city's contractor worked on the HVAC system this week at the City Campus Recreation Building, staff anticipated to move into the building in two weeks. Work was finishing up on the Hwy 260 Sidewalk and Walking Path Project. He thanked the citizens for their patience as these important projects were completed.

Mr. Brown said that candidate packets were available at the city clerk's office for the upcoming city council election.

10. **SCHEDULE OF MEETINGS:**

Scheduling of meetings, which may be brought up at this time.

Mr. Brown said there would be a special meeting for the City Council to hold interviews for the upcoming vacant council seat on January 20. Staff would let the Council know what time that meeting would need to start after staff finalizes details.

Mr. Brown said there would be a budget study session on January 20, starting at 6:30 p.m.

11. **ADJOURNMENT:**

There being no further business to be brought before the Council, **MAYOR LEECH ADJOURNED THE REGULAR MEETING OF THE SHOW LOW CITY COUNCIL OF JANUARY 6, 2026, AT 8:10 P.M.**

ATTEST: APPROVED:

Rachael Hall, City Clerk John Leech, Jr., Mayor

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Regular Meeting of the City Council of Show Low held on January 6, 2026. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 20th day of January, 2026.

(SEAL)

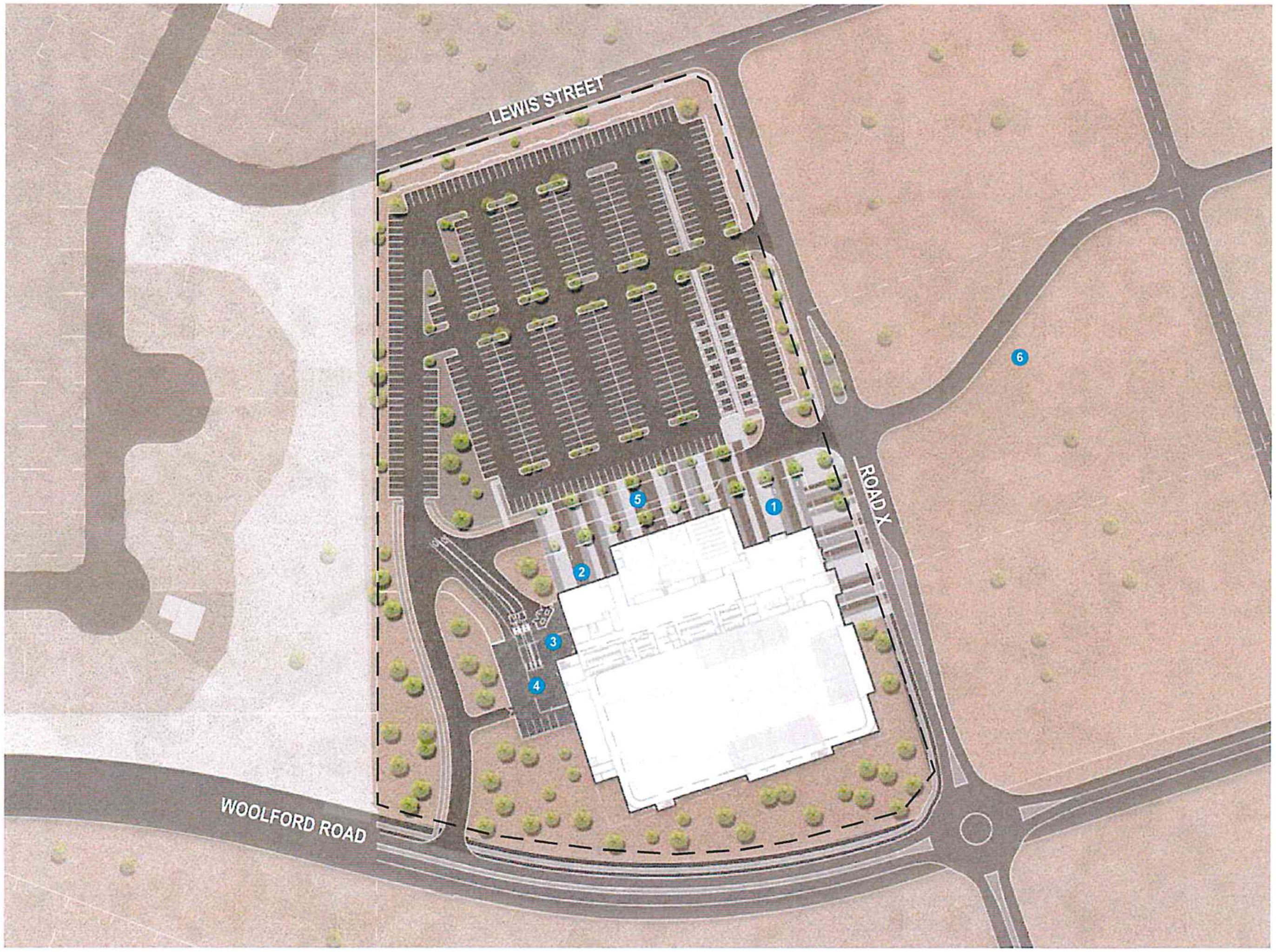
Rachael Hall, City Clerk

SHOW LOW SPORTS AND EVENT CENTER

CITY COUNCIL PRESENTATION - 01.06.2026

CITY OF SHOW LOW ARIZONA 1953 · HAYDON · 4LINE STUDIO · ARCHITEKTON

SITE PLAN



LEGEND

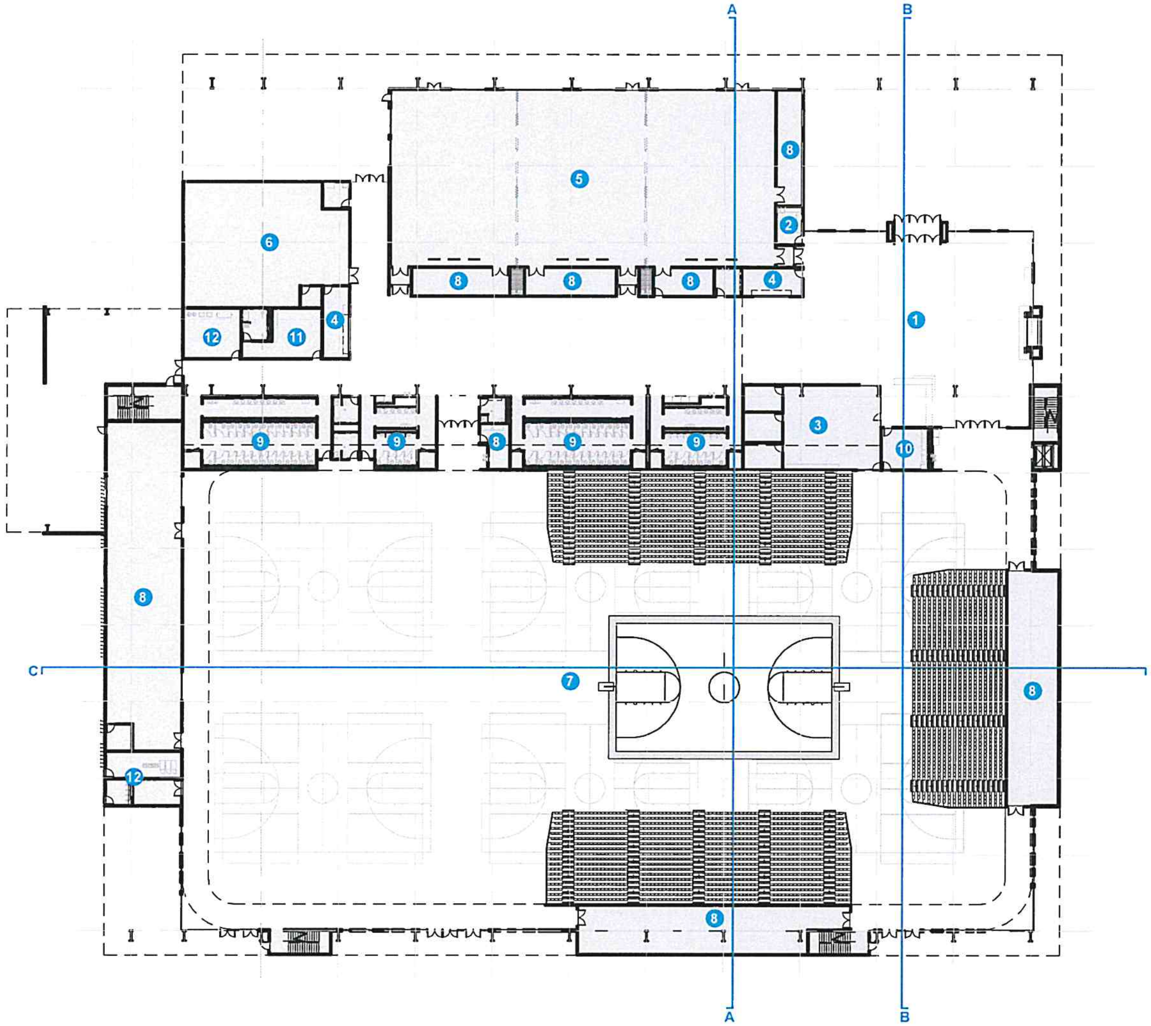
1. ENTRY PLAZA
2. SECURED PATIO
3. MECHANICAL YARD
4. LOADING DOCK
5. AT GRADE DROP-OFF
6. ADDITIONAL OFF-SITE PARKING

TOTAL PARKING SPACES REQUIRED:
1,125

TOTAL ON-SITE PARKING SPACES PROVIDED:
489

HAYDON 4LINE STUDIO ARCHITEKTON

FLOOR PLAN - LEVEL 1



LEGEND

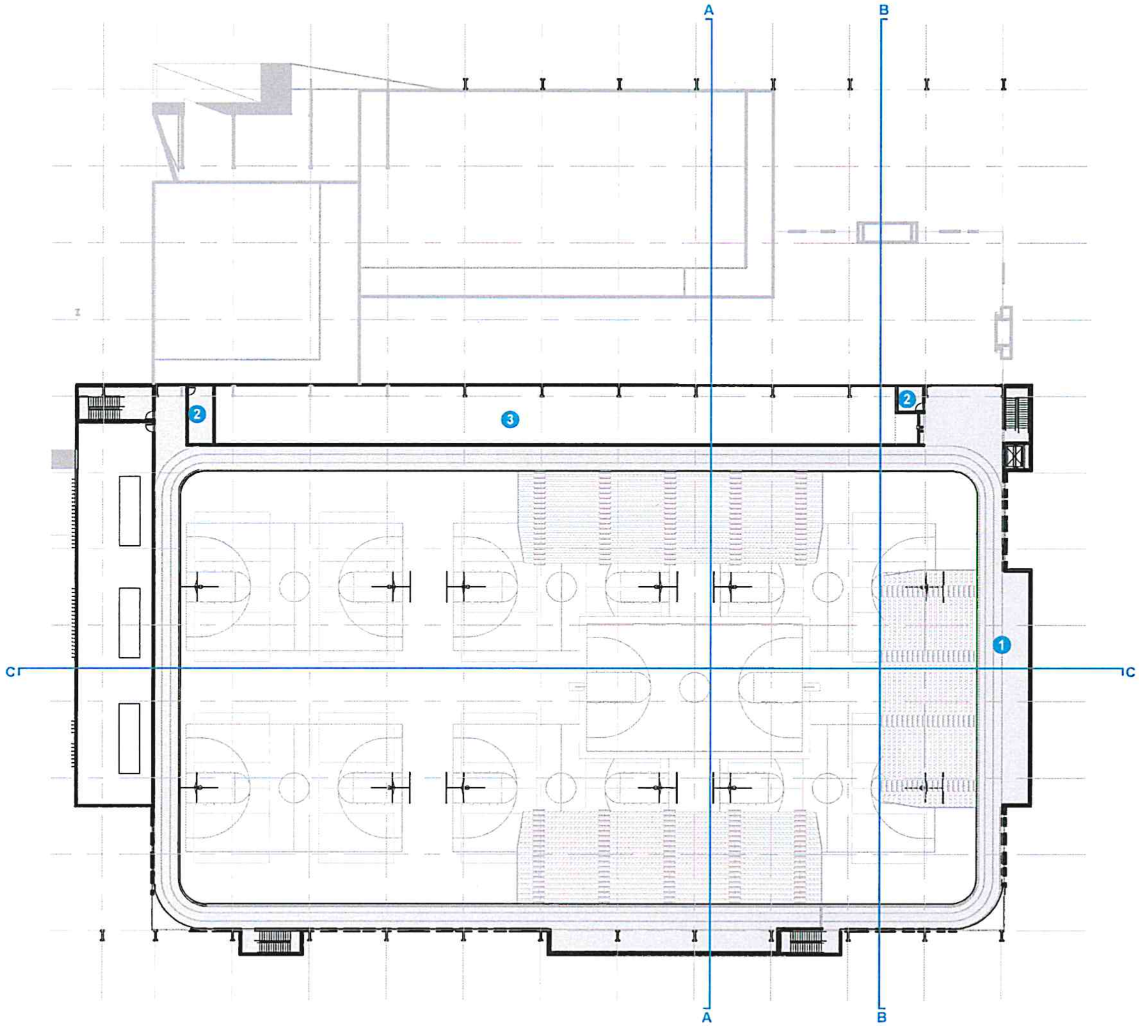
1	LOBBY / PRE-FUNCTION	15,295 SF
2	TICKETING	147 SF
3	OFFICES	1,708 SF
4	CONCESSIONS	530 SF
5	BANQUET HALL / MEETING ROOMS	10,291 SF
6	KITCHEN	2,908 SF
7	SPORT COURTS	58,750 SF
8	STORAGE	7,214 SF
9	RESTROOMS	4,476 SF
10	TRAINING	290 SF
11	GREEN ROOM / REFEREE	567 SF
12	BUILDING SUPPORT	2,116 SF

LEVEL 1	104, 292 SF
LEVEL 2	13,087 SF
OVERALL	approx. **117, 379 SF**

0' 50' 100' 200'

HAYDON 4LINE STUDIO ARCHITEKTON

FLOOR PLAN - LEVEL 2



LEGEND

1	ELEVATED TRACK	12,757 SF
2	ELECTRICAL ROOM	330 SF
3	MECHANICAL	

LEVEL 1	104,292 SF
LEVEL 2	13,087 SF
OVERALL	**117,379 SF**

0' 50' 100' 200'

HAYDON 4LINE STUDIO ARCHITEKTON


NE PLAZA


SE ENTRANCE - DUSK


WEST ENTRANCE


NORTH PARKING

NE AERIAL

SE AERIAL

SW AERIAL

NW AERIAL

PROGRAM ESTIMATE

The recap on this report also separates the site from the building and provides a higher level of breakout for the recap sheet.

Building - Costs

Construction	**$47.63M**
Design & Precon	**$4.67M**
Contingency (8%)	**$3.54M**
FFE Allowance	**$600K**
Total Program Budget:	**$56.44M**

Money Already Approved

$4.01M $56.44M

PROGRAM ESTIMATE

Items that reflect the shift in budget from the last reviewed $50M to the new budget breakdown

Building Size - **$1.75M**

Skylights - **$200,000**

Generator / Fire Pump - **$450,000**

Wood Ceiling/Soffit - **$750,000**

Design - **$300,000**

Site Hardscape - **$300,000**

Championship Court - **$175,000**

Dock Cover - **$200,000**

Kitchen Equipment - **$525,000**

ERRCS Repeater System - **$200,000**

Total add - $4,850,000

HAYDON 4LINE STUDIO ARCHITEKTON

SHOW LOW SPORTS AND EVENT CENTER

CITY COUNCIL PRESENTATION - 01.06.2026

CITY OF SHOW LOW ARIZONA 1953

HAYDON

4LINE STUDIO

ARCHITEKTON

PROGRAM ESTIMATE

Assumptions

1. Design and construction administration estimate included in cost
2. Work is limited to on-site work only, no work outside the property line is included
3. Earthwork and paving is based on provisions of the soils report for the original site
4. Excess soils from current site will be stockpiled on the site directly east of this site
5. Foundations budgets are based on shallow bearing spread footings per the original soils report
6. Site walls are assumed to be textured precast panels similar to products produced by Hatch
7. The event center and open ceiling area ceilings are exposed to the skrim covered building insulation
8. Basketball backboards are assumed to be automatic drop down type
9. Volleyball standards are assumed to be ground mounted
10. $600k FFE allowance is assumed to be procured by Owner outside of the DB contract
11. Includes fire pump and backup generator as indicated in program document
12. Includes 6 basic digital score boards for event center
13. Includes data cabling, WAPS, basic security and CCTV as outlined in the program
14. Includes AV budget of $300k for 70a sound system, TV's and AV as indicated in the program

PROGRAM ESTIMATE

Exclusions

1 All governmental and utility provider plan check, permit, impact, site development, service, tap and meter fees of any type.
2 Offsite work of any type (grading, roadways, utilties etc)
3 Perforated metal ceiling in the Event Center.
4 Magnetometers - assume these will be rented on an as needed basis.
5 Servers or computing and communications system equipment .
6 Large displays / digital score boards.

HINTONBURDICK
CPAs & ADVISORS

City of Show Low, Arizona
Fiscal Year 2025
Audit Presentation

Presented by
HintonBurdick CPAs and Advisors

Audit Reports

- Independent Auditors Report (pg. 1 - 3)
  - Unmodified or "clean opinion"
- Report on Internal Control over Financial Reporting and on Compliance (pg. 107 and 108)
  - No material weaknesses
  - No significant deficiencies
- Report on State Compliance (pg. 109)
  - No material / reportable findings
- Report on Compliance for Each Major Program (Single Audit, *separate*)
  - Unmodified or "clean opinion"
  - No findings

Findings & Recommendations

- **Issued as a separate letter (as applicable)**
  - No material weaknesses
  - No significant deficiencies
  - Compliance finding:
    - 2022-001 Actual Expenditures in Excess of Budget - *reworded, reissued*
      - Other Debt Service Fund: Budgeted expenditures of $1,705,158, actual expenditures of $1,746,933. Difference of $41,775.
      - Street Light District Special Revenue Fund: Budgeted expenditures of $222,000, actual expenditures of $237,954. Difference of $15,954.

Financial Highlights – Government Wide

- Total net position was $197,896,136 at June 30, 2025 – pg.13

- Net position increased by $14,580,091 – pg. 15. Over time, increases or decreases in net position are an indicator of whether the financial health of the City is improving or deteriorating.

- $9.7 million of the increase was from governmental activities and $4.8 million was from business-type activities (water, wastewater and refuse) – pg. 15

- Total revenues from all sources were $55.4 million and the cost of all City programs was $40.2 million – pg. 9

Financial Highlights – Capital Assets

- Governmental fund capital assets reported an overall increase in assets with additions of $11.2 million and depreciation expense of $4.2 million – pg. 35
- Significant additions:
  - Land additions of $1.6M
  - Improvement additions of $6.5M
  - Equipment additions and improvements of $1.1M
  - Various road improvements and additions totaling approximately $400k
- Significant retirements:
  - None

Financial Highlights – Capital Assets

- Business-type fund's capital assets increased with additions of $3.3 million and depreciation expense of $2.9 million – pg. 36

- Significant additions:
  - Various water infrastructure additions and improvements for $2.7M
  - Equipment additions and improvements for $435K

- Significant retirements:
  - None

Financial Highlights – Debt

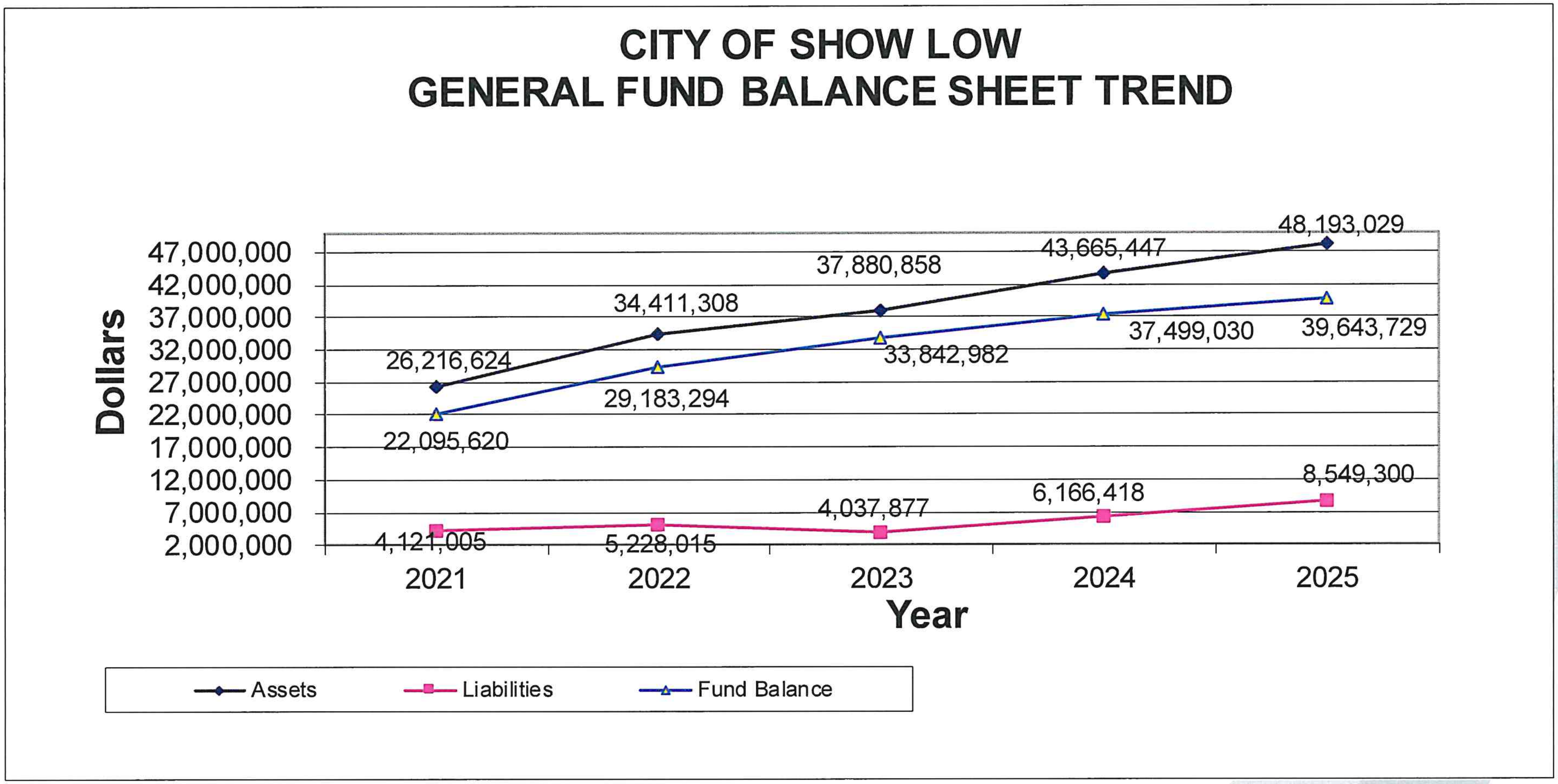
- Governmental long-term debt had a net decrease of $627,948 - pg. 39

- Utility fund long-term debt increased by $2,014,388, mainly because of the Excise Tax Rev. Bonds - Series 2021 activity

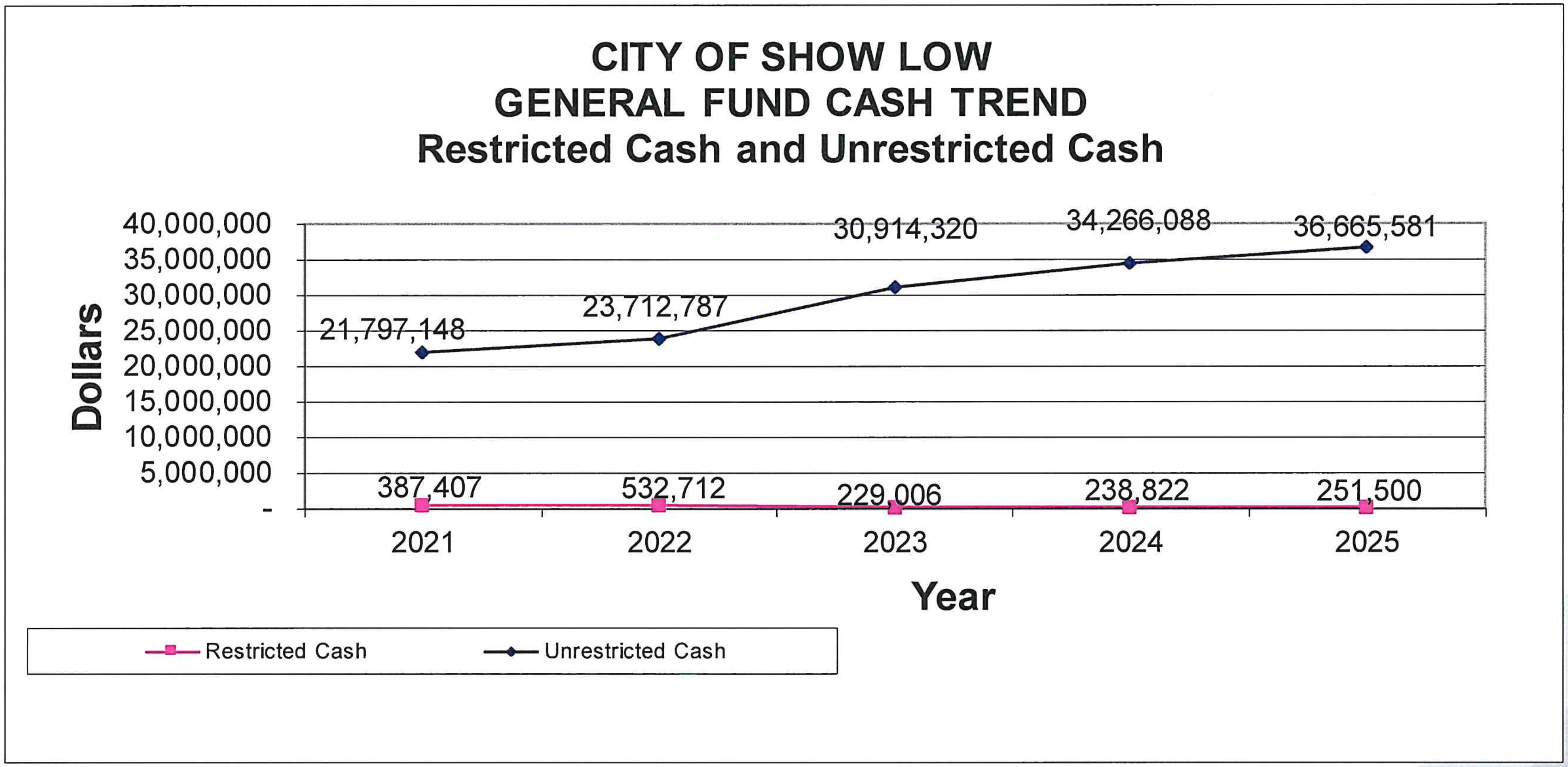
- Debt service payments scheduled for FY26 should be approximately $3.4 million which is less than FY25 of $3.6 million

Financial Highlights – General Fund

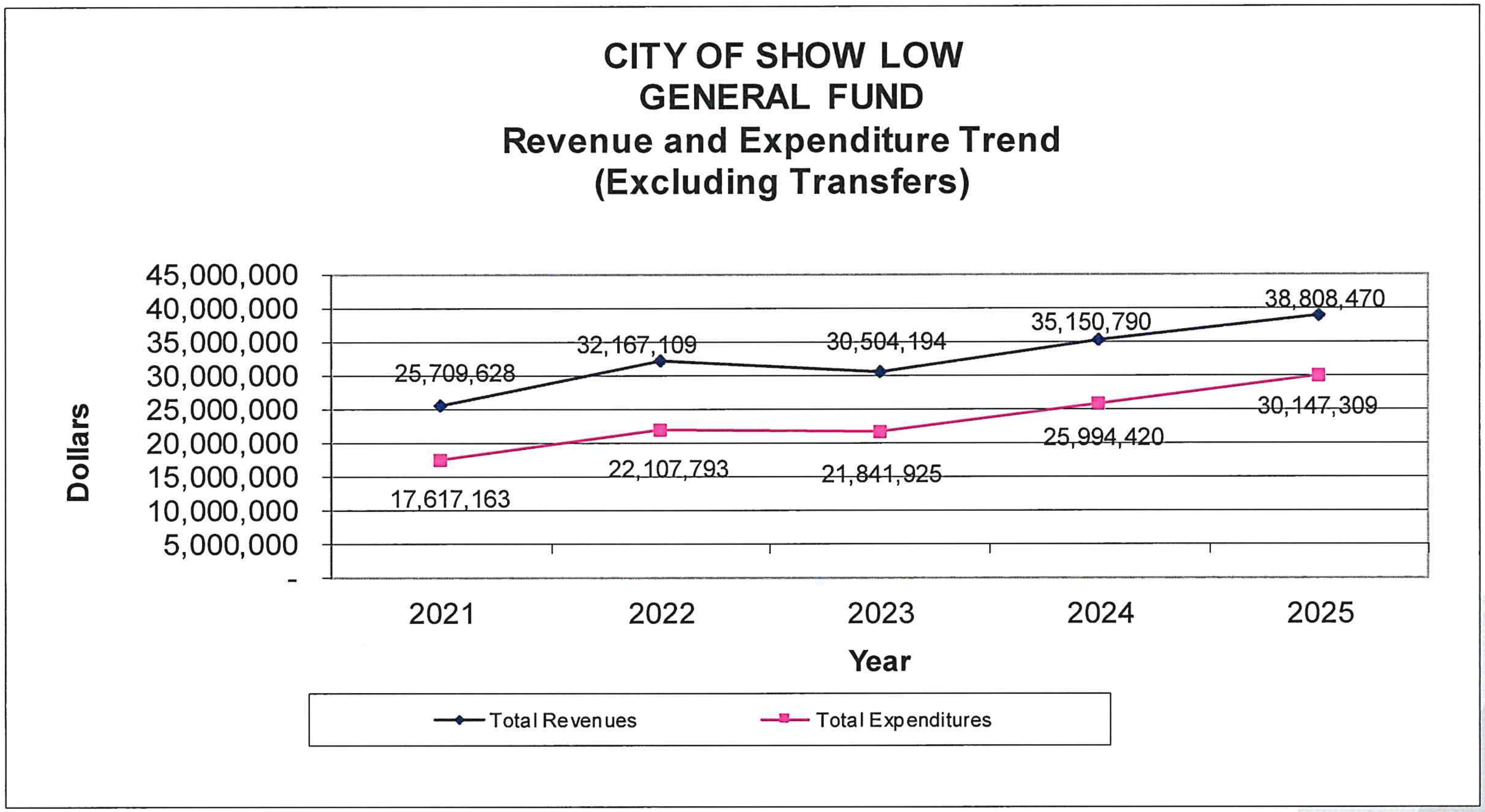
- Total fund balance for the General Fund increased from prior fiscal year of $ 37,499,030 to $39,643,729 at June 30, 2025, which is a significant increase – pg. 18
- Unassigned fund balance was $39,300,165 or 130% of total General Fund expenditures, a decrease of 13% from FY24– pg. 16
- The General Fund reported revenues in excess of expenditures of $8,661,161, a decrease of $495 thousand from FY24- pg. 18
- Actual resources received in the General Fund were greater than the final budget by $8,739,720 and actual expenditures were $21,414,448 less than the final budget – pg. 67



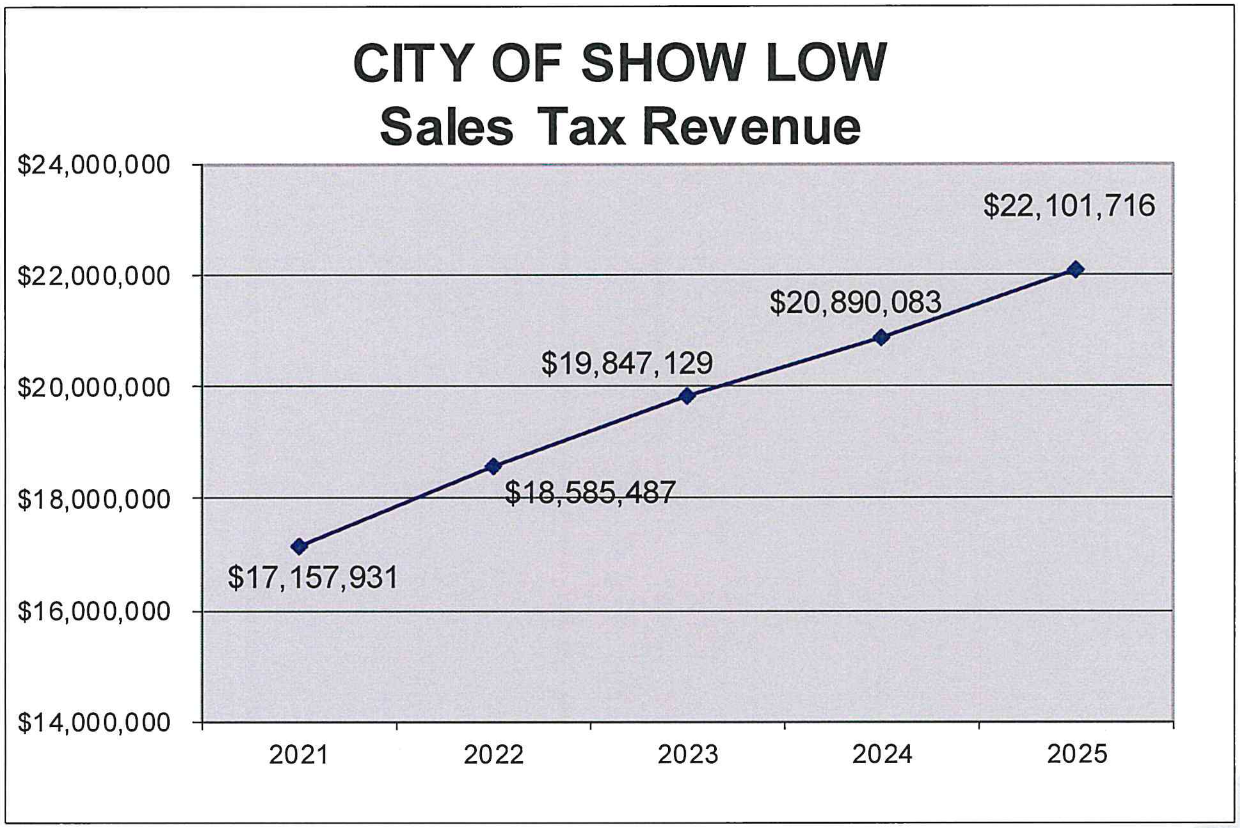
The General Fund shows significant increases in fund balance over the last five years.



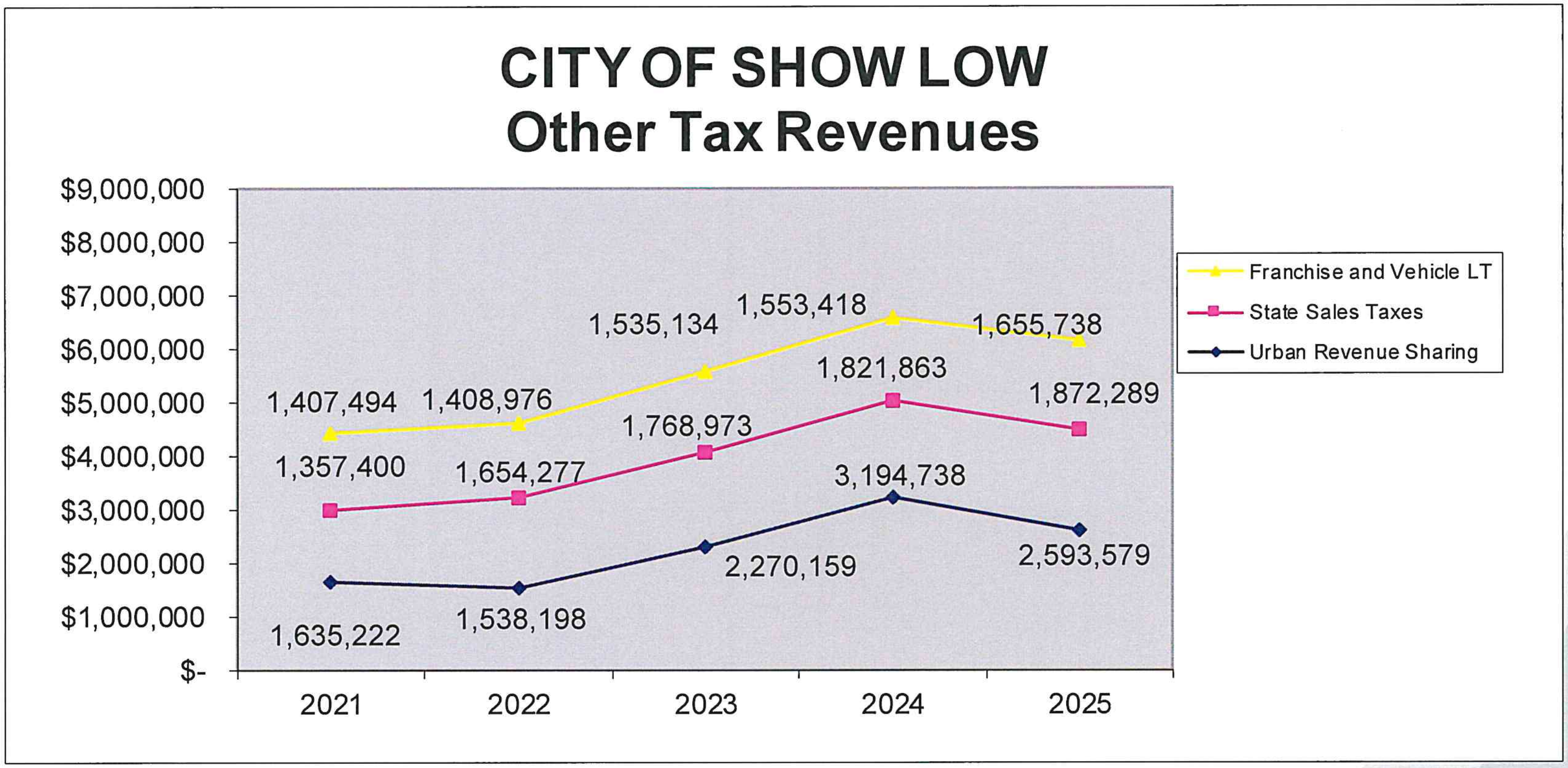
Total cash in the General Fund increased by $2.4M. There is a positive trend in cash over the last five years. Increases in fiscal year 2021 resulted in part from reduced spending related to the pandemic and the unexpected sales tax revenues in the same period.



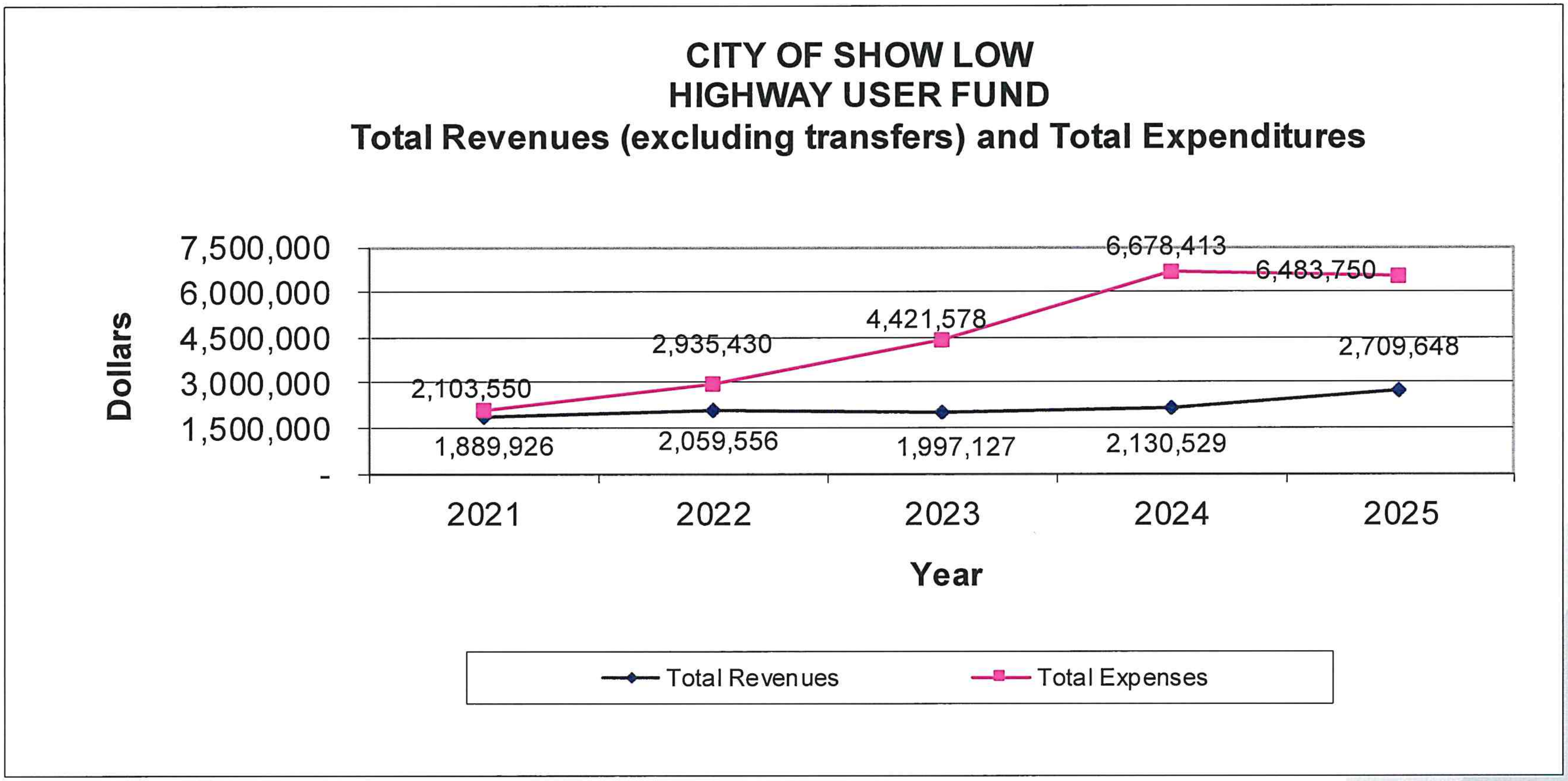
Fluctuation between net revenue and net expenditures are expected in the General Fund. The City budgeted conservatively and worked to keep expenses down due to the pandemic in FY21 while sales tax revenue ended up being more than expected and budgeted. Inflation is expected to cause expenses to increase over time.



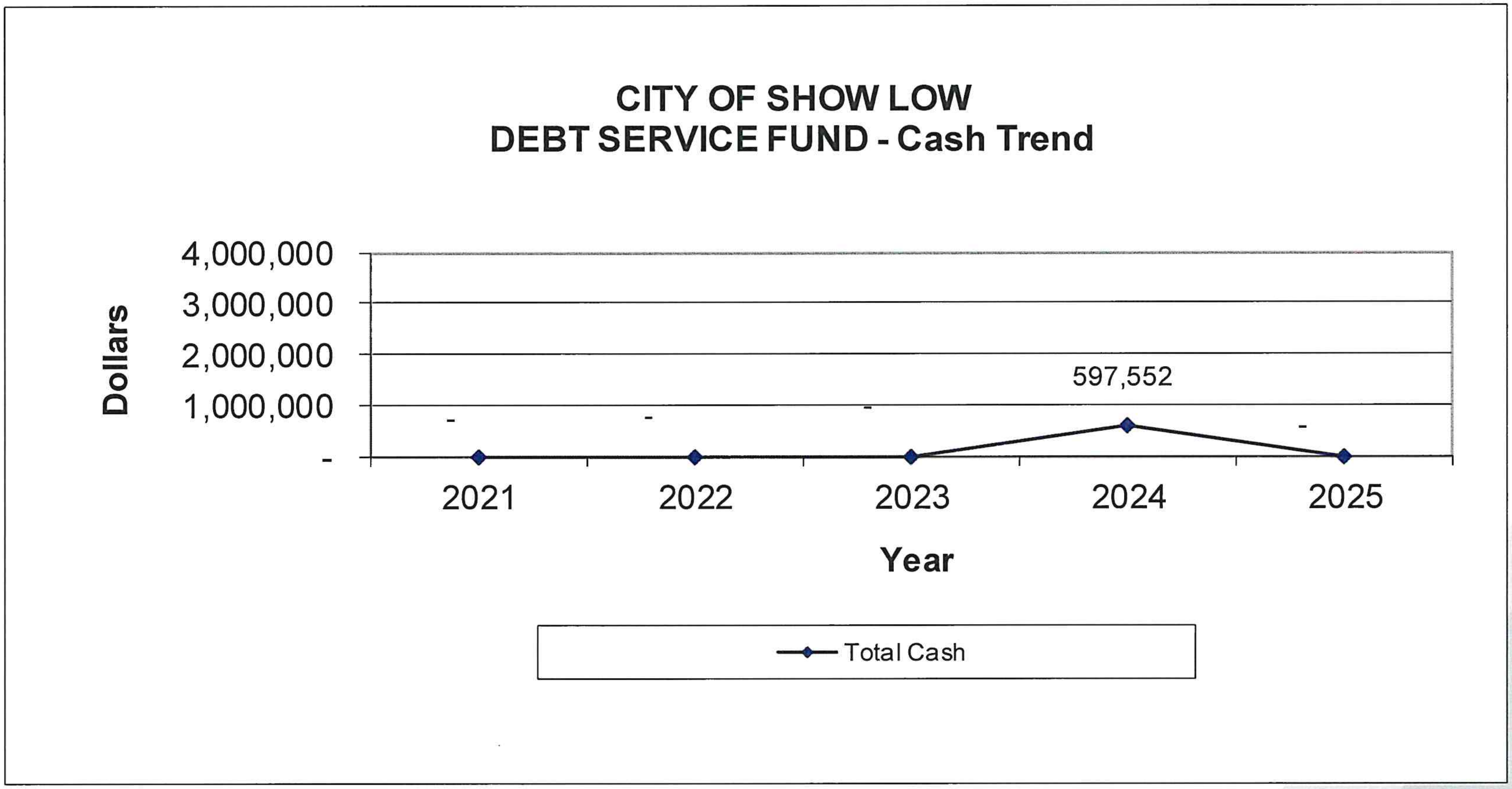
City sales taxes are the largest single annual source of governmental revenues for the City. These tax revenues increased by 6% during the fiscal year and increased by 29% over the last five years.



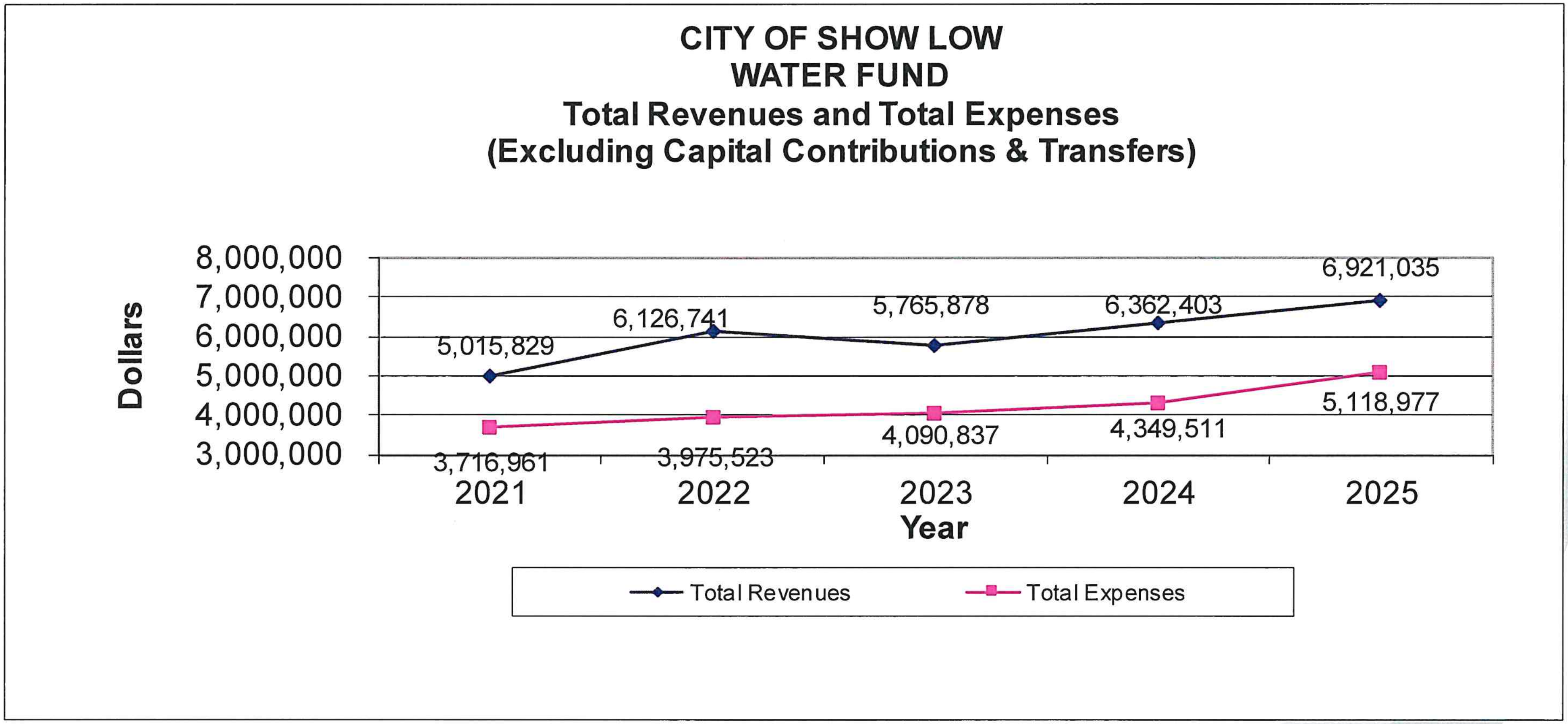
Other tax revenues have been growing consistent with increases over the last 5 years except for Urban Sharing.



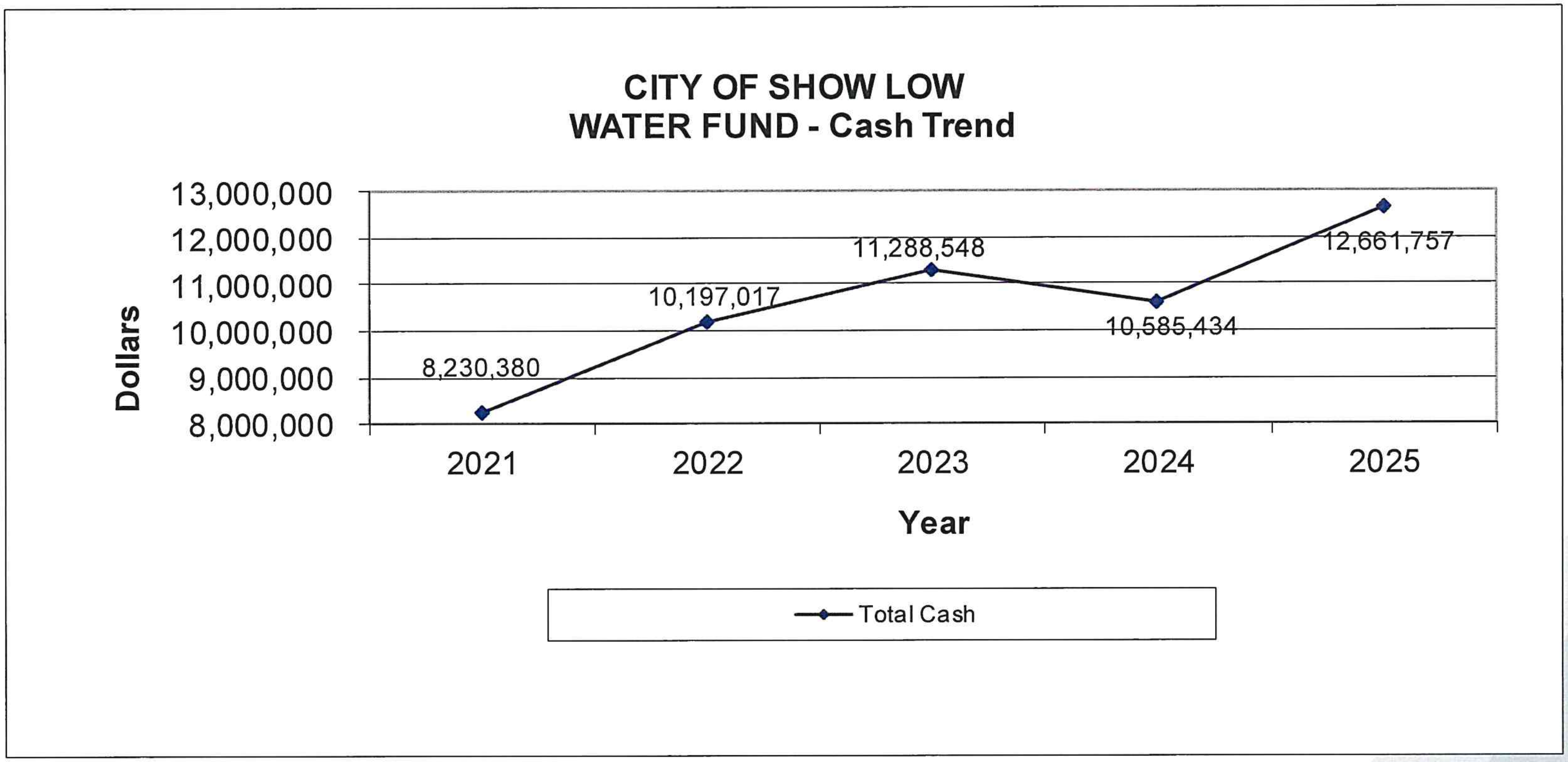
The HURF fund is expected to break even over time as resources are accumulated and expended on road projects. Expenses have consistently exceeded revenues over the last 5 years requiring transfers in to help cover the expenses.



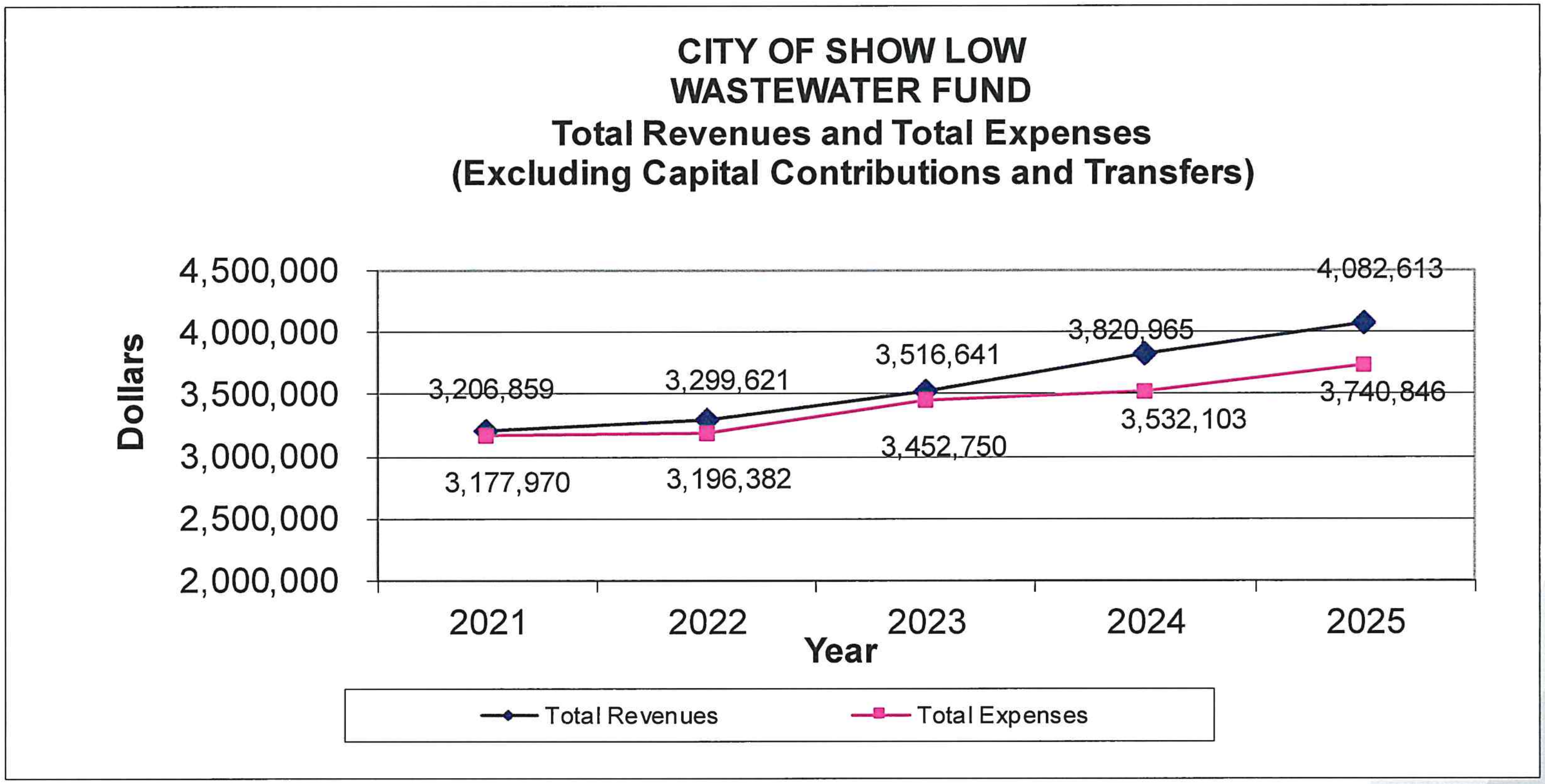
HURF fund cash has remained fairly consistent in 4 of the last 5 years with increases in FY24 as significant road improvements were completed during this year as well as various road equipment purchases.



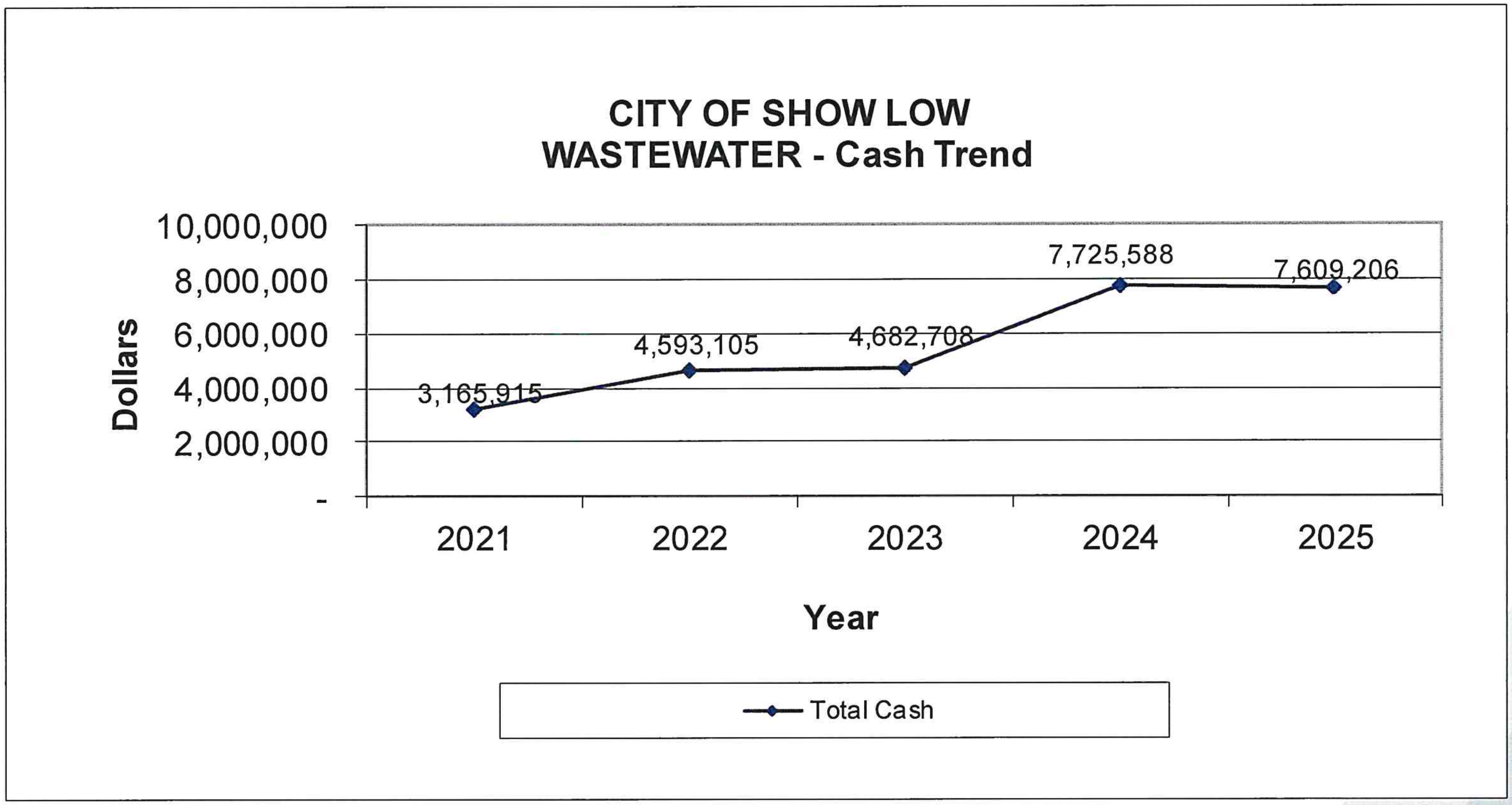
The enterprise Water fund is reported on the full accrual basis and should show revenues in excess of expenditures in order to provide for depreciation and future capital requirements. All of the last five years report net operating revenue over expenses which is a positive trend.



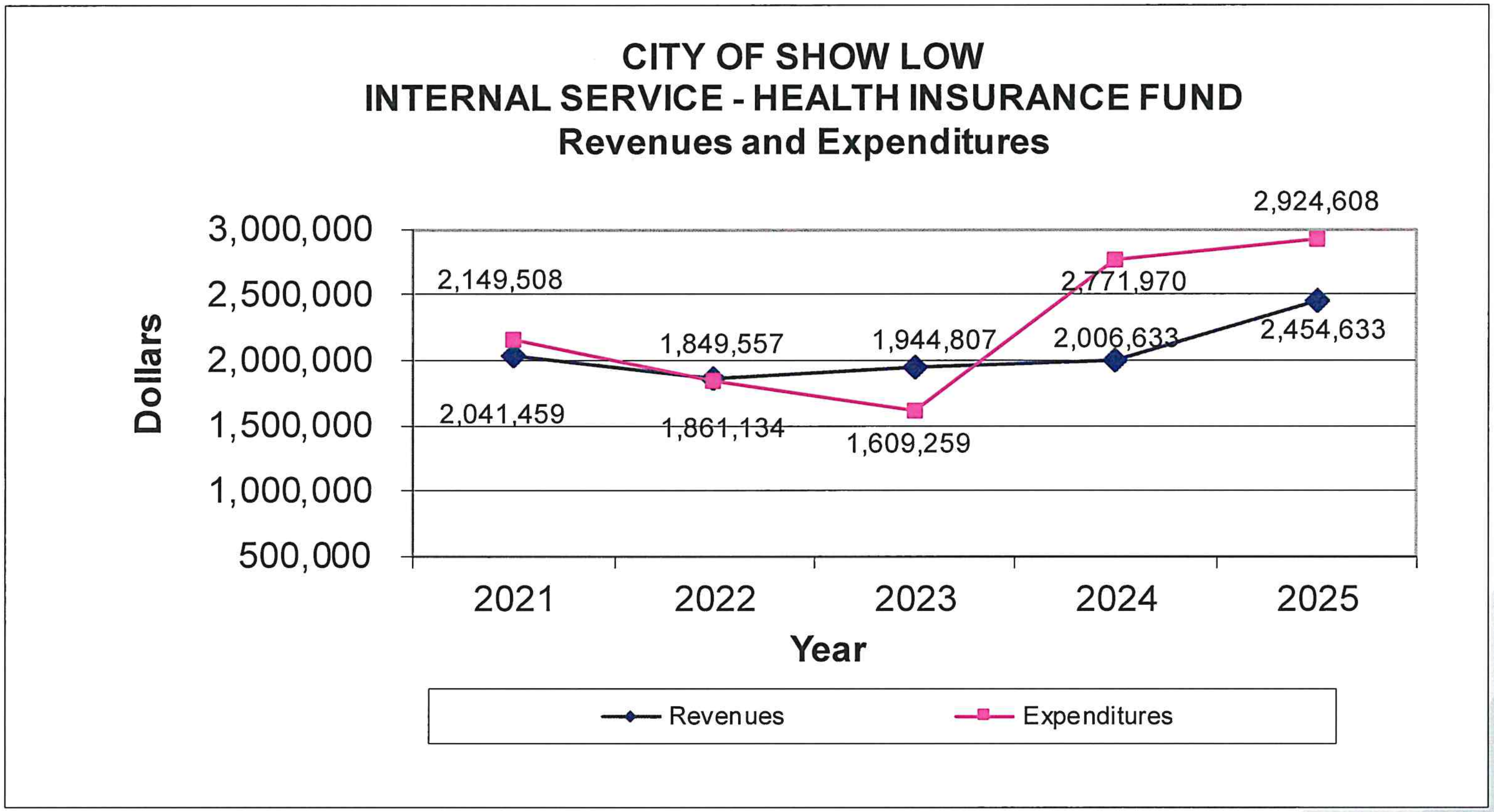
The Water fund shows a strong cash position which may fluctuate each year.



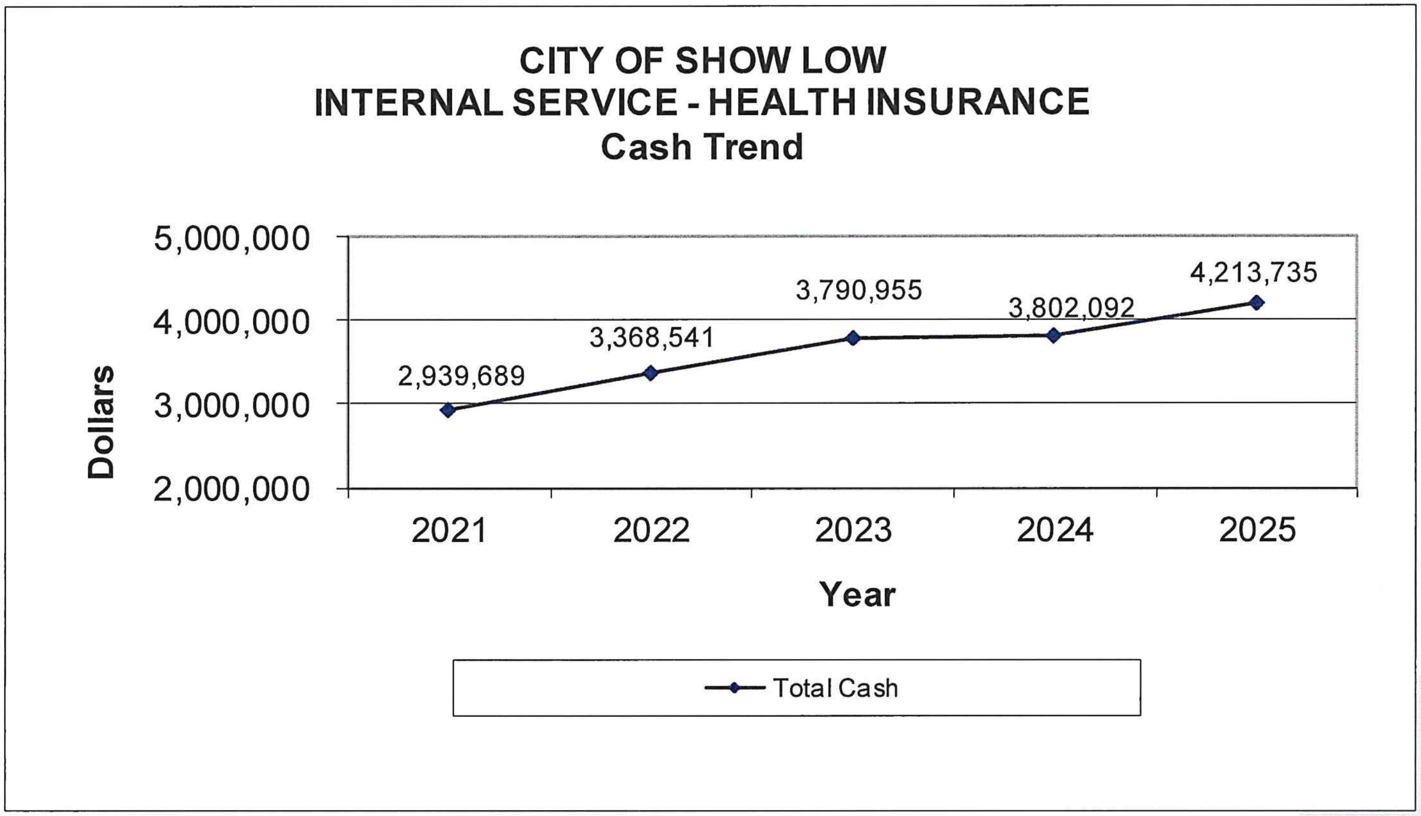
The enterprise Wastewater fund is reported on the full accrual basis and should report revenues in excess of expenditure in order to provide for depreciation and future capital requirements. As noted, this fund has reported a trend in net operating income for last 5 years.



Cash has been increasing over the last 5 years, which is a positive trend.

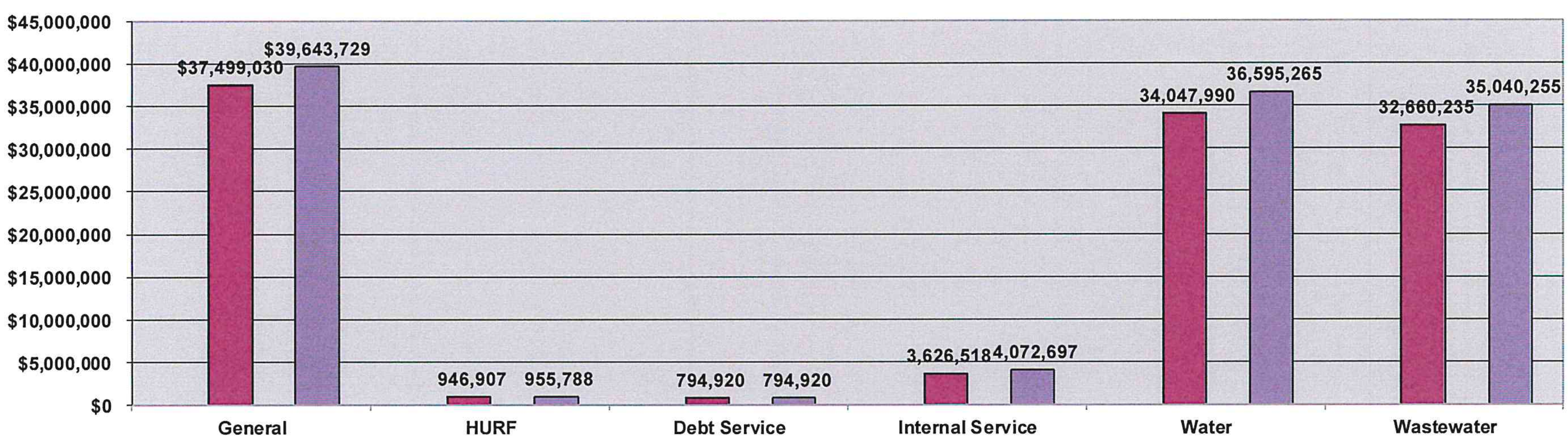


Net revenues are expected to fluctuate in the health insurance fund based on demand or claims activity. Four of the last five fiscal years report excess expenses which is due to more claims.



The Internal Service Health Insurance fund cash has increased significantly over the last 5 years which allows for a healthy reserve.

Major Fund Balances at June 30, 2024 and June 30, 2025



Questions?

R. McKay Hall, CPA, CISA, CITP, CFE
Audit Partner
Office: (888) 566-1277 ext.272
E-mail: mhall@hintonburdick.com

Chantry Jensen, MAcc
Audit Senior
Office: (888) 566-1277 ext.279
E-mail: cjensen@hintonburdick.com

Thank You

- The audit requires a significant investment of time over and above the day-to-day operations. Considering the transition of key personnel this year the City did an amazing job.

- Special thanks to Mischa Steinbrecher, Justin Johnson, and all others who assisted us with this year's audit.

- Thank you for the opportunity to work with the City.

HINTON BURDICK

CPAs & ADVISORS

COMPLIANCE AND OTHER MATTERS:

2022-001 Actual Expenditures in Excess of Budget – *reworded, reissued*

Condition: The following expended funds in excess of the annual budgeted amounts:

- Other Debt Service Fund: Budgeted expenditures of $1,705,158, actual expenditures of $1,746,933.
- Street Light District Special Revenue Fund: Budgeted expenditures of $222,000, actual expenditures of $237,954.

Criteria: Arizona Revised Statue (A.R.S.) 42-17106 indicates the city may not spend money for a purpose that is not included in its budget. Also, the city may not spend money in excess of amounts stated for each purpose in the final adopted budget.

Effect: The city is not in compliance with state budgeting requirements. The City expended funds in excess of amounts budgeted for purposes authorized in the annual budget.

Cause: The cause of this appears to be an unanticipated increase in support and service costs and in debt service costs, and a lack of budget amendments when the increased expenditures occurred.

Recommendation: We recommend that the city review its expected annual expenditures when preparing its annual budget. We also recommend the city consider using contingency accounts and budget amendments in its budgeting process for unanticipated expenditures.

Response: The City will review the prior year's expenditures prior to establishing the expenditure budget in its various funds.

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

Sincerely,

HintonBurdick, PLLC
December 22, 2025

HINTONBURDICK
CPAs & ADVISORS

December 22, 2025

To the Honorable Mayor and City Council
Show Low, Arizona

We have audited the financial statements of the City of Show Low, Arizona as of and for the year ended June 30, 2025, and have issued our report thereon dated December 22, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 29, 2025, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence. Safeguards have been applied to eliminate identified threats to independence or reduce them to an acceptable.

Consideration of Significant Risks

In our audit planning, we identified the following significant risk: management override of controls. According to Generally Accepted Auditing Standards (GAAS), management override of controls is considered an inherent risk in any audit engagement. While management override of controls was considered in the planning and audit approach for the city, our audit procedures did not reveal any evidence of management overriding controls.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Show Low is included in Note 1 to the financial statements. As described in Note 1, the City changed accounting policies related to accounting and financial reporting for accruing paid vacation and sick time by adopting GASB Statement No. 101, Compensated Absences, in fiscal year 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are as follows:

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, management's estimates have been determined on the same basis as they are reported by the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS). The City's net pension/OPEB liability was measured as of June 30, 2024, and the total pension/OPEB liability used to calculate the net pension/OPEB liability for ASRS was determined using update procedures to roll forward the total pension/OPEB liability from an actuarial valuation as of June 30, 2023, to the measurement date of June 30, 2024 and for PSPRS was determined using an actuarial valuation as of June 30, 2024. The key factors and assumptions used to develop the valuation and the accrual appear reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of depreciation expense on depreciable assets is based on the estimated useful lives of the applicable property and equipment. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of accrued compensated absences is based on pay rates at year-end and the number of accrued hours for eligible employees. We evaluated the key factors and assumptions used to develop the compensated absences accrual to determine that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no significant unusual transactions identified as a result of our audit procedures.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified significant misstatements and a list of the adjustments noted during the audit has been provided to management. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Management has a list of the misstatements that we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There are no unusual circumstances that affect the form and content of the auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated December 22, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City's auditors.

This report is intended solely for the information and use of the governing body and management of the City of Show Low, Arizona and is not intended to be and should not be used by anyone other than these specified parties.

HintonBurdick, PLLC