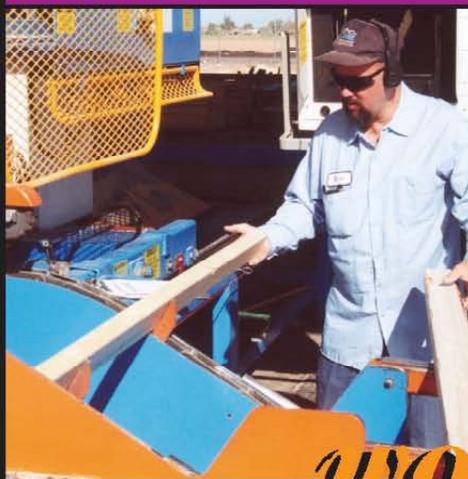


live



work



play

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2004

Prepared by:
Finance Department



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Page

INTRODUCTORY SECTION

Letter of Transmittal.....	iii – vii
Certificate of Achievement for Excellence in Financial Reporting.....	viii
Organizational Chart	ix
List of Elected and Appointed Officials	x - xiv

FINANCIAL SECTION

Independent Auditor’s Opinion.....	1 – 2
Management Discussion and Analysis.....	3 – 14

General Purpose Financial Statements

Statement of Net Assets.....	15
Statement of Activities	16
Balance Sheet – Governmental Funds.....	17 – 18
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20 – 21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Net Assets – Proprietary Funds.....	23 – 24
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	25 – 26
Combining Statement of Cash Flows – Proprietary Funds	27 – 28
Statement of Fiduciary Net Assets – Pension Trust Fund	29
Statement of Changes in Fiduciary Net Assets – Pension Trust Fund	30
Notes to Financial Statements:	
1. Summary of Significant Accounting Policies.....	31 – 36
2. Compliance and Accountability	36
3. Cash and Cash Equivalents.....	36
4. Capital Assets	37 – 38
5. Water Rights – Mountain Vista	38
6. Long-Term Debt	39 – 40
7. Municipal Property Corporation Fund Construction Commitment Liability	40
8. Retirement Plans.....	40 – 43
9. Risk Management	43
10. Contingent Liabilities	44
11. Interfund Assets, Liabilities, and Transfers.....	44
12. Deficit Fund Net Assets.....	44 – 45

(Continued)

TABLE OF CONTENTS

	<u>Page</u>
<u>Supplemental Section</u>	
Required Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds	47 – 50
Combining Balance Sheet – Nonmajor Governmental Funds.....	51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	52
Combining Balance Sheet – Nonmajor Special Revenue Funds.....	53 – 54
Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	55 – 56
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service and Special Revenue Funds	57 – 64

STATISTICAL SECTION

Government Wide Expenses by Function – Last Eight Fiscal Years	65
Government Wide Revenues – Last Eight Fiscal Years.....	66
General Governmental Expenditures by Function – Last Eight Fiscal Years	67
General Government Revenues by Source – Last Eight Fiscal Years.....	68
Primary Property Tax Levies and Collections.....	69
Assessed and Estimated Actual Value of Property – Last Eight Fiscal Years	70
Property Tax Rates – Direct and Overlapping Governments – Last Eight Fiscal Years.....	71
Principal Taxpayers.....	72
Computation of Legal Debt Margin 6%	73
Computation of Legal Debt Margin 20%	73
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita – Last Eight Fiscal Years	74
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures – Last Eight Fiscal Years	75
Computation of Direct and Overlapping Bonded Debt – General Obligation Bonds	76
Property Value, Construction and Bank Deposits – Last Eight Fiscal Years.....	77
Miscellaneous Statistics.....	78
Demographic Statistics per 2000 Census	79

I
N
T
R
O
D
U
C
T
O
R
Y

S
E
C
T
I
O
N



October 31, 2004

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Surprise:

State law requires that all general-purpose local governments publish within 120 days (240 days with an extension) following the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Surprise for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Surprise. Responsibility for the accuracy, completeness and fairness of this presentation, the data and all disclosures is the responsibility of the City of Surprise. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner that fairly sets forth the financial position and results of the operations of the City of Surprise as measured by the financial activity of its various funds, and that all disclosures necessary to understand the City's financial affairs to its fullest have been included. To provide a reasonable basis for making these representations, management of the City of Surprise has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the operation of the City of Surprise's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City of Surprise's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Eide Bailly LLP, a firm of licensed certified public accountants, has audited the City of Surprise's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Surprise for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Surprise's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Surprise was related to a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Surprise's separately issued Single Audit Report. GAAP requires management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's

Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Surprise's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Surprise

Surprise, located just 25 minutes west of downtown Phoenix along U.S. Route 60/State Highway 93, was founded in 1929 and incorporated in 1960. The name "Surprise" came from Surprise, Nebraska, hometown of the city's founder, Homer C. Ludden. What was once a small farming village now encompasses more than 75 square miles, including urban and commercial developments, ranches and industrial parks. The once irrigated farmlands and orchards are now affordable real estate for people and industry that wish to live, work and play in a progressive city. Surprise strikes the perfect balance between the needs of its residential community and the growth of its business and industrial sections.

Over the past 44 years, Surprise has grown from 500 residents to a city of nearly 71,000 people in 2004. The Maricopa Association of Governments (MAG), estimates that our population will continue to grow to near 100,000 in a few years. Not only is our population growing, our service area has expanded from 1.67 square miles in 1980 to our current incorporated area which is part of a planning area of 306 square miles. This growth is due in large part to what we are providing and building in our community.

The city offers a broad range of living styles, from small family subdivisions to a number of secluded ranches. Surprise also offers a number of retirement communities that address the needs and lifestyles of active adults. There are a number of recreation facilities including several beautiful golf courses. In 2003, the City of Surprise became the Major League Baseball Spring Training home of the Texas Rangers and the Kansas City Royals. Industrial growth zones have been carefully selected to operate competitively, but harmoniously, with the residential community.

The City's Mission and Value Statements are as follows:

Mission

The mission of the City of Surprise is to enhance the quality of life through the dedicated and efficient management of our resources.

We Value

Our Citizens

Honesty and Integrity

Community Pride and Sense of Commitment

Professionalism and Teamwork

Mutual Respect

Surprise is a city that operates under the Council/Manager form of government. Policymaking and legislative authority are vested in a governing council consisting of the mayor and six other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three then four elected alternately every two years. The mayor is elected at large every four years, while the other council members are elected by district.

The City of Surprise provides a full range of services, including police and fire protection, roadway maintenance and construction, recreational and cultural activities, health and social services, as well as

general administrative services. Sanitation, water, sewer and water recharge utility services are provided to many of the residents through the City's enterprise funds. The City provides street lighting for developing areas through legally formed street lighting districts. The City provides and accounts for a legally separate volunteer firefighters' pension fund as mandated by Arizona Revised Statute, Title 9, as well as a non-profit corporation formed under Arizona revised statutes Title 10 designed to facilitate the acquisition and improvement of City property. These last three activities essentially function as departments within the City and have been included as an integral part of the City's financial statements. Additional information on all three of these legally separate entities can be found in Note 1.A in the notes to the financial statements.

The annual budget serves as the foundation for the City of Surprise's financial planning and control. All departments within the City of Surprise are required to submit requests for appropriation to the budget manager before the end of February of the preceding fiscal year. The City's budget team, budget director, and City Manager use these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review in May. The Council is then required to hold public hearings on the proposed budget and to adopt a final budget by the second Monday in August. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department between the major categories of services and supplies and within the personnel category. While the City Manager may authorize transfers from the personnel category and from operating capital to services or supplies within a department, the Council must approve all transfers from contingency dollars, between funds, and between departments.

Factors Affecting Financial Condition

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

Local economy. Despite the uncertain economic conditions of the nation and slower growth of the State's economy, the City's economy is doing relatively well. As a city on the fringe of a well-developed metropolitan area, our housing market continues to steam ahead. Due to the rapid residential growth in the City, extensive retail and office development continues to follow the rooftops. It is this business development that will provide the City with a reliable, long term, source of revenue. Further information on the history of City revenues can be found in the statistical section of this Comprehensive Annual Financial Report (CAFR) and in the Management's Discussion and Analysis (MD&A) of the financial statements.



Long-term financial planning. During the coming years, we are faced with the challenge to accommodate growth while ensuring that the City develops as a place in which people want to live, work and play. Increases in population, tax base, development fees, commercial and retail activity and the City's economic development efforts continue to provide additional revenue to offset the costs related to both continuing and expanding services and facilities.

Because of the current economic uncertainty on the national level and local level, the City administration recognizes the need to assure reserves for future revenue shortfalls in case of

economic downturns. Because a large portion of General Fund Operating Revenue comes from construction related activity that eventually may be constrained by the economy and availability of land, the following policy guidelines have been devised to assist in assuring an adequate future fund balance:

1. The equivalent of two months in operating revenue will be designated as an economic stabilization amount set-aside in all operating funds;
2. An allocation of construction related sales tax of twenty-five percent (25%) to subsidize general fund operations and of seventy-five percent (75%) to subsidize one-time expenditures and capital construction and acquisition; and,
3. Maintain a minimum debt service reserved fund balance equal to one year of debt service payments.

Items number one and three have not been programmed for expenditure and are only available for use within the confines of our expenditure limits (these amounts are not included in the budget).

At least \$25.0 million (\$25,000,000) has been listed as contingency in various funds, which means that it has not been allocated for any specific activity. If revenues are sufficient, Council can use this contingency for unexpected emergencies and projects. In addition, beginning fund balances (prior years' revenues in excess of expenditures) are only available to fund capital or other one-time projects.

The City is finalizing facilities and infrastructure that have been planned, programmed and saved for over the past five years. Utilizing bond funds, state grants and local sources of revenue, the City of Surprise has spearheaded construction on a new downtown by developing 250 acres of city-owned property. This new downtown, known as Surprise Center, includes a recreation complex, regional library, aquatics center, 37-acre park, County Court Complex, and a state-of-the-art Cactus League spring training facility for the Texas Rangers and the Kansas City Royals. In the next few years the City of Surprise will be constructing a Public Safety facility and a satellite location for the renowned Heard Museum. During this time, the County will be centralizing its West Valley Court system into one central location at Surprise Center.



Cash management policies and practices. State statutes permit us to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The City of Surprise primarily invests its idle funds in the State Treasurer's LGIP. The year-to-date yield on investments as of June 30, 2004 was 1.4426 percent (1.4426%). Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the managers of the investment pool may intend to hold to maturity.

Risk management. The City of Surprise currently maintains insurance coverage of 20 million dollars. As the City grows, it will continue to increase its coverage and deductibles to effectively self-insure for smaller claims and protect the City from larger claims. In order to better manage our insurance coverage, the City hired a risk coordinator in 2001. This individual ensures that the City has adequate insurance coverage, appropriate deductibles, reasonable insurance rates, valid and timely claims are filed, and proper training in loss and accident prevention is conducted. This individual also updates and maintains policies and procedures related to insurance and other risk related exposures. For further information regarding risk management, please refer to Note 9 in the financial statements.

Pensions. The City has several venues available to employees to provide for them during retirement. The City participates in the Arizona Retirement System and the Arizona Public Safety Retirement System. Both state agency plans are offered to state and local governments statewide and are funded by employee wage deductions and matching City contributions. The rates for these contributions are determined by the respective retirement systems in order to ensure the proper amount of funding to meet the obligations to retired employees on a timely basis.

The City also must maintain a pension and relief fund for volunteer firefighters funded by the City as required under Title 9 of the Arizona Revised Statutes. However, the City no longer utilizes volunteer firefighters and there are no qualifying recipients for the funds contained in the plan.

The City has selected a third party administrator to facilitate employee participation in a deferred compensation plan in accordance with Internal Revenue Code Section 457.

For further information on these plans refer to Note 8 in the financial statement.

Awards and Acknowledgements

The City of Surprise has received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for our CAFR for the past two fiscal years. In order to qualify for the award, the document must be easily readable, efficiently organized and compliant with GAAP and applicable legal requirements.

The City of Surprise has received the GFOA's Distinguished Budget Presentation Award for its annual budget document every year since July 1, 2001. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and budget departments. We would like to express our appreciation to all members of the finance and budget departments who assisted and contributed to the preparation of this report.

Respectfully submitted,



James Rumpeltes
City Manager



Robert Nilles
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Surprise,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.

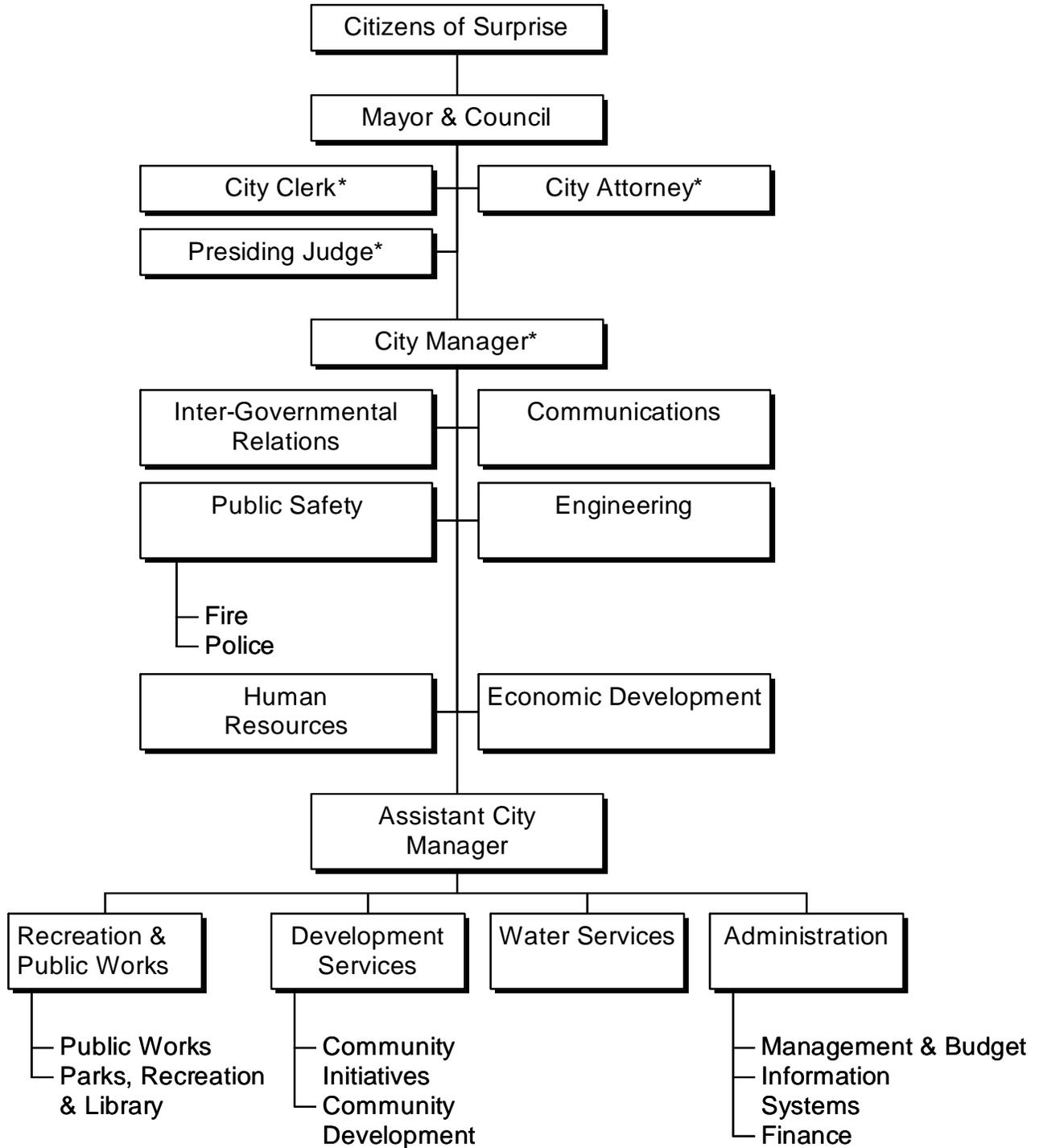


President

Executive Director



CITY OF SURPRISE ORGANIZATIONAL CHART FY2005



***Appointed by Council**

COUNCIL MEMBERS

MAYOR JOAN H. SHAFER



Joan Shafer was born in Sacramento, Calif., a third-generation Californian. She was educated in California public schools before attending the University of Nevada at Reno.

After attending college she joined the U.S. Navy serving with the WAVES in Norfolk, VA. She is a veteran of the Korean War. After getting married Mrs. Shafer worked as a medical record librarian at several hospitals in the Valley of the Sun before retiring in 1986.

Mrs. Shafer began her political career in 1991 when she was the first woman to be elected to the Surprise City Council. She later was elected vice mayor. In 1994 she became the first elected mayor of the City of Surprise. In 1997, Mrs. Shafer was re-elected to a second two-year term as mayor and she was re-elected to four-year terms in 1999 and 2003. Her current term expires in June 2007.

Since being elected Mayor, Mrs. Shafer has helped guide the city through a period of unparalleled growth and development. Over the recent years, the City of Surprise has been the fastest growing city in the state and one of the fastest growing cities in the nation. When Mrs. Shafer began her first term the city had about 70 employees, today the city staff numbers more than 550. In 2004, Surprise is home to approximately 71,000 residents.

Major projects undertaken by the City since 1994 include, installation of a sewer system in the city's Original Townsite neighborhood, construction of a water reclamation facility, renovation and expansion of City Hall Square, completion of major streets projects, construction of a youth center and senior center. The Mayor has also overseen development of a new city center, dubbed Surprise Center. Surprise Center is home to the Surprise Recreation Campus. The campus is home to Surprise Stadium and baseball training complex, Surprise Aquatic Center, Surprise Regional Library, Countryside Recreation Center and a 37-acre park with 5-acre urban fishing lake. Surprise Stadium and the baseball-training complex is the Spring Training home of the Kansas City Royals and Texas Rangers. Mrs. Shafer enjoys working with young people in her spare time.

Shafer's term expires in June 2007. She is elected at-large.

VICE MAYOR DANNY ARISMENDEZ



A former Surprise City Council member, Danny Arismendez was elected in 2003 to a four-year term as the representative of the Mulberry District (4). He previously served on the Council from 1989 to 1995 when all members were elected at-large.

A native of the area, Arismendez moved to Surprise from El Mirage in 1982. He opened his business, Sun Cities Appliance, in June of 1979 and serves on the finance committee of St. Theresita Catholic Church in El Mirage.

A resident of the City's Original Townsite, Arismendez said he is "grateful and thankful" for a second opportunity to serve the residents of Surprise and especially his district. "There are a lot of things I didn't get done the first time around," he said. "I can do a good job. I can make a difference. If I *can* do something, I *will* do something."

He was instrumental in bringing a swimming pool to the Original Townsite - the \$2 million Hollyhock Community Pool, which opened in July 2004 – and he is interested in stepping up rehabilitation and beautification efforts in his district.

Arismendez and his wife, Becky, have six children and three grandchildren. He enjoys playing golf and watching Phoenix Suns, Diamondbacks and ASU football games.

The Mulberry District encompasses the majority of the Original Townsite, from Bell Road south to Greenway Road between Dysart Road and Jerry Street.

Contact: Danny.Arizmendez@surpriseaz.com

Arismendez's term expires in June 2007.

CLIFF ELKINS



Cliff Elkins, a Surprise resident since July 1997, represents the Acacia District (1). He was elected to the City Council in a September 2004 recall election. His current term expires in June of 2005.

Elkins, a graduate of Georgetown University's School of Foreign Service, has an extensive background in transportation issues. He spent 15 years in the steamship business representing ship owners and managing cargo operations before moving to Washington D.C. where he worked as a transportation economist on various international projects.

In 1967, Elkins moved to Albany, NY where he worked as a planner for the New York State Department of Transportation, and helped to author the state's master plan for transportation. He later returned to Washington, D.C. as Associate Deputy Director of the American Association of State Highway & Transportation Officials, and Staff Director of the House Transportation, Commerce & Tourism Subcommittee. After a 10-year stint as a lobbyist, he worked as a regional manager for Holiday Retirement Corporation.

Since moving to Surprise, the Sun City Grand resident has served as a member of the Parks and Recreation Advisory Board and helped with the management of adult programs for ASU West.

Elkins says Surprise has "great, great potential," but it's critical to seek long-term solutions for transportation. "Obviously the City can't do everything, but we've got to be on the cutting edge with the County - with Maricopa County Department of Transportation (MCDOT)," he said.

A competitive race walker who officiates up to 500 games a year in a variety of sports, Elkins also favors continued development of recreational opportunities in the City, as well as employment centers.

Elkins and his wife of 11 years, Claire, have six children and 12 grandchildren. Claire is a real estate agent.

The Acacia District includes Arizona Traditions, Happy Trails, West View Estates, the area northwest of the Beardsley Canal, including Saguaro Acres, Saguaro View, Happy Valley, Martin Acres and the portion of Sun City Grand west of the Estrella Freeway (Loop 303), and the portion of Sun City Grand east of the Estrella Freeway and bounded by Mountain View, Sunrise and Clearview Boulevards.

Contact: <mailto:cliff.elkins@surpriseaz.com>

Elkins' term expires in June 2005.

MARTHA BAILS



Martha Bails, who represents the Cottonwood District (2), began her first four-year term on the Surprise City Council in June 2003.

Bails moved to Surprise in 1999 from Hawthorne, California where she spent 33 years working for Rockwell International, retiring in 1996 from her job as an executive planning advisor responsible for the design and maintenance of procurement systems. She also served as a member of the Hawthorne City Council from 1994-96.

A resident of Sun City Grand, Bails quickly became involved in her new community, volunteering one day a week in the emergency room of nearby Del E. Webb Memorial Hospital, collecting stuffed animals for the Surprise Police and Fire departments through the Sun City Grand Singles Club, and finally, landing an appointment to the Surprise Planning and Zoning Commission in April 2000, most recently serving as chairperson of the seven-member group. "I like to participate and be active, rather than sit there and be a number," she said. "I've always been interested in politics, budgets and spending – where the taxpayer's money goes."

Bails supports low density development for Surprise and her primary goal as a councilmember is to help the City Council and/or voters determine the City's growth rate. "I would also like the City to rethink its position of no more senior communities because of the demands on the school district, and particularly in light of Luke Air Force Base's position that no new schools be built in the flight path," she said. Bails is also concerned about transportation issues.

She wants residents to know they can call anytime. "I respect everyone's opinion and hopefully they respect mine even though we might not agree," Bails said. "Although I represent a district, the decisions I make impact the entire City." Bails has one grown son and, in her spare time, enjoys traveling and needlepoint.

The Cottonwood District encompasses the majority of Sun City Grand, the northwest portion of Sun Village, Stonebrook, Summerfield and Bell West Ranch.

Contact: Martha.Bails@surpriseaz.com

Bail's term expires in June 2007.

GARY "DOC" SULLIVAN



Gary "Doc" Sullivan, representative of the Mesquite District (District 3), was elected to his first four-year term on the Surprise City Council in May 2003.

Sullivan moved to Surprise in June of 2001 from San Diego, California where the avid bowler traded a years-long career in the mortgage business for a 10-year stint managing bowling alleys for AMF. Sullivan has returned to the loan brokerage field.

A resident of Greenway Parc I, Sullivan quickly became involved in the community. He is a member of the Greenway Parc homeowners' association and architectural

review committee, the Surprise Economic Development Advisory Board and Future Focus II, a group formed to provide direction on implementation of the City's general plan.

He supports Luke Air Force Base and its mission. "We must stop encroachment on Luke," said Sullivan, who witnessed first-hand the impact of the Gulf War on military towns in California. "If Luke closes, it could be catastrophic for local businesses." He is also concerned about education and the maintenance of City streets.

Sullivan and his wife, Stephanie, have been married for more than 32 years and have two grown sons. For the time being, he's putting his bowling hobby on hold to devote the time to City business. He wants residents to know he welcomes their input and he will return phone calls.

The Mesquite District includes Mountain Vista Ranch, Ashton Ranch, Surprise Farms, Northwest Ranch, Countryside, Cotton Gin, Mountain Gate, Rancho Gabriela, Legacy Parc, Sierra Montana, Roseview, Marley Park, T.A.S.H., the southern portion of West Point Towne Center and the southwestern portion of the Original Townsite.

Contact: <mailto:doc.sullivan@surpriseaz.com>

Sullivan's term expires in June 2007.

JOE JOHNSON



Joe Johnson, a Surprise resident for seven years, represents the Palm District (5). Elected to the City Council in a September 2004 recall election, his current term expires in June of 2005.

Johnson, a small business owner, has lived in Arizona for 31 years. A New York native and graduate of Moon Valley High School, he attended Glendale Community College and Arizona State University where he majored in business, minored in mechanical drawing and played on the tennis team.

He has worked as a human resources manager for an agricultural chemical company and as a supervisor for a large air conditioning firm before starting his own business, Custom Air Design Inc.

The father of a junior high and high school student, Johnson has been active in the Dysart Unified School District, serving on subcommittees and as a founding member and immediate past president of Parents Plus, a parent/teacher organization at Willow Canyon High School.

Johnson said he wants Surprise to be a destination - a City where people can live, work and play. "Right now people are leaving here to go to work, to go to the mall...they're conducting their day outside of Surprise," he said. "I would like to see us doing everything here." As a result, his goals are to attract more family entertainment venues to Surprise, as well as high-end industrial employers such as Honeywell or Motorola.

Transportation is one of Johnson's main concerns and, he said, public safety (police and fire departments) should keep pace with the City's growth.

In his spare time, Johnson plays tennis and coaches the Willow Canyon Varsity Girls Tennis Team.

The Palm District encompasses the northwest portion of the Original Townsite, the northern portion of West Point Towne Center, The Orchards and Kingswood Parke.

Contact: <mailto:joe.johnson@surpriseaz.com>

Johnson's term expires in June 2005.

THOMAS ALLEN



Thomas Allen, who represents the Palo Verde District (District 6), was appointed to the Surprise City Council in May 1999, elected to his first four-year term in March 2001, and served as Vice Mayor from 2001-02.

Allen, who earned bachelor's degrees in microbiology and business administration from Brigham Young University in Utah, is also fluent in Spanish. A Phoenix native and resident of Canyon Ridge West, he is married and has three children.

"The City of Surprise is where my growing family has decided to live," Allen said. "I feel that the good work of the past will only continue with the efforts of people who have a vested interest in seeing Surprise grow successfully. I feel that I have a responsibility to apply my efforts to assisting in this growth."

The self-employed businessman said he is particularly interested in trying to attract industry to the City of Surprise. "I hope we can attract good, clean industry to our City. We want and need good jobs here."

The Palo Verde District includes Coyote Lakes, Canyon Ridge West, Sunflower Resort, Sun Ridge, Rose Garden, Fox Hill Run and the eastern portion of the City's Original Townsite.

Contact: Thomas.Allen@surpriseaz.com

Allen's term expires in June 2005.

APPOINTED OFFICIALS

Manager

Clerk

Attorney

Magistrate

James Rumpeltes

Sherry Aguilar

Jeffrey Blilie

Paul Cragan

F
I
N
A
N
C
I
A
L

S
E
C
T
I
O
N



Consultants • Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Council
City of Surprise, Arizona
Surprise, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the *City of Surprise, Arizona* as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Surprise, Arizona* management. Our responsibility is to express an opinion on these general-purpose 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Surprise, Arizona* at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2004 on our consideration of the *City of Surprise, Arizona's* internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparisons on pages 3-14, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Eide Bailly LLP

Phoenix, Arizona
August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

We (The City of Surprise) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2004. *The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year.* This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

Please read this analysis in conjunction with our letter of transmittal.

FINANCIAL HIGHLIGHTS

- ❖ Our **Governmental Type net assets** increased 23% from \$108.6 million to \$133.3 million, a difference of \$24.7 million.
 - The increases in Current & Other Assets of \$21.1 million and Governmental Activity Capital Assets of \$3.9 million offset the increased liabilities of \$0.3 million.
 - The \$24.6 million excess of revenues (\$78.9 million) over expenditures (\$50.2 million) and transfers (\$4.1 million) was due primarily to Sales Tax collections of \$24.1 million, and other construction related revenues, exceeding projections as a result of a stronger than expected housing construction industry.
- ❖ **Business Type net assets** increased 40% from \$106.3 million to \$134.1 million, a difference of \$27.8 million.
 - Projected housing starts for 2004 were approximately 3,000. Actual housing permits issued in 2004 exceeded 6,400.
 - Cash and receivables accounted for the \$20.5 million increase in Current assets.
 - Capital assets (net) increased \$7.0 million.
 - Current liabilities recorded a \$0.3 million decrease. Accounts Payable was the only line item to record a decrease in liabilities of \$1.5 million; all other liability line items showed no change or an increase totaling \$1.3 million.
- ❖ **Governmental Activities Expenses** of \$50.2 million exceeded Program Revenues of \$43.0 million, a difference of \$7.2 million in Fiscal Year 2004.
 - Charges for Services (\$22.6 million) covered approximately 45% of expenses (\$50.2 million).
 - Operating & Capital Grants & Contributions accounted for \$20.4 million.
 - We rely upon General Revenues, such as taxes, to subsidize operating expenses.
 - General Revenues after transfers were (\$31.9 million).
- ❖ **Business Type Expenses** were \$10.1 million while program revenues, including development fees, were \$33.3 million, a difference of \$23.2 million.
 - The addition of General Revenues, including transfers, of \$4.6 million increases the change in net assets from \$23.2 million to \$27.8 million.
 - For the second consecutive year, all four Business type activities reported increases in net assets.

- ❖ **Component units** – The City includes three types of separate legal entities in its report – the City of Surprise Voluntary Firefighters’ Pension and Relief Fund, the Surprise Municipal Property Corporation, and Various Street Lighting Improvement Districts. Although legally separate, these “component units” are important because the City is accountable for reporting on them. A description of these three types of component units is available in Note 1. These three types of entities do not issue separate Financial Statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City’s finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 15. One of the most important questions asked about the City’s finances is, “is the City as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities provides information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City’s net assets and/or changes in them. You can think of the City’s net assets – the difference between assets and liabilities – as one way to measure the City’s financial health, or financial position. Over time, increases or decreases in the City’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City’s property tax base and the condition of the City’s roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divided the City into two kinds of activities:

- ❖ **Governmental activities** – Most of the City’s basic services are reported here, including the police, fire, public works, parks and recreation departments, and general administration.
- ❖ **Business type activities** – The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City’s water, water replenishment, sewer, and sanitation systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 17. The fund financial statements begin on page 17, and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- ❖ **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.
- ❖ **Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Risk Management Fund.

The City as Trustee

The City is the trustee, or fiduciary, for its City of Surprise Voluntary Firefighters' Pension and Relief Fund. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 29-30.

We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

The following table reflects the condensed Statement of Net Assets as of June 30, 2003 and June 30, 2004.

City of Surprise's Net Assets (in millions)

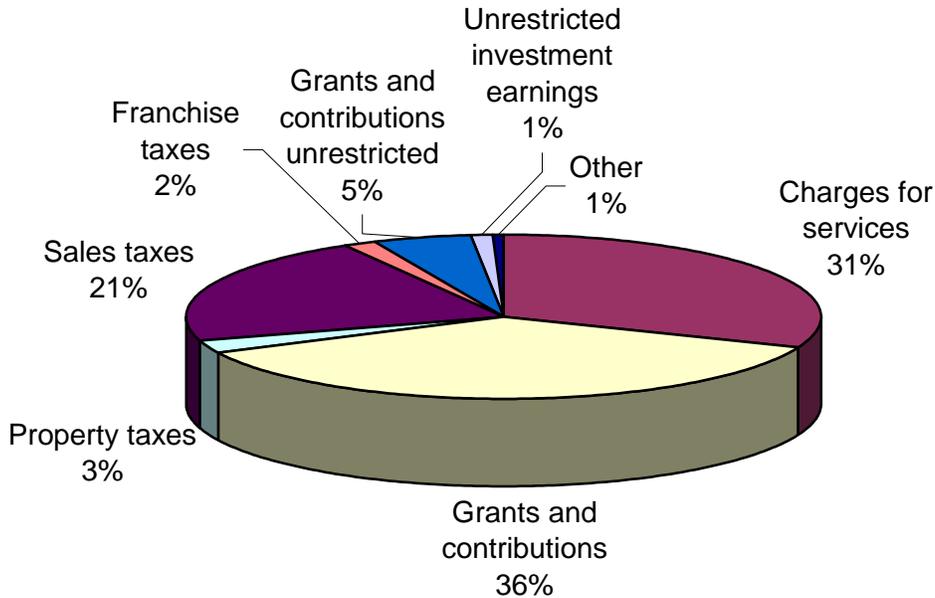
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Current and other assets	\$ 64.6	\$ 85.7	\$ 29.3	\$ 49.9	\$ 94.0	\$135.6
Capital assets, net	118.7	122.6	80.6	87.6	199.3	210.2
Total Assets	<u>\$183.3</u>	<u>\$208.3</u>	<u>\$110.0</u>	<u>\$137.5</u>	<u>\$293.3</u>	<u>\$345.8</u>
LIABILITIES:						
Liabilities - except general obligations	11.7	12.5	3.7	3.4	15.4	15.9
Bonds Payable: Due within one year	3.5	3.6	-	-	3.5	3.6
Due within more than one year	59.4	59.0	-	-	59.4	59.0
Total Liabilities	<u>\$ 74.7</u>	<u>\$ 75.0</u>	<u>\$ 3.7</u>	<u>\$ 3.4</u>	<u>\$ 78.3</u>	<u>\$ 78.4</u>
NET ASSETS:						
Invested in capital assets, net						
of related debt	\$ 55.7	\$ 69.0	\$ 80.6	\$ 87.6	\$136.4	\$156.6
Restricted	0.1	3.5	-	-	0.1	3.5
Unrestricted	52.8	60.8	25.7	46.5	78.5	107.2
Total Net Assets	<u>\$108.6</u>	<u>\$133.3</u>	<u>\$106.3</u>	<u>\$134.1</u>	<u>\$215.0</u>	<u>\$267.4</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$183.3</u></u>	<u><u>\$208.3</u></u>	<u><u>\$110.0</u></u>	<u><u>\$137.5</u></u>	<u><u>\$293.3</u></u>	<u><u>\$345.8</u></u>

Our **combined net assets** increased by 24% from \$215.0 million to \$267.4 million, a difference of \$52.4 million.

- ❖ 59% of combined net assets (\$267.4 million) are invested in Capital assets (\$156.6 million).
- ❖ A more in-depth analysis of this table shows that current and other assets (\$135.6 million) exceed total liabilities (\$78.4 million) by \$57.2 million, suggesting that all debts of the City of Surprise could be satisfied without having to sell off capital assets.

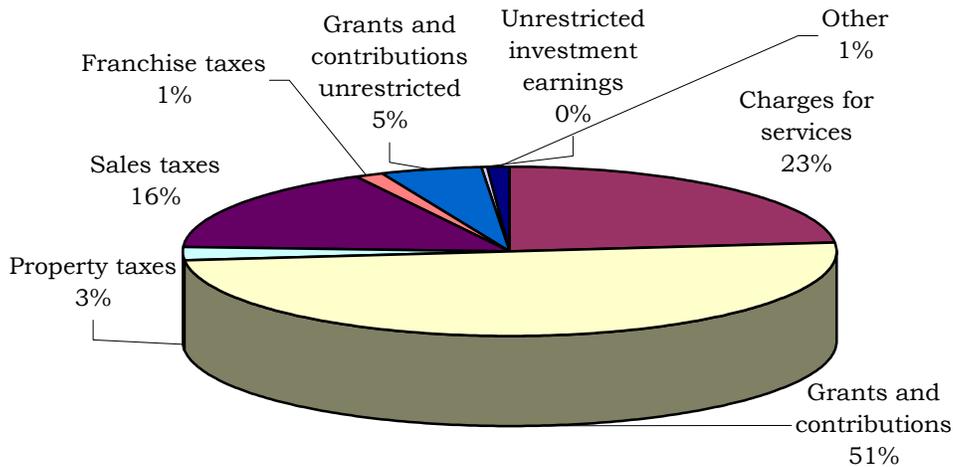
Revenues for the fiscal year ended June 30, 2004 totaled \$112.7 million and are identified by major revenue source in percentage format as follows:

Fiscal Year 2004 Revenue Sources



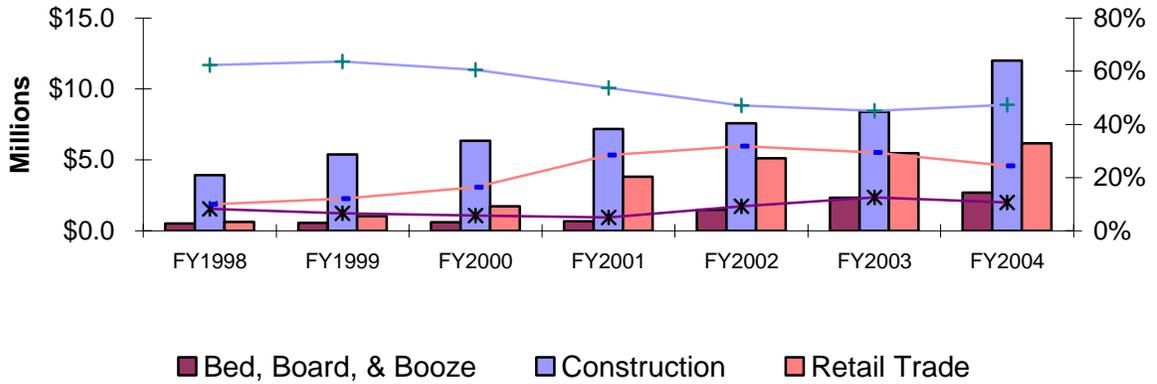
- ❖ The 2003 chart is provided for comparison purposes only.
 - Revenues for fiscal year end June 30, 2003 totaled \$113.9 million.

Fiscal Year 2003 Revenue Sources



- ❖ Our largest revenues in 2004 were Grants & Contributions (which included development impact fees) at 41% and charges for services at 31%.
- ❖ Last year, Grants & Contributions accounted for 56% of total revenues.
- ❖ In April 2004, the City of Surprise eliminated tax on food/groceries and lowered the tax on Hotel-Restaurant-Bar (BBB) by 2%. To offset this reduction, the General Sales Tax (Transaction Privilege Tax) was increased by 0.2%. For more information, refer to Economic Factors on page 13-14 of the MD&A.

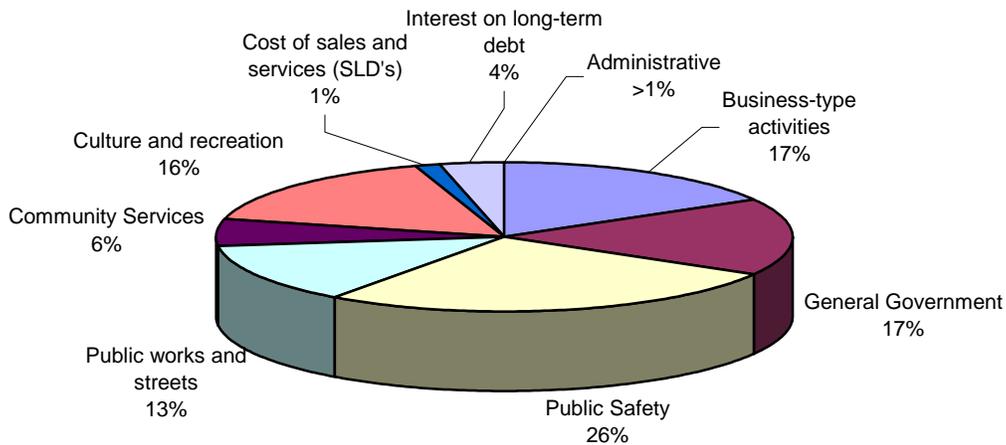
Sales Tax Collection - Construction, Retail & BBB



The bar in this graph represents collections in dollars (left). The line represents percentage of total tax collections (right).

- ❖ This graph shows that Construction sales tax accounts for almost 50% of all sales taxes followed by Retail taxes and Hotel-Restaurant-Bar (BBB) taxes.
- ❖ Combined, these three subcategories represent about 85% of all sales tax revenue collected.
- ❖ While Retail and BBB have shown steady dollar growth, in 2004 construction increased dramatically.

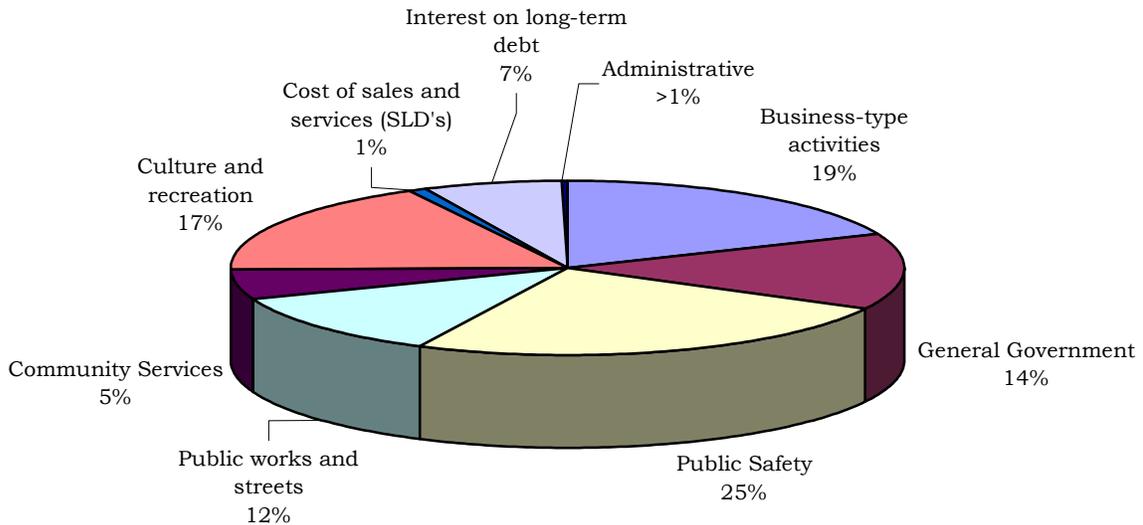
Fiscal Year 2004 Functional Expenses



The 2003 chart is provided for comparison purposes only.

- ❖ Expenses (excluding transfers & capital outlays) were \$50.5 million in 2003.

Fiscal Year 2003 Functional Expenses



Expenses (excluding transfers & capital outlays) were \$60.3 million in 2004.

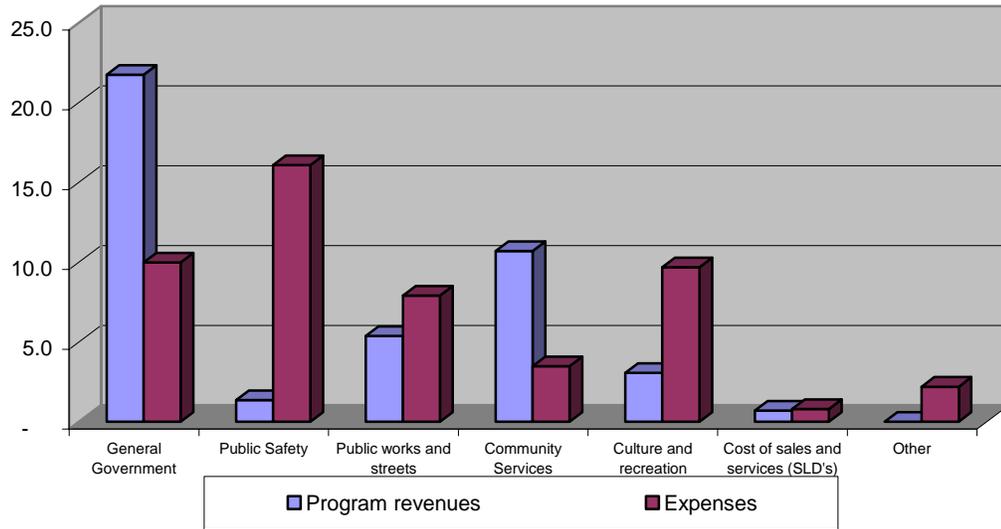
- ❖ Public Safety (Police, Fire, & Courts) accounted for approximately 26% of program expenditures (\$16.1 million in 2004 and \$12.4 million in 2003).
- ❖ Business Activities (Water, Sewer, Replenishment, & Sanitation) were next at 17% (\$10.1 million in 2004 and \$9.4 million in 2003).
- ❖ General Government was third with 17% (\$10.0 million in 2004 and \$7.1 million in 2003).
- ❖ Culture & Recreation (Parks & Recreation) was at 16% (\$9.7 million in 2004 and \$8.8 million in 2003).
- ❖ Public Works & Streets rounds out the top five at 13% (\$7.9 million in 2004 and \$6.1 million in 2003)
- ❖ All others make up 13% (\$6.5 million in 2004 and \$6.7 million in 2003).

City of Surprise's Changes in Net Assets

(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
REVENUES						
Program Revenues:						
Charges for service	\$ 16.8	\$ 22.6	\$ 9.9	\$ 12.5	\$ 26.7	\$ 35.1
Grants and contributions	44.5	20.4	12.9	20.8	57.5	41.2
General Revenues:						
Property taxes	2.9	3.0	-	-	2.9	3.0
Sales taxes	18.6	24.1	-	-	18.6	24.1
Franchise taxes	1.5	1.8	-	-	1.5	1.8
Grants and contributions unrestricted	5.9	5.6	-	-	5.9	5.6
Unrestricted investment earnings	(0.2)	0.7	(0.2)	0.5	(0.4)	1.3
Other	1.1	0.6	-	-	1.1	0.6
Total Revenues	<u>\$ 91.3</u>	<u>\$ 78.9</u>	<u>\$ 22.6</u>	<u>\$ 33.8</u>	<u>\$ 113.9</u>	<u>\$ 112.7</u>
EXPENSES						
Program Activities:						
Governmental Activities:						
General government	\$ 7.1	\$ 10.0	-	-	\$ 7.1	\$ 10.0
Public safety	12.4	16.1	-	-	12.4	16.1
Public works and streets	6.1	7.9	-	-	6.1	7.9
Community services	2.8	3.5	-	-	2.8	3.5
Culture and recreation	8.8	9.7	-	-	8.8	9.7
Cost of sales and services (SLIDs)	0.4	0.8	-	-	0.4	0.8
Interest on long-term debt	3.4	2.1	-	-	3.4	2.1
Administrative	0.1	0.1	-	-	0.1	0.1
Business-type Activities:						
Water utility	-	-	2.5	2.7	2.5	2.7
Replenishment	-	-	0.3	0.4	0.3	0.4
Sewer	-	-	5.3	5.3	5.3	5.3
Sanitation utility	-	-	1.3	1.6	1.3	1.6
TOTAL EXPENSES	<u>\$ 41.1</u>	<u>\$ 50.2</u>	<u>\$ 9.4</u>	<u>\$ 10.1</u>	<u>\$ 50.5</u>	<u>\$ 60.3</u>
Excess before transfers	<u>50.2</u>	<u>28.7</u>	<u>13.2</u>	<u>23.7</u>	<u>63.4</u>	<u>52.4</u>
Transfers in (out)	<u>(17.5)</u>	<u>(4.1)</u>	<u>17.5</u>	<u>4.1</u>	<u>-</u>	<u>-</u>
INCREASE IN NET ASSETS	<u><u>\$ 32.7</u></u>	<u><u>\$ 24.6</u></u>	<u><u>\$ 30.7</u></u>	<u><u>\$ 27.8</u></u>	<u><u>\$ 63.4</u></u>	<u><u>\$ 52.4</u></u>

FY 2004 Governmental Program Revenues & Expenses
(in millions)



- ❖ More than 75% of **General Government** revenues are from grants and contributions.
- ❖ Community oriented programs such as **Public Safety** (police, fire, and courts) and **Culture and Recreation** (parks, recreation, youth, and senior services) are often subsidized or are free to the residents. They are not intended to directly cover their cost.
 - The City of Surprise maintains a full-time paramedic-trained Fire Department subsidized by General Government revenues.
 - Culture and Recreation often charges a fee for services it provides, but usually that fee does not cover the entire cost of the service.
- ❖ The State of Arizona mandates that a city have at least two funds, one is a General Fund and the other is a Highway User Revenue Fund (HURF).
 - The HURF fund was established for the sharing of gasoline and other vehicular taxes between the State and Cities and Counties.
 - The result is dedicated revenue used to pay for street maintenance (**Public Works and Streets**) costs.
- ❖ **Community Services** revenues come primarily from construction related activities.
 - Construction activity in 2004 was more than twice what was budgeted.
- ❖ **SLIDs** are Street Light Improvement Districts that charge a fee/tax to pay for the electricity used by neighborhood streetlights.

THE CITY'S FUNDS

- ❖ The City as a whole was well within its **budgeted expenditure limitation**.
- ❖ The original General Fund Budget for expenditures was \$53.1 million. Budget transfers totaling \$1.1 million were made increasing the final budget to \$54.2 million. Actual General Fund expenditures were \$38.5 million leaving \$15.7 million in unused budget authority.
- ❖ Actual expenditures for Current – General Government were about 71% of budget due to statutory requirements to budget for all possible expenditures (unforeseen grants, etc...).

- ❖ Budget amendments are broken down into two types of transfers. One type is between the General Fund and other funds, and the other type is from one location in the General Fund to another location within the General Fund.
 - **Within the General Fund:**
 - \$0.3 million from Council Contingencies to Community Initiatives for beautification program.
 - \$0.4 million Capital Contingencies for signal at 303 and Greenway.
 - \$0.3 million Capital Contingencies for new bond allocations.
 - \$0.3 million from Community Development to Economic Development (ED) to re-establish ED as separate department.
 - \$0.3 million within General Capital for acceptance of the Maricopa Association of Government's grant and related street sweeper purchase.
 - **Between the General Fund and other Funds:**
 - \$1.1 million from Unforeseen account for grants and other programs associated with unforeseen revenue.
 - \$1.6 million from Parks/Rec/Library Development Fee Fund to General Capital to adjust debt repayment allocation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets at Year-End (Net of Depreciation) (in millions)

	General Government		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Land	\$ 0.6	\$ 0.6	\$ 3.1	\$ 3.1	\$ 3.7	\$ 3.7
Parks Land	5.1	5.1			5.1	5.1
Buildings & Improvements	61.4	59.7			61.4	59.7
Equipment & Vehicles	4.5	5.5	0.9	1.3	5.4	6.8
Streets	23.2	24.6			23.2	24.6
Curb Gutter & Sidewalks	19.7	21.6			19.7	21.6
Traffic Signals	1	1.8			1	1.8
Storm Drains	3.2	3.5			3.2	3.5
Other Infrastructure					0	0
Sewer System			42.8	43.2	42.8	43.2
Water System			8.5	8.4	8.5	8.4
Construction in Progress		0.2	25.4	31.7	25.4	31.9
Total Capital Assets (Net)	\$118.7	\$122.6	\$80.7	\$87.7	\$199.4	\$210.3

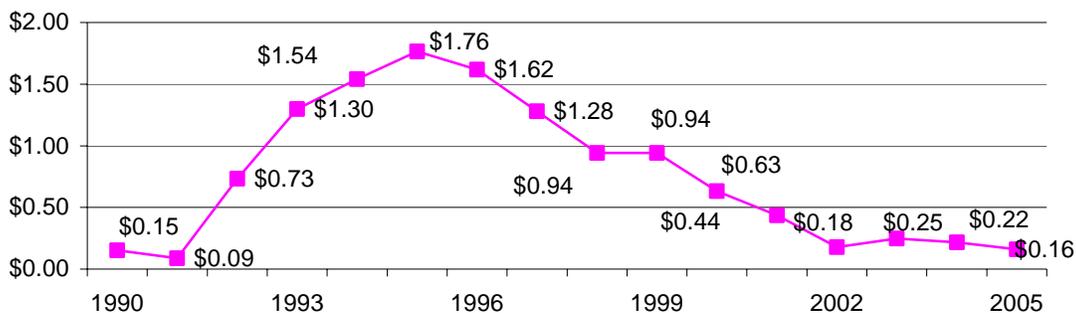
- ❖ The **capital assets of the Governmental Activities funds** increased by \$3.9 million net of annual depreciation (\$8.7 million before depreciation).
 - \$1.0 million in vehicles were added to fixed assets this year.
 - \$0.5 was spent on a computer aided dispatch system for the Police Department.
 - \$6.0 million was contributed or spent on new streets, signals, and Curb, Gutter & Sidewalks.

- ❖ The **capital assets of the Business-type Activities funds** increased by \$7.0 million net of annual depreciation (\$8.6 million before depreciation).
 - The City of Surprise is in the process of constructing a \$25 million sewer plant expansion intended to increase daily treatment from the current 3.2 million gallons per day (mgd) to 7.2 mgd. This project should be completed by June 30, 2005.
 - There are water supply facilities being constructed by developers, which will be dedicated to the City upon completion, as they are the property of the Developer until dedicated to the City. They are not shown as construction in progress.
- ❖ For more detailed information on Capital Assets see note four (4) of this report.
- ❖ **Long-term debt** decreased this year from \$64.3 million to \$64.0 million. Greater detail of outstanding Long-term debt can be found in note six (6).
 - The City refunded/retired approximately \$42.3 million in bonds by issuing approximately \$42.9 million in new debt.
 - Deferred amounts resulted in a \$0.5 million reduction in long-term debt.
 - The new debt saved the City of Surprise approximately \$1.2 million Net Present Value (NPV) through reduced interest rates. This is not reflected in the financials as the savings is on future interest expense.
 - \$0.1 million in compensated employee absences was added to long-term debt.
 - \$0.2 million in developer payables were paid.
 - \$0.3 million in notes payable were paid.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET, AND RATES

- ❖ **Bond rating** – Since 2000, the City of Surprise General Obligation and Municipal Property Corporation bond rates have increased from BBB to +A/A.

**City of Surprise, AZ
Secondary Tax Rate
1990 - 2004**



- ❖ **Secondary Property Tax Rate** – The 2004-2005 rate decreased by \$0.06 from the previous year. The reason for the decrease was due to a 37% increase in Secondary Assessed Valuation (from \$352.0 million to \$480.8 million). The above graph shows that over the last ten years the rate has dropped precipitously from \$1.76 to \$0.16.

- ❖ **Transaction Privilege Tax/General Sales Tax** – On April 1, 2004 the City of Surprise modified its tax rates. The result of the tax change is an increased reliance on our largest tax revenue source (construction), a decrease of our BBB (Hotel, Restaurant, & Bar) tax, and the elimination of tax on food/groceries. The new rates for these categories are as follows:
 - General Sales Tax – from 2.0% to 2.2%
 - BBB Tax – from 3% to 1% (on top of General Sales Tax).
 - Food/groceries – from 1% to 0%

FINANCIAL CONTACT

The financial report is designed to provide a general overview of the City of Surprise's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information, should be addressed to the City's Finance Director at: 12425 W. Bell Road, Surprise, Arizona 85374.

CITY OF SURPRISE, ARIZONA**STATEMENT OF NET ASSETS****JUNE 30, 2004**

ASSETS	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 81,190,575	\$ 43,246,250	\$ 124,436,825
Receivables (net of allowances)			
Interest	137,766	107,324	245,090
Taxes and franchise fees	394,013	-	394,013
Grants	353,397	2,820,338	3,173,735
Intergovernmental	550,877	-	550,877
Other	41,452	-	41,452
Debt issuance cost, net of amortization	627,994	-	627,994
Other assets	2,401,888	3,720,659	6,122,547
Capital assets, non-depreciable	5,876,848	34,780,502	40,657,350
Capital assets, depreciable	131,538,959	62,330,362	193,869,321
Accumulated depreciation	(14,855,193)	(9,463,482)	(24,318,675)
Total assets	<u>\$ 208,258,576</u>	<u>\$ 137,541,953</u>	<u>\$ 345,800,529</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,585,732	\$ 528,370	\$ 3,114,102
Accrued payroll and related taxes	460,476	31,785	492,261
Deposits	6,720	1,108,924	1,115,644
Accrued interest payable	1,503,231	-	1,503,231
Deferred revenues	5,550,539	890,573	6,441,112
Contracts payable	-	280,000	280,000
Other liabilities	1,214,678	514,223	1,728,901
Compensated absences payable, due in less than one year	75,910	83,073	158,983
Compensated absences payable, due in more than one year	1,056,458	-	1,056,458
Bonds, loans, and payables due in less than one year	3,576,525	-	3,576,525
Bonds, loans, and payables due in more than one year	58,964,113	-	58,964,113
Total liabilities	<u>74,994,382</u>	<u>3,436,948</u>	<u>78,431,330</u>
NET ASSETS			
Invested in capital assets, net of related debt	68,998,321	87,647,382	156,645,703
Restricted for			
Debt service	131,100	-	131,100
Special revenue	3,353,797	-	3,353,797
Unrestricted	60,780,976	46,457,623	107,238,599
Total net assets	<u>133,264,194</u>	<u>134,105,005</u>	<u>267,369,199</u>
Total liabilities and net assets	<u>\$ 208,258,576</u>	<u>\$ 137,541,953</u>	<u>\$ 345,800,529</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities		Total
						Governmental Activities	Business-type Activities	
Governmental Activities								
General government	\$ 9,990,160	\$ 5,076,871	\$ 789	\$ 16,671,850	\$ 11,759,350	\$ -	\$ -	\$ 11,759,350
Public safety	16,091,306	741,975	626,438	-	(14,722,893)	-	-	(14,722,893)
Public works and streets	7,916,324	3,044,117	-	2,336,325	(2,535,882)	-	-	(2,535,882)
Community services	3,494,720	10,698,217	-	-	7,203,497	-	-	7,203,497
Culture and recreation	9,693,533	2,309,967	765,982	-	(6,617,584)	-	-	(6,617,584)
Cost of sales and services (SLD's)	808,997	697,875	-	-	(111,122)	-	-	(111,122)
Administrative	58,430	-	-	-	(58,430)	-	-	(58,430)
Interest	2,149,947	-	-	-	(2,149,947)	-	-	(2,149,947)
	<u>50,203,417</u>	<u>22,569,022</u>	<u>1,393,209</u>	<u>19,008,175</u>	<u>(7,233,011)</u>	<u>-</u>	<u>-</u>	<u>(7,233,011)</u>
Business-type Activities								
Water	2,743,166	3,087,993	-	5,347,186	-	5,692,013	-	5,692,013
Replenishment	431,316	535,862	-	2,128,520	-	2,233,066	-	2,233,066
Sewer	5,310,460	6,856,787	-	13,191,452	-	14,737,779	-	14,737,779
Sanitation	1,641,006	2,036,690	-	111,631	-	507,315	-	507,315
	<u>10,125,948</u>	<u>12,517,332</u>	<u>-</u>	<u>20,778,789</u>	<u>-</u>	<u>23,170,173</u>	<u>-</u>	<u>23,170,173</u>
Total primary government	<u>\$ 60,329,365</u>	<u>\$ 35,086,354</u>	<u>\$ 1,393,209</u>	<u>\$ 39,786,964</u>	<u>\$ (7,233,011)</u>	<u>\$ 23,170,173</u>	<u>\$ -</u>	<u>\$ 15,937,162</u>
General Revenues								
Property taxes					\$ 3,039,352	\$ -	\$ -	\$ 3,039,352
Sales taxes					24,087,555	-	-	24,087,555
Franchise taxes					1,844,692	-	-	1,844,692
Grants and contributions not restricted to specific programs					5,605,862	-	-	5,605,862
Unrestricted investment earnings					718,264	549,771	-	1,268,035
Other					617,820	-	-	617,820
Transfers					(4,053,169)	4,053,169	-	-
Total general revenues and transfers					<u>31,860,376</u>	<u>4,602,940</u>	<u>-</u>	<u>36,463,316</u>
Increase (decrease) in net assets					<u>24,627,365</u>	<u>27,773,113</u>	<u>-</u>	<u>52,400,478</u>
Net assets - beginning					<u>108,636,829</u>	<u>106,331,892</u>	<u>-</u>	<u>214,968,721</u>
Net assets - ending					<u>\$ 133,264,194</u>	<u>\$ 134,105,005</u>	<u>\$ -</u>	<u>\$ 267,369,199</u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA**BALANCE SHEET****GOVERNMENTAL FUNDS****JUNE 30, 2004**

ASSETS	General Fund	Municipal Property Corporation Fund	Highway User Fund
ASSETS			
Cash and cash equivalents	\$ 39,535,804	\$ 24,325,474	\$ 198,034
Investment in employee deferred compensation fund			
Receivables (net of allowances)			
Interest	96,508	-	352
Taxes and franchise fees	394,013	-	-
Grants	353,397	-	-
Intergovernmental	366,365	-	184,512
Due from other funds	207,245	-	-
Other	-	-	-
Prepaid items	-	-	-
Other assets	112,580	-	-
Total assets	<u>\$ 41,065,912</u>	<u>\$ 24,325,474</u>	<u>\$ 382,898</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,427,040	\$ 692,608	\$ 152,327
Accrued payroll and related taxes	458,161	-	-
Due to other funds	-	-	-
Deposits	6,720	-	-
Deferred revenues	548,929	4,999,610	2,000
Other liabilities	98,477	1,116,201	-
Total liabilities	<u>2,539,327</u>	<u>6,808,419</u>	<u>154,327</u>
FUND BALANCE			
Fund Balances			
Reserved for prepaid items	-	-	-
Unreserved, reported in			
General fund	38,526,585	-	-
Special revenue funds	-	17,517,055	228,571
Debt service funds	-	-	-
Reserved special revenue funds	-	-	-
Total fund balance	<u>38,526,585</u>	<u>17,517,055</u>	<u>228,571</u>
Total liabilities and fund balance	<u>\$ 41,065,912</u>	<u>\$ 24,325,474</u>	<u>\$ 382,898</u>

See Notes to Financial Statements

Public Safety Development Fee Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,648,814	\$ 15,156,788	\$ 80,864,914
4,060	36,163	137,083
-	-	394,013
-	-	353,397
-	-	550,877
-	-	207,245
-	41,452	41,452
439,635	1,849,673	2,289,308
-	-	112,580
<u>\$ 2,092,509</u>	<u>\$ 17,084,076</u>	<u>\$ 84,950,869</u>
\$ 21,208	\$ 240,644	\$ 2,533,827
-	-	458,161
-	207,245	207,245
-	-	6,720
-	-	5,550,539
-	-	1,214,678
<u>21,208</u>	<u>447,889</u>	<u>9,971,170</u>
439,635	1,849,673	2,289,308
-	-	38,526,585
1,631,666	11,301,617	30,678,909
-	131,100	131,100
-	3,353,797	3,353,797
<u>2,071,301</u>	<u>16,636,187</u>	<u>74,979,699</u>
<u>\$ 2,092,509</u>	<u>\$ 17,084,076</u>	<u>\$ 84,950,869</u>

CITY OF SURPRISE, ARIZONA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances	\$ 74,979,699
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in funds	122,560,614
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	627,994
Current liabilities, including accrued interest, are not due and payable in the current period, and therefore, are not reported in the funds	(1,503,231)
Internal service funds used by the management to charge cost of insurance to individual fund	272,124
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(63,673,006)</u>
Net assets of governmental activities	<u><u>\$ 133,264,194</u></u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Municipal Property Corporation Fund	Highway User Fund
REVENUES			
Taxes	\$ 26,357,058	\$ -	\$ -
Licenses and permits	1,844,692	-	-
Intergovernmental	6,734,960	-	2,135,343
Charges for services	14,010,788	-	-
Grants	394,996	-	-
Fines	689,721	-	-
Rents	543,918	4,980,900	-
Development fees	-	-	-
Interest	522,902	11,398	2,110
Other	1,213,770	302,304	555,013
Total revenues	<u>52,312,805</u>	<u>5,294,602</u>	<u>2,692,466</u>
EXPENDITURES			
Current			
General government	8,878,163	33,531	-
Public safety	13,595,080	-	-
Public works and streets	2,600,373	-	2,275,541
Community development	2,987,740	-	253,970
Culture and recreation	6,266,452	-	-
Costs of sales and services (SLD's)	-	-	-
Administration	-	-	-
Capital outlay	3,929,768	4,859,415	276,606
Debt service			
Principal	154,952	1,950,000	-
Interest and fiscal charges	83,602	1,881,902	-
Bond issuance costs	-	647,024	-
Total expenditures	<u>38,496,130</u>	<u>9,371,872</u>	<u>2,806,117</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>13,816,675</u>	<u>(4,077,270)</u>	<u>(113,651)</u>
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	45,660,720	-
Payment to refunding bond escrow agent	-	(45,711,677)	-
Transfers in (out)	(346,000)	-	(208,100)
Total other financing sources (uses)	<u>(346,000)</u>	<u>(50,957)</u>	<u>(208,100)</u>
NET CHANGE IN FUND BALANCE	<u>13,470,675</u>	<u>(4,128,227)</u>	<u>(321,751)</u>
FUND BALANCES, beginning of year	<u>25,055,910</u>	<u>21,645,282</u>	<u>550,322</u>
FUND BALANCES, end of year	<u>\$ 38,526,585</u>	<u>\$ 17,517,055</u>	<u>\$ 228,571</u>

See Notes to Financial Statements

Public Safety Development Fee Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 769,850	\$ 27,126,908
-	-	1,844,692
-	1,092,318	9,962,621
-	705,869	14,716,657
73,778	-	468,774
-	-	689,721
-	-	5,524,818
2,760,946	12,661,000	15,421,946
18,211	160,535	715,156
-	281,693	2,352,780
<u>2,852,935</u>	<u>15,671,265</u>	<u>78,824,073</u>
9,429	71,961	8,993,084
1,057,006	-	14,652,086
-	821,564	5,697,478
-	-	3,241,710
-	1,062,395	7,328,847
-	808,997	808,997
-	58,430	58,430
1,026,088	2,611,477	12,703,354
-	568,871	2,673,823
-	203,288	2,168,792
-	-	647,024
<u>2,092,523</u>	<u>6,206,983</u>	<u>58,973,625</u>
<u>760,412</u>	<u>9,464,282</u>	<u>19,850,448</u>
-	-	45,660,720
-	-	(45,711,677)
-	504,100	(50,000)
<u>-</u>	<u>504,100</u>	<u>(100,957)</u>
<u>760,412</u>	<u>9,968,382</u>	<u>19,749,491</u>
<u>1,310,889</u>	<u>6,667,805</u>	<u>55,230,208</u>
<u>\$ 2,071,301</u>	<u>\$ 16,636,187</u>	<u>\$ 74,979,699</u>

CITY OF SURPRISE, ARIZONA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds \$ 19,749,491

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	12,703,354	
Transfers of capital assets to proprietary funds	(4,053,169)	
Depreciation expense	<u>(4,780,748)</u>	3,869,437

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due 18,845

Internal service funds used by management to charge the cost of insurance to individual funds 73,346

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds (117,409)

Issuance and repayment of long-term debt is a revenue and expenditure in the governmental funds, but the issuance and repayment reduces long-term liabilities in the statement of net assets. In the current period, these amounts are:

Proceeds from issuance refunding bonds	(42,860,000)	
Payment to refunding bond	40,120,000	
Repayments on long-term debt	2,673,823	
Deferred charges on issuance costs (to be amortized over the life of the debt)	627,994	
Deferred charges on issuance premiums (to be amortized over the life of the debt)	(2,162,824)	
Deferred charges on refunding (to be amortized over the life of the debt)	2,659,412	
Expected future administrative costs on long-term debt issuance	<u>(24,750)</u>	1,033,655

\$ 24,627,365



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

ASSETS	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
ASSETS				
Current assets				
Cash and cash equivalents	\$ 9,676,189	\$ 27,162,769	\$ 1,218,927	\$ 5,188,365
Receivables (net of allowances)				
Accounts	661,395	1,601,374	425,912	131,657
Interest	23,956	67,495	2,956	12,917
Other assets	1,010,357	2,710,302	-	-
	<u>11,371,897</u>	<u>31,541,940</u>	<u>1,647,795</u>	<u>5,332,939</u>
Non current assets				
Capital assets	14,270,951	81,210,804	1,520,379	108,730
Accumulated depreciation	(841,116)	(7,905,532)	(716,834)	-
	<u>13,429,835</u>	<u>73,305,272</u>	<u>803,545</u>	<u>108,730</u>
Total assets	<u>\$ 24,801,732</u>	<u>\$ 104,847,212</u>	<u>\$ 2,451,340</u>	<u>\$ 5,441,669</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities				
Accounts payable	\$ 331,751	\$ 113,412	\$ 73,974	\$ 9,233
Accrued payroll and related taxes	3,244	18,406	7,966	2,169
Deposits	186,895	578,996	291,566	51,467
Deferred revenues	784,499	79,496	22,977	3,601
Compensated absences payable	13,267	49,275	12,807	7,724
Other liabilities	514,223	-	-	-
Contracts payable	280,000	-	-	-
	<u>2,113,879</u>	<u>839,585</u>	<u>409,290</u>	<u>74,194</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,429,835	73,305,272	803,545	108,730
Net assets				
Undesignated	9,258,018	30,702,355	1,238,505	5,258,745
Total net assets	<u>22,687,853</u>	<u>104,007,627</u>	<u>2,042,050</u>	<u>5,367,475</u>
Total liabilities and net assets	<u>\$ 24,801,732</u>	<u>\$ 104,847,212</u>	<u>\$ 2,451,340</u>	<u>\$ 5,441,669</u>

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 43,246,250	\$ 325,661
2,820,338	-
107,324	683
3,720,659	-
<u>49,894,571</u>	<u>326,344</u>
97,110,864	-
<u>(9,463,482)</u>	<u>-</u>
<u>87,647,382</u>	<u>-</u>
<u>\$ 137,541,953</u>	<u>\$ 326,344</u>

\$ 528,370	51,905
31,785	1,538
1,108,924	-
890,573	-
83,073	777
514,223	-
280,000	-
<u>3,436,948</u>	<u>54,220</u>
87,647,382	-
46,457,623	272,124
<u>134,105,005</u>	<u>272,124</u>
<u>\$ 137,541,953</u>	<u>\$ 326,344</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
OPERATING REVENUES				
Charges for services	\$ 3,087,993	\$ 6,856,787	\$ 2,148,321	\$ 535,862
OPERATING EXPENSES				
Cost of sales and services	2,524,707	3,997,196	1,548,002	431,316
Depreciation	218,459	1,313,264	93,004	-
Total operating expenses	2,743,166	5,310,460	1,641,006	431,316
Operating income	344,827	1,546,327	507,315	104,546
NONOPERATING REVENUES				
Contributed capital	106,655	5,571,155	157,477	-
Development fees	5,246,978	10,556,379		2,128,520
Extension fees	13,906	939,256		
Interest revenue	137,925	330,684	14,993	66,170
Total nonoperating revenues	5,505,464	17,397,474	172,470	2,194,690
Income before transfers	5,850,291	18,943,801	679,785	2,299,236
TRANSFERS				
Transfers	379,282	-	-	(379,282)
CHANGE IN NET ASSETS	6,229,573	18,943,801	679,785	1,919,954
NET ASSETS, beginning of the year	16,458,280	85,063,826	1,362,265	3,447,521
NET ASSETS, ending of year	\$ 22,687,853	\$ 104,007,627	\$ 2,042,050	\$ 5,367,475

<u>Business-type Activities</u>	<u>Governmental Activities</u>
Totals	Internal Service
\$ 12,628,963	\$ 1,126,768
8,501,221	1,106,532
<u>1,624,727</u>	<u>-</u>
10,125,948	1,106,532
<u>2,503,015</u>	<u>20,236</u>
5,835,287	-
17,931,877	
953,162	
<u>549,772</u>	<u>3,110</u>
25,270,098	3,110
<u>27,773,113</u>	<u>23,346</u>
-	50,000
27,773,113	73,346
<u>106,331,892</u>	<u>198,778</u>
<u>\$ 134,105,005</u>	<u>\$ 272,124</u>

CITY OF SURPRISE, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,921,399	\$ 6,681,517	\$ 2,235,531	\$ 504,808
Cash paid to suppliers	(2,730,258)	(3,385,658)	(1,097,152)	(305,901)
Cash paid to employees	(174,176)	(1,113,909)	(516,706)	(134,851)
Cash paid for insurance	-	-	-	-
Net cash provided by (used in) operating activities	<u>16,965</u>	<u>2,181,950</u>	<u>621,673</u>	<u>64,056</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING TRANSACTIONS				
Proceeds received from development fees	5,246,977	10,556,378	-	2,128,520
Proceeds received from extension fees	13,906	939,256	-	-
Capital assets received from donations	106,655	5,571,155	157,477	-
Acquisitions, construction, and transfer of capital assets	<u>(2,132,147)</u>	<u>(6,113,824)</u>	<u>(314,954)</u>	<u>(65,099)</u>
Net cash provided by (used in) capital and related financing transactions	<u>3,235,391</u>	<u>10,952,965</u>	<u>(157,477)</u>	<u>2,063,421</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	379,282	-	-	-
Cash paid to other funds	<u>(4,519,952)</u>	<u>-</u>	<u>-</u>	<u>(379,282)</u>
Net cash provided by (used in) noncapital financing activities	<u>(4,140,670)</u>	<u>-</u>	<u>-</u>	<u>(379,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	<u>155,405</u>	<u>321,942</u>	<u>15,254</u>	<u>67,287</u>
Net cash provided by investing activities	<u>155,405</u>	<u>321,942</u>	<u>15,254</u>	<u>67,287</u>
NET CHANGE IN CASH	(732,909)	13,456,857	479,450	1,815,482
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,409,098</u>	<u>13,705,912</u>	<u>739,477</u>	<u>3,372,883</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,676,189</u>	<u>\$ 27,162,769</u>	<u>\$ 1,218,927</u>	<u>\$ 5,188,365</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income	\$ 344,827	\$ 1,546,327	\$ 507,315	\$ 104,546
Changes in operating assets and liabilities				
Depreciation expense	218,459	1,313,264	93,004	-
(Increase) decrease in				
Accounts receivable	(209,040)	(635,145)	(117,421)	(66,623)
Other assets	1,887	-	-	-
Increase (decrease) in				
Accounts payable	(895,482)	(506,274)	(63,410)	(13,916)
Accrued payroll and taxes	489	2,772	1,198	326
Utility deposits	36,803	412,434	188,632	32,759
Deferred revenues	3,754	47,440	15,999	2,810
Compensated absences payable	1,045	1,132	(3,644)	4,154
Contracts payable	514,223	-	-	-
Total adjustments	<u>(327,862)</u>	<u>635,623</u>	<u>114,358</u>	<u>(40,490)</u>
Net cash provided by (used in) operating activities	<u>16,965</u>	<u>2,181,950</u>	<u>621,673</u>	<u>64,056</u>

See Notes to Financial Statements

Business-type Activities	Governmental Activities
Totals	Internal Service
\$ 12,343,255	\$ 1,126,768
(7,518,969)	-
(1,939,642)	(134,422)
-	(1,034,783)
2,884,644	(42,437)
17,931,875	-
953,162	-
5,835,287	-
(8,626,024)	-
16,094,300	-
379,282	-
(4,899,234)	50,000
(4,519,952)	50,000
559,888	3,761
559,888	3,761
15,018,880	11,324
28,227,370	314,337
\$ 43,246,250	\$ 325,661
\$ 2,503,015	\$ 20,236
1,624,727	-
(1,028,229)	-
1,887	-
(1,479,082)	(62,284)
4,785	232
670,628	-
70,003	-
2,687	(621)
514,223	-
381,629	(62,673)
2,884,644	(42,437)

CITY OF SURPRISE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
JUNE 30, 2004

	Volunteer Firefighters Pension and Relief Fund
ASSETS	
Cash and cash equivalents	\$ 85,948
Receivables	
Interest	<u>214</u>
	<u>\$ 86,162</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net assets	<u>\$ 86,162</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Volunteer Firefighters Pension and Relief Fund
REVENUES	
Interest	\$ 1,361
Total revenues	1,361
NET ASSETS, beginning of year	84,801
NET ASSETS, end of year	\$ 86,162



SURPRISE
ARIZONA

**CITY OF SURPRISE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Surprise, Arizona (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The City is located approximately 20 miles northwest of downtown Phoenix and was incorporated in 1964 under the provision of the Arizona Constitution. During 1999, the voters approved the Home Rule, an alternative expenditure limitation for budget years through June 30, 2007. The City is governed by an elected mayor, vice mayor, and a five member council, and offers the following services: public safety (police and fire), highways and streets, sanitation, water, sewer, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

COMPONENT UNITS

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. A primary government is considered financially accountable for another organization when it can impose its will or have a financial benefit or burden relationship. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The following entities are blended component units of the City:

The City of Surprise Voluntary Firefighters Pension and Relief Fund (Fund) is administered by an appointed board as set forth by Title 9 of the Arizona Revised Statutes. The Fund provides retirement benefits to the City's firefighters, and is held by the City in a trustee capacity.

The Surprise Municipal Property Corporation is an Arizona nonprofit corporation formed under the provision of Title 10 of the Arizona Revised Statutes. The Corporation was organized to acquire, construct, reconstruct, or improve buildings and other real and personal property suitable for leasing or sale to the City.

Various Street Lighting Districts (SLD's) are maintained by the City for developing areas. The SLD assessment rates are approved by the City's council. The SLD's are reported in the special revenue fund.

For the fiscal year ended June 30, 2004, the City had no discretely presented component units.

RELATED ORGANIZATIONS

A related organization is one for which the primary government is not financially accountable even though the primary government appoints a voting majority of the organization's governing board.

(Continued)

NOTES TO FINANCIAL STATEMENTS

EXCLUDED ORGANIZATIONS

Although there are schools located within the geographic boundaries of the City, school districts are separate from the municipalities in which they are located, with their own elected officials and taxing powers. Consequently, the report does not include the activities of the area school districts.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end and on behalf of the government are also recognized as revenue. All other governmental fund type revenues are recognized when received. Therefore, governmental fund financial statements include a reconciliation with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statements of activities present a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with the service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the receipts of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as requirements of a particular program. Revenues, which are not classified as program revenue, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Using a fund accounting system, amounts are spent in accordance with established fund authorities. Fund authorities provide rule for the fund activity and are separately established for restricted and unrestricted activity. For both restricted and unrestricted funds that are available for expenditure, the decision for funding is transactional based with the departmental management system in place at the City.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available, except for the City's court fines for which revenues are recognized when fines are collected. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Governmental funds include the following:

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

The **municipal property corporation fund** accounts for revenue and expenditures that are legally restricted to expenditures for the construction of major capital facilities. The City Council acts as the governing board and the City staff performs all administrative and accounting functions for the corporation.

The **highway user fund** accounts for revenue and expenditures that are legally restricted to expenditures for the construction, repairs, and maintenance of public works and streets.

The **public safety development fee fund** accounts for revenue and expenditures that are legally restricted to expenditures for public safety activities.

Proprietary funds

All proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The proprietary fund of the City includes the following fund type:

The **water fund** accounts for the provision of the water treatment and distribution to the residents and commercial users of the City.

The **sewer fund** accounts for sanitary sewer services provided to the residential and commercial users of the City.

(Continued)

NOTES TO FINANCIAL STATEMENTS

The *sanitation fund* accounts for trash collection services provided to the residential and some commercial users of the City.

The *replenishment fund* accounts for future replenishment of water sources used in the water treatment and distribution to residents and commercial users of the City.

In addition, the City reports the following fund types:

Internal Service Fund is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The fund accounts for financial activity of the City's internal insurance activity.

Pension Trust Fund (not included in government-wide statements) is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The fund accounts for the assets of the City's firefighter pension and trust. The City Council acts as the governing board and the City staff performs all administrative and accounting functions for this fund.

C. CASH AND CASH EQUIVALENTS

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less, including amounts on deposit with the Local Government Investment Pool.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Local Government Investment Pool. Investments are stated at market.

D. RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due from other funds" or "due to other funds." All accounts receivable are shown net of allowance for uncollectibles when applicable.

E. INVENTORIES

Inventories consist of expendable supplies held for consumption and are recorded at the time of purchase as expenditures in the fund from which the purchases were made; and because the amounts on hand at June 30, 2004 are immaterial, they were not included in the statement of net assets.

F. CAPITAL ASSETS

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The City capitalizes all purchases greater than \$10,000. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical costs is not available, estimated historical costs based on replacement costs.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Donated capital assets are capitalized at estimated fair value on date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciated capital assets are as follows: building, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

G. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statements. No expenditure is reported for these amounts in the government fund statements. Vested or accumulated vacation leave in proprietary funds and the government-wide statements are recorded as an expense and liability of those funds as the benefits accrue to employees. The City pays employees for unused sick leave annually, at which point the expenditure is recognized.

H. FUND BALANCE

Reservations of fund balances represent amounts that are not appropriate or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

I. PROPERTY TAXES

A primary tax levy is limited to an increase of two percent over the previous year's maximum allowable primary levy plus an increased dollar amount due to a net gain in property not taxed the previous year (Section 42-301, Arizona Revised Statutes). The two percent increase is based on the City's "maximum allowable levy" for the prior year.

The two-tiered system includes a primary levy (discussed above) and a secondary property tax for the purpose of retiring the principal and interest on bonded indebtedness. This levy is referred to as the "unlimited" levy. In other words, this property tax may be levied in an amount necessary by the City (Article IX, Section 19, Subsection 2, Paragraph A, Arizona State Constitution).

Property taxes are recognized as revenues in the year they are levied and collected, or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the year-end for which they are levied, are reported as deferred revenues.

The 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 in 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. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and becomes delinquent 30 days thereafter.

(Continued)

NOTES TO FINANCIAL STATEMENTS

J. GRANT REVENUES

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

K. INTERFUND TRANSACTIONS

Interfund services provided or used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses are accounted for as interfund transactions in the reimbursing fund and as reductions of expenditures/expenses in the funds that are reimbursed.

All other interfund transactions are reported as transfers.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds with the following exceptions: (1) the present value of net minimum capital lease payments is not budgeted as a capital outlay expenditure and other financing source at the inception of the agreement, and (2) Grants Special Revenue Funds and the Capital Projects Fund adopt project-length budgets which normally extend beyond the fiscal year.

Prior to the third Monday in July, the City Administrator submits to the City Council a tentative budget for the fiscal year commencing on July 1. The tentative budget includes proposed expenditures and the means of financing them. The proposed budget sets the maximum limit. The tentative budget is published once a week for two weeks in a local newspaper. On or before the second Monday in August, the City Council amends and approves the budget by a simple majority.

The budget is adopted at the citywide level, and expenditures may not exceed this limit, unless an emergency exists. In such a case, transfers may be approved after final adoption by the Council at a public meeting. During the year, transfers were not approved as an emergency measure.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of deposits in the bank, cash on hand, and cash invested in the Local Government Investment Pool (L.G.I.P.) managed by the Arizona State Treasurer in accordance with Arizona Statutes. Total cash and cash equivalents were \$124,522,773 as of June 30, 2004, including the \$85,908 from the Firefighters Pension Fund.

Deposits and Invested Deposits - At year-end, the carrying amount of the City's operating deposits were \$14,628,272 and the bank balance was \$16,041,419. The difference represents outstanding checks and deposits which are held in the checking account at the financial institutions trust department until checks are presented for payment. Of the bank balance, seven percent was covered by federal depository insurance and the remainder was covered by collateral held in the pledging financial institution's trust department in the City's name. The City has an additional \$5,765,396 deposited into bank accounts under the Municipal Property Corporation Fund.

Cash Invested - Funds of \$104,127,005 are held exclusive in the L.G.I.P. The City's investment in the L.G.I.P. is stated at cost, which approximates market. In this Pool, the City's monies are combined with those of the other

(Continued)

NOTES TO FINANCIAL STATEMENTS

investors in the Pool. As such, the City does not own specific securities within the Pool; they are, therefore, not categorized. The State does not provide specific fair values to its participants. Interest earned from investments in the L.G.I.P. is allocated to all funds monthly.

Cash on Hand - This includes a petty cash fund and beginning cash for the registers kept at the City Hall, the courthouse, and the Parks and Recreation Department. Cash on hand at June 30, 2004 was \$2,100.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 5,734,251	\$ -	\$ -	\$ -	\$ 5,734,251
Construction in process	-	4,195,766	-	(4,053,169)	142,597
Other capital assets:					
Building and improvements	63,063,877	439,612	-	-	63,503,489
Equipment and vehicles	7,937,564	1,962,002	(16,333)	-	9,883,233
Infrastructure	52,029,930	6,122,307	-	-	58,152,237
	<u>128,765,622</u>	<u>12,719,687</u>	<u>(16,333)</u>	<u>(4,053,169)</u>	<u>137,415,807</u>
Accumulated depreciation:					
Building and improvements	(1,695,171)	(2,080,851)	-	-	(3,776,022)
Equipment and vehicles	(3,426,514)	(993,703)	16,333	-	(4,403,884)
Infrastructure	(4,952,760)	(1,722,527)	-	-	(6,675,287)
	<u>(10,074,445)</u>	<u>(4,797,081)</u>	<u>16,333</u>	<u>-</u>	<u>(14,855,193)</u>
	<u>\$ 118,691,177</u>	<u>\$ 7,922,606</u>	<u>\$ -</u>	<u>\$ (4,053,169)</u>	<u>\$ 122,560,614</u>

Depreciation was charged by function as follows:

General government	\$ 298,303
Public safety	656,637
Public works and streets, includes depreciation for infrastructure	1,826,139
Community services	63,639
Culture and recreation	1,936,030
Total governmental activities depreciation expense	<u>\$ 4,780,748</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Not being depreciated:				
Land	\$ 3,087,151	\$ -	\$ -	\$ 3,087,151
Construction in progress	25,369,899	6,323,452	-	31,693,351
	<u>28,457,050</u>	<u>6,323,452</u>	<u>-</u>	<u>34,780,502</u>
Other capital assets:				
Plant and improvements	58,386,855	1,782,117	-	60,168,972
Vehicles and equipment	1,642,184	519,206	-	2,161,390
	<u>60,029,039</u>	<u>2,301,323</u>	<u>-</u>	<u>62,330,362</u>
	<u>88,486,089</u>	<u>8,624,775</u>	<u>-</u>	<u>97,110,864</u>
Accumulated depreciation:				
Sewer	(6,593,519)	(1,312,014)	-	(7,905,533)
Sanitation	(623,829)	(93,004)	-	(716,833)
Water	(622,657)	(218,459)	-	(841,116)
	<u>(7,840,005)</u>	<u>(1,623,477)</u>	<u>-</u>	<u>(9,463,482)</u>
	<u>\$80,646,084</u>	<u>\$ 7,001,298</u>	<u>\$ -</u>	<u>\$87,647,382</u>

Depreciation was charged by function as follows:

Sewer	\$ 1,312,014
Sanitation	93,004
Water	<u>218,459</u>
	<u>\$ 1,623,477</u>

During the year ended June 30, 2002, the City implemented the infrastructure reporting requirements of GASB Statement #34, including retroactive infrastructure, with the following exception: the City is currently working with other governmental entities to obtain appropriate records to value certain roads and buildings.

NOTE 5 - WATER RIGHTS – MOUNTAIN VISTA

Water rights reported in the water enterprise fund represent the intangible right to water usage in conjunction with the purchase of Mountain Vista. The land is not usable for any other purpose, and therefore, has no value to the City separate from the water rights. Water rights are to be amortized over a 40 year estimated useful life. As of June 30, 2004, the water rights had not been used; therefore, no amortization expense was incurred.

Contracts payable in the water enterprise fund represent \$280,000 due to the same developer for the purchase of the water rights. The contract payable is to be repaid as the City collects water development fees once the water well is in operation.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term debt for the year ended June 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds					
4.5% 1994 Series A, \$1,500,000 issued	\$ 980,000	\$ -	\$ (80,000)	\$ 900,000	\$ 85,000
4.5% 1994 Series B, \$2,530,000 issued	1,645,000	-	(135,000)	1,510,000	140,000
	<u>2,625,000</u>	<u>-</u>	<u>(215,000)</u>	<u>2,410,000</u>	<u>225,000</u>
General municipal property corporation fund obligation					
Series 2000 Bonds, \$59,120,000 issued	55,995,000	-	(42,070,000)	13,925,000	2,050,000
Series 2003 Bonds, \$42,860,000 issued	-	42,860,000	-	42,860,000	935,000
Deferred amounts					
For issuance premium	-	2,228,364	(65,540)	2,162,824	-
On refunding	-	(2,740,000)	80,588	(2,659,412)	-
Expected administrative expenses	-	24,750	-	24,750	1,500
	<u>55,995,000</u>	<u>42,373,114</u>	<u>(42,054,952)</u>	<u>56,313,162</u>	<u>2,986,500</u>
Total governmental obligation bonds	<u>58,620,000</u>	<u>42,373,114</u>	<u>(42,269,952)</u>	<u>58,723,162</u>	<u>3,211,500</u>
Notes payable					
3.15% Loan-Wastewater Management Authority, \$4,765,955 issued	2,297,738	-	(353,871)	1,943,867	365,025
Compensated absences	1,014,959	2,066,299	(1,948,890)	1,132,368	75,910
Developer payable	2,028,561	-	(154,952)	1,873,609	-
Total governmental activities debt	<u>\$ 63,961,258</u>	<u>\$ 44,439,413</u>	<u>\$ (44,727,665)</u>	<u>\$ 63,673,006</u>	<u>\$ 3,652,435</u>
Business-type activities:					
Compensated absences	<u>\$ 80,386</u>	<u>\$ 146,379</u>	<u>\$ (143,692)</u>	<u>\$ 83,073</u>	<u>\$ 83,073</u>
Contracts payable	<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ 280,000</u>

Governmental Activities - Bonds & Loans

<u>Year Ended December 31</u>	<u>Governmental Obligation</u>		<u>WWMA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 3,234,750	\$ 4,138,158	\$ 365,025	\$ 61,270
2006	2,565,000	4,802,252	376,531	49,765
2007	2,655,000	4,678,053	388,399	37,896
2008	2,790,000	4,547,802	400,642	25,654
2009	2,900,000	3,183,464	413,270	13,026
2010-2014	16,550,000	9,932,314	-	-
2015-2019	19,425,000	4,672,875	-	-
2020-2024	9,100,000	566,775	-	-
Total	<u>\$59,219,750</u>	<u>\$ 36,521,693</u>	<u>\$ 1,943,867</u>	<u>\$ 187,611</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

Advance and Current Refunding

The City issued \$42,860,000 of excise tax revenue refunding bonds to provide resources to partially pay off \$40,120,000 of previously issued excise tax revenue bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$2,740,000. This amount is being netted against the new debt and amortized over the remaining life of the issued debt. This advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$1,939,569 and resulted in an economic gain of \$1,209,073.

Municipal Property Corporation

The City of Surprise Municipal Property Corporation (MPC) issued special limited obligations for the construction of major capital facilities. The bonds and interest are limited obligations of the MPC, payable from lease rental income.

Developer Payable

Del Webb, a developer, incurred \$2,077,143 in costs for road development. As of June 30, 2004, the remaining balance of these costs was \$1,873,609. In an agreement with the City, the first \$200,000 in sales tax received annually from the applicable parcels goes to the City. The second \$200,000 goes to the developer to be applied to interest and the \$2,077,143. Any monies received over \$400,000 are split equally between the City and the developer. In 2004, \$238,554 was paid to the developer, with \$154,952 applied to principal and the remaining \$83,602 applied to accrued interest.

Legal Debt Limit

The Arizona Constitution provides that the general obligation bonded indebtedness for a city may not exceed twenty percent of the secondary assessed valuation of the taxable property of the city for projects supplying the city with water, artificial light or sewers. The 2003 secondary assessed valuation of the City is \$352,017,483. Accordingly, the legal limit for bonded indebtedness for the City is \$70,403,497 for the fiscal year ended June 30, 2004, leaving \$66,173,371, respectively of unused borrowing capacity.

NOTE 7 – MUNICIPAL PROPERTY CORPORATION FUND CONSTRUCTION COMMITMENT LIABILITY

Government funds report deferred revenue in connection to resources that have been received, but not yet earned. As of June 30, 2004, the deferred revenue balance of approximately \$5,000,000 in the Municipal Property Corporation Fund represents payments made by the City for use in future periods.

NOTE 10 - RETIREMENT PLANS

Arizona State Retirement Plan

A. Plan Description

The Arizona State Retirement System (the System) is a cost-sharing multiple-employer defined benefit plan covering employees of Arizona school districts, the State and certain political subdivisions. The System provides for retirement, disability, health insurance benefits, and death and survivor benefits. Benefits are paid from

(Continued)

NOTES TO FINANCIAL STATEMENTS

resources contributed by members and employers and from earnings on the invested funds. The Arizona Revised Statutes provide statutory authority for determining the employees' and employer contribution amounts as a percentage of covered payroll. The Arizona State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, Suite 1300, Phoenix, AZ 85012 or by calling (602) 240-2000.

B. Funding Policy

Under Arizona State Statutes, employee member contributions to the System were fixed at 5.2% of their compensation for the year ended June 30, 2004, with the contributions made by payroll deduction. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to change to contribution rate from that actuarially determined rate. The total contributions made by the City for the years ended June 30, 2004, 2003, and 2002, were \$658,403, \$228,340, and \$176,735, respectively, equal to the required contributions for each year.

Retirement Plan For Public Safety Employees

A. Plan Description

The City contributes to an agent multiple-employer retirement plan, the Arizona Public Safety Personnel Retirement System (APSPRS), for public safety employees. The APSPRS functions as an investment and administrative agent for the City with respect to the retirement plan for policemen and firemen. The APSPRS provides retirement benefits as well as death and disability benefits. Both benefits and contributions are determined by State of Arizona statutes. The APSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Public Safety Personnel Retirement System, 1020 East Missouri Avenue, Phoenix, AZ 85014 or by calling (602) 255-5575.

B. Funding Policy

Employee members are required to contribute 7.65% of their annual covered salary. The retirement plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. For the year ended June 30, 2004, the City contributed 7.46% and 9.01% of annual covered firefighter and police payroll to the plan, respectively.

C. Annual Pension Cost

For 2003, the City's annual pension cost of \$540,740 for ASPSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the individual entry age normal cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 5.5% per year compounded annually attributable to inflation and (c) additional projected salary increases ranging from 1.0% to 4.0% per year, depending on age, attributable to seniority/merit. The actuarial value of APSPRS assets are determined on a smoothed market basis which spreads differences between actual and assumed investment return over a four-year period.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Required Supplementary Information – Schedule of Employer Contributions

Year ended June 30,	Annual Required Contribution		
	Fire Fighters	Police	Percent Contributed
1999	\$ 93,000	\$ 84,376	100.0%
2000	120,353	95,652	100.0%
2001	198,361	220,241	100.0%
2002	254,228	273,391	100.0%
2003	279,843	260,897	100.0%
2004 *	228,860	315,510	100.0%

*Actual recognized contribution dollar amount will be based on the required contribution rate and the actual pensionable payroll for the period.

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1998	\$ 3,003,120	\$ 2,855,963	(147,157)	105.2%	2,067,826	(0.07)
1999	3,807,496	3,756,622	(50,874)	101.4%	2,416,085	(0.02)
2000	4,941,863	4,582,526	(359,337)	107.8%	2,934,962	(0.12)
2001	6,447,706	5,031,601	(1,416,105)	128.1%	4,077,707	(0.35)
2002	8,514,189	6,452,541	(2,061,648)	132.0%	5,838,324	(0.35)
2003	10,993,504	8,423,619	(2,569,885)	130.5%	6,569,599	(0.39)

Figure 1

Six-Year Trend Information

Fiscal Year Ended June 30,	Annual Pension Cost		Percent Contributed	Net Pension Obligation
	Fire	Police		
1998	\$ 46,869	\$ 108,020	100.0%	\$ -
1999	93,000	84,376	100.0%	-
2000	120,353	95,652	100.0%	-
2001	198,361	220,241	100.0%	-
2002	254,228	273,391	100.0%	-
2003 *	279,843	260,897	100.0%	-

Figure 2

(Continued)

NOTES TO FINANCIAL STATEMENTS

Volunteer Firefighters' Pension and Relief Fund

Plan Description

The Volunteer Firefighters' Pension and Relief Fund is a discretionary defined benefit plan directly administered by the City. The fund was established to provide pension benefits for its qualified volunteer firefighters. The fund is authorized by Title 9, Chapter VIII, Article 3 of the Arizona Revised Statutes, and is administered by the Board of Trustees. No actuarial valuation of the fund's position has been made, and no separate report is prepared. Assets of the fund are invested in the State Local Government Investment Pool.

Pension Benefits

Volunteer firefighters having served twenty-five years or more, or having reached sixty years of age and served twenty years or more, shall be paid a monthly pension not to exceed \$150 per month as determined by the Board of Trustees. Such pension, if paid, may be increased, decreased, or discontinued at the discretion of the Board of Trustees. If the fund resources are insufficient to pay fully the pensions authorized, the fund shall be prorated among those entitled thereto. The Board of Trustees may grant temporary relief and assistance from the fund to any qualified participant, or beneficiaries of such participant.

Deferred Compensation Plans

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time government employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency. The City's fiduciary responsibility is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that Section 457 plan assets be held in trust for employees, therefore, employee assets held in Section 457 plan assets are to be held in trust for employees. Employee assets held in Section 457 plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Agency Fund is not included in the City's Financial Statements.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Thus, the City participates in the Arizona Municipal Risk Retention Pool (AMRRP), which provides a comprehensive municipal coverage program including property, general liability, public officials liability, automobile liability and physical damage, bonds and crime. The basic coverage program is standard for all participants and deemed to be appropriate by the governing board of the AMRRP. Individual limits are determined by the Council and staff members.

The limit for basic coverage is \$20 million per occurrence on a claim made basis. The AMRRP is structured such that member premiums are based on actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligation. The Pool has the authority to assess its members' additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations. The City can be assessed up to the amount of the current year's contribution. The City's obligation is to file claims timely. The AMRRP is responsible for investigating claims, settling claims and billing the City for any deductible portion. The City's loss has not exceeded its coverage in any of the last three years, and the deductible portion has not been material to the City's financial position.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - CONTINGENT LIABILITIES

The City was not involved in any pending or threatened litigation that could materially affect the City’s financial position and results of operations at June 30, 2004.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 13 - INTERFUND ASSETS, LIABILITIES, AND TRANSFERS

	<u>Due (to) from</u>	<u>Transfers in (out)</u>
Governmental funds		
Major governmental funds		
General fund	\$ 207,245	\$ 346,000
Highway user fund	-	208,100
Other governmental funds	(207,245)	(504,100)
	<u>-</u>	<u>50,000</u>
Business-type funds		
Major business-type funds		
Water	-	379,282
Replenishment	-	(379,282)
	<u>-</u>	<u>-</u>
Internal service fund	-	(50,000)
	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ -</u>

The above due to/due from other funds were short-term receivables or payables in the normal course of the City’s operations and the above operating transfers resulted in the normal course of the City’s operations.

NOTE 14 – STREET LIGHTING DISTRICT NET ASSETS (DEFICIT)

The following is a detail of *Special Revenue SLID Districts* fund equity balances as of June 30, 2004 reported as nonmajor special revenue funds.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Special Revenue SLID District Fund Balances:

Kingswood Park SLID	\$ 71,438
DW Sun City Grand SLID	110,696
Westpoint Towne Center SLID	44,369
Continental @ Kingswood SLID	31,474
Mountain Vista Ranch SLID	26,364
Sun City Grand II SLID	42,099
Sun City Grand III SLID	(56,991)
Bell West Ranch SLD	17,138
Canyon Ridge West SLID	4,842
Ashton Ranch Unit I SLID	(236)
Ashton Ranch Unit II SLID	39,441
Mountain Vista Ranch II SLID	8,503
Mountain Vista Ranch III SLD	(6,581)
Legacy Park SLID	(1,864)
Greenway Park SLID	4,193
Roseview SLID	14,605
Countryside SLD	(619)
Park Row SLID	(12,060)
Northwest Ranch #2 SLID	(6,253)
Bell West Ranch 1B SLID	2,351
Ashton Ranch Unit III SLID	1,613
Ashton Ranch Unit IV SLID	3,455
Legacy Park GHI SLID	(3,778)
Rancho Gabriela Phase I SLID	1,726
Northwest Ranch #1 SLID	(34)
Sun City Grand IV SLID	(8,694)
Rancho Gabriela 2,3, 4A-B SLD	(16,488)
Greenway Park II SLD	15,040
Greenway Park III SLD	6,609
Bell West Ranch 1A SLID	5,847
Tash/Western Meadows SLD	(1,850)
Roseview 5, 5A, 7&8 SLID	(9,984)
Orchards 1,2,3,4,5 SLD	(6,428)
Surprise Farms 1A SLD	(19,492)
Legacy Park Parcels E, F & J SLD	(5,007)
Sierra Montana 1A SLD	(21,292)
Bell West Ranch II SLD	(5,518)
Royal Ranch Unit I SLID	(6,909)
Surprise Farms 1B SLID	(2,787)
Desert Oasis #1 SLID	(1,385)
Litchfield Manor SLID	(3,799)
Cotton Gin SLID	(1,524)
Summerfield at Litchfield SLID	(1,665)
	<hr/>
	\$ 250,565
	<hr/>

(Continued)

NOTES TO FINANCIAL STATEMENTS

As a result of revenues inadequate to cover expenses some SLID districts have a deficit net asset. This is due to state imposed limit on taxes within those districts. Future revenue collected is expected to fund the deficit fund equity balances.

#

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SURPRISE, ARIZONA

**REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 22,481,700	\$ 22,481,700	\$ 27,601,323
Licenses and permits	1,450,000	1,450,000	1,850,332
Intergovernmental	5,309,700	5,309,700	5,518,655
Charges for services	7,350,300	7,350,300	14,010,788
Fines	711,000	711,000	689,721
Rents	314,000	314,000	543,918
Grants	458,200	458,200	361,396
Interest	150,000	150,000	522,902
Other	6,419,400	6,419,400	1,213,770
Total revenues	<u>44,644,300</u>	<u>44,644,300</u>	<u>52,312,805</u>
EXPENDITURES			
Current			
General government	13,053,300	13,974,900	8,878,163
Public safety	14,627,900	14,882,500	13,595,080
Public works and streets	2,882,000	2,884,300	2,600,373
Community service	3,065,100	3,220,000	2,987,740
Culture and recreation	7,265,700	7,499,400	6,266,452
Debt Service			
Principal	-	-	154,952
Interest	-	-	83,602
Total expenditures	<u>40,894,000</u>	<u>42,461,100</u>	<u>34,566,362</u>
REVENUES UNDER EXPENDITURES	<u>3,750,300</u>	<u>2,183,200</u>	<u>17,746,443</u>
OTHER FINANCING SOURCES			
Transfers in	<u>11,082,400</u>	<u>11,082,400</u>	<u>(346,000)</u>
Total Other Financing Sources	<u>11,082,400</u>	<u>11,082,400</u>	<u>(346,000)</u>
REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>14,832,700</u>	<u>13,265,600</u>	<u>17,400,443</u>
FUND BALANCES, beginning of the year	<u>9,102,000</u>	<u>10,572,900</u>	<u>25,055,910</u>
FUND BALANCES, end of the year	<u>\$ 23,934,700</u>	<u>\$ 23,838,500</u>	<u>\$ 42,456,353</u>

(Continued)

CITY OF SURPRISE, ARIZONA
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Municipal Property Corporation Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Rents	\$ 5,134,500	\$ 5,134,500	\$ 4,980,900
Interest	-	-	11,398
Other	-	-	302,304
Total revenues	<u>5,134,500</u>	<u>5,134,500</u>	<u>5,294,602</u>
EXPENDITURES			
Current			
General government	3,103,100	3,103,100	33,531
Capital outlay	18,286,700	18,286,700	4,859,415
Debt Service			
Principal	2,850,000	2,850,000	1,950,000
Interest and fiscal charges	2,997,400	2,997,400	1,881,902
Bond issuance costs	-	-	647,024
Total expenditures	<u>27,237,200</u>	<u>27,237,200</u>	<u>9,371,872</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(22,102,700)</u>	<u>(22,102,700)</u>	<u>(4,077,270)</u>
OTHER FINANCING SOURCES			
Refunding bonds issued			45,660,720
Payment to refunding bond escrow agent	-	-	(45,711,677)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(50,957)</u>
NET CHANGE IN FUND BALANCES	<u>(22,102,700)</u>	<u>(22,102,700)</u>	<u>(4,128,227)</u>
FUND BALANCES, beginning of the year	<u>22,102,700</u>	<u>22,102,700</u>	<u>21,645,282</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,517,055</u>

(Continued)

CITY OF SURPRISE, ARIZONA

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)

GENERAL AND MAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Highway User Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 1,999,800	\$ 1,999,800	\$ 2,135,343
Interest	30,000	30,000	2,110
Other	635,100	635,100	555,013
Total revenues	<u>2,664,900</u>	<u>2,664,900</u>	<u>2,692,466</u>
EXPENDITURES			
Current			
Public works and streets	3,085,500	3,085,500	2,275,541
Community services	307,500	307,500	253,970
Capital outlay	<u>307,500</u>	<u>307,500</u>	<u>276,606</u>
Total expenditures	<u>3,700,500</u>	<u>3,700,500</u>	<u>2,806,117</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,035,600)</u>	<u>(1,035,600)</u>	<u>(113,651)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>-</u>	<u>-</u>	<u>(208,100)</u>
NET CHANGE IN FUND BALANCES	<u>(1,035,600)</u>	<u>(1,035,600)</u>	<u>(321,751)</u>
FUND BALANCES, beginning of the year	<u>728,100</u>	<u>728,100</u>	<u>550,322</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (307,500)</u>	<u>\$ (307,500)</u>	<u>\$ 228,571</u>

(Continued)

CITY OF SURPRISE, ARIZONA
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Public Safety Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development Fees	\$ 750,000	\$ 750,000	\$ 2,760,946
Grants	-	-	73,778
Interest	20,000	20,000	18,211
Total revenues	<u>770,000</u>	<u>770,000</u>	<u>2,852,935</u>
EXPENDITURES			
Current			
General government	8,700	8,700	9,429
Public safety	2,299,000	1,133,000	1,057,006
Capital outlay	2,006,900	2,209,400	1,026,088
Total expenditures	<u>4,314,600</u>	<u>3,351,100</u>	<u>2,092,523</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,544,600)</u>	<u>(2,581,100)</u>	<u>760,412</u>
OTHER FINANCING SOURCES			
Interfund transfer	373,100	373,100	-
Total other financing sources	<u>373,100</u>	<u>373,100</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(3,544,600)</u>	<u>(2,208,000)</u>	<u>760,412</u>
FUND BALANCES, beginning of the year	<u>3,544,600</u>	<u>2,208,000</u>	<u>1,310,889</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,071,301</u>

(Continued)

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

ASSETS	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 15,025,364	\$ 131,424	\$ 15,156,788
Receivables (net of allowances)			
Interest	35,837	326	36,163
Other	41,452	-	41,452
Prepaid items	1,849,673	-	1,849,673
Total assets	<u>\$ 16,952,326</u>	<u>\$ 131,750</u>	<u>\$ 17,084,076</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 239,994	\$ 650	\$ 240,644
Due to other funds	207,245	-	207,245
Total liabilities	<u>447,239</u>	<u>650</u>	<u>447,889</u>
FUND BALANCE			
Reserved for prepaid items	1,849,673	-	1,849,673
Unreserved, reported in			
Special revenue funds	11,301,617		11,301,617
Debt service funds	-	131,100	131,100
Reserved special revenue funds	3,353,797	-	3,353,797
Total fund balance	<u>16,505,087</u>	<u>131,100</u>	<u>16,636,187</u>
Total liabilities and fund balance	<u>\$ 16,952,326</u>	<u>\$ 131,750</u>	<u>\$ 17,084,076</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ -	\$ 769,850	\$ 769,850
Intergovernmental	1,092,318	-	1,092,318
Charges for services	705,869	-	705,869
Development fees	12,661,000	-	12,661,000
Interest	154,546	5,989	160,535
Other	281,693	-	281,693
	<u>14,895,426</u>	<u>775,839</u>	<u>15,671,265</u>
Total revenues			
EXPENDITURES			
Current			
General government	71,961	-	71,961
Public works and streets	821,564	-	821,564
Culture and recreation	1,062,395	-	1,062,395
Costs of sales and services (SLD's)	808,997	-	808,997
Administration	58,430	-	58,430
Capital outlay	2,611,477	-	2,611,477
Debt service			
Principal	-	568,871	568,871
Interest and fiscal charges	-	203,288	203,288
	<u>5,434,824</u>	<u>772,159</u>	<u>6,206,983</u>
Total expenditures			
REVENUES OVER (UNDER) EXPENDITURES	<u>9,460,602</u>	<u>3,680</u>	<u>9,464,282</u>
OTHER FINANCING USES			
Transfers out	504,100	-	504,100
	<u>504,100</u>	<u>-</u>	<u>504,100</u>
Total other financing uses			
NET CHANGE IN FUND BALANCES	<u>9,964,702</u>	<u>3,680</u>	<u>9,968,382</u>
FUND BALANCES, beginning of year	<u>6,540,385</u>	<u>127,420</u>	<u>6,667,805</u>
FUND BALANCES, end of year	<u>\$ 16,505,087</u>	<u>\$ 131,100</u>	<u>\$ 16,636,187</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2004

	<u>Transit Fund</u>	<u>Donations Fund</u>	<u>Neighborh. Revitaliz. Fund</u>	<u>Library, Parks & Recreational Enhancement</u>	<u>General Govt. Dev Fee Fund</u>
ASSETS					
Cash and cash equivalents	\$ 212,435	\$ 183,012	\$ 65,318	\$ 6,515,096	\$ 3,266,834
Receivables, net					
Interest	-	-	-	16,232	8,139
Other	-	-	-	-	-
Prepaid items	-	-	-	1,849,673	-
	<u>212,435</u>	<u>183,012</u>	<u>65,318</u>	<u>8,381,001</u>	<u>3,274,973</u>
Total assets	<u>\$ 212,435</u>	<u>\$ 183,012</u>	<u>\$ 65,318</u>	<u>\$ 8,381,001</u>	<u>\$ 3,274,973</u>
LIABILITIES					
Accounts payable	\$ 2,352	\$ 1,271	\$ 58,305	4,610	\$ 55,480
Due to other funds	-	-	-	-	-
	<u>2,352</u>	<u>1,271</u>	<u>58,305</u>	<u>4,610</u>	<u>55,480</u>
Total liabilities	<u>2,352</u>	<u>1,271</u>	<u>58,305</u>	<u>4,610</u>	<u>55,480</u>
FUND BALANCE					
Reserved for prepaid items	-	-	-	1,849,673	-
Unreserved					
Undesignated	210,083	181,741	7,013	6,526,718	-
Designated	-	-	-	-	3,219,493
	<u>210,083</u>	<u>181,741</u>	<u>7,013</u>	<u>8,376,391</u>	<u>3,219,493</u>
Total fund equity	<u>210,083</u>	<u>181,741</u>	<u>7,013</u>	<u>8,376,391</u>	<u>3,219,493</u>
Total liabilities and fund balances	<u>\$ 212,435</u>	<u>\$ 183,012</u>	<u>\$ 65,318</u>	<u>\$ 8,381,001</u>	<u>\$ 3,274,973</u>

(Continued)

Employee Dep Scholarship	Street Lighting Districts	10% Set Aside Square Mile	Municipal Court Enhancement	Public Works Expansion Development	Totals
\$ 10,134	\$ 489,624	\$ 146,570	\$ 61,243	\$ 4,075,098	\$ 15,025,364
25	1,094	334	-	10,013	35,837
-	41,452	-	-	-	41,452
-	-	-	-	-	1,849,673
<u>\$ 10,159</u>	<u>\$ 532,170</u>	<u>\$ 146,904</u>	<u>\$ 61,243</u>	<u>\$ 4,085,111</u>	<u>\$ 16,952,326</u>
\$ -	\$ 74,360	\$ 12,600	\$ -	\$ 31,016	\$ 239,994
-	207,245	-	-	-	207,245
-	281,605	12,600	-	31,016	447,239
-	-	-	-	-	1,849,673
10,159	250,565	-	61,243	4,054,095	11,301,617
-	-	134,304	-	-	3,353,797
<u>10,159</u>	<u>250,565</u>	<u>134,304</u>	<u>61,243</u>	<u>4,054,095</u>	<u>16,505,087</u>
<u>\$ 10,159</u>	<u>\$ 532,170</u>	<u>\$ 146,904</u>	<u>\$ 61,243</u>	<u>\$ 4,085,111</u>	<u>\$ 16,952,326</u>

(Continued)

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Library, Parks & Recreational Enhancement	General Govt. Dev Fee Fund
REVENUES					
Intergovernmental	\$ 387,200	\$ 40,789	\$ 415,347	\$ 48,000	\$ -
Charges for services	7,994	-	-	-	-
Interest	1,226	-	-	49,733	39,189
Development fees	-	-	-	7,376,309	2,097,228
Other	-	153,117	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	396,420	193,906	415,347	7,474,042	2,136,417
EXPENDITURES					
Current					
General government	-	-	-	9,029	44,452
Public works and streets	185,645	-	415,502	-	-
Culture and recreation	-	16,060	-	1,046,335	-
Costs of sales of services (SLD's)	-	-	-	-	-
Administration	-	43,500	-	-	-
Capital outlay	99,140	77,613	-	338,000	275,246
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	284,785	137,173	415,502	1,393,364	319,698
REVENUES OVER (UNDER) EXPENDITURES	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	111,635	56,733	(155)	6,080,678	1,816,719
OTHER FINANCING SOURCES					
Interfund transfers in	208,100	70,800	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	208,100	70,800	-	-	-
NET CHANGE IN FUND BALANCES	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	319,735	127,533	(155)	6,080,678	1,816,719
FUND BALANCES, beginning of year	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(109,652)	54,208	7,168	2,295,713	1,402,774
FUND BALANCES, end of year	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 210,083	\$ 181,741	\$ 7,013	\$ 8,376,391	\$ 3,219,493

(Continued)

<u>Employee Dep Scholarship</u>	<u>Street Lighting Districts</u>	<u>10% Set Aside Square Mile</u>	<u>Municipal Court Enhancement</u>	<u>Public Works Expansion Development</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 200,982	\$ 1,092,318
-	697,875	-	-	-	705,869
158	6,722	2,500	-	55,018	154,546
-	-	-	-	3,187,463	12,661,000
788	94,343	-	33,445	-	281,693
<u>946</u>	<u>798,940</u>	<u>2,500</u>	<u>33,445</u>	<u>3,443,463</u>	<u>14,895,426</u>
-	18,480	-	-	-	71,961
-	-	39,474	-	180,943	821,564
-	-	-	-	-	1,062,395
-	808,997	-	-	-	808,997
2,000	12,930	-	-	-	58,430
-	-	87,905	-	1,733,573	2,611,477
<u>2,000</u>	<u>840,407</u>	<u>127,379</u>	<u>-</u>	<u>1,914,516</u>	<u>5,434,824</u>
<u>(1,054)</u>	<u>(41,467)</u>	<u>(124,879)</u>	<u>33,445</u>	<u>1,528,947</u>	<u>9,460,602</u>
-	-	225,200	-	-	504,100
-	-	225,200	-	-	504,100
(1,054)	(41,467)	100,321	33,445	1,528,947	9,964,702
11,213	292,032	33,983	27,798	2,525,148	6,540,385
<u>\$ 10,159</u>	<u>\$ 250,565</u>	<u>\$ 134,304</u>	<u>\$ 61,243</u>	<u>\$ 4,054,095</u>	<u>\$ 16,505,087</u>

(Continued)

CITY OF SURPRISE, ARIZONA
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 22,481,700	\$ 22,481,700	\$ 26,357,058
Licenses and permits	1,450,000	1,450,000	1,844,692
Intergovernmental	5,309,700	5,309,700	6,734,960
Charges for services	7,350,300	7,350,300	14,010,788
Fines	711,000	711,000	689,721
Rents	314,000	314,000	543,918
Grants	458,200	458,200	394,996
Interest	150,000	150,000	522,902
Other	6,419,400	6,419,400	1,213,770
Total revenues	<u>44,644,300</u>	<u>44,644,300</u>	<u>52,312,805</u>
EXPENDITURES			
GENERAL GOVERNMENT			
City council	\$ 332,500	\$ 336,300	\$ 242,947
City manager	593,000	586,900	536,807
Intergovernmental relation:	94,600	94,600	80,822
Legal	832,200	845,800	631,192
City clerk	381,900	381,900	363,379
Finance	1,486,500	1,486,500	1,365,671
Human resources	534,800	534,800	482,862
Information technology	1,545,700	1,569,200	1,454,822
Public information	403,900	403,900	407,274
General operations	6,848,200	7,735,000	3,312,387
Total general government	<u>13,053,300</u>	<u>13,974,900</u>	<u>8,878,163</u>
PUBLIC SAFETY			
City court	990,200	990,200	921,793
Police	7,940,200	8,154,800	7,117,994
Fire	5,697,500	5,737,500	5,555,293
Total public safety	<u>14,627,900</u>	<u>14,882,500</u>	<u>13,595,080</u>
PUBLIC WORKS AND STREETS			
Engineering	1,044,100	1,024,100	897,422
Vehicle maintenance	627,200	654,500	657,769
Building maintenance	1,124,700	1,119,700	977,944
Streets	86,000	86,000	-
Traffic engineering	-	-	67,238
Total public works and streets	<u>2,882,000</u>	<u>2,884,300</u>	<u>2,600,373</u>
COMMUNITY SERVICE			
Econ development	-	270,800	201,324
Community development	3,065,100	2,949,200	2,786,416
Total community service	<u>3,065,100</u>	<u>3,220,000</u>	<u>2,987,740</u>

(Continued)

CITY OF SURPRISE, ARIZONA
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund		
	Original Budget	Final Budget	Actual
CULTURE AND RECREATION			
Com Initiatives	699,300	952,200	715,875
Parks Rec.	6,566,400	6,547,200	5,550,577
Total culture and recreation	<u>7,265,700</u>	<u>7,499,400</u>	<u>6,266,452</u>
DEBT SERVICE			
Principal	-	-	154,952
Interest	-	-	83,602
Total debt service	<u>-</u>	<u>-</u>	<u>238,554</u>
CAPITAL OUTLAY	<u>12,157,700</u>	<u>11,688,100</u>	<u>3,929,768</u>
Total expenditures	<u>53,051,700</u>	<u>54,149,200</u>	<u>38,496,130</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(8,407,400)</u>	<u>(9,504,900)</u>	<u>13,816,675</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(2,799,700)</u>	<u>(2,799,700)</u>	<u>(346,000)</u>
Total other financing sources	<u>(2,799,700)</u>	<u>(2,799,700)</u>	<u>(346,000)</u>
NET CHANGE IN FUND BALANCES	<u>(11,207,100)</u>	<u>(12,304,600)</u>	<u>13,470,675</u>
FUND BALANCES, beginning of the year	<u>9,102,000</u>	<u>10,572,900</u>	<u>25,055,910</u>
FUND BALANCES, end of the year	<u>\$ (2,105,100)</u>	<u>\$ (1,731,700)</u>	<u>\$ 38,526,585</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Debt Service Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 762,200	\$ 762,200	\$ 769,850
Interest	5,000	5,000	5,989
Total revenues	<u>767,200</u>	<u>767,200</u>	<u>775,839</u>
EXPENDITURES			
Debt service	827,400	827,400	772,159
Total expenditures	<u>827,400</u>	<u>827,400</u>	<u>772,159</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(60,200)</u>	<u>(60,200)</u>	<u>3,680</u>
NET CHANGE IN FUND BALANCES	<u>(60,200)</u>	<u>(60,200)</u>	<u>3,680</u>
FUND BALANCES, beginning of the year	<u>60,200</u>	<u>60,200</u>	<u>127,420</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,100</u>
	Transit Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Charges for services	\$ 9,000	\$ 9,000	\$ 7,994
Intergovernmental	239,400	239,400	387,200
Interest	1,000	1,000	1,226
Total revenues	<u>249,400</u>	<u>249,400</u>	<u>396,420</u>
EXPENDITURES			
Current			
General government	204,600	263,900	185,645
Capital outlay	80,000	159,300	99,140
Total expenditures	<u>284,600</u>	<u>423,200</u>	<u>284,785</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(35,200)</u>	<u>(173,800)</u>	<u>111,635</u>
OTHER FINANCING SOURCES			
Transfers in	208,100	208,100	208,100
NET CHANGE IN FUND BALANCES	<u>172,900</u>	<u>34,300</u>	<u>319,735</u>
FUND BALANCES, beginning of the year	<u>(172,900)</u>	<u>(34,300)</u>	<u>(109,652)</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,083</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Donations Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 40,789
Other	500,000	500,000	153,117
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>193,906</u>
EXPENDITURES			
Current			
Culture and recreation	93,300	93,300	16,060
Administration	500,000	500,000	43,500
Capital Outlay	-	-	77,613
Total expenditures	<u>593,300</u>	<u>593,300</u>	<u>137,173</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(93,300)</u>	<u>(93,300)</u>	<u>56,733</u>
OTHER FINANCING SOURCES			
Transfers in	70,800	70,800	70,800
NET CHANGE IN FUND BALANCES	<u>(22,500)</u>	<u>(22,500)</u>	<u>127,533</u>
FUND BALANCES, beginning of the year	<u>22,500</u>	<u>22,500</u>	<u>54,208</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,741</u>
	Neighborh. Revitaliz. Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 656,900	\$ 656,900	\$ 415,347
Total revenues	<u>656,900</u>	<u>656,900</u>	<u>415,347</u>
EXPENDITURES			
Current			
Administration	694,900	733,700	415,502
Total expenditures	<u>694,900</u>	<u>733,700</u>	<u>415,502</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(38,000)</u>	<u>(76,800)</u>	<u>(155)</u>
NET CHANGE IN FUND BALANCES	<u>(38,000)</u>	<u>(76,800)</u>	<u>(155)</u>
FUND BALANCES, beginning of the year	<u>38,000</u>	<u>76,800</u>	<u>7,168</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,013</u>

(Continued)

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Employee Dependent Scholarship Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Interest	\$ 500	\$ 500	\$ 158
Other	-	-	788
Total revenues	<u>500</u>	<u>500</u>	<u>946</u>
EXPENDITURES			
Current			
Administration	10,700	10,700	2,000
Total expenditures	<u>10,700</u>	<u>10,700</u>	<u>2,000</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,200)</u>	<u>(10,200)</u>	<u>(1,054)</u>
NET CHANGE IN FUND BALANCES	<u>(10,200)</u>	<u>(10,200)</u>	<u>(1,054)</u>
FUND BALANCES, beginning of the year	<u>10,200</u>	<u>10,200</u>	<u>11,213</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,159</u>
	Street Lighting District		
	Original Budget	Final Budget	Actual
REVENUES			
Property Tax	\$ 671,300	\$ 671,300	\$ 697,875
Other	1,179,100	1,179,100	94,343
Interest	12,400	12,400	6,722
Total revenues	<u>1,862,800</u>	<u>1,862,800</u>	<u>798,940</u>
EXPENDITURES			
Current			
General government	115,000	115,000	18,480
Cost of sales of services	1,785,000	1,785,000	808,997
Administration	100,000	100,000	12,930
Total expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>840,407</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(137,200)</u>	<u>(137,200)</u>	<u>(41,467)</u>
NET CHANGE IN FUND BALANCES	<u>(137,200)</u>	<u>(137,200)</u>	<u>(41,467)</u>
FUND BALANCES, beginning of the year	<u>137,200</u>	<u>137,200</u>	<u>292,032</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,565</u>

(Continued)

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	10% Set Aside Square Mile		
	Original Budget	Final Budget	Actual
REVENUES			
Interest	\$ 3,000	\$ 3,000	\$ 2,500
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>2,500</u>
EXPENDITURES			
Current			
Public works and streets	137,500	94,300	39,474
Capital outlay	<u>145,700</u>	<u>188,900</u>	<u>87,905</u>
Total expenditures	<u>283,200</u>	<u>283,200</u>	<u>127,379</u>
REVENUES OVER (UNDER)			
EXPENDITURES	<u>(280,200)</u>	<u>(280,200)</u>	<u>(124,879)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>225,200</u>	<u>225,200</u>	<u>225,200</u>
NET CHANGE IN FUND BALANCES	<u>(55,000)</u>	<u>(55,000)</u>	<u>100,321</u>
FUND BALANCES, beginning of the year	<u>55,000</u>	<u>55,000</u>	<u>33,983</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,304</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Municipal Court Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Other	\$ -	\$ -	\$ 33,445
Total revenues	-	-	33,445
EXPENDITURES			
Current			
Public Safety	28,600	28,600	-
Total expenditures	28,600	28,600	-
REVENUES OVER (UNDER) EXPENDITURES	(28,600)	(28,600)	33,445
NET CHANGE IN FUND BALANCES	(28,600)	(28,600)	33,445
FUND BALANCES, beginning of the year	28,600	28,600	27,798
FUND BALANCES, end of the year	\$ -	\$ -	\$ 61,243

	Public Works Expansion Development		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 200,000	\$ 200,000	\$ 200,982
Development fees	1,000,000	1,000,000	3,187,463
Interest	25,000	25,000	55,018
Total revenues	1,225,000	1,225,000	3,443,463
EXPENDITURES			
Current			
General Government	254,300	254,700	180,943
Capital outlay	2,746,300	2,745,900	1,733,573
Total expenditures	3,000,600	3,000,600	1,914,516
REVENUES OVER (UNDER) EXPENDITURES	(1,775,600)	(1,775,600)	1,528,947
NET CHANGE IN FUND BALANCES	(1,775,600)	(1,775,600)	1,528,947
FUND BALANCES, beginning of the year	1,775,600	1,775,600	2,525,148
FUND BALANCES, end of the year	\$ -	\$ -	\$ 4,054,095



SURPRISE
ARIZONA

S
T
A
T
I
S
T
I
C
A
L

S
E
C
T
I
O
N

City of Surprise
Government Wide Expenses by Function
Last Eight Fiscal Years¹

Fiscal Year	Cost of										Total		
	General Government	Public Safety	Public Works and Streets	Community Services	Culture and Recreation	Sales and Services	Administrative	Interest	Water	Replenishment		Sewer	Sanitation
1996/97	\$ 1,586,995	\$ 2,156,627	\$ 1,550,661	\$ 473,607	\$ 736,622	\$ 15,063	\$ 28,200	\$ 405,840	\$ 51,450	\$ -	\$ 1,297,325	\$ 289,554	\$ 8,591,944
1997/98	2,416,141	3,570,003	2,042,990	619,493	1,199,841	248,328	22,326	322,782	981,564	-	659,109	272,881	12,355,459
1998/99	2,033,748	3,478,494	3,438,777	1,566,072	1,337,691	159,541	20,361	734,904	640,315	-	991,467	481,446	13,472,814
1999/00	6,219,296	5,262,491	5,325,395	1,339,271	1,677,460	431,550	1,120,788	387,413	1,136,521	10,000	1,393,103	645,457	24,948,743
2000/01	5,341,087	8,617,222	6,095,121	1,925,975	6,253,556	591,290	85,717	2,306,856	1,249,808	32,074	2,017,488	960,484	35,476,679
2001/02	5,641,126	10,638,974	6,385,869	2,271,931	5,959,097	277,592	510,003	4,988,389	1,782,272	104,292	5,659,805	1,171,441	45,390,791
2002/03	7,123,534	12,421,571	6,075,568	2,765,942	8,814,719	368,044	138,464	3,439,953	2,520,676	269,688	5,299,290	1,286,846	50,524,295
2003/04	9,990,160	16,091,306	7,916,323	3,494,720	9,693,533	808,997	58,430	2,149,947	2,743,166	431,316	5,310,460	1,641,006	60,329,364

¹Restricted to last eight fiscal years, this is the third year a CAFR was prepared and the information available on expenditures prior to this was not available in sufficient detail to utilize in the preparation of this schedule.

**City of Surprise
Government Wide Revenues
Last Eight Fiscal Years¹**

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	Total
1996/97	\$ 3,764,415	\$ 651,804	\$ 2,750,033	\$ 5,491,692	\$ 1,598,720	\$ 458,793	\$ 961,438	\$ 15,676,895
1997/98	8,033,523	715,187	5,799,152	8,147,674	1,734,403	681,787	393,162	25,504,888
1998/99	7,664,019	1,089,718	4,954,062	11,034,560	2,034,199	1,256,548	330,398	28,363,504
1999/00	8,992,188	697,460	6,352,992	12,372,499	2,089,608	1,787,835	466,800	32,759,382
2000/01	14,194,713	671,386	11,523,869	17,252,888	2,330,568	5,539,740	310,662	51,823,828
2001/02	27,109,896	3,001,252	12,275,834	25,730,075	3,438,860	2,487,976	1,379,420	75,423,313
2002/03	26,738,629	472,278	57,003,550	23,064,286	5,919,754	(395,218)	1,137,581	113,940,860
2003/04	35,086,354	1,393,209	39,786,963	28,971,599	5,605,862	1,268,035	617,820	112,729,842

¹ Only eight years of financial information exists is sufficient detail to aggregate in this format.

City of Surprise
General Governmental Expenditures by Function²
Last Eight Fiscal Years¹

Fiscal Year	General Government	Public Safety	Public Works and Streets	Community Services	Culture and Recreation	Cost of Sales and Services	Administrative	Debt Service	Total
1996/97	\$ 1,744,174	\$ 2,657,903	\$ 1,841,866	\$ 473,607	\$ 791,971	\$ 15,063	\$ 28,200	\$ 1,426,715	\$ 8,979,499
1997/98	2,501,228	4,148,482	2,240,259	619,493	1,208,159	248,328	22,326	1,201,533	12,189,809
1998/99	2,343,274	4,556,219	3,687,772	156,072	2,452,738	159,541	20,361	1,207,914	14,583,889
1999/00	6,184,242	5,244,899	5,330,203	1,339,271	1,634,867	431,550	1,120,788	874,973	22,160,792
2000/01	5,838,779	8,895,622	6,197,062	1,925,975	6,246,519	591,290	85,717	4,664,269	34,445,233
2001/02	6,999,921	10,187,801	5,031,757	2,255,604	4,639,572	277,592	510,003	5,449,653	35,351,903
2002/03	6,978,327	12,032,201	4,965,417	2,726,882	8,577,218	368,044	138,464	6,097,029	41,883,582
2003/04	8,993,084	14,652,086	5,697,478	3,241,710	7,328,847	808,997	58,430	5,489,639	46,270,271

¹Restricted to last eight fiscal years, this is the third year a CAFR was prepared and the information available on expenditures prior to this was not available in sufficient detail to utilize in the preparation of this schedule.

²Does not include Capital Outlay

City of Surprise
General Government Revenues by Source
Last Eight Fiscal Years^{1,2}

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines	Rents	Donations/Grants	Development Fees	Investment Earnings	Miscellaneous	Total
1996/97	\$ 5,491,692	\$ 1,981,144	\$ 3,327,969	\$ 283,334	\$ 252,339	\$ 251,362	\$ 16,862	\$ 242,220	\$ 331,973	\$ 960,938	\$ 13,139,832
1997/98	8,147,674	3,776,847	3,179,802	334,849	248,515	357,947	10,756	507,360	545,668	296,310	17,405,730
1998/99	11,034,560	4,560,554	4,167,068	270,001	309,972	272,642	124,018	499,306	1,042,756	187,911	22,468,788
1999/00	12,372,499	5,345,864	3,554,763	187,012	403,310	461,878	16,318	685,424	1,387,719	445,753	24,860,541
2000/01	17,252,888	4,900,470	3,822,729	225,117	530,101	5,063,371	21,864	3,160,751	5,012,497	357,279	40,347,066
2001/02	21,733,191	4,518,042	6,065,448	6,925,318	681,061	5,630,923	9,336	4,551,017	2,127,574	1,560,586	53,802,496
2002/03	25,270,676	30,212,048	6,180,140	9,567,747	778,307	5,431,504	119,309	8,369,809	(111,290)	2,686,313	88,504,563
2003/04	27,126,908	1,844,692	9,962,621	14,716,657	689,721	5,524,818	468,774	15,421,946	715,156	2,352,780	78,824,073

¹ Only eight years of financial information exists is sufficient detail to aggregate in this format.

² Includes general, MPC, highway user, public safety development, debt service and special revenue funds.

City of Surprise
General Government Tax Revenues by Source
Last Eight Fiscal Years¹

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
1996/97	\$ 1,666,635	\$ 3,295,691	\$ 252,566	\$ 5,214,891
1997/98	1,454,176	6,044,297	342,561	\$ 7,841,033
1998/99	1,553,843	8,649,516	468,987	\$ 10,672,346
1999/00	1,681,033	9,530,907	761,629	\$ 11,973,569
2000/01	2,415,461	13,298,824	985,407	\$ 16,699,693
2001/02	2,350,274	17,198,508	1,174,630	\$ 20,723,412
2002/03	2,945,714	18,649,326	1,469,246	\$ 23,064,286
2003/04	3,039,352	24,087,555	1,844,692	\$ 28,971,599

¹ Only eight years of financial information exists is sufficient detail to aggregate in this format.

**City of Surprise
Primary Property Tax Levies and Collections¹**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
1996/97	1,016,647	923,966	90.9%	6,968	930,935	91.6%	85,712	8.4%
1997/98	1,013,125	937,128	92.5	18,776	955,904	94.4	57,221	5.6
1998/99	1,144,130	1,050,014	91.8	3,083	1,053,097	92.0	91,033	8.0
1999/00	1,250,000	1,238,869	99.1	-	1,238,869	99.1	11,131	0.9
2000/01	657,800	614,901	93.5	16,732	631,632	96.0	26,168	4.0
2001/02	1,394,900	1,371,554	98.3	-	1,371,554	98.3	23,346	1.7
2002/03	1,734,200	1,717,390	99.0	34,462	1,751,852	101.0	16,810	1.0
2003/04	2,251,700	2,237,772	99.4	26,091	2,263,863	100.5	13,928	0.6

¹Limited all schedules to eight years to be consistent with restrictions on revenue and expenditure schedules in this section.

City of Surprise
Assessed and Estimated Actual Value of Property
Last Eight Fiscal Years^{1,2}

Year	Real Property		Exemptions		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Real Property	Assessed Value	Estimated Actual Value	Actual Value	
1996/97	\$ 51,803,339	\$ 355,668,191	\$ 3,353,245	\$ 48,450,094	\$ 355,668,191		13.62%
1997/98	64,436,219	458,500,211	3,542,274	60,893,945	458,500,211		13.28
1998/99	92,039,533	672,327,949	5,030,081	87,009,452	672,327,949		12.94
1999/00	129,054,533	1,002,586,737	5,214,223	123,840,310	1,002,586,737		12.35
2000/01	181,991,654	1,507,408,770	5,897,004	176,094,650	1,507,408,770		11.68
2001/02	235,522,019	1,977,250,961	5,859,449	229,662,570	1,977,250,961		11.62
2002/03	287,397,730	2,419,215,265	7,206,831	280,190,899	2,419,215,265		11.58
2003/04	362,793,189	3,100,683,511	10,775,706	352,017,483	3,100,683,511		11.35

¹Limited all schedules to eight years to be consistent with restrictions on revenue and expenditure schedules in this section.

² Source: Maricopa County Assessor's Office

City of Surprise
Property Tax Rates²
Direct and Overlapping Governments
Last Eight Calendar Years¹

Year	City of Surprise				Maricopa County				Dysart School District			
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	County Library	Total County Millage	Operating Millage	Debt Service Millage	Total School District Millage	Other	Total
1997	0.4089	1.2806	1.6895	1.1054	0.1575	0.0421	1.3050	5.9232	2.2044	8.1276	0.3425	11.4646
1998	0.4155	0.9413	1.3568	1.1265	0.1364	0.0421	1.3050	4.3921	1.5918	5.9839	0.3425	8.9882
1999	0.4155	0.9413	1.3568	1.1472	0.1312	0.0421	1.3205	4.1829	1.4064	5.5893	0.3270	8.5936
2000	0.411	0.4400	0.8510	1.1641	0.1152	0.0421	1.3214	4.5713	1.5735	6.1448	1.8947	10.2119
2001	0.6632	0.1777	0.8409	1.1832	0.0876	0.0421	1.3129	4.3012	1.2575	5.5587	1.9791	9.6916
2002	0.6632	0.2469	0.9101	1.2108	0.0800	0.0421	1.3329	4.0828	1.3021	5.3849	1.9511	9.5790
2003	0.6936	0.2165	0.9101	1.2108	0.0700	0.0521	1.3329	4.3099	1.5850	5.8949	1.8891	10.0270
2004	0.7501	0.1600	0.9101	1.2108	0.0000	0.0521	1.2629	4.4518	1.3014	5.7532	1.8320	9.7582

¹Limited all schedules to eight years to be consistent with restrictions on revenue and expenditure schedules in this section.

² Source: Maricopa County Assessor's Office

**City of Surprise
Principal Taxpayers¹
June 30, 2003**

Taxpayer	Type of Property	2002-03 Assessed Valuation	As % of City's Total Assessed Valuation
Arizona Public Service Company	Gas & Electric Utility	\$ 8,969,099	2.47%
Del Webb Construction	Vacant Land	5,518,073	1.52%
Cox Communications	TV System	2,883,275	0.79%
Southwest Gas Corporation	Gas & Electric Utility	2,577,434	0.71%
Qwest U.S. West Communications, Inc.	TV System	2,526,905	0.70%
Wal Mart Stores	Shopping Center	2,243,628	0.62%
Grand Village Deborado LLC	Shopping Center	1,782,962	0.49%
Sun City Grand	Drive-In/Golf Course/Race Track	1,635,970	0.45%
Lowe's HIW Inc.	1-Story Commercial Building	1,570,928	0.43%
Paseo Village Ltd. Partnership	Shopping Center	1,543,167	0.43%
Surprises Village Co. LLC	Vacant Land	1,498,722	0.41%
Elliott Homes	Vacant Land	1,445,290	0.40%
Chapparral Winds, LLC	Nursing Homes	1,374,070	0.38%
Colorado & Sante Fe Re CO/Canyon View	Apartments	1,273,671	0.35%
Fulton Homes Corporation	Vacant Land	1,181,088	0.33%
Albertson's Stores	Shopping Center	1,161,967	0.32%
Alliance Residential Co.	Apartments	1,126,153	0.31%
Home Depot	Shopping Center	1,126,153	0.31%
Windmill Inn	Hotel	1,061,007	0.29%
Dillon Real Estate Co., Inc.	Shopping Center	1,050,304	0.29%
Agua Fria Water Company	Vacant Land	938,118	0.26%
		44,487,984	12.26%

¹Data obtained from the Maricopa County Treasurer's Office.

²Most recent data available.

City of Surprise
Computation of Legal Debt Margin 6%^{1,2}
June 30, 2004

Assessed valuations:	
Secondary Assessed Value	\$ 352,017,483
Unrestricted-Legal debt margin	
Debt limitation-6 percent of total secondary assessed valuation	\$ 21,121,049
Debt applicable to limitation:	
Not identified below	\$ -
Total debt applicable to limitation	-
Unrestricted Legal debt margin	<u><u>\$ 21,121,049</u></u>

Computation of Legal Debt Margin 20%^{1,2}
June 30, 2004

Assessed valuations:	
Secondary Assessed Value	\$ 352,017,483
Restricted-Legal debt margin	
Debt limitation-20 percent of total secondary assessed valuation	\$ 70,403,497
Debt applicable to limitation:	
Total Bonded Debt	\$ -
Less: Debt covered under 6% limitation	-
Amount available for repayment of	-
general obligation bonds	
Total debt applicable to limitation	-
Restricted Legal debt margin	<u><u>\$ 70,403,497</u></u>

¹The Arizona Constitution provides that the general obligation bonded indebtedness for a city for general municipal purposes may not exceed 6% of the secondary assessed valuation of the taxable property in that City. In addition to the 6% limitation for general municipal purpose bonds, cities may issue general obligation bonds up to an additional 20% of the secondary assessed valuation for supplying such city with water, artificial light, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds and recreational facilities.

²Does not include debt issued by the Surprise Municipal Property Corporation.

City of Surprise
Ratio of Net General Obligation Bonded Debt
To Assessed Value and Net General Obligation Bonded Debt per Capita
Last Eight Fiscal Years

Fiscal Year	Population¹	Secondary Assessed Value²	Gross Bonded Debt³	Less Debt Service Fund⁴	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1996/97	16,405	\$ 48,450,094	\$ 7,925,106	\$ 324,640	\$ 7,600,466	15.69%	\$ 463
1997/98	18,685	60,893,945	7,466,355	432,586	7,033,769	11.55	376
1998/99	26,145	87,009,452	6,993,345	426,816	6,566,529	7.55	251
1999/00	30,848 ⁶	123,840,310	6,505,784	468,715	6,037,069	4.87	196
2000/01	38,400	176,094,650	5,998,371	520,891	5,477,480	3.11	143
2001/02	45,125	229,662,570	5,470,796	189,929	5,280,867	2.30	117
2002/03	59,000	280,190,899	4,922,738	127,420	4,795,318	1.71	81
2003/04	65,000	352,017,483	4,353,867	123,741	4,230,126	1.20	65

¹Unless otherwise noted, annual estimates provided by Arizona Department of Economic Security or Maricopa County or City of Surprise

²From the Assessed and Estimated Actual Value of Property table in this section

³Amount does not include debt related to SMPC.

⁴Amount available for repayment of general obligation bonds

⁵Limited all schedules to eight years to be consistent with restrictions on revenue and expenditure schedules in this section.

⁶Per 2000 Census

City of Surprise
Ratio of Annual Debt Service Expenditures
For General Obligation Bonded Debt¹,
to Total General Governmental Expenditures
Last Eight Fiscal Years²

Fiscal Year	Principal	Interest	Total Debt Service	Total Governmental Expenditures	Ratio of Net Bonded Debt to Assessed Value
1996/97	\$ 1,024,775	\$ 430,140	\$ 1,454,915	\$ 6,953,615	20.92%
1997/98	878,751	345,109	1,223,860	10,441,905	11.72
1998/99	473,010	303,622	1,228,275	11,359,587	10.81
1999/00	487,561	285,057	772,618	21,763,663	3.55
2000/01	507,413	267,113	774,526	31,216,826	2.48
2001/02	527,575	246,588	774,163	36,672,981	2.11
2002/03	548,058	210,588	758,646	41,147,795	1.84
2003/04	568,871	190,550	759,421	50,203,416	1.51

¹General obligation bonds only, does not include the Municipal Property Corp..

²Limited all schedules to eight years to be consistent with restrictions on revenue and expenditure schedules in this section.

City of Surprise
Computation of Direct and Overlapping Bonded Debt
General Obligation Bonds
June 30, 2004

Jurisdiction	Net General Obligation Bonded Debt Outstanding²	Percentage Applicable to City	Amount Applicable to City
Direct:			
City of Surprise ¹	4,230,126	100.00%	4,230,126
Overlapping:			
Maricopa County ³	20,165,000	1.28%	258,112
Maricopa Community College District ³	261,015,000	1.28%	3,340,992
Dysart School District ³	21,000,000	66.68%	14,002,800
Total	<u><u>\$ 306,410,126</u></u>		<u><u>\$ 21,832,030</u></u>

¹Excluding the amount available for repayment in the debt service fund and MPC debt.

²Overlapping amounts provided by the Maricopa County Assessor's Office.

³Most recent data available.

City of Surprise
Property Value, Construction and Bank Deposits
Last Eight Fiscal Years¹

Year	Property Value ²		Commercial Construction		Residential Construction		Bank Deposits ⁴
	Commercial	Residential	Permits Completed	Commercial Valuation	Number of Units	Residential Valuation	
1997	\$ 179,607,529	\$ 176,060,662	23	\$5,627,655	981	\$69,876,893	\$ 11,148,000
1998	146,759,338	311,740,873	31	13,752,923	2,812	261,260,865	8,238,000
1999	293,383,163	378,944,786	30	17,387,674	3,070	298,613,520	7,519,000
2000	380,134,773	622,451,964	61	25,889,014	3,262	327,300,941	59,495,000
2001	513,908,896	993,499,874	86	25,187,420	3,215	323,247,757	159,677,000
2002	632,889,659	1,344,361,302	82	29,056,290	3,008	333,289,300	246,379,000
2003	745,887,218	1,673,328,047	115	42,051,593	4,176	524,558,864	344,590,000
2004	553,244,578	2,547,438,933	83 ²	61,909,831 ²	2,638 ²	360,866,120 ²	Not yet available

¹Limited all schedules to seven years to be consistent with restrictions on revenue and expenditure schedules in this section.

²Includes only the first six months of calendar year 2004

³Source: Maricopa County Treasurer's Office

⁴Source: Federal Deposit Insurance Corporation, most recent data available.

**City of Surprise
Miscellaneous Statistics
June 30, 2004**

Date of Incorporation	1960
Form of Government	Council/Manager
Number of full time employees (excluding police and fire):	
Classified	355
Exempt	66
Area in square miles	75
City of Surprise facilities and services:	
Miles of streets	630
Number of street lights	445
Culture and Recreation:	
Libraries	2
Community Centers	3
Parks	5
Swimming Pools	2
Fire Protection:	
Number of stations	4
Number of fire personnel and officers	66
Number of calls answered	6,628
Number of inspections conducted	1,399
Police Protection:	
Number of stations	2
Number of sworn police officers	82
Number of patrol units	45
Number of law violations:	
Criminal traffic Caseload	2,536
Misdemeanor Caseload	1,557
Civil Traffic Caseload	7,743
Hearings	217
Bench Trials	25
Jury Trials	5
Search Warrants	32
Orders of Protection & Injunction	195
Local Ordinance Violations	303
Sewerage System:	
Number of treatment plants	1
Number of service connections	26,991
Daily average treatment in gallons	4.1mgd
Maximum daily capacity of treatment plant in gallons	7.2mgd
Water systems:	
Number of service connections	7,593
Daily average consumption in gallons	1,974,000
Maximum daily capacity of plant in gallons	7.2mgd million gallons daily

**City of Surprise
Demographic Statistics
Per 2000 Census**

Total Population	30,848
Per Capita Income	\$ 21,451
Median Household Income	\$ 44,156
Median Age	50
School Enrollment	5,356
Education Level	13.5



SURPRISE
ARIZONA