



AHEAD OF THE CURVE



City of Surprise, Arizona
Comprehensive Annual Financial Report
for the fiscal year ended
June 30, 2006

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2006

Prepared by:
Finance Department



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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(continued)



October 27, 2006

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 (CAFR) of the City of Surprise for the fiscal year ended June 30, 2006.

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, 2006, 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, 2006, 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 76 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.

Since incorporation in 1960, Surprise has grown from 500 residents to a city of nearly 100,000 people in 2006. 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 302 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, Vision, 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.

Surprise Vision for the Future

Surprise defines vibrant Southwest living; a place of educational excellence where community, family, and traditions are built. Surprise is a collection of distinctive neighborhoods with a small town feel and big city amenities.

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 and a community facilities district designed to provide funding for the construction and acquisition of public infrastructure improvements. These last four 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 four 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. Housing starts are the city's primary source of revenue. By Surprise's standards, we are in a time of limited growth. From October 2005 to the end of the fiscal year (June 30, 2006), 1,823 homes were permitted; by contrast 1,982 permits were issued in July, August, and September of 2005.



This trend has continued to deepen in fiscal year 2007. Still, as a city on the fringe of a well-developed metropolitan area, our housing market compared to national averages indicates above average growth. Due to the rapid residential growth in the city over the last ten years, 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;
3. Restrict collections from an additional one and one-half percent (1.5%) construction sales tax to transportation improvements; and,
4. Maintain a minimum debt service reserved fund balance equal to one year of debt service payments.



Items number one and four 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 \$37.0 million (\$37,000,000) 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 constructing facilities and infrastructure that have been planned, programmed and saved for over the 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.

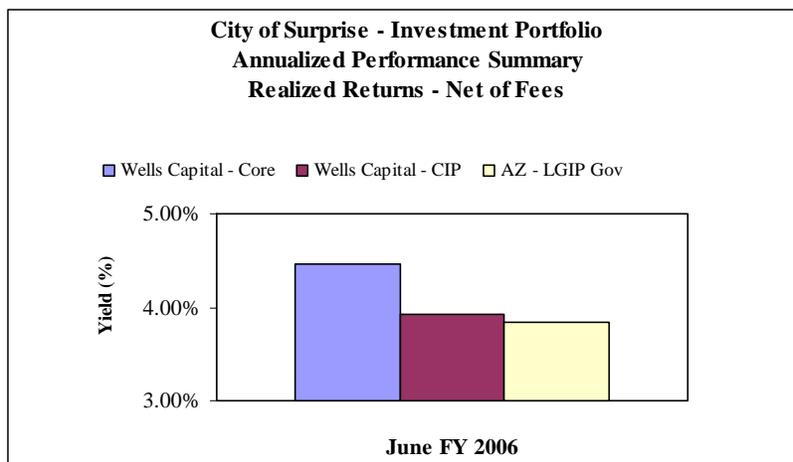


-Artists rendering of the Heard Museum West-

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. The City of Surprise is constructing a Public Safety/Municipal Court facility and an eight million gallon per day sewer plant expansion that will accommodate the construction of an additional 32,000 residences. During the past twelve months, the City of Surprise completed a satellite location for the renowned Heard Museum and the County constructed facilities to centralize its West Valley court system at Surprise Center. A new City Hall is in the design stages with an estimated completion date in 2008.

Cash management policies and practices.

State statutes permit municipalities 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 invests its idle funds with an external investment management company as well as the State Treasurer’s LGIP. The year-to-date yield on investments as of June 30, 2006 ranged from 3.84% to 4.47%, a full percentage point



higher. 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 (\$20,000,000). 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 Manager 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 State 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 the 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's) Certificate of Achievement for Excellence in Financial Reporting for our CAFR for the past four 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 Department. We would like to express our appreciation to all members of the Finance Department and other 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, 2005

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.



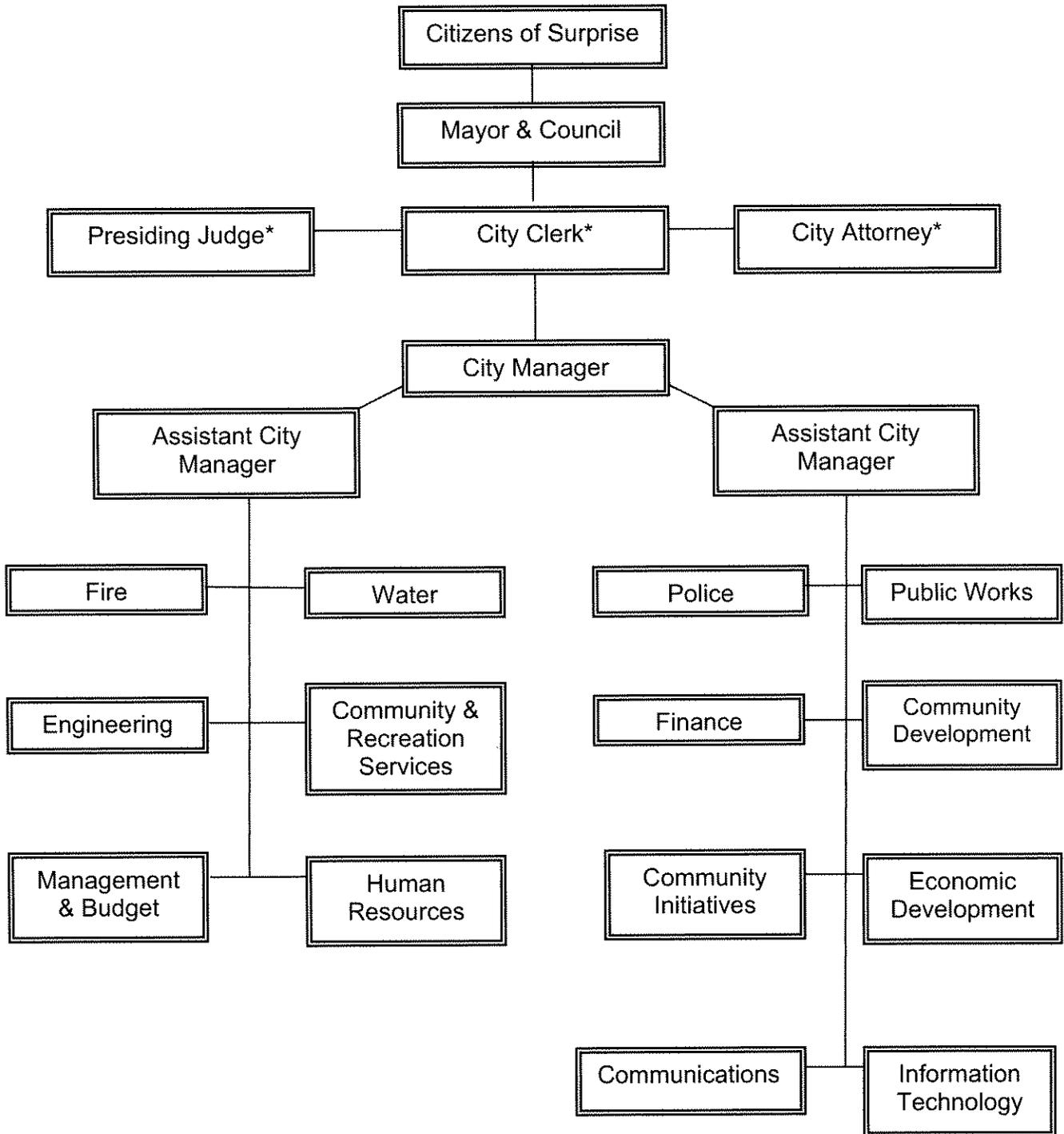
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

CITY OF SURPRISE ORGANIZATIONAL CHART FY2006



*Appointed by Council



COUNCIL MEMBERS

MAYOR JOAN H. SHAFER – Mayor@surpriseaz.com



Mayor Joan Shafer has set a record for "firsts" since 1990, when she was the first woman elected to the Surprise City Council. In 1994, she became the first woman mayor and the first elected mayor of the City of Surprise. After a string of two-year terms, she was re-elected in 1999 to a four-year term as mayor. Shafer is best known for her, "The Mayor is In" forums in local grocery stores where she informally disseminates information and listens to the concerns of her constituents. It's an idea copied by mayors nationally, even internationally.

Shafer worked as a medical records librarian at several Phoenix area hospitals and, for nearly 25 years, volunteered her time working with youth. She is a U.S. Navy veteran having served during the Korean War.

The widow of a Phoenix firefighter and arson investigator, Shafer enjoys spending time with her two children, five grandchildren and two cats. The Sun City Grand resident also likes reading and swimming. Shafer's vision for Surprise is "a City where a diverse population comes together in harmony and where services are sufficient to meet the needs."

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

VICE-MAYOR DANIEL ARISMENDEZ – danny.arizmendez@surpriseaz.com



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 opened in July 2004. He is also 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.

Arismendez's term expires in November 2007.

GWYN FORO – gwyn.foro@surpriseaz.com



Gwyn Foro, representative of the Palo Verde District (6), was elected to her first four-year term on the Surprise City Council in May 2005.

Foro was born into a Navy family, is a Navy veteran, and has worked for the Phoenix Police Department since 1990. She earned a Bachelor of Science degree in Justice Studies from Arizona State University and a Master of Arts degree in Human Resources from Ottawa University.

She has traveled extensively both in the United States and abroad. Foro has lived in Rose Garden since 2001 and shares her home with her mother and several geriatric cats. Her hobbies include designing stained glass and mosaics which she often donates to charity fundraisers.

According to the District 6 councilwoman, long-range planning is one of her many strengths; along with project analysis and decision-making.

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

Foro's term expires in November 2009.

JOE JOHNSON – joe.Johnson@surpriseaz.com



Joe Johnson, a Surprise resident for seven years, represents the Palm District (5). Elected to the City Council in a September 2004 recall election.

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.

Johnson's term expires in November 2009.

GARY “DOC” SULLIVAN – doc.Sullivan@surpriseaz.com



Gary “Doc” Sullivan, representative of the Mesquite 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 centers for Sports Arenas Inc. and AMF Bowling.

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 more than 33 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.

Sullivan’s term expires in November 2007.

MARTHA BAILS – martha.bails@surpriseaz.com



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 council member 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.

Bail's term expires in November 2007.

CLIFF ELKINS – cliff.elkins@surpriseaz.com



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 November of 2009.

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 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.

Elkins's term expires in November 2009.

APPOINTED OFFICIALS

Manager

Clerk

Attorney

Magistrate

James Rumpeltes

Sherry Aguilar

Michael Bailey

George Logan



SURPRISE
ARIZONA



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, 2006, 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, 2006, 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 September 1, 2006 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 considered in assessing 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.

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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
September 1, 2006

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, 2006. *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 66% from \$196.1 million to \$326.0 million, a difference of \$129.9 million.
 - The increases in Current other assets of \$27.9 million and Governmental Activity Capital assets of \$102.2 million more than offset the increase in liabilities of \$0.2 million.
 - The \$129.9 million excess of revenues (\$253.9 million) and transfers (\$0.8 million) over expenditures (\$124.8 million) was due primarily to Capital Outlays and Contributions (\$102.1 million).
- ❖ **Business Type net assets** increased 16% from \$169.1 million to \$196.4 million, a difference of \$27.3 million.
 - Current other assets increased \$9.7 million. Cash and cash equivalents made up \$8.4 million of the increase.
 - Capital assets (net) increased \$33.6 million. Construction in progress accounted for \$24.2 million of the increase.
 - Liabilities recorded a \$15.9 million increase. Accounts payable increased by \$7.8 million within the Current liabilities classification.
- ❖ **Governmental Activities Expenses** of \$124.8 million were exceeded by Program Revenues of \$184.7 million, a difference of \$59.9 million in Fiscal Year 2006.
 - Charges for Services (\$21.4 million) covered approximately 17% of expenses (\$124.8 million).
 - Operating & Capital Grants & Contributions (\$163.3 million) exceeded all Governmental Activities Expenses (\$124.8 million).
 - We rely upon General Revenues, such as taxes, to subsidize operating expenses.
 - General Revenues were (\$69.2 million).
- ❖ **Business Type Expenses** and transfers out were \$17.7 million and \$0.8 million respectively, while program revenues, including development fees, were \$43.9 million, a difference of \$25.4 million.
 - The addition of General Revenues \$2.0 million increases the change in net assets from \$25.4 million to \$27.3 million (rounding).
 - For the third consecutive year, all four Business type activities reported increases in net assets.

- ❖ **Component units** – The City includes four types of separate legal entities in its report – the City of Surprise Voluntary Firefighters’ Pension and Relief Fund, the Surprise Municipal Property Corporation, Marley Park Community Facilities District, 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 component units is available in Note 1. These four 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 16 and 17) 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 18. 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 16. 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 18. The fund financial statements begin on page 18, 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 30-31.

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, 2005 and June 30, 2006.

City of Surprise's Net Assets

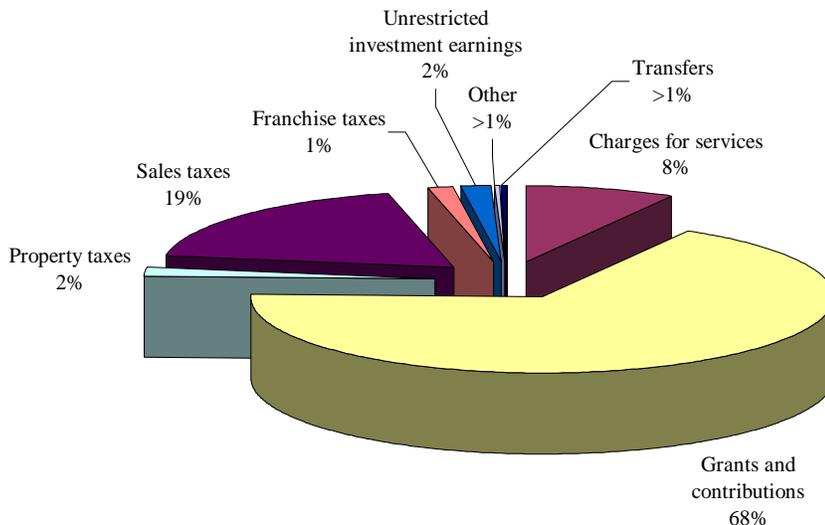
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	126.1	154.0	73.7	83.4	199.8	237.4
Capital assets, net	141.3	243.5	98.2	131.8	239.5	375.3
Total assets	<u>267.4</u>	<u>397.5</u>	<u>171.9</u>	<u>215.2</u>	<u>439.4</u>	<u>612.7</u>
Liabilities:						
Liabilities - except general obligations	12.4	15.5	2.9	18.8	15.3	34.3
Bonds Payable: Due within one year	2.9	3.0	-	-	2.9	3.0
Due within more than one year	56.0	53.0	-	-	56.0	53.0
Total liabilities	<u>71.4</u>	<u>71.5</u>	<u>2.9</u>	<u>18.8</u>	<u>74.3</u>	<u>90.3</u>
Net assets:						
Invested in capital assets, net						
of related debt	82.4	187.5	98.2	128.2	180.6	315.7
Restricted	56.1	62.6	-	-	56.1	62.6
Unrestricted	57.6	75.9	70.8	68.2	128.4	144.1
Total net assets	<u><u>196.1</u></u>	<u><u>326.0</u></u>	<u><u>169.1</u></u>	<u><u>196.4</u></u>	<u><u>365.1</u></u>	<u><u>522.4</u></u>

Our **combined net assets** increased by 43% from \$365.1 million to \$522.4 million, a difference of \$157.3 million.

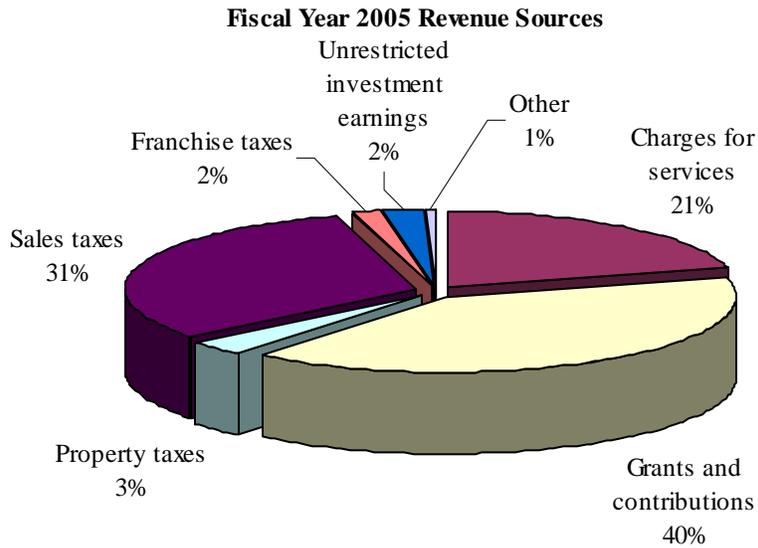
- ❖ 60% of Total net assets (\$522.4 million) are invested in Capital assets, net of related debt (\$315.7 million).
- ❖ A more in-depth analysis of this table shows that current and other assets (\$237.4 million) exceed total liabilities (\$90.3 million) by \$147.1 million, suggesting that all debts of the City of Surprise could be satisfied without having to sell off capital assets.

Governmental Activities Revenues and net transfers in for the fiscal year ended June 30, 2006 totaled \$254.8 million and are identified by major revenue source in percentage format as follows:

Fiscal Year 2006 Revenue Sources

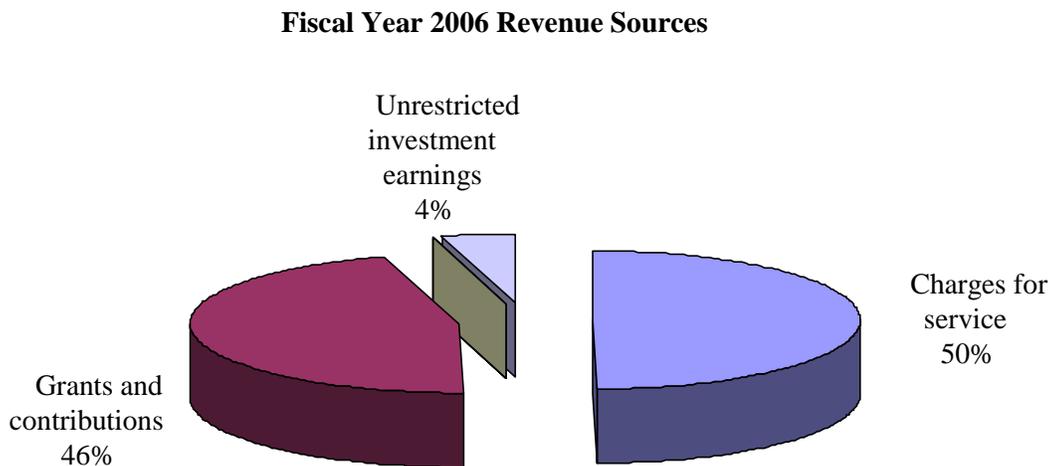


- ❖ The 2005 chart is provided for comparison purposes only.
 - Revenues for the fiscal year ended June 30, 2005 totaled \$120.1 million.



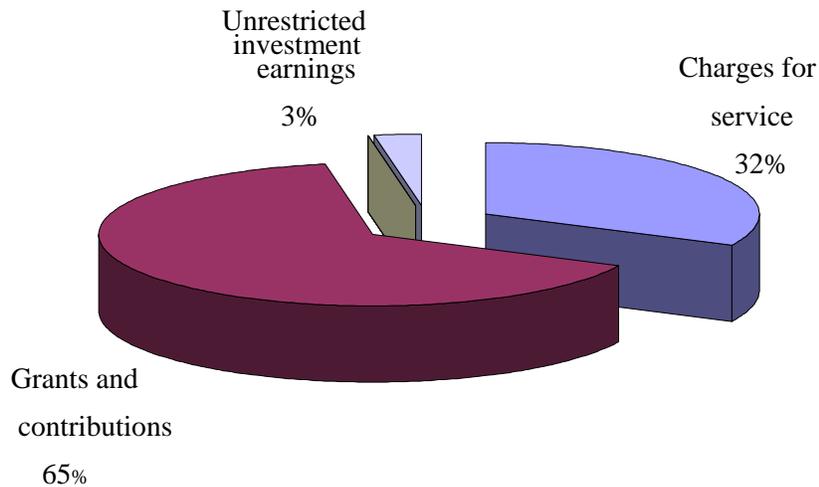
- ❖ Our largest revenue source continues to be Grants & Contributions at 68% (which includes development impact fees). Revenue recognition increased dramatically this year as the City recognized contributions related to the full implementation of GASB 34.
- ❖ Last year, Grants & Contributions accounted for 40% of total revenues.
- ❖ All other revenue sources remained consistent with past performance led by Sales Taxes at 19% of revenues and all other revenues combining for 13%.

Business Type Revenues for the fiscal year ended June 30, 2006 totaled \$45.9 million and are identified by major revenue source in percentage format as follows:



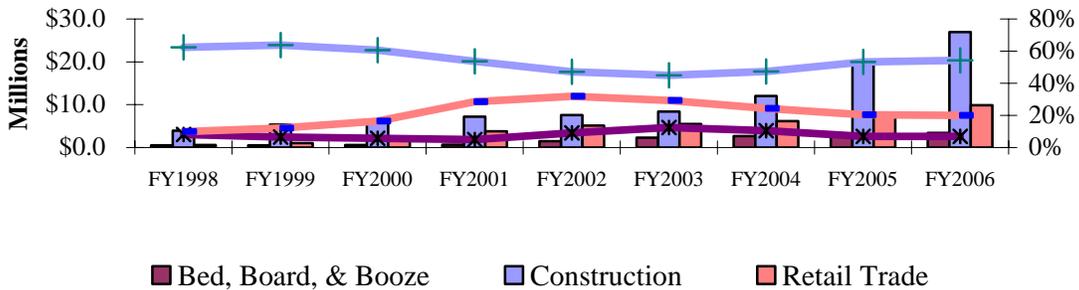
- ❖ The 2005 chart is provided for comparison purposes only.
 - Revenues for the fiscal year ended June 30, 2005 totaled \$47.3 million.

Fiscal Year 2005 Revenue Sources



- ❖ Total Business Type Revenues decreased \$1.4 million from FY 2005 to FY 2006. This reduction is directly related to a cooling in the housing market. Reduced Developer Contributions\Fees led Grants and contributions to be \$9.7 million lower than last year.
- ❖ Conversely, Charges for Services were \$7.6 million higher than last year and now constitute 50% of all Business Type Revenue.
- ❖ By Business Type revenues break down as follows: Water \$15.4 million; Sewer \$23.7 million; Sanitation \$4.5 million; Replenishment \$2.3 million.

**Sales Tax Collection -
Construction, Retail & BBB**

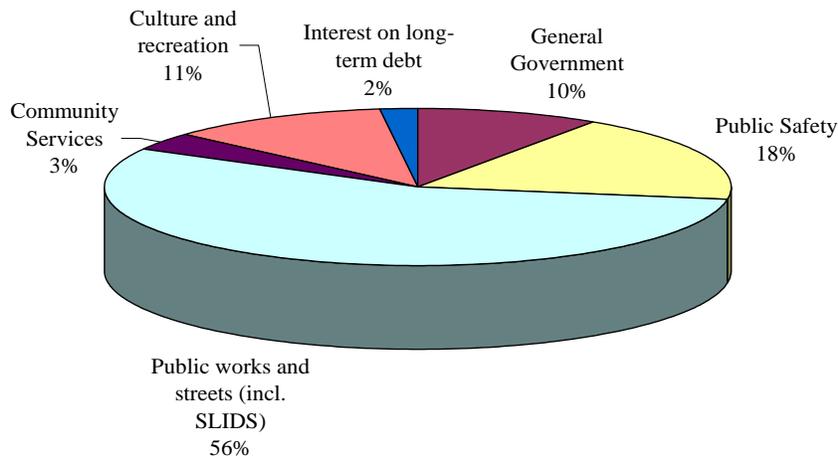


- ❖ The bars in this graph represent collections in dollars (left). The lines represent percentage of total tax collections (right).
- ❖ This graph shows that Construction sales tax accounts for more than 50% of all sales taxes collected in the City of Surprise followed by Retail taxes at about 20%. The reduction in Hotel-Restaurant-Bar (BBB) taxes is due to a change in tax structures two years ago.
- ❖ Combined, these three subcategories represent more than 80% of all sales tax revenue collected.

- ❖ Construction sales tax collections increased dramatically in Fiscal Year 2005. With an additional 1.5% added to the existing 2.2% on July 1, 2005 this figure continued to increase dramatically in Fiscal Year 2006.
- ❖ For more information regarding recent sales tax modifications refer to Economic Factors on page 15 of the MD&A.

Governmental Activities Expense (excluding transfers & capital outlays) for the fiscal year ended June 30, 2006 totaled \$124.8 million and are identified by function in percentage format as follows:

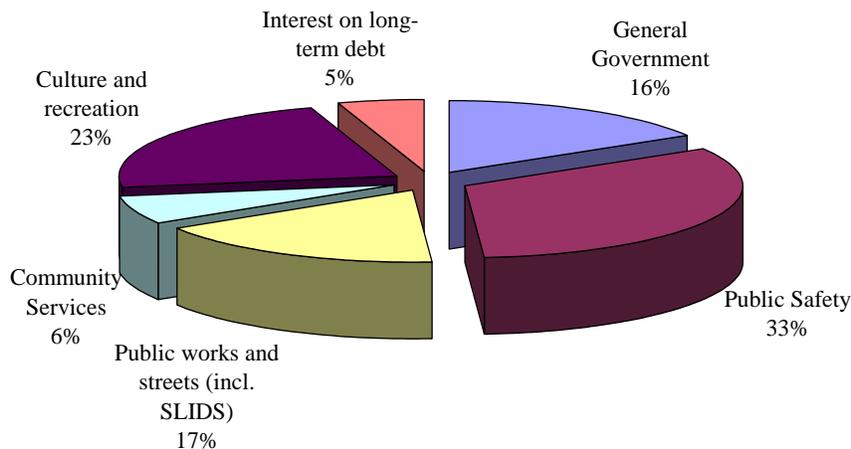
Fiscal Year 2006 Functional Expenses



The 2005 chart is provided for comparison purposes only.

- ❖ Expenses (excluding transfers & capital outlays) were \$56.0 million in 2005.

Fiscal Year 2005 Functional Expenses

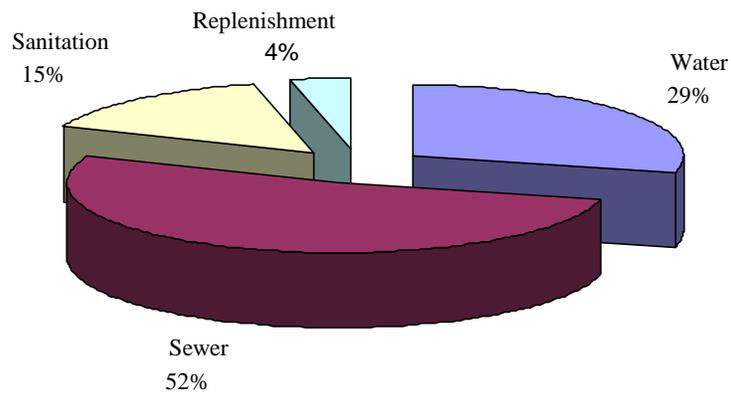


- ❖ Public Works & Streets accounted for approximately 56% (\$69.4 million in 2006 and \$9.8 million in 2005)
- ❖ Public Safety (Police, Fire, & Courts) was next with 18% of program expenditures (\$22.5 million in 2006 and \$18.1 million in 2005).

- ❖ Culture & Recreation (Parks & Recreation) was third with 11% (\$14.2 million in 2006 and \$12.6 million in 2005).
- ❖ General Government was fourth with 10% (\$11.9 million in 2006 and \$9.2 million in 2005).
- ❖ All others make up 5% (\$6.8 million in 2006 and \$6.4 million in 2005).

Business Type Expense (excluding transfers & capital outlays) for the fiscal year ended June 30, 2006 totaled \$17.7 million and are identified by function in percentage format as follows:

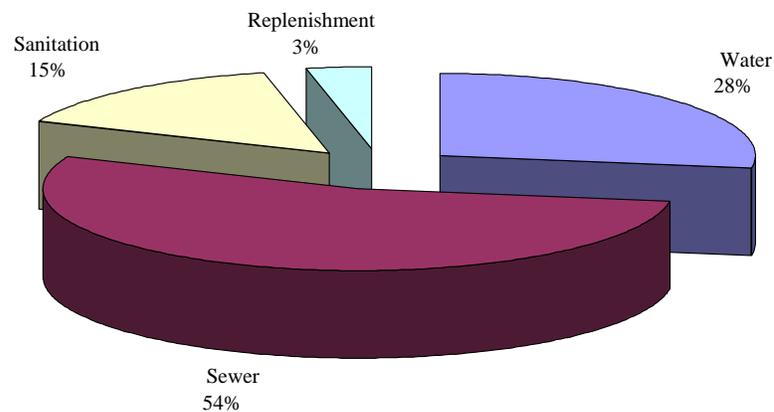
Fiscal Year 2006 Functional Expense



The 2005 chart is provided for comparison purposes only.

- ❖ Expenses (excluding transfers & capital outlays) were \$13.6 million in 2005.

Fiscal Year 2005 Functional Expense

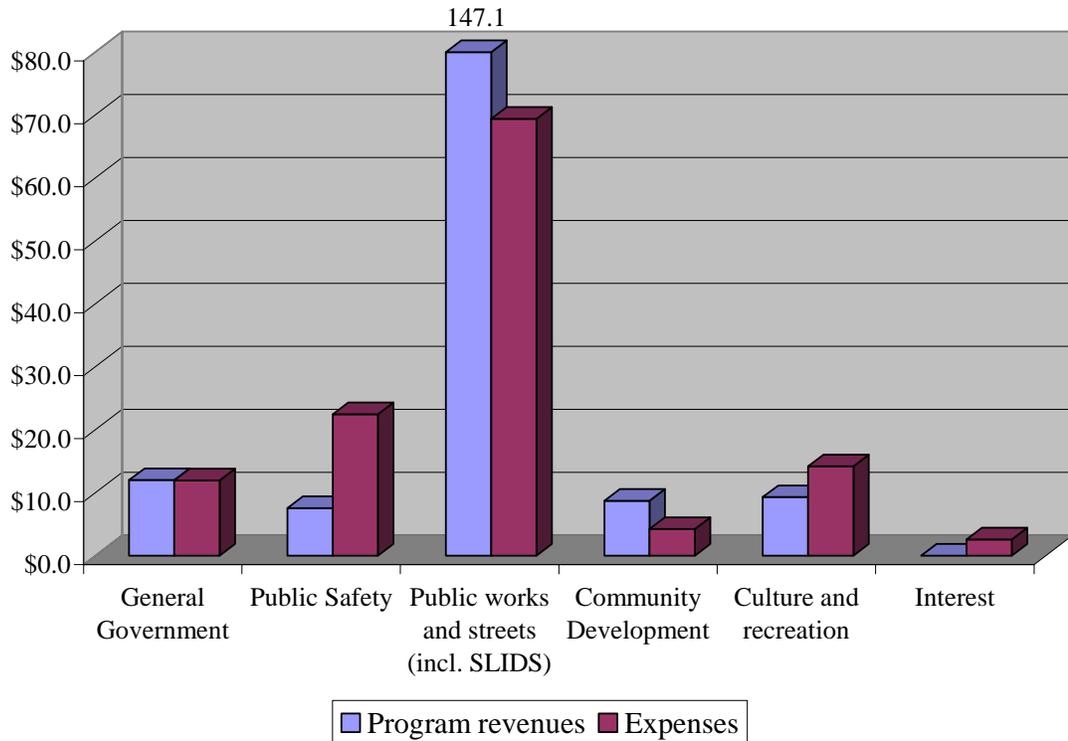


- ❖ \$14.7 million was related to Cost of sales and services an increase of \$3.4 million over the previous year.
- ❖ \$3.0 million was related to Depreciation an increase of \$0.7 over the previous year.
- ❖ By Business Type expenses break down as follows: Water \$5.1 million; Sewer \$9.3 million; Sanitation \$2.7 million; Replenishment \$0.6 million.

City of Surprises Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
REVENUES						
Program Revenues:						
Charges for service	25.1	21.4	15.3	22.9	40.4	44.3
Grants and contributions	42.0	163.3	30.7	21.0	72.8	184.3
General revenues:						
Property taxes	4.0	5.1	-	-	4.0	5.1
Sales taxes	37.4	48.6	-	-	37.4	48.6
Franchise taxes	2.3	3.0	-	-	2.3	3.0
Grants and contributions unrestricted	6.1	7.4	-	-	6.1	7.4
Unrestricted investment earnings	2.5	4.3	1.3	2.0	3.7	6.2
Other	0.7	0.8	-	-	0.7	0.8
Total revenues	<u>120.1</u>	<u>253.9</u>	<u>47.3</u>	<u>45.9</u>	<u>167.4</u>	<u>299.8</u>
EXPENSES						
Program activities:						
Governmental activities:						
General Government	9.2	11.9	-	-	9.2	11.9
Public Safety	18.1	22.5	-	-	18.1	22.5
Public works and streets (incl. SLIDS)	9.8	69.4	-	-	9.8	69.4
Community Services	3.6	4.2	-	-	3.6	4.2
Culture and recreation	12.6	14.2	-	-	12.6	14.2
Cost of sales and services (SLD's)						
Interest on long-term debt	2.8	2.6	-	-	2.8	2.6
Administrative	-	-	-	-	-	-
Business-type activities:						
Water	-	-	3.8	5.1	3.8	5.1
Sewer	-	-	7.3	9.3	7.3	9.3
Sanitation	-	-	2.1	2.7	2.1	2.7
Replenishment	-	-	0.5	0.6	0.5	0.6
Total expenses	<u>56.0</u>	<u>124.8</u>	<u>13.6</u>	<u>17.7</u>	<u>69.7</u>	<u>142.5</u>
Excess before transfers	<u>64.1</u>	<u>129.1</u>	<u>33.6</u>	<u>28.2</u>	<u>97.7</u>	<u>157.3</u>
Transfers in (out)	<u>(1.3)</u>	<u>0.8</u>	<u>1.3</u>	<u>(0.8)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>62.8</u>	<u>129.9</u>	<u>34.9</u>	<u>27.3</u>	<u>97.7</u>	<u>157.3</u>

FY 2006 Governmental Program Revenues & Expenses
(in Millions)



- ❖ More than 64% 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 Fiscal Year 2006 for the first time in years was less than 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 \$104.9 million (plus \$5.1 million in budgeted operating transfers). Budget transfers totaling \$1.4 million were made decreasing the final budget to \$103.5 million (plus \$5.1 million in budgeted operating transfers). Actual General Fund expenditures were \$60.5 million (plus \$2.7 million in operating transfers) leaving \$45.4 million in unused budget authority.
- ❖ Actual expenditures for Current – General Government were about 58% of budget due to statutory requirements to budget for all possible expenditures (unforeseen grants, etc...).
- ❖ Budget amendments are broken down below 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:**
 - \$0.1 million from General Operating to Court Salaries and Consulting
 - \$0.3 million from Contingencies to create a Land Acquisition Division.
 - \$2.1 million from Contingencies to Public Works for construction of a Central Plant Facility.
 - \$0.7 million from Contingencies to Public Works for construction of the Heard Museum.
 - \$0.1 million from Contingencies to Information Technology Department for Infrastructure.
 - **Between the General Fund and other Funds:**
 - \$1.4 million from General Fund Central Plant Project to Municipal Property Corporation Fund Public Safety Building Project.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	General Government		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Land	0.6	24.1	4.1	4.1	4.7	28.2
Parks Land	5.7	5.7			5.7	5.7
Buildings & Improvements	61.2	63.5			61.2	63.5
Equipment & Vehicles	7.6	10.6	2.5	3.0	10.1	13.6
Streets	30.1	82.8			30.1	82.8
Curb Gutter & Sidewalks	27.0	31.1			27	31.1
Traffic Signals	1.7	3.1			1.7	3.1
Storm Drains	4.4	4.5			4.4	4.5
Other Infrastructure	0.3	0.3			0.3	0.3
Sewer System			71.4	72.7	71.4	72.7
Water System			12.3	19.9	12.3	19.9
Construction in Progress	2.7	17.8	7.9	32.1	10.6	49.9
Total Capital Assets (Net)	141.3	243.5	98.2	131.8	239.5	375.3

- ❖ The **capital assets of the Governmental Activities funds** increased by \$102.2 million net of annual depreciation (\$165.8 million before depreciation). Governments with total revenues of \$10.0million or more, but less than \$100.0 million are required to capitalize all previously constructed infrastructure assets for fiscal periods beginning after June 15, 2006. GASB Statement No. 34 requires the inclusion of general infrastructure assets, and that they are capitalized in the financial statements at their historical cost or estimated historical cost. Governments' further are required to report deprecation for all capital assets, including general infrastructure assets.
 - Major additions to Governmental Capital Assets for FY06 are as follows:
 - To comply with GASB 34, Infrastructure was reported and valued as follows:
 - \$110.5 million - streets (less \$52.0 million in prior years depreciation)
 - \$23.3 million – land under streets
 - \$6.0 million – curb, gutter, and sidewalks (less \$1.0 million in prior years depreciation.
 - \$1.3 million – traffic signals
 - Fire Station #301 was completed and booked at \$2.5 million
 - \$0.8 million was spent on Fire vehicles and apparatus
 - \$1.7 million was spent on Police vehicles and electronic equipment
 - Construction in Progress as of the end of FY06 included:
 - \$0.4 million Fire Station #305
 - \$0.6 million Fire Station #306
 - \$2.8 million Cultural Arts Facility
 - \$1.5 million Youth Baseball/Softball Complex
 - \$0.3 million Tennis/Racquet Facility
 - \$1.1 million New City Hall
 - \$0.7 million Surprise Center Streetscape
 - \$0.3 million Surprise 11 Broadcast Center
 - \$1.2 million Bell Road Improvements
 - \$0.2 million Gaines Park
 - \$1.7 million Police Public Safety Building
- ❖ The **capital assets of the Business-type Activities funds** increased by \$33.6 million net of annual depreciation (\$35.6 million before depreciation).
 - The City of Surprise began construction of the third expansion of the sewer plant increasing daily treatment of sewage from 7.2 million gallons per day (mgd) to 15.2 mgd. \$31.6 million in business type activities capital construction was started in the last twelve months. This amount was added to construction in progress this year. This was offset by a \$7.5 million reduction in construction in progress.
 - Buildings and Equipment increased by \$11.5 million.
 - 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 \$60.8 million to \$58.2 million. Greater detail of outstanding Long-term debt can be found in note six (6).
 - \$2.9 million in notes and bonds were retired this year.
 - \$0.3 million in compensated employee absences was added to long-term debt.

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 AA-.

**City of Surprise, AZ
Secondary Tax Rate
1990 - 2007**



- ❖ **Secondary Property Tax Rate** – The Fiscal Year 2007 rate increased by ½ cent (\$0.005) from the previous year. The above graph shows that since 1995 the rate has dropped precipitously from \$1.76 to \$0.19.
- ❖ **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%
- ❖ **Transaction Privilege Tax/General Sales Tax** – On July 1, 2005 the City of Surprise modified its tax rate. The Construction portion of the General Sales Tax was increased from 2.2% to 3.7%. The additional 1.5% was specifically designated to pay costs related to new roadways and to refurbish existing transportation corridors.



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.



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	147,293,964	75,644,449	222,938,413
Receivables (net of allowances)			
Accounts	-	3,934,911	3,934,911
Interest	170,343	41,446	211,789
Taxes and franchise fees	1,099,544	-	1,099,544
Grants	625,494	-	625,494
Intergovernmental	1,760,909	-	1,760,909
Other	230,030	-	230,030
Debt issuance cost, net of amortization	532,844	-	532,844
Other assets	2,292,376	3,720,742	6,013,118
Capital assets, non-depreciable	47,673,574	36,129,339	83,802,913
Capital assets, depreciable	279,290,329	109,200,581	388,490,910
Accumulated depreciation	<u>(83,489,680)</u>	<u>(13,488,562)</u>	<u>(96,978,242)</u>
 Total assets	 <u>397,479,727</u>	 <u>215,182,906</u>	 <u>612,662,633</u>
 LIABILITIES			
Accounts payable	\$ 4,756,011	\$ 8,534,869	\$ 13,290,880
Accrued payroll and related taxes	1,643,342	161,171	1,804,513
Deposits	6,720	198,588	205,308
Accrued interest payable	1,206,963	-	1,206,963
Unearned revenues	5,877,039	5,861,431	11,738,470
Contracts payable, due in less than one year	-	280,000	280,000
Contracts payable, due in more than one year		3,602,994	3,602,994
Other liabilities	200,449	-	200,449
Compensated absences payable, due in less than one year	1,466,248	146,403	1,612,651
Compensated absences payable, due in more than one year	318,629	-	318,629
Bonds, loans, and payables due in less than one year	3,044,899	-	3,044,899
Bonds, loans, and payables due in more than one year	<u>52,966,353</u>	<u>-</u>	<u>52,966,353</u>
 Total liabilities	 <u>71,486,653</u>	 <u>18,785,456</u>	 <u>90,272,109</u>
 NET ASSETS			
Invested in capital assets, net of related debt and depreciation	187,462,971	128,238,364	315,701,335
Restricted for			
Debt service	458,821	-	458,821
Special revenue	62,118,371	-	62,118,371
Unrestricted	75,952,911	68,159,086	144,111,997
Total net assets	<u>\$ 325,993,074</u>	<u>\$ 196,397,450</u>	<u>\$ 522,390,524</u>

See Notes to Financial Statements



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS	General Fund	Municipal Property Corporation Fund	Highway User Fund
ASSETS			
Cash and cash equivalents	\$ 75,915,607	\$ 23,273,231	\$ 116,217
Receivables (net of allowances)			
Interest	102,448	6,451	-
Taxes and franchise fees	1,099,544	-	-
Grants	625,494	-	-
Intergovernmental	1,218,148	-	542,761
Due from other funds	485,761	-	-
Other	178,797	-	-
Prepaid items	3,067	-	-
	<u>79,628,866</u>	<u>23,279,682</u>	<u>658,978</u>
Total assets	<u>\$ 79,628,866</u>	<u>\$ 23,279,682</u>	<u>\$ 658,978</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 2,208,403	\$ 588,861	\$ 154,545
Accrued payroll and related taxes	1,562,409	-	73,449
Due to other funds	-	-	-
Deposits	6,720	-	-
Deferred revenues	831,970	4,999,610	45,459
Other liabilities	200,449	-	-
	<u>4,809,951</u>	<u>5,588,471</u>	<u>273,453</u>
Total liabilities	<u>4,809,951</u>	<u>5,588,471</u>	<u>273,453</u>
 FUND BALANCE			
Fund Balances			
Reserved for prepaid items	-	-	-
Unreserved, reported in			
General fund	74,818,915	-	-
Special revenue funds	-	17,691,211	385,525
Debt service funds	-	-	-
Total fund balance	<u>74,818,915</u>	<u>17,691,211</u>	<u>385,525</u>
Total liabilities and fund balance	<u>\$ 79,628,866</u>	<u>\$ 23,279,682</u>	<u>\$ 658,978</u>

(Continued)
See Notes to Financial Statements

Police Development Fee Fund	Fire Development Fee Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,019,959	\$ 4,945,425	\$ 37,500,615	\$ 145,771,054
3,361	3,460	51,263	166,983
-	-	-	1,099,544
-	-	-	625,494
-	-	-	1,760,909
-	-	-	485,761
-	-	51,232	230,029
439,636	-	1,849,673	2,292,376
<u>\$ 4,462,956</u>	<u>\$ 4,948,885</u>	<u>\$ 39,452,783</u>	<u>\$ 152,432,150</u>
\$ 32,707	\$ 173,053	\$ 1,379,297	\$ 4,536,866
-	-	4,041	1,639,899
-	-	485,761	485,761
-	-	-	6,720
-	-	-	5,877,039
-	-	-	200,449
<u>32,707</u>	<u>173,053</u>	<u>1,869,099</u>	<u>12,746,734</u>
439,636	-	1,849,673	2,289,309
-	-	-	74,818,915
3,990,613	4,775,832	35,275,190	62,118,371
-	-	458,821	458,821
<u>4,430,249</u>	<u>4,775,832</u>	<u>37,583,684</u>	<u>139,685,416</u>
<u>\$ 4,462,956</u>	<u>\$ 4,948,885</u>	<u>\$ 39,452,783</u>	<u>\$ 152,432,150</u>

(Continued)
See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE

TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2006

Total governmental fund balances	\$ 139,685,416
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in funds	243,474,223
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	532,844
Current liabilities, including accrued interest, are not due and payable in the current period, and therefore, are not reported in the funds	(1,206,963)
Internal service funds used by the management to charge cost of insurance to individual fund	1,299,193
Internal service funds compensated absences included in calculation of charge individual funds as well as in Long-term liabilities.	4,490
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(57,796,129)</u>
Net assets of governmental activities	<u><u>\$ 325,993,074</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, 2006

	General Fund	Municipal Property Corporation Fund	Highway User Fund
REVENUES			
Taxes	\$ 49,943,993	\$ -	\$ -
Licenses and permits	2,990,582	-	-
Intergovernmental	8,769,117	-	2,713,655
Charges for services	12,707,570	-	-
Grants	828,065	-	209,295
Fines	1,444,508	-	-
Rents	413,330	4,861,100	-
Development fees	-	-	-
Interest	2,407,531	593,832	7,038
Other	1,765,022	-	29,931
	<u>81,269,718</u>	<u>5,454,932</u>	<u>2,959,919</u>
EXPENDITURES			
Current			
General government	11,491,744	-	-
Public safety	20,227,822	-	-
Public works and streets	4,202,864	219	3,232,636
Community development	4,164,806	-	-
Culture and recreation	8,518,085	-	320,282
Capital outlay	11,936,919	3,095,465	1,429,650
Debt service			
Principal	-	2,335,000	-
Interest and fiscal charges	-	2,479,705	-
	<u>60,542,240</u>	<u>7,910,389</u>	<u>4,982,568</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>20,727,478</u>	<u>(2,455,457)</u>	<u>(2,022,649)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(2,669,174)</u>	<u>-</u>	<u>2,052,274</u>
Total other financing sources (uses)	<u>(2,669,174)</u>	<u>-</u>	<u>2,052,274</u>
NET CHANGE IN FUND BALANCE	<u>18,058,304</u>	<u>(2,455,457)</u>	<u>29,625</u>
FUND BALANCES, beginning of year	<u>56,760,611</u>	<u>20,146,668</u>	<u>355,900</u>
FUND BALANCES, end of year	<u>\$ 74,818,915</u>	<u>\$ 17,691,211</u>	<u>\$ 385,525</u>

(Continued)
See Notes to Financial Statements

Police Development Fee Fund	Fire Development Fee Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,752,079	\$ 53,696,072
-	-	-	2,990,582
-	-	529,800	12,012,572
-	-	836,011	13,543,581
-	36,023	865,465	1,938,848
-	-	70,661	1,515,169
-	-	-	5,274,430
2,435,402	2,619,240	10,966,422	16,021,064
97,743	114,769	995,082	4,215,995
-	-	343,007	2,137,960
<u>2,533,145</u>	<u>2,770,032</u>	<u>18,358,527</u>	<u>113,346,273</u>
6,900	6,375	259,369	11,764,388
577,077	200,000	72,091	21,076,990
-	-	1,858,533	9,294,252
-	-	11,216	4,176,022
-	-	3,298,923	12,137,290
528,974	1,545,523	6,220,078	24,756,609
-	-	606,531	2,941,531
-	-	155,984	2,635,689
<u>1,112,951</u>	<u>1,751,898</u>	<u>12,482,725</u>	<u>88,782,771</u>
<u>1,420,194</u>	<u>1,018,134</u>	<u>5,875,802</u>	<u>24,563,502</u>
-	-	616,900	-
-	-	616,900	-
<u>1,420,194</u>	<u>1,018,134</u>	<u>6,492,702</u>	<u>24,563,502</u>
<u>3,010,055</u>	<u>3,757,698</u>	<u>31,090,982</u>	<u>115,121,914</u>
<u>\$ 4,430,249</u>	<u>\$ 4,775,832</u>	<u>\$ 37,583,684</u>	<u>\$ 139,685,416</u>

(Continued)
See Notes to Financial Statements

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, 2006

Net change in fund balances - total governmental funds		\$ 24,563,502
<p>Governmental funds report capital outlays as expenditures. do not record capital contributions as revenue, do not record gains (losses) on the sale of capital assets and do not record depreciation expense. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense, capital contributions as revenue and gains(losses) as other revenue. In the current period, these amounts are:</p>		
Capital outlays	24,756,609	
Capital contributions - to governmental funds	140,603,645	
Gain (loss) on sale of capital assets	(45,658)	
Transfers of capital assets from proprietary funds	832,783	
Depreciation expense	<u>(64,000,073)</u>	102,147,306
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due</p>		
		56,050
<p>Internal service funds used by management to charge the cost of insurance to individual funds</p>		
		572,026
<p>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.</p>		
		(274,062)
<p>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:</p>		
Repayments on long-term debt	2,941,531	
Amortization of deferred charges issuance cost	(38,060)	
Amortization on issuance premiums (amortized over the life of the debt)	131,080	
Amortized charges on refunding (amortized over the life of the debt)	(161,176)	
Amortization of administrative costs on long-term debt issuance	<u>1,500</u>	<u>2,874,875</u>
		<u>\$ 129,939,697</u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
ASSETS				
Current assets				
Cash and cash equivalents	\$ 16,398,096	\$ 47,923,528	\$ 2,553,430	\$ 8,769,395
Receivables (net of allowances)				
Accounts	1,314,941	1,890,082	608,686	121,202
Interest	7,813	27,294	4,800	1,539
Other assets	1,010,356	2,710,301	85	-
	<u>18,731,206</u>	<u>52,551,205</u>	<u>3,167,001</u>	<u>8,892,136</u>
Non-current assets				
Capital assets	32,415,133	109,050,645	3,089,389	774,753
Accumulated depreciation	(1,615,221)	(11,149,930)	(716,891)	(6,520)
	<u>30,799,912</u>	<u>97,900,715</u>	<u>2,372,498</u>	<u>768,233</u>
Total assets	<u>49,531,118</u>	<u>150,451,920</u>	<u>5,539,499</u>	<u>9,660,369</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,141,204	\$ 7,120,102	\$ 251,655	\$ 21,908
Accrued payroll and related taxes	23,855	77,285	55,256	4,775
Deposits	34,365	96,806	58,375	9,042
Deferred revenues	779,200	4,747,020	282,523	52,688
Compensated absences payable	31,151	77,616	31,969	5,667
Contracts payable	280,000	-	-	-
	<u>2,289,775</u>	<u>12,118,829</u>	<u>679,778</u>	<u>94,080</u>
Non-current liabilities				
Contracts payable	3,602,994	-	-	-
	<u>3,602,994</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>5,892,769</u>	<u>12,118,829</u>	<u>679,778</u>	<u>94,080</u>
NET ASSETS				
Invested in capital assets, net of related debt	27,196,918	97,900,715	2,372,498	768,233
Unrestricted	16,441,431	40,432,376	2,487,223	8,798,056
Total net assets	<u>\$ 43,638,349</u>	<u>\$ 138,333,091</u>	<u>\$ 4,859,721</u>	<u>\$ 9,566,289</u>

(Continued)
 See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 75,644,449	\$ 1,522,910
3,934,911	-
41,446	3,361
3,720,742	-
<u>83,341,548</u>	<u>1,526,271</u>
145,329,920	-
(13,488,562)	-
<u>131,841,358</u>	<u>-</u>
<u>215,182,906</u>	<u>1,526,271</u>
\$ 8,534,869	219,145
161,171	3,443
198,588	-
5,861,431	-
146,403	4,490
280,000	-
<u>15,182,462</u>	<u>227,078</u>
3,602,994	-
<u>3,602,994</u>	<u>-</u>
<u>18,785,456</u>	<u>227,078</u>
128,238,364	-
68,159,086	1,299,193
<u>\$ 196,397,450</u>	<u>\$ 1,299,193</u>

(Continued)
See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
OPERATING REVENUES				
Charges for services	\$ 7,091,232	\$ 10,844,860	\$ 3,893,555	\$ 1,037,188
OPERATING EXPENSES				
Cost of sales and services	4,629,783	6,989,358	2,463,933	631,629
Depreciation	471,032	2,272,400	241,485	5,467
Total operating expenses	5,100,815	9,261,758	2,705,418	637,096
Operating income	1,990,417	1,583,102	1,188,137	400,092
NONOPERATING REVENUES				
Development fees	5,126,431	7,967,098	-	1,090,641
Extension fees	12,110	462,621	-	-
Interest revenue	450,217	1,262,129	47,553	218,247
Total nonoperating revenues	5,588,758	9,691,848	47,553	1,308,888
Income before transfers	7,579,175	11,274,950	1,235,690	1,708,980
CAPITAL CONTRIBUTIONS				
Capital contributions	2,674,495	3,154,285	552,437	-
TRANSFERS				
Transfers	-	(832,783)	-	-
CHANGE IN NET ASSETS	10,253,670	13,596,452	1,788,127	1,708,980
NET ASSETS, beginning of the year	33,384,679	124,736,639	3,071,594	7,857,309
NET ASSETS, ending of year	<u>\$ 43,638,349</u>	<u>\$ 138,333,091</u>	<u>\$ 4,859,721</u>	<u>\$ 9,566,289</u>

(Continued)
See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 22,866,835	\$ 1,686,901
14,714,703	1,146,234
2,990,384	-
<u>17,705,087</u>	<u>1,146,234</u>
<u>5,161,748</u>	<u>540,667</u>
14,184,170	-
474,731	-
1,978,146	31,359
<u>16,637,047</u>	<u>31,359</u>
<u>21,798,795</u>	<u>572,026</u>
6,381,217	-
<u>(832,783)</u>	<u>-</u>
27,347,229	572,026
<u>169,050,221</u>	<u>727,167</u>
<u>\$ 196,397,450</u>	<u>\$ 1,299,193</u>

(Continued)
See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,492,122	\$ 15,072,751	\$ 4,007,442	\$ 1,023,282
Cash paid to suppliers	(3,960,512)	1,832,061	(1,282,625)	(462,206)
Cash paid to employees	(455,980)	(1,795,618)	(998,342)	(154,871)
Cash paid for insurance	-	-	-	-
Net cash provided by (used in) operating activities	<u>2,075,630</u>	<u>15,109,194</u>	<u>1,726,475</u>	<u>406,205</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING TRANSACTIONS				
Proceeds received from development fees	5,126,431	7,967,098	-	1,090,641
Proceeds received from extension fees	12,110	462,621	-	-
Acquisitions, construction, and transfer of capital assets	<u>(7,189,538)</u>	<u>(19,207,127)</u>	<u>(426,937)</u>	<u>(633,943)</u>
Net cash provided by (used in) capital and related financing transactions	<u>(2,050,997)</u>	<u>(10,777,408)</u>	<u>(426,937)</u>	<u>456,698</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	<u>447,186</u>	<u>1,242,152</u>	<u>42,753</u>	<u>218,272</u>
Net cash provided by investing activities	<u>447,186</u>	<u>1,242,152</u>	<u>42,753</u>	<u>218,272</u>
NET CHANGE IN CASH	471,819	5,573,938	1,342,291	1,081,175
CASH AND CASH EQUIVALENTS, beginning of year	<u>15,926,277</u>	<u>42,349,590</u>	<u>1,211,139</u>	<u>7,688,220</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 16,398,096</u>	<u>\$ 47,923,528</u>	<u>\$ 2,553,430</u>	<u>\$ 8,769,395</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income	<u>\$ 1,990,417</u>	<u>\$ 1,583,102</u>	<u>\$ 1,188,137</u>	<u>\$ 400,092</u>
Rconciliation of operating income to net cash provided (used) by operating activities:				
Depreciation expense	471,032	2,272,400	241,485	5,467
(Increase) decrease in				
Accounts receivable	(521,799)	(397,423)	(146,507)	(53,234)
Other assets	-	-	(85)	-
Increase (decrease) in				
Accounts payable	621,397	7,003,572	150,692	17,269
Accrued payroll and taxes	11,267	15,965	21,442	(1,961)
Utility deposits	(73,542)	(57,030)	1,560	(10,314)
Deferred revenues	(3,769)	4,682,344	258,919	49,642
Compensated absences payable	19,965	6,264	10,832	(756)
Other Liabilities	<u>(439,338)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total adjustments	<u>85,213</u>	<u>13,526,092</u>	<u>538,338</u>	<u>6,113</u>
Net cash provided by (used in) operating activities	<u>\$ 2,075,630</u>	<u>\$ 15,109,194</u>	<u>\$ 1,726,475</u>	<u>\$ 406,205</u>

(Continued)

See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 26,595,597	\$ 1,686,901
(3,873,282)	66,952
(3,404,811)	(79,662)
<u>-</u>	<u>(913,251)</u>
<u>19,317,504</u>	<u>760,940</u>
14,184,170	-
474,731	-
<u>(27,457,545)</u>	<u>-</u>
<u>(12,798,644)</u>	<u>-</u>
<u>1,950,363</u>	<u>28,090</u>
<u>1,950,363</u>	<u>28,090</u>
8,469,223	789,030
<u>67,175,226</u>	<u>733,880</u>
<u>\$ 75,644,449</u>	<u>\$ 1,522,910</u>
<u>\$ 5,161,748</u>	<u>\$ 540,667</u>
2,990,384	-
(1,118,963)	-
(85)	-
7,792,930	218,199
46,713	472
(139,326)	-
4,987,136	-
36,305	1,602
(439,338)	-
<u>14,155,756</u>	<u>220,273</u>
<u>\$ 19,317,504</u>	<u>\$ 760,940</u>

(Continued)

See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
JUNE 30, 2006

	Volunteer Firefighters Pension and Relief Fund
ASSETS	
Cash and cash equivalents	\$ 91,717
Receivables	
Interest	<u>400</u>
Total assets	<u>92,117</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net assets	<u><u>\$ 92,117</u></u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Volunteer Firefighters Pension and Relief Fund
REVENUES	
Interest	\$ 2,929
Total revenues	2,929
NET ASSETS, beginning of year	89,188
NET ASSETS, end of year	\$ 92,117



SURPRISE
ARIZONA

**CITY OF SURPRISE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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 2003, 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 six 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 a special revenue fund.

Marley Park Community Facilities District is maintained by the City for a developing area. The CFD's board is the same as the City's council. CFD rates are approved by the City's council. The CFD is reported in a special revenue fund.

For the fiscal year ended June 30, 2006, 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 and proprietary 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 transportation, the construction, repairs, and maintenance of public works and streets.

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

The ***fire safety development fee fund*** accounts for revenue and expenditures that are legally restricted to expenditures for fire 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 some of 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 and invested with Wells Capital Management.

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 fair value.

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, 2006 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 basis 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 governmental 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 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.

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 Manager 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.

The budget is adopted at the department 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 \$223,030,130 as of June 30, 2006, including the \$91,717 from the Volunteer Firefighters Pension Fund.

Deposits and Invested Deposits - At year-end, the carrying amount of the City's operating deposits were \$85,369 and the bank balance was \$3,277,517. 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 \$3,653,079 with a fiscal agent (Zion's Bank) under the Municipal Property Corporation Fund.

Cash Invested - Funds of \$31,376,158 are held in the L.G.I.P and \$187,910,696 at Wells Capital Management(WCM). In the LGIP the City's investments are stated at fair value. In the LGIP, the City's monies are combined with those of the other investors in the Pool. As such, the City does not own specific securities

(Continued)

NOTES TO FINANCIAL STATEMENTS

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. In WCM the securities are stated at market value and held by the custodian in the name of the City of Surprise.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Average Portfolio Credit Quality</u>
Local Government Investment Pool	\$31,376,158	.17	AAA to A1/A1+
<u>Pool Portfolio by Type</u>			
Commercial Paper 31%			
Repurchase Agreements 26%			
Government Agency 34%			
Corporate Notes 9%			
Wells Capital Management:			
Core Account:	158,977,256	.84	Aa2
<u>Portfolio Breakdown</u>			
Government Securities 34%			
Corporate Securities 18%			
Money Market Securities 48%			
CIP Account	28,933,439	.66	Aa1
<u>Portfolio Breakdown</u>			
Government Securities 37%			
Corporate Securities 26%			
Money Market Securities 37%			
Total fair value	<u>\$219,286,853</u>		
Portfolio weighted average maturity		.72	

Interest rate risk. In accordance with its investment policy, the City seeks to mitigate interest rate risk by:

- Structuring the investment portfolio so that securities mature concurrent with the anticipated cash requirements for capital expenditures, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity. With the exception of two securities, structured to contain a rarely exercised, “make whole call,” there is no optionality associated with the holdings in the portfolios.
- Investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio in accordance with the needs of the City;
- Utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.

Credit Risk. State law limits investments in commercial paper to those of prime quality with a rating of “P1” by Moody’s investor’s service or rated “A1” or better by Standard and Poor’s rating service. All commercial paper must be issued by corporations organized and doing business in the United States. Corporate bonds, debentures and notes are limited to those that are issued by corporations organized and doing business in the United States and that are rated “A” or better by Moody’s investor’s service or Standard and Poor’s rating service. The City further limits its investments to those rated at least “AA”.

Concentration of credit risk. The City’s investment policy does not allow for an investment in any one issuer that is in excess of 5% of the market value of the portfolio at the time of purchase. Debt backed by the United States Treasury or GSE’s are exempt from this concentration criterion.

Custodial credit risk- deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s

(Continued)

NOTES TO FINANCIAL STATEMENTS

deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, however, the City's deposits and bank balances are entirely covered by federal depository insurance (FDIC) or by collateral held in the pledging financial institution's trust department in the City's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counter party, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All trades of marketable securities are executed by delivery vs. Payment (DVS), per the City's investment policy. This ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities are held by the custodian selected by the City, Wells Capital Management, and evidenced by custodial reports. This safekeeping institution annually provides a copy of their most recent report on internal controls.

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, 2006 was \$4,825.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 6,324,156	\$ 23,460,252		\$ 39,933	\$ 29,824,341
Construction in progress	2,695,860	16,408,152		(1,254,779)	17,849,233
Total Not Being Depreciated	9,020,016	39,868,404	-	(1,214,846)	47,673,574
Other capital assets:					
Buildings and improvements	67,096,351	1,621,674		2,043,087	70,761,112
Improvements other than buildings	-	904,028			904,028
Equipment and vehicles	12,828,783	4,831,027	(378,630)	-	17,281,180
Infrastructure	72,204,346	118,135,121		4,542	190,344,009
Total Other Capital Assets	152,129,480	125,491,850	(378,630)	2,047,629	279,290,329
Total Assets before Depreciation	161,149,496	165,360,254	(378,630)	832,783	326,963,903
Accumulated depreciation:					
Building and improvements	(5,919,362)	(2,233,881)	-	-	(8,153,243)
Improvements other than buildings	-	(129,117)			(129,117)
Equipment and vehicles	(5,199,085)	(1,841,125)	350,400	-	(6,689,810)
Infrastructure	(8,721,560)	(59,795,950)	-	-	(68,517,510)
Total Accumulated Depreciation	(19,840,007)	(64,000,073)	350,400	-	(83,489,680)
Net Capital Assets - Governmental Activities	\$ 141,309,489	\$ 101,360,181	\$ (28,230)	\$ 832,783	\$ 243,474,223
Depreciation was charged by function as follows:					
General government			\$ 528,429		
Public safety			1,263,901		
Public works and streets, includes depreciation for infrastructure			60,116,925		
Community services			26,773		
Culture and recreation			2,064,045		
Total governmental activities depreciation expense			\$ 64,000,073		

(Continued)

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:					
Not being depreciated:					
Land	\$ 4,112,569	\$ -	\$ (30,394)	\$ (39,933)	4,042,242
Construction in progress	7,945,598	31,619,870	-	(7,478,371)	32,087,097
Total not being depreciated	<u>12,058,167</u>	<u>31,619,870</u>	<u>(30,394)</u>	<u>(7,518,304)</u>	<u>36,129,339</u>
Other capital assets:					
Buildings and system	94,545,958	5,633,907	(1,654,557)	6,580,504	105,105,812
Improvements other than buildings	-	-	-	105,017	105,017
Vehicles and equipment	3,093,851	1,167,846	(271,945)	-	3,989,752
Total other capital assets	<u>97,639,809</u>	<u>6,801,753</u>	<u>(1,926,502)</u>	<u>6,685,521</u>	<u>109,200,581</u>
Total assets before depreciation	<u>109,697,976</u>	<u>38,421,623</u>	<u>(1,956,896)</u>	<u>(832,783)</u>	<u>145,329,920</u>
Accumulated depreciation:					
Buildings and system	(10,636,250)	(2,658,881)	-	792,850	(12,502,281)
Improvements other than buildings	-	(1,750)	-	-	(1,750)
Vehicles and equipment	(838,957)	(328,843)	183,269	-	(984,531)
Total accumulated depreciation	<u>(11,475,207)</u>	<u>(2,989,474)</u>	<u>183,269</u>	<u>792,850</u>	<u>(13,488,562)</u>
Net capital assets - business activities	<u>\$ 98,222,769</u>	<u>\$ 35,432,149</u>	<u>\$ (1,773,627)</u>	<u>\$ (39,933)</u>	<u>131,841,358</u>
Depreciation was charged by function as follows:					
Water			\$ 471,032		
Replenishment			5,468		
Sewer			2,271,489		
Sanitaton			<u>241,486</u>		
Total Depreciation Expense			<u>\$ 2,989,474</u>		

NOTE 5 - WATER RIGHTS – MOUNTAIN VISTA

Contracts payable in the water enterprise fund represent \$280,000 due a developer for the purchase of the water rights. Water rights represent the intangible right to water usage in conjunction with the purchase of land within the Mountain Vista Ranch development. 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, 2006, the water rights had not been used; therefore, no amortization expense was incurred. The contract payable is to be repaid as the City collects water development fees once the water well is in operation.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds					
4.5% 1994 Series A, \$1,500,000 issued	\$ 815,000	\$ -	\$ (85,000)	\$ 730,000	\$ 90,000
4.5% 1994 Series B, \$2,530,000 issued	1,370,000	-	(145,000)	1,225,000	155,000
	<u>2,185,000</u>	<u>-</u>	<u>(230,000)</u>	<u>1,955,000</u>	<u>245,000</u>
General municipal property corporation fund obligation					
Series 2000 Bonds, \$59,120,000 issued	11,875,000	-	(2,180,000)	9,695,000	2,250,000
Series 2003 Bonds, \$42,860,000 issued	41,925,000	-	(155,000)	41,770,000	160,000
Deferred amounts					
For issuance premium	2,031,744	-	(131,080)	1,900,664	-
On refunding	(2,498,236)	-	161,176	(2,337,060)	-
Expected administrative expenses	23,250	-	(1,500)	21,750	1,500
	<u>53,356,758</u>	<u>-</u>	<u>(2,306,404)</u>	<u>51,050,354</u>	<u>2,411,500</u>
Total governmental obligation bonds	<u>55,541,758</u>	<u>-</u>	<u>(2,536,404)</u>	<u>53,005,354</u>	<u>2,656,500</u>
Notes payable					
3.15% Loan-Wastewater Management Authority, \$4,765,955 issued	1,578,842	-	(376,531)	1,202,311	388,399
Compensated absences	1,510,815	1,466,248	(1,192,186)	1,784,877	1,466,248
Developer payable	1,803,587	-	-	1,803,587	-
Total governmental activities debt	<u>\$ 60,435,002</u>	<u>\$ 1,466,248</u>	<u>\$ (4,105,121)</u>	<u>\$ 57,796,129</u>	<u>\$ 4,511,147</u>
Business-type activities:					
Compensated absences	\$ 110,098	\$ 134,093	\$ (97,788)	\$ 146,403	\$ 146,403
Contracts payable	\$ 280,000	\$ 3,602,994.00	\$ -	\$ 3,882,994	\$ 280,000

The following is a summary of long-term debt for the year ended June 30, 2006:

Year Ended June 30	Governmental Activities - Bonds & Loans			
	Governmental Obligation		WWMA Loan	
	Principal	Interest	Principal	Interest
2007	2,655,000	2,443,851	388,399	37,897
2008	2,790,000	2,313,001	400,642	25,654
2009	2,900,000	2,175,526	413,270	13,026
2010-2014	16,550,000	8,490,380	-	-
2015-2019	19,425,000	4,208,655	-	-
2020-2024	9,100,000	379,088	-	-
Total	<u>\$ 53,420,000</u>	<u>\$ 20,010,501</u>	<u>\$ 1,202,311</u>	<u>\$ 76,578</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

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, 2006, the remaining balance of these costs was \$1,803,587. 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 balance. Any monies received over \$400,000 are split equally between the City and the developer. In 2006, \$111,018 was paid to the developer, with \$0 applied to principal and the remaining \$111,018 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 2006 secondary assessed valuation of the City is \$598,537,327. Accordingly, the legal limit for bonded indebtedness for the City is \$119,707,465 for the fiscal year ended June 30, 2006, leaving \$116,550,154, respectively of unused borrowing capacity.

Business-Type Activities – Contracts Payable

Of the \$3,882,994 \$280,000 is explained in Note 5 as an amount due for water rights. The remaining \$3,602,994 is owed based on improvements made by developers per development agreements for various infrastructure items the City will own. The amounts owed are to the following developers, by developments and amounts are: Rancho Gabriela Inc. for Rancho Gabriela, \$299,437; Lennar Communities for Roseview, \$107,442; and Taylor/Woodrow for Sierra Verde, \$3,196,115. Payments of these are contingent based on number of permits issued and development fees collected, no payments toward these amounts are expected to be made in the next twelve months.

NOTE 7 – MUNICIPAL PROPERTY CORPORATION FUND CONSTRUCTION COMMITMENT LIABILITY

Governmental funds report deferred revenue in connection to resources that have been received, but not yet earned. As of June 30, 2006, 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 8 - 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 6.9% of their compensation for the year ended June 30, 2006, 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, 2006, 2005, and 2004, were, \$1,309,275, \$812,620, and \$658,403, 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, 2006, the City contributed 7.1% and 8.99% of annual covered firefighter and police payroll to the plan, respectively.

C. Annual Pension Cost

For 2005, the City's annual pension cost of \$603,161 for APSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 8.50% per year compounded annually, (b) projected salary increases of 5.00% per year compounded annually attributable to inflation and (c) additional projected salary increases 1.0% 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. The amortization method is level percent open and the remaining amortization period is 20 years.

(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 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 9 - 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - 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, 2006.

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 11 - INTERFUND ASSETS, LIABILITIES, AND TRANSFERS

Due to/from other funds:

<u>Receivable fund:</u>	<u>Payable Fund:</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 485,761
	Total	<u>\$ 485,761</u>

Transfers

Transfers in:

<u>Transfers out:</u>	<u>General Fund</u>	<u>Highway User Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Governmental Funds				
General Fund	\$ -	\$ 2,052,274	\$ 616,900	\$ 2,669,174
Enterprise-type funds				
Sewer	832,783	-	-	832,783
	<u>\$ 832,783</u>	<u>\$ 2,052,274</u>	<u>\$ 616,900</u>	<u>\$ 3,501,957</u>
Total				

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – STREET LIGHTING DISTRICT NET ASSETS (DEFICIT)

The following is a detail of *Special Revenue SLID Districts* fund equity balances as of June 30, 2006 reported as nonmajor special revenue funds.

Special Revenue SLID Districts Fund Balances:

Kingswood Park SLID	\$	49,967
DW Sun City Grand SLID		(70,092)
Westpoint Towne Center SLID		(23,215)
Continental @ Kingswood SLID		19,419
Mountain Vista Ranch SLID		11,859
Sun City Grand II SLID		(76,291)
Sun City Grand III SLID		(36,637)
Bell West Ranch SLD		11,347
Canyon Ridge West SLID		(4,284)
Ashton Ranch Unit I SLID		(2,579)
Ashton Ranch Unit II SLID		25,592
Mountain Vista Ranch II SLID		(1,216)
Mountain Vista Ranch III SLD		3,413
Legacy Park SLID		(8,356)
Greenway Park SLID		(5,532)
Roseview SLID		(9,509)
Countryside SLD		(6,956)
Park Row SLID		(731)
Northwest Ranch #2 SLID		(185)
Bell West Ranch 1B SLID		(1,317)
Ashton Ranch Unit III SLID		2,504
Ashton Ranch Unit IV SLID		5,516
Legacy Park GHI SLID		75
Rancho Gabriela Phase I SLID		37,037
Northwest Ranch #1 SLID		(691)
Sun City Grand IV SLID		(71,222)
Rancho Gabriela 2,3, 4A-B SLD		740
Greenway Park II SLD		(551)
Greenway Park III SLD		1,947
Bell West Ranch 1A SLID		(3,098)
Tash/Western Meadows SLD		(1,329)
Roseview 5, 5A, 7&8 SLID		16,905
Orchards 1,2,3,4,5 SLD		3,574
Surprise Farms 1A SLD		3,301
Legacy Park Parcels E, F & J SLD		2,327
Sierra Montana 1A SLD		1,742
Bell West Ranch II SLD		13,341
Royal Ranch Unit I SLID		5,529

(Continued)

NOTES TO FINANCIAL STATEMENTS

Surprise Farms 1B SLID	21,131
Desert Oasis #1 SLID	(5,960)
Sierra Montana Phase II SLID	(11,213)
Litchfield Manor SLID	24,816
Cotton Gin SLID	(7,801)
Summerfield at Litchfield SLID	477
Marley Park Phase I SLID	(4,602)
Greer Ranch South SLID	(19,787)
Bell West Ranch Parcel 3 SLID	(6,116)
Sierra Montana Parcel 12 SLID	11
Sierra Verde Phase One SLID	(623)
Surprise Farms II	(23,919)
Royal Ranch Unit II SLID	-
Kenly Farms	(8,440)
Veramonte	(13,310)
Bell Point 1	(7,639)
Rancho Gabriela Phase II Parcel 11 SLID	(2,719)
Royal Ranch Unit II, Parcels 5,6 & 9	(12,931)
Sierra Verde Parcel 4	-
Surprise Farms Phase III	(16,721)
	<u>\$ (203,002)</u>

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.

NOTE 13 – NON-CASH ACTIVITY OF PROPRIETARY FUNDS

The following details Capital assets received through contribution in the fiscal year ending June 30, 2006.

Business-type Activity:	
Water	\$ 2,674,495
Sewer	3,154,285
Sanitation	552,437
	<u>\$ 6,381,217</u>

#

Required Supplemental Information:

APSPRS: Schedule of Employer Contributions, Schedule of Funding Progress, and Six Year Trend Information

Required Supplementary Information – Schedule of Employer Contributions

Year ended June 30,	Annual Required Contribution		
	Fire Fighters	Police	Percent Contributed
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	93,437	348,032	100.0%
2005	226,379	327,835	100.0%
2006 *	284,780	431,256	

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

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)
2000	4,941,863	4,582,526	(359,337)	107.8%	2,934,962	-12%
2001	6,447,706	5,031,601	(1,416,105)	128.1%	4,077,707	-35%
2002	8,514,189	6,452,541	(2,061,648)	132.0%	5,838,324	-35%
2003	10,993,504	8,423,619	(2,569,885)	130.5%	6,569,599	-39%
2004	12,421,828	11,004,127	(1,417,701)	112.9%	7,689,826	-18%
2005	14,473,431	15,959,998	1,486,567.000	90.7%	8,808,048	17%

**Schedule of Funding Progress
Figure 1**

Fiscal Year Ended June 30,	Annual Pension Cost		Percent Contributed	Net Pension Obligation
	Fire	Police		
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	93,437	348,032	100.0%	-
2005	242,684	360,477	100.0%	-

**Six-Year Trend Information
Figure 2**

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, 2006

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 40,863,300	\$ 40,863,300	\$ 49,943,993
Licenses and permits	2,225,000	2,225,000	2,990,582
Intergovernmental	7,875,300	7,875,300	8,769,117
Charges for services	14,492,800	14,492,800	12,707,570
Grants	5,097,300	4,615,300	828,065
Fines	1,015,000	1,015,000	1,444,508
Rents	110,000	110,000	413,330
Interest	500,000	500,000	2,407,531
Other	1,131,900	1,131,900	1,765,022
Total revenues	<u>73,310,600</u>	<u>72,828,600</u>	<u>81,269,718</u>
EXPENDITURES			
Current			
General government	19,427,600	17,233,100	11,491,744
Public safety	21,397,400	21,794,600	20,227,822
Public works and streets	4,765,200	4,777,700	4,202,864
Community development	4,868,900	4,902,000	4,164,806
Culture and recreation	9,662,600	9,689,700	8,518,085
Capital Outlay	44,821,100	45,110,400	11,936,919
Total expenditures	<u>104,942,800</u>	<u>103,507,500</u>	<u>60,542,240</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(31,632,200)</u>	<u>(30,678,900)</u>	<u>20,727,478</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(5,142,900)</u>	<u>(5,142,900)</u>	<u>(2,669,174)</u>
NET CHANGE IN FUND BALANCES	<u>(36,775,100)</u>	<u>(35,821,800)</u>	<u>18,058,304</u>
FUND BALANCES, beginning of the year	<u>56,760,611</u>	<u>56,760,611</u>	<u>56,760,611</u>
FUND BALANCES, end of the year	<u>\$ 19,985,511</u>	<u>\$ 20,938,811</u>	<u>\$ 74,818,915</u>

(Continued)

CITY OF SURPRISE, ARIZONA
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, 2006

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 40,863,300	\$ 40,863,300	\$ 49,943,993
Licenses and permits	2,225,000	2,225,000	2,990,582
Intergovernmental	7,875,300	7,875,300	8,769,117
Charges for services	14,492,800	14,492,800	12,707,570
Grants	5,097,300	4,615,300	828,065
Fines	1,015,000	1,015,000	1,444,508
Rents	110,000	110,000	413,330
Interest	500,000	500,000	2,407,531
Other	1,131,900	1,131,900	1,765,022
Total revenues	<u>73,310,600</u>	<u>72,828,600</u>	<u>81,269,718</u>
EXPENDITURES			
GENERAL GOVERNMENT			
City council	485,900	501,600	319,008
City manager	775,700	775,700	636,874
Intergovernmental relations	231,600	301,600	261,548
Legal	1,042,200	1,042,200	975,614
City clerk	476,200	476,200	469,203
Finance	1,444,700	1,444,700	1,266,910
Human resources	817,800	817,800	768,700
Information technology	2,548,300	2,708,600	2,270,948
Management and Budget	858,700	858,700	738,751
Public information	762,300	769,600	718,526
General operations	9,984,200	7,536,400	3,065,662
Total general government	<u>19,427,600</u>	<u>17,233,100</u>	<u>11,491,744</u>
PUBLIC SAFETY			
City court	1,486,300	1,741,300	1,794,795
Police	11,760,900	11,902,700	10,500,205
Fire	8,150,200	8,150,600	7,932,822
Total public safety	<u>21,397,400</u>	<u>21,794,600</u>	<u>20,227,822</u>
PUBLIC WORKS AND STREETS			
Engineering	1,710,000	1,717,200	1,408,463
Vehicle maintenance	1,043,400	1,044,100	964,905
Facilities Management	1,640,800	1,645,400	1,635,516
Traffic engineering	292,000	292,000	124,237
Stormwater	79,000	79,000	69,743
Total public works and streets	<u>4,765,200</u>	<u>4,777,700</u>	<u>4,202,864</u>
COMMUNITY DEVELOPMENT			
Econ development	586,600	586,600	486,166
Community development	4,282,300	4,315,400	3,678,640
Total community service	<u>4,868,900</u>	<u>4,902,000</u>	<u>4,164,806</u>

(Continued)

CITY OF SURPRISE, ARIZONA
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, 2006

	General Fund		
	Original Budget	Final Budget	Actual
CULTURE AND RECREATION			
Com Initiatives	1,334,300	1,361,400	1,079,226
Parks and Recreation	8,328,300	8,328,300	7,438,859
Total culture and recreation	<u>9,662,600</u>	<u>9,689,700</u>	<u>8,518,085</u>
CAPITAL OUTLAY	<u>44,821,100</u>	<u>45,110,400</u>	<u>11,936,919</u>
Total expenditures	<u>104,942,800</u>	<u>103,507,500</u>	<u>60,542,240</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(31,632,200)</u>	<u>(30,678,900)</u>	<u>20,727,478</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u>(5,142,900)</u>	<u>(5,142,900)</u>	<u>(2,669,174)</u>
NET CHANGE IN FUND BALANCES	<u>(36,775,100)</u>	<u>(35,821,800)</u>	<u>18,058,304</u>
FUND BALANCES , beginning of the year	<u>56,760,611</u>	<u>56,760,611</u>	<u>56,760,611</u>
FUND BALANCES , end of the year	<u>\$ 19,985,511</u>	<u>\$ 20,938,811</u>	<u>\$ 74,818,915</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, 2006

	Municipal Property Corporation Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Rents	\$ 4,805,000	\$ 4,805,000	\$ 4,861,100
Interest	-	-	593,832
Total revenues	<u>4,805,000</u>	<u>4,805,000</u>	<u>5,454,932</u>
EXPENDITURES			
Current			
Public Works and Streets	-	-	219
Capital outlay	16,654,500	16,534,400	3,095,465
Debt Service			
Principal	2,335,000	2,335,000	2,335,000
Interest and fiscal charges	2,470,000	2,470,000	2,479,705
Total expenditures	<u>21,459,500</u>	<u>21,339,400</u>	<u>7,910,389</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(16,654,500)</u>	<u>(16,534,400)</u>	<u>(2,455,457)</u>
NET CHANGE IN FUND BALANCES	<u>(16,654,500)</u>	<u>(16,534,400)</u>	<u>(2,455,457)</u>
FUND BALANCES, beginning of the year	<u>20,146,668</u>	<u>20,146,668</u>	<u>20,146,668</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ 3,492,168</u>	<u>\$ 3,612,268</u>	<u>\$ 17,691,211</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, 2006

	Highway User Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 2,321,600	2,321,600	\$ 2,713,655
Grants	56,000	56,000	209,295
Interest	-	-	7,038
Other	-	-	29,931
Total revenues	<u>2,377,600</u>	<u>2,377,600</u>	<u>2,959,919</u>
EXPENDITURES			
Current			
Public works and streets	3,789,600	3,908,200	3,232,636
Culture and Recreation	392,300	392,300	320,282
Capital outlay	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,429,650</u>
Total expenditures	<u>5,681,900</u>	<u>5,800,500</u>	<u>4,982,568</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,304,300)</u>	<u>(3,422,900)</u>	<u>(2,022,649)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>3,363,100</u>	<u>3,363,100</u>	<u>2,052,274</u>
NET CHANGE IN FUND BALANCES	<u>58,800</u>	<u>(59,800)</u>	<u>29,625</u>
FUND BALANCES, beginning of the year	<u>355,900</u>	<u>355,900</u>	<u>355,900</u>
FUND BALANCES, end of the year	<u>\$ 414,700</u>	<u>\$ 296,100</u>	<u>\$ 385,525</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, 2006

	Police Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development Fees	\$ 3,381,000	\$ 3,381,000	2,435,402
Interest	20,000	20,000	97,743
Total revenues	<u>3,401,000</u>	<u>3,401,000</u>	<u>2,533,145</u>
EXPENDITURES			
Current			
General government	7,500	9,700	6,900
Public safety	555,500	555,500	577,077
Capital outlay	6,709,700	6,627,900	528,974
Total expenditures	<u>7,272,700</u>	<u>7,193,100</u>	<u>1,112,951</u>
REVENUES OVER (UNDER)			
EXPENDITURES	<u>(3,871,700)</u>	<u>(3,792,100)</u>	<u>1,420,194</u>
NET CHANGE IN FUND BALANCES	<u>(3,871,700)</u>	<u>(3,792,100)</u>	<u>1,420,194</u>
FUND BALANCES, beginning of the year	<u>3,010,055</u>	<u>3,010,055</u>	<u>3,010,055</u>
FUND BALANCES, end of the year	<u>\$ (861,645)</u>	<u>\$ (782,045)</u>	<u>\$ 4,430,249</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, 2006

	Fire Safety Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ -	\$ -	\$ 36,023
Development Fees	3,459,000	3,459,000	2,619,240
Interest	20,000	20,000	114,769
Total revenues	<u>3,479,000</u>	<u>3,479,000</u>	<u>2,770,032</u>
EXPENDITURES			
Current			
General government	7,500	9,000	6,375
Public safety	285,000	285,000	200,000
Capital outlay	5,809,400	5,809,400	1,545,523
Total expenditures	<u>6,101,900</u>	<u>6,103,400</u>	<u>1,751,898</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,622,900)</u>	<u>(2,624,400)</u>	<u>1,018,134</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,162,900</u>	<u>1,162,900</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(1,460,000)</u>	<u>(1,461,500)</u>	<u>1,018,134</u>
FUND BALANCES, beginning of the year	<u>3,757,698</u>	<u>3,757,698</u>	<u>3,757,698</u>
FUND BALANCES, end of the year	<u>\$ 2,297,698</u>	<u>\$ 2,296,198</u>	<u>\$ 4,775,832</u>

(Continued)

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 37,042,468	\$ 458,147	\$ 37,500,615
Receivables (net of allowances)			
Interest	50,589	674	51,263
Other	51,232	-	51,232
Prepaid items	1,849,673	-	1,849,673
Total assets	\$ 38,993,962	\$ 458,821	\$ 39,452,783
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,379,297	\$ -	\$ 1,379,297
Accrued payroll and related taxes	4,041	-	4,041
Due to other funds	485,761	-	485,761
Total liabilities	1,869,099	-	1,869,099
FUND BALANCE			
Reserved for prepaid items	1,849,673	-	1,849,673
Unreserved, reported in			
Special revenue funds	35,275,190		35,275,190
Debt service funds	-	458,821	458,821
Total fund balance	37,124,863	458,821	37,583,684
Total liabilities and fund balance	\$ 38,993,962	\$ 458,821	\$ 39,452,783

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, 2006

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 2,681,842	\$ 1,070,237	\$ 3,752,079
Intergovernmental	529,800	-	529,800
Charges for services	836,011	-	836,011
Grants	865,465	-	865,465
Fines	70,661	-	70,661
Development fees	10,966,422	-	10,966,422
Interest	977,335	17,747	995,082
Other	343,007	-	343,007
Total revenues	<u>17,270,543</u>	<u>1,087,984</u>	<u>18,358,527</u>
EXPENDITURES			
Current			
General government	259,369	-	259,369
Public Safety	72,091	-	72,091
Public works and streets	1,858,533	-	1,858,533
Community development	11,216	-	11,216
Culture and recreation	3,298,923	-	3,298,923
Capital outlay	6,220,078	-	6,220,078
Debt service			
Principal	-	606,531	606,531
Interest and fiscal charges	-	155,984	155,984
Total expenditures	<u>11,720,210</u>	<u>762,515</u>	<u>12,482,725</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,550,333</u>	<u>325,469</u>	<u>5,875,802</u>
OTHER FINANCING USES			
Transfers in	<u>616,900</u>	<u>-</u>	<u>616,900</u>
Total other financing uses	<u>616,900</u>	<u>-</u>	<u>616,900</u>
NET CHANGE IN FUND BALANCES	<u>6,167,233</u>	<u>325,469</u>	<u>6,492,702</u>
FUND BALANCES, beginning of year	<u>30,957,630</u>	<u>133,352</u>	<u>31,090,982</u>
FUND BALANCES, end of year	<u>\$ 37,124,863</u>	<u>\$ 458,821</u>	<u>\$ 37,583,684</u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA

**SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006**

	<u>Transit</u> <u>Fund</u>	<u>Donations</u> <u>Fund</u>	<u>Neighborh.</u> <u>Revitaliz.</u> <u>Fund</u>	<u>Parks &</u> <u>Recreational</u> <u>Enhancement</u>	<u>Library</u> <u>Development</u> <u>Fund</u>	<u>General</u> <u>Govt. Dev</u> <u>Fee Fund</u>
ASSETS						
Cash and cash equivalents	\$ 408,278	\$ 486,217	\$ -	\$ 13,727,848	\$ 2,510,723	\$ 6,347,623
Receivables, net						
Interest	459	722	-	35,693	2,778	1,268
Other	-	-	-	-	-	-
Prepaid items	-	-	-	1,849,673	-	-
	<u>408,737</u>	<u>486,939</u>	<u>-</u>	<u>15,613,214</u>	<u>2,513,501</u>	<u>6,348,891</u>
Total assets	<u>\$ 408,737</u>	<u>\$ 486,939</u>	<u>\$ -</u>	<u>\$ 15,613,214</u>	<u>\$ 2,513,501</u>	<u>\$ 6,348,891</u>
LIABILITIES						
Accounts payable	\$ 5,068	\$ 3,402	\$ 4,398	619,627	1,481	\$ 106,742
Accrued payroll and related taxes	2,940	-	1,101	-	-	-
Due to other funds	-	-	104,750	-	-	-
Other liabilities	-	-	-	-	-	-
	<u>8,008</u>	<u>3,402</u>	<u>110,249</u>	<u>619,627</u>	<u>1,481</u>	<u>106,742</u>
Total liabilities	<u>8,008</u>	<u>3,402</u>	<u>110,249</u>	<u>619,627</u>	<u>1,481</u>	<u>106,742</u>
FUND BALANCE						
Reserved for prepaid items	-	-	-	1,849,673	-	-
Unreserved						
Undesignated	400,729	483,537	(110,249)	13,143,914	2,512,020	6,242,149
	<u>400,729</u>	<u>483,537</u>	<u>(110,249)</u>	<u>14,993,587</u>	<u>2,512,020</u>	<u>6,242,149</u>
Total fund equity	<u>400,729</u>	<u>483,537</u>	<u>(110,249)</u>	<u>14,993,587</u>	<u>2,512,020</u>	<u>6,242,149</u>
Total liabilities and fund balances	<u>\$ 408,737</u>	<u>\$ 486,939</u>	<u>\$ -</u>	<u>\$ 15,613,214</u>	<u>\$ 2,513,501</u>	<u>\$ 6,348,891</u>

(Continued)

Employee Dep Scholarship	Street Lighting Districts	Community Facility Districts	10% Set Aside OTS	Municipal Court Enhancement	Public Works Expansion Development	Transportation Improvement	Totals
\$ 11,840	\$ 268,403	\$ 60,267	\$ 660,329	\$ 164,036	\$ 9,851,602	\$ 2,545,302	\$ 37,042,468
-	1,140	263	115	-	644	7,507	50,589
-	51,233	-	-	-	-	-	51,232
-	-	-	-	-	-	-	1,849,673
<u>\$ 11,839</u>	<u>\$ 320,776</u>	<u>\$ 60,530</u>	<u>\$ 660,444</u>	<u>\$ 164,036</u>	<u>\$ 9,852,246</u>	<u>\$ 2,552,809</u>	<u>\$ 38,993,962</u>
\$ -	\$ 142,767	\$ -	\$ 14,949	\$ -	\$ 473,159	\$ 7,704	\$ 1,379,297
-	-	-	-	-	-	-	4,041
-	381,011	-	-	-	-	-	485,761
-	-	-	-	-	-	-	-
-	523,778	-	14,949	-	473,159	7,704	1,869,099
-	-	-	-	-	-	-	1,849,673
11,839	(203,002)	60,530	645,495	164,036	9,379,087	2,545,105	35,275,190
11,839	(203,002)	60,530	645,495	164,036	9,379,087	2,545,105	37,124,863
<u>\$ 11,839</u>	<u>\$ 320,776</u>	<u>\$ 60,530</u>	<u>\$ 660,444</u>	<u>\$ 164,036</u>	<u>\$ 9,852,246</u>	<u>\$ 2,552,809</u>	<u>\$ 38,993,962</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, 2006

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Parks & Recreational Enhancement	Library Development Fund	General Govt. Dev Fee Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	375,811	153,989	-	-	-	-
Charges for services	12,803	-	-	-	-	-
Grants	73,366	-	604,882	-	-	-
Fines	-	-	-	-	-	-
Development fees	-	-	-	4,627,287	1,060,068	1,476,438
Interest	8,504	11,106	-	437,858	58,821	158,049
Other	-	242,832	-	-	-	-
Total revenues	<u>470,484</u>	<u>407,927</u>	<u>604,882</u>	<u>5,065,145</u>	<u>1,118,889</u>	<u>1,634,487</u>
EXPENDITURES						
Current						
General government	-	-	-	6,675	6,075	174,548
Public Safety	-	55,473	-	-	-	-
Public works and streets	-	-	102	-	-	-
Community development	-	-	-	-	-	-
Culture and recreation	367,092	314,378	674,262	1,933,151	-	-
Capital outlay	92,444	2,110	-	2,532,570	-	730,427
Total expenditures	<u>459,536</u>	<u>371,961</u>	<u>674,364</u>	<u>4,472,396</u>	<u>6,075</u>	<u>904,975</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>10,948</u>	<u>35,966</u>	<u>(69,482)</u>	<u>592,749</u>	<u>1,112,814</u>	<u>729,512</u>
OTHER FINANCING SOURCES						
Interfund transfers in	100,000	142,700	-	-	-	-
Total other financing sources	<u>100,000</u>	<u>142,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	110,948	178,666	(69,482)	592,749	1,112,814	729,512
FUND BALANCES, beginning of year	<u>289,781</u>	<u>304,871</u>	<u>(40,767)</u>	<u>14,400,838</u>	<u>1,399,206</u>	<u>5,512,637</u>
FUND BALANCES, end of year	<u>\$ 400,729</u>	<u>\$ 483,537</u>	<u>\$ (110,249)</u>	<u>\$ 14,993,587</u>	<u>\$ 2,512,020</u>	<u>\$ 6,242,149</u>

(Continued)

Employee Dep Scholarship	Street Lighting Districts	Community Facility Districts	10% Set Aside OTS	Municipal Court Enhancement	Public Works Expansion Development	Transportation Improvement	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,681,842	\$ 2,681,842
-	-	-	-	-	-	-	529,800
-	823,208	-	-	-	-	-	836,011
-	-	-	187,217	-	-	-	865,465
-	-	-	-	70,661	-	-	70,661
-	-	-	-	-	3,802,629	-	10,966,422
2,584	8,987	1,924	13,924	-	247,674	27,904	977,335
1,082	99,093	-	-	-	-	-	343,007
<u>3,666</u>	<u>931,288</u>	<u>1,924</u>	<u>201,141</u>	<u>70,661</u>	<u>4,050,303</u>	<u>2,709,746</u>	<u>17,270,543</u>
1,500	-	-	52,796	-	3,525	14,250	259,369
-	-	-	-	16,618	-	-	72,091
-	1,242,392	-	-	-	616,039	-	1,858,533
-	-	-	-	-	11,216	-	11,216
-	-	-	10,040	-	-	-	3,298,923
-	-	-	291,301	-	2,420,835	150,391	6,220,078
<u>1,500</u>	<u>1,242,392</u>	<u>-</u>	<u>354,137</u>	<u>16,618</u>	<u>3,051,615</u>	<u>164,641</u>	<u>11,720,210</u>
<u>2,166</u>	<u>(311,104)</u>	<u>1,924</u>	<u>(152,996)</u>	<u>54,043</u>	<u>998,688</u>	<u>2,545,105</u>	<u>5,550,333</u>
-	-	-	374,200	-	-	-	616,900
-	-	-	374,200	-	-	-	616,900
2,166	(311,104)	1,924	221,204	54,043	998,688	2,545,105	6,167,233
9,673	108,102	58,606	424,291	109,993	8,380,399	-	30,957,630
<u>\$ 11,839</u>	<u>\$ (203,002)</u>	<u>\$ 60,530</u>	<u>\$ 645,495</u>	<u>\$ 164,036</u>	<u>\$ 9,379,087</u>	<u>\$ 2,545,105</u>	<u>\$ 37,124,863</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, 2006

	Debt Service Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 1,091,700	\$ 1,091,700	\$ 1,070,237
Interest	1,500	1,500	17,747
Total revenues	<u>1,093,200</u>	<u>1,093,200</u>	<u>1,087,984</u>
EXPENDITURES			
Debt service			
Principal	993,600	993,600	606,531
Interest	163,100	163,100	155,984
Total expenditures	<u>1,156,700</u>	<u>1,156,700</u>	<u>762,515</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(63,500)</u>	<u>(63,500)</u>	<u>325,469</u>
NET CHANGE IN FUND BALANCES	<u>(63,500)</u>	<u>(63,500)</u>	<u>325,469</u>
FUND BALANCES, beginning of the year	<u>133,352</u>	<u>133,352</u>	<u>133,352</u>
FUND BALANCES, end of the year	<u>\$ 69,852</u>	<u>\$ 69,852</u>	<u>\$ 458,821</u>
	Transit Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 317,800	\$ 317,800	\$ 375,811
Charges for services	10,000	10,000	12,803
Grants	72,000	72,000	73,366
Interest	(2,500)	2,500	8,504
Total revenues	<u>397,300</u>	<u>402,300</u>	<u>470,484</u>
EXPENDITURES			
Current			
Culture and Recreation	470,300	470,300	367,092
Capital outlay	207,800	207,800	92,444
Total expenditures	<u>678,100</u>	<u>678,100</u>	<u>459,536</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(280,800)</u>	<u>(275,800)</u>	<u>10,948</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
NET CHANGE IN FUND BALANCES	<u>(180,800)</u>	<u>(175,800)</u>	<u>110,948</u>
FUND BALANCES, beginning of the year	<u>289,781</u>	<u>289,781</u>	<u>289,781</u>
FUND BALANCES, end of the year	<u>\$ 108,981</u>	<u>\$ 113,981</u>	<u>\$ 400,729</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, 2006

	Donations Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 153,989
Interest	-	-	11,106
Other	600,000	600,000	242,832
Total revenues	600,000	600,000	407,927
EXPENDITURES			
Current			
General Government	600,000	593,600	55,473
Culture and recreation	142,700	265,800	314,378
Public safety	-	6,400	
Capital Outlay	-	9,500	2,110
Total expenditures	742,700	875,300	371,961
REVENUES OVER (UNDER) EXPENDITURES	(142,700)	(275,300)	35,966
OTHER FINANCING SOURCES			
Transfers in (out)	142,700	142,700	142,700
NET CHANGE IN FUND BALANCES	-	(132,600)	178,666
FUND BALANCES, beginning of the year	304,871	304,871	304,871
FUND BALANCES, end of the year	\$ 304,871	\$ 172,271	\$ 483,537
	Neighborh. Revitaliz. Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ 1,007,800	\$ 1,489,800	\$ 604,882
Total revenues	1,007,800	1,489,800	604,882
EXPENDITURES			
Current			
Public Works	-	-	102
Culture and recreation	1,007,800	1,486,500	674,262
Total expenditures	1,007,800	1,486,500	674,364
REVENUES OVER (UNDER) EXPENDITURES	-	3,300	(69,482)
NET CHANGE IN FUND BALANCES	-	3,300	(69,482)
FUND BALANCES, beginning of the year	(40,767)	(40,767)	(40,767)
FUND BALANCES (DEFICIT), end of the year	\$ (40,767)	\$ (37,467)	\$ (110,249)

(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, 2006

	Parks & Recreational Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 7,889,000	\$ 7,889,000	\$ 4,627,287
Interest	75,000	75,000	437,858
Total revenues	<u>7,964,000</u>	<u>7,964,000</u>	<u>5,065,145</u>
EXPENDITURES			
Current			
General Government	7,500	9,400	6,675
Culture and Recreation	1,922,300	1,922,300	1,933,151
Capital Outlay	17,510,400	17,355,200	2,532,570
Total expenditures	<u>19,440,200</u>	<u>19,286,900</u>	<u>4,472,396</u>
REVENUES OVER EXPENDITURES	<u>(11,476,200)</u>	<u>(11,322,900)</u>	<u>592,749</u>
NET CHANGE IN FUND BALANCES	<u>(11,476,200)</u>	<u>(11,322,900)</u>	<u>592,749</u>
FUND BALANCES, beginning of the year	<u>14,400,838</u>	<u>14,400,838</u>	<u>14,400,838</u>
FUND BALANCES, end of the year	<u>\$ 2,924,638</u>	<u>\$ 3,077,938</u>	<u>\$ 14,993,587</u>
	Library Development Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 1,862,000	\$ 1,862,000	\$ 1,060,068
Interest	20,000	20,000	58,821
Total revenues	<u>1,882,000</u>	<u>1,882,000</u>	<u>1,118,889</u>
EXPENDITURES			
Current			
General Government	7,500	8,600	6,075
Capital Outlay	2,677,000	2,677,000	-
Total expenditures	<u>2,684,500</u>	<u>2,685,600</u>	<u>6,075</u>
REVENUES OVER EXPENDITURES	<u>(802,500)</u>	<u>(803,600)</u>	<u>1,112,814</u>
NET CHANGE IN FUND BALANCES	<u>(802,500)</u>	<u>(803,600)</u>	<u>1,112,814</u>
FUND BALANCES, beginning of the year	<u>1,399,206</u>	<u>1,399,206</u>	<u>1,399,206</u>
FUND BALANCES, end of the year	<u>\$ 596,706</u>	<u>\$ 595,606</u>	<u>\$ 2,512,020</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, 2006

	General Govt. Dev Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 2,264,000	\$ 2,264,000	\$ 1,476,438
Grants	41,600	41,600	-
Interest	40,000	40,000	158,049
Total revenues	<u>2,345,600</u>	<u>2,345,600</u>	<u>1,634,487</u>
EXPENDITURES			
Current			
General government	118,400	240,300	174,548
Capital outlay	7,252,100	7,394,100	730,427
Total expenditures	<u>7,370,500</u>	<u>7,634,400</u>	<u>904,975</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,024,900)</u>	<u>(5,288,800)</u>	<u>729,512</u>
NET CHANGE IN FUND BALANCES	<u>(5,024,900)</u>	<u>(5,288,800)</u>	<u>729,512</u>
FUND BALANCES, beginning of the year	<u>5,512,637</u>	<u>5,512,637</u>	<u>5,512,637</u>
FUND BALANCES, end of the year	<u>\$ 487,737</u>	<u>\$ 223,837</u>	<u>\$ 6,242,149</u>
	Employee Dependent Scholarship Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Interest	\$ 600	\$ 600	\$ 2,584
Other	-	-	1,082
Total revenues	<u>600</u>	<u>600</u>	<u>3,666</u>
EXPENDITURES			
Current			
General government	10,100	10,100	1,500
Total expenditures	<u>10,100</u>	<u>10,100</u>	<u>1,500</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(9,500)</u>	<u>(9,500)</u>	<u>2,166</u>
NET CHANGE IN FUND BALANCES	<u>(9,500)</u>	<u>(9,500)</u>	<u>2,166</u>
FUND BALANCES, beginning of the year	<u>9,673</u>	<u>9,673</u>	<u>9,673</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ 173</u>	<u>\$ 173</u>	<u>\$ 11,839</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, 2006

	Street Lighting District		
	Original Budget	Final Budget	Actual
REVENUES			
Charges for services	\$ 611,300	\$ 611,300	\$ 823,208
Interest	-	-	8,987
Other	1,338,000	1,338,000	99,093
Total revenues	<u>1,949,300</u>	<u>1,949,300</u>	<u>931,288</u>
EXPENDITURES			
Current			
Public Works	2,389,200	2,389,200	1,242,392
Total expenditures	<u>2,389,200</u>	<u>2,389,200</u>	<u>1,242,392</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(439,900)</u>	<u>(439,900)</u>	<u>(311,104)</u>
NET CHANGE IN FUND BALANCES	<u>(439,900)</u>	<u>(439,900)</u>	<u>(311,104)</u>
FUND BALANCES, beginning of the year	<u>108,102</u>	<u>108,102</u>	<u>108,102</u>
FUND BALANCES, end of the year	<u>\$ (331,798)</u>	<u>\$ (331,798)</u>	<u>\$ (203,002)</u>
	Community Facilities Districts		
	Original Budget	Final Budget	Actual
REVENUES			
Property Tax	\$ 10,000	\$ 10,000	\$ -
Interest	-	-	1,924
Other	40,000	40,000	-
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>1,924</u>
EXPENDITURES			
Current			
General government	125,200	125,200	-
Capital Outlay	20,000,000	20,000,000	-
Total expenditures	<u>20,125,200</u>	<u>20,125,200</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(20,075,200)</u>	<u>(20,075,200)</u>	<u>1,924</u>
NET CHANGE IN FUND BALANCES	<u>(20,075,200)</u>	<u>(20,075,200)</u>	<u>1,924</u>
FUND BALANCES, beginning of the year	<u>58,606</u>	<u>58,606</u>	<u>58,606</u>
FUND BALANCES, end of the year	<u>\$ (20,016,594)</u>	<u>\$ (20,016,594)</u>	<u>\$ 60,530</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, 2006

	10% Set Aside Square Mile		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ 963,200	\$ 963,200	\$ 187,217
Interest	3,000	3,000	13,924
Total revenues	<u>966,200</u>	<u>966,200</u>	<u>201,141</u>
EXPENDITURES			
Current			
General government	65,000	65,000	52,796
Community Development	40,000	40,000	-
Culture and Recreation	45,000	45,000	10,040
Capital outlay	<u>1,538,100</u>	<u>1,732,900</u>	<u>291,301</u>
Total expenditures	<u>1,688,100</u>	<u>1,882,900</u>	<u>354,137</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(721,900)</u>	<u>(916,700)</u>	<u>(152,996)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>374,200</u>	<u>374,200</u>	<u>374,200</u>
NET CHANGE IN FUND BALANCES	<u>(347,700)</u>	<u>(542,500)</u>	<u>221,204</u>
FUND BALANCES, beginning of the year	<u>424,291</u>	<u>424,291</u>	<u>424,291</u>
FUND BALANCES, end of the year	<u>\$ 76,591</u>	<u>\$ (118,209)</u>	<u>\$ 645,495</u>
	Municipal Court Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Fines	\$ -	\$ -	\$ 70,661
Total revenues	<u>-</u>	<u>-</u>	<u>70,661</u>
EXPENDITURES			
Current			
Public Safety	32,000	32,000	16,618
Capital Outlay	<u>47,200</u>	<u>47,200</u>	<u>-</u>
Total expenditures	<u>79,200</u>	<u>79,200</u>	<u>16,618</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(79,200)</u>	<u>(79,200)</u>	<u>54,043</u>
NET CHANGE IN FUND BALANCES	<u>(79,200)</u>	<u>(79,200)</u>	<u>54,043</u>
FUND BALANCES, beginning of the year	<u>109,993</u>	<u>109,993</u>	<u>109,993</u>
FUND BALANCES, end of the year	<u>\$ 30,793</u>	<u>\$ 30,793</u>	<u>\$ 164,036</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, 2006

	Public Works Expansion Development		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 6,331,600	\$ 6,331,600	\$ 3,802,629
Interest	75,000	75,000	247,674
Total revenues	<u>6,406,600</u>	<u>6,406,600</u>	<u>4,050,303</u>
EXPENDITURES			
Current			
General Government	7,500	5,200	3,525
Public Works	1,131,100	1,229,500	616,039
Community Development	-	65,600	11,216
Capital outlay	<u>12,507,700</u>	<u>12,572,900</u>	<u>2,420,835</u>
Total expenditures	<u>13,646,300</u>	<u>13,873,200</u>	<u>3,051,615</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(7,239,700)</u>	<u>(7,466,600)</u>	<u>998,688</u>
NET CHANGE IN FUND BALANCES	<u>(7,239,700)</u>	<u>(7,466,600)</u>	<u>998,688</u>
FUND BALANCES, beginning of the year	<u>8,380,399</u>	<u>8,380,399</u>	<u>8,380,399</u>
FUND BALANCES, end of the year	<u>\$ 1,140,699</u>	<u>\$ 913,799</u>	<u>\$ 9,379,087</u>
	Transportation Improvement		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 12,200,000	\$ 12,200,000	\$ 2,681,842
Interest	-	-	27,904
Total revenues	<u>12,200,000</u>	<u>12,200,000</u>	<u>2,709,746</u>
EXPENDITURES			
Current			
General Government	50,000	26,800	14,250
Capital outlay	<u>12,150,000</u>	<u>12,225,000</u>	<u>150,391</u>
Total expenditures	<u>12,200,000</u>	<u>12,251,800</u>	<u>164,641</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(51,800)</u>	<u>2,545,105</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(51,800)</u>	<u>2,545,105</u>
FUND BALANCES, beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ (51,800)</u>	<u>\$ 2,545,105</u>

(Continued)

City of Surprise
Net Assets by Component
Last Five* Fiscal Years
(accrual basis of accounting)

	Fiscal Year*				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 21,251,489	\$ 55,744,878	\$ 68,998,321	\$ 82,385,302	\$ 187,462,971
Restricted	1,119,550	127,420	3,484,897	56,071,995	62,577,192
Unrestricted	<u>53,516,461</u>	<u>52,764,531</u>	<u>60,780,976</u>	<u>57,596,080</u>	<u>75,952,911</u>
Total governmental activities net assets	<u><u>\$ 75,887,500</u></u>	<u><u>\$ 108,636,829</u></u>	<u><u>\$ 133,264,194</u></u>	<u><u>\$ 196,053,377</u></u>	<u><u>\$ 325,993,074</u></u>
Business type activities					
Invested in capital assets, net of related debt	\$ 57,258,200	\$ 80,646,084	\$ 87,647,382	\$ 98,222,769	\$ 127,958,364
Restricted	-	-	-	-	-
Unrestricted	<u>18,396,644</u>	<u>25,685,807</u>	<u>46,457,623</u>	<u>70,827,452</u>	<u>68,439,086</u>
Total business-type activities net assets	<u><u>\$ 75,654,844</u></u>	<u><u>\$ 106,331,891</u></u>	<u><u>\$ 134,105,005</u></u>	<u><u>\$ 169,050,221</u></u>	<u><u>\$ 196,397,450</u></u>

* Only last five fiscal years available for this schedule.

City of Surprise
Changes in Net Assets
Last Five* Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
<u>Expenses</u>					
Governmental Activities:					
General government	\$ 6,151,129	\$ 7,261,998	\$ 10,048,590	\$ 9,183,596	\$ 11,940,344
Public safety	10,638,974	12,421,571	16,091,306	18,142,250	22,468,552
Public works & streets (incl. SLIDS)	6,663,461	6,443,612	8,725,321	9,754,900	69,404,991
Community Development	2,271,931	2,765,942	3,494,720	3,565,707	4,230,145
Culture and Recreation	5,959,097	8,814,719	9,693,533	12,579,822	14,205,034
Interest	4,988,389	3,439,953	2,149,947	2,802,299	2,579,639
Total governmental activities expenses	<u>36,672,981</u>	<u>41,147,795</u>	<u>50,203,417</u>	<u>56,028,574</u>	<u>124,828,705</u>
Business-type Activities:					
Water	1,782,272	2,520,676	2,743,166	3,761,890	5,100,815
Sewer	5,659,805	5,299,290	431,316	7,348,509	9,261,758
Sanitation	1,171,441	1,286,846	5,310,460	2,064,479	2,705,418
Replenishment	104,292	269,688	1,641,006	461,179	637,096
Total business-type activities	<u>8,717,810</u>	<u>9,376,500</u>	<u>10,125,948</u>	<u>13,636,057</u>	<u>17,705,087</u>
Total primary government expenses	<u><u>45,390,791</u></u>	<u><u>50,524,295</u></u>	<u><u>60,329,365</u></u>	<u><u>69,664,631</u></u>	<u><u>142,533,792</u></u>
<u>Program Revenues</u>					
Governmental Activities:					
Charges for services:					
General government	4,725,121	133,663	5,076,871	4,938,746	4,970,335
Public safety	762,521	809,559	741,975	1,181,405	1,998,261
Public works & streets (incl. SLIDS)	1,627,168	2,445,654	1,002,286	2,729,991	3,294,580
Community Development	10,022	6,501,088	10,698,217	13,613,078	8,715,983
Culture and Recreation	5,175,842	6,938,081	2,309,967	2,637,300	2,447,816
Operating grants and contributions	3,001,252	472,278	1,393,209	1,549,862	2,269,888
Capital grants and contributions	5,890,971	44,075,851	19,008,175	40,482,590	161,045,621
Total governmental activities program revenues	<u>21,192,897</u>	<u>61,376,174</u>	<u>40,230,700</u>	<u>67,132,972</u>	<u>184,742,484</u>

Business-type activities:					
Charges for services:					
Water	4,190,250	2,402,258	3,087,993	3,878,556	7,091,232
Sewer	7,870,493	5,416,830	6,856,787	8,155,012	10,844,860
Sanitation	1,161,758	1,771,777	2,036,690	2,569,783	3,893,555
Replenishment	1,586,721	319,719	535,862	650,607	1,037,188
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	6,384,863	12,927,699	20,778,789	30,736,541	21,040,118
Total business-type activities program revenues	<u>21,194,085</u>	<u>22,838,283</u>	<u>33,296,121</u>	<u>45,990,499</u>	<u>43,906,953</u>
Total primary government program revenues	<u>42,386,982</u>	<u>84,214,457</u>	<u>73,526,821</u>	<u>113,123,471</u>	<u>228,649,437</u>

Net revenue/expense:					
Governmental activities	(15,480,084)	20,228,379	(9,972,717)	11,104,398	59,913,779
Business-type activities	<u>12,476,275</u>	<u>13,461,783</u>	<u>23,170,173</u>	<u>32,354,442</u>	<u>26,201,866</u>
Total primary government net expense	<u>(3,003,809)</u>	<u>33,690,162</u>	<u>13,197,456</u>	<u>43,458,840</u>	<u>86,115,645</u>

General Revenues and Other Changes in Net Assets

Governmental activities:					
Taxes					
Property taxes	2,576,629	2,945,714	3,039,352	4,019,951	5,078,661
Sales taxes	21,892,601	18,649,326	24,087,555	37,433,674	48,617,437
Franchise taxes	1,260,845	1,469,246	1,844,692	2,283,688	2,990,582
Grants and contributions not restricted to specific programs	3,397,899	5,919,754	5,605,862	6,084,821	7,437,667
Unrestricted investment earnings	2,102,205	(151,038)	718,264	2,480,100	4,253,352
Other	1,379,420	1,137,581	617,820	704,004	815,436
Transfers	<u>(2,490,052)</u>	<u>(17,459,444)</u>	<u>(4,053,169)</u>	<u>(1,321,453)</u>	<u>832,783</u>
Total governmental activities	<u>30,119,547</u>	<u>12,511,139</u>	<u>31,860,376</u>	<u>51,684,785</u>	<u>70,025,918</u>

Business-type activities:					
Grants and contributions not restricted to specific programs	40,961	-	-	-	-
Unrestricted investment earnings	385,771	(244,180)	549,771	1,269,321	1,978,146
Transfers	<u>2,490,052</u>	<u>17,459,444</u>	<u>4,053,169</u>	<u>1,321,453</u>	<u>(832,783)</u>
Total business-type activities	<u>2,916,784</u>	<u>17,215,264</u>	<u>4,602,940</u>	<u>2,590,774</u>	<u>1,145,363</u>
Total primary government	<u>33,036,331</u>	<u>29,726,403</u>	<u>36,463,316</u>	<u>54,275,559</u>	<u>71,171,281</u>

Change in Net Assets

Governmental activities	14,639,463	32,739,518	21,887,659	62,789,183	129,939,697
Business-type activities	<u>15,393,059</u>	<u>30,677,047</u>	<u>27,773,113</u>	<u>34,945,216</u>	<u>27,347,229</u>
Total primary government	<u>\$ 30,032,522</u>	<u>\$ 63,416,565</u>	<u>\$ 49,660,772</u>	<u>\$ 97,734,399</u>	<u>\$157,286,926</u>

* Only last five fiscal years available for this schedule.

City of Surprise
Governmental Activities Tax Revenues by Source
Last Five Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
2001/02	\$2,576,629	\$21,892,601	\$1,260,845	\$25,730,075
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
2004/05	4,019,951	37,433,674	2,283,688	\$43,737,313
2005/06	5,078,661	48,617,437	2,990,582	\$56,686,680

* Only last five fiscal years available for this schedule.

City of Surprise
Fund Balances of Governmental Funds
Last Five* Years
(modified accrual basis of accounting)

	Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,692,310	25,055,910	38,526,585	56,760,611	74,818,915
Total general fund	<u><u>\$16,692,310</u></u>	<u><u>\$25,055,910</u></u>	<u><u>\$38,526,585</u></u>	<u><u>\$ 56,760,611</u></u>	<u><u>\$ 74,818,915</u></u>
All other governmental funds					
Reserved	\$ 3,469,287	\$ 2,289,308	\$ 5,643,105	\$ 2,289,308	\$ 2,289,309
Unreserved, reported in:					
Special revenue funds	36,546,845	27,757,570	30,678,909	55,938,643	62,118,371
Debt service funds	189,929	127,420	131,100	133,352	458,821
Total all other governmental funds	<u><u>\$56,898,371</u></u>	<u><u>\$55,230,208</u></u>	<u><u>\$74,979,699</u></u>	<u><u>\$ 115,121,914</u></u>	<u><u>\$ 139,685,416</u></u>

* Only five years presented to conform schedules, some schedules only had five years of data available for comparison.

City of Surprise
Changes in Fund Balances of Governmental Funds
Last Five* Years
(modified accrual basis of accounting)

	Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Revenues					
Taxes	\$ 21,733,191	\$25,270,676	\$27,126,908	\$41,459,268	\$53,696,072
Licenses and permits	4,518,042	30,212,048	1,844,692	2,283,688	2,990,582
Intergovernmental	6,065,448	6,180,140	9,962,621	9,654,739	12,012,572
Charges for services	6,925,318	9,567,747	14,716,657	17,597,356	13,543,581
Grants	-	119,309	468,774	1,232,108	1,938,848
Fines	681,061	778,307	689,721	1,076,701	1,515,169
Rents	5,630,923	5,431,504	5,524,818	5,520,616	5,274,430
Development fees	4,551,017	8,369,809	15,421,946	24,690,132	16,021,064
Interest	2,127,574	(111,290)	715,156	2,468,787	4,215,995
Other	1,569,922	2,686,313	2,352,780	1,876,431	2,137,960
Total revenues	<u>53,802,496</u>	<u>88,504,563</u>	<u>78,824,073</u>	<u>107,859,826</u>	<u>113,346,273</u>
Expenditures					
General government	7,509,924	7,116,791	9,051,514	8,944,454	11,764,388
Public safety	10,187,801	12,032,201	14,652,086	17,057,307	21,076,990
Public works and streets (incl. SLIDS)	5,309,349	5,333,461	6,506,475	7,527,300	9,294,252
Community development	2,255,604	2,726,882	3,241,710	3,501,454	4,176,022
Culture and recreation	4,639,572	8,577,218	7,328,847	10,644,800	12,137,290
Capital outlay	44,160,723	30,839,511	12,703,354	13,404,250	24,756,609
Debt Service					
Principal	2,027,278	2,613,138	2,673,823	3,645,047	2,941,531
Interest	3,422,375	3,483,891	2,168,792	3,014,562	2,635,689
Other charges	-	-	647,024	-	-
Total expenditures	<u>79,512,626</u>	<u>72,723,093</u>	<u>58,973,625</u>	<u>67,739,174</u>	<u>88,782,771</u>
Excess of revenues over (under) expenses	(25,710,130)	15,781,470	19,850,448	40,120,652	24,563,502
Other financing sources (uses)					
Transfers in (out)	(2,490,052)	(17,459,444)	(50,000)	21,563	-
Refunding bonds issued	-	-	45,660,720	-	-
Payments to refunded bond escrow agent	-	-	(45,711,677)	-	-
Total other financing sources (uses)	<u>(2,490,052)</u>	<u>(17,459,444)</u>	<u>(100,957)</u>	<u>21,563</u>	<u>-</u>
Net change in fund balances	<u>\$ (28,200,182)</u>	<u>\$ (1,677,974)</u>	<u>\$ 19,749,491</u>	<u>\$ 40,142,215</u>	<u>\$ 24,563,502</u>
Debt service as a percentage of noncapital expenditures	18.2%	17.0%	11.9%	14.0%	9.5%

* Only five years presented to conform schedules, some schedules only had five years of data available for comparison.

City of Surprise
General Governmental Tax Revenues by Source
Last Five Fiscal Years¹
(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Franchise & Business Licenses</u>	<u>Total</u>
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
2004/05	4,019,951	37,433,674	2,283,688	43,737,313
2005/06	5,078,661	48,617,437	2,990,582	56,686,680

¹ Only five years presented to be consistent with other schedules.

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

Fiscal Year	Real Property		Exemptions	Total			Ratio of Total
	Assessed Value Residential Property	Assessed Value Commercial Property	Real Property	Taxable Assessed Value	Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value to Total Estimated Actual Value
2001/02	\$ 160,134,800	\$ 75,387,219	\$ 5,859,449	\$ 229,662,570	0.9101	\$ 1,977,250,961	11.62%
2002/03	198,787,883	88,609,847	7,206,831	280,190,899	0.9101	2,419,215,265	11.58%
2003/04	298,061,215	64,731,974	10,775,706	352,017,483	0.9101	3,100,683,511	11.35%
2004/05	381,245,421	121,108,141	21,523,524	480,830,038	0.9051	4,159,527,322	11.56%
2005/06	428,023,937	197,729,293	27,215,903	598,537,327	0.9101	5,324,335,938	11.24%

¹Limited all schedules to Five 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 Five Calendar Years¹**

Year	City of Surprise			Maricopa County				Overlapping Rates				Total Direct & Overlapping Rates
	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	
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
2005	0.7227	0.1824	0.9051	1.1971	0.0000	0.0521	1.2492	5.4627	1.6924	7.1551	1.9267	11.2361
2006	0.7501	0.1600	0.9101	1.1794	0.0000	0.0507	1.2301	5.1144	1.8378	6.9522	1.5145	10.6069

¹Limited all schedules to five 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, 2006**

Taxpayer	Type of Property	2004/05 ²			1995/96 ³		
		Taxable Assessed Valuation	Rank	As % of City's Total Assessed Valuation	Taxable Assessed Valuation	Rank	As % of City's Total Assessed Valuation
Arizona Public Service Company	Gas & Electric Utility	\$ 11,985,124	1	3.40%	\$ 3,232,319	1	7.16%
Richmond American Homes	Vacant Land	3,320,404	2	0.94%			
Southwest Gas Corporation	Gas & Electric Utility	4,005,765	3	1.14%	321,004	14	0.71%
Cox Communications	TV System	3,669,790	4	1.04%			
Sun City Grand	Vacant Land	2,918,547	5	0.83%	800,757	5	1.77%
Surprise Towne Center	Shopping Center	2,508,110	6	0.71%			
Arizona American Water	Water Utility	3,034,570	7	0.86%			
Qwest U.S. West Communications, Inc.	TV System	2,969,813	8	0.84%	1,481,870	2	3.28%
Marley Park	Vacant Land	2,287,326	9	0.65%			
Wal Mart Stores	Shopping Center	2,051,477	10	0.58%			
Albertsons Inc.	Shopping Center	2,608,285	11	0.74%			
William Lyon Homes, Inc.	Vacant Land	2,229,229	12	0.63%			
Bell Grande LLC	Misc. Commercial	2,066,630	13	0.59%			
KB Home Sales	Vacant Land	1,866,445	14	0.53%			
Target Corp.	Department Store	1,993,745	15	0.57%			
Surprise Village Co. LLC.	Vacant Land			0.00%	888,819	3	1.97%
Happy Trails Acquisition Limited Partners	Club & Lodge Halls			0.00%	829,963	4	1.84%
Windmill Inn	Hotel			0.00%	731,996	6	1.62%
United Properties Investment Company				0.00%	613,008	7	1.36%
Coastal American Corporation				0.00%	579,854	8	1.28%
Paseo Village Ltd. Partnership				0.00%	524,787	9	1.16%
Partnership Q.				0.00%	468,000	10	1.04%
Bell Plaza Lakes Management				0.00%	456,958	11	1.01%
Coyote Lakes Joint Venture				0.00%	432,688	12	0.96%
Sun Village Homeowners Assoc.				0.00%	357,020	13	0.79%
Sage Development Corporation				0.00%	288,826	15	0.64%
Agua Fria Water Co.				0.00%	283,928	16	0.63%
Village at Surprise				0.00%	283,278	17	0.63%
Burlington Northern/Santa Fe Railway Co.				0.00%	261,770	18	0.58%
		49,515,260		14.07%	12,836,845		28.43%

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

²Most recent data available.

³Earliest available data will be ten years apart with updated data.

City of Surprise
Primary Property Tax Levies and Collections¹

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Tax Collections in Subsequent Years	Total Collections to Date	
		Current Tax Collections	Percentage of Levy		Tax Collections	Percentage of Levy
2001/02	\$ 1,394,900	\$ 1,371,554	98.3%	\$ -	\$ 1,371,554	98.3%
2002/03	1,734,200	1,717,390	99.0	34,462	1,751,852	101.0
2003/04	2,251,700	2,237,772	99.4	26,091	2,263,863	100.5
2004/05	3,303,900	3,272,380	99.0	37,441	3,309,821	100.2
2005/06	4,063,300	3,957,218	97.4	51,206	4,008,424	98.6

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

City of Surprise
Ratios of Outstanding Debt by Type
Last Five Fiscal Years^{1,2}

Fiscal Year	Governmental Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special (MPC) Assessment Bonds			
2001/02	\$ 5,470,796	\$ 57,845,000	\$ 63,315,796	N/A	N/A
2002/03	4,922,738	55,995,000	60,917,738	2.40%	1,174
2003/04	4,353,867	56,785,000	61,138,867	N/A	N/A
2004/05	3,763,842	53,800,000	57,563,842	N/A	N/A
2005/06	3,157,311	51,465,000	54,622,311	N/A	N/A

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹See the Schedule of Demographic and Economic Statistics on page 83 for personal income and population data.

²Limited to five years to be consistent with other schedules.

N/A - Not available

City of Surprise
Ratios of General Bonded Debt Outstanding
Last Five³ Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value¹ of Property	Per Capita²
2001/02	\$ 5,470,796	\$ 189,929	\$ 5,280,867	0.27%	\$ 138
2002/03	4,922,738	127,420	4,795,318	0.20%	106
2003/04	4,353,867	131,100	4,222,767	0.14%	81
2004/05	3,763,842	133,352	3,630,490	0.09%	57
2005/06	3,157,311	458,821	2,698,490	0.05%	31

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 75 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 83.

³Limited to last five fiscal years to be consistent with limitations in other schedules.

City of Surprise
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

<u>Governmental Unit:</u>	<u>General Obligation Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes :			
Maricopa County	\$ 106,645	1.45%	\$ 1,545
Dysart Unified School District No. 89	61,055,000	59.52%	36,338,141
Subtotal, overlapping debt			<u>\$ 36,339,686</u>
City of Surprise, Arizona direct debt			<u>3,763,841</u>
Total direct and overlapping debt			<u><u>\$ 40,103,526.63</u></u>

Sources: Assessed value and debt data used to estimate applicable percentages provided by Maricopa County.

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

¹The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the City's boundaries and dividing it by the county's total taxable assessed value.

City of Surprise
Legal Debt Margin Information Unrestricted and Restricted
Last Five* Fiscal Years

	<u>Unrestricted</u> Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Debt limit 6%	\$ 13,779,754	\$ 16,811,454	\$ 21,121,049	\$ 28,849,802	\$ 35,912,240
Total net debt applicable to limit	-	-	-	-	-
Unrestricted legal debt margin	<u>\$ 13,779,754</u>	<u>\$ 16,811,454</u>	<u>\$ 21,121,049</u>	<u>\$ 28,849,802</u>	<u>\$ 35,912,240</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

Unrestricted Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 625,753,230
Less: exempt real property	<u>27,215,903</u>
Total net assessed value	<u>\$ 598,537,327</u>
Debt limit (6% of total assessed value)	35,912,240
Debt applicable to limit:	
General obligation bonds	-
Total net debt applicable to limit	<u>-</u>
Legal debt margin	<u>\$ 35,912,240</u>

	<u>Restricted</u> Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Debt limit 20%	\$ 45,932,514	\$ 56,038,180	\$ 70,403,497	\$ 96,166,008	\$ 119,707,465
Total net debt applicable to limit	<u>5,280,867</u>	<u>4,795,318</u>	<u>4,222,767</u>	<u>3,630,490</u>	<u>2,698,490</u>
Restricted legal debt margin	<u>\$ 40,651,647</u>	<u>\$ 51,242,862</u>	<u>\$ 66,180,730</u>	<u>\$ 92,535,518</u>	<u>\$ 117,008,975</u>
Total net debt applicable to the limit as a percentage of debt limit	11.50%	8.56%	6.00%	3.78%	2.25%

Restricted Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 625,753,230
Less: exempt real property	<u>27,215,903</u>
Total assessed value	<u>\$ 598,537,327</u>
Debt limit (20% of total assessed value)	119,707,465
Debt applicable to limit:	
General obligation bonds	3,157,311
Less: Amount set aside for repayment of general obligation debt	<u>458,821</u>
Total net debt applicable to limit	<u>2,698,490</u>
Legal debt margin	<u>\$ 117,008,975</u>

Note: Under state finance law, the City of Surprise's outstanding general obligation debt should not exceed 20 percent of total assessed property value.

* Only last five fiscal years used to conform with limitations on other schedules.

**City of Surprise
Demographic and Economic Statistics
Selected Years**

Year	Population^{1,2}	Personal Income	Per Capita Personal Income^{1,2}	Median Age^{1,2}	Education Level in Years of Formal Schooling²	Unemployment Rate²
1995*	10,737	\$ 283,918,491	\$ 26,443	41.7	N/A	N/A
2000*	30,848	1,362,124,288	44,156	46.1	13.5	3.3%
2001	38,400 ¹	N/A	N/A	N/A	N/A	4.2%
2002	45,125 ¹	N/A	N/A	N/A	N/A	5.7%
2003	51,885 ¹	2,541,534,840 *	48,984	45.3	N/A	5.3%
2004	64,210 ¹	N/A	N/A	N/A	N/A	4.4%
2005	88,265 ¹	N/A	N/A	N/A	N/A	4.1%

Data Sources:

* U.S. Census Bureau

1 Maricopa County and City of Surprise

N/A - Not available at this time.

2 U.S. Department of Labor Bureau of Labor Statistics for Phoenix, Mesa, Scottsdale areas.

City of Surprise**
Principal Employers¹
As of December 31

Employer	2004		2003		2002	
	Employees	Rank	Employees	Rank	Employees	Rank
Albertson's Food Store	175	8	175	6	250	5
APS	150	14	150	11	175	7
Arizona Republic Distribution Center	41	28	41	24		
Best Buy	105	19				
City of Surprise*	501	4	449	3	389	3
Cobblestone Auto Spa & Market	75	24				
Concrete Reinforcement Inc.	60	26	54	22		
Del Webb Hospital, Surrounding Clinics, Services	1531	1	1399	1	1108	1
Del Webb/Pulte	370	5	350	5	350	4
Dillon's Restaurant/Catering	165	9	165	7		
Dysart School District (Surprise Schools Only)	557	2	413	4	219	6
Foxworth-Galbraith - Truss Mfg.	100	21	100	16	100	13
Fry's Food Store	175	7	165	8	165	8
Home Depot	160	10	160	9	160	9
Janus International - Steel Door Mfg.	49	27	45	23		
Kohl's Department Store	120	17	150	12		
Lowe's	140	16	115	15	115	11
Macayo's Mexican Restaurant	150	13				
Maricopa County Facilities	154	11	154	10		
Olive Garden	140	15	140	14		
Red Eagle/El Porvenir Tortilla Factory	70	25	70	21		
Red Lobster	150	12	150	13		
Safeway Food Store					130	10
Sunstate Components - Truss Mfg.	85	23	85	18		
Surprise Charter Schools (3)	181	6				
Surprise Post Office	100	20	85	19		
Target	115	18	100	17	110	12
Volvo Proving Grounds	85	22	85	20		
Wal-Mart	550	3	550	2	740	2

¹Presented for years information was available.

*Average FTE's

**Source: City's Economic Development Division

City of Surprise
Full-time Equivalent City Government Employees by Function
Last Five* Fiscal Years

<u>Function</u>	Full-time Equivalent Employees as of June 30				
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
General government	59.61	67.75	65.38	80.24	96.55
Public Safety:					
Police:					
Officers	72.78	79.65	83.94	97.16	117.49
Civilians	10.78	12.32	13.14	13.09	14.2
Fire:					
Firefighters and officers	68.38	77.48	91.36	93.93	106.25
Civilians	2.11	2.69	3.07	4.49	6.05
Public works and streets:					
All others	49.91	51.96	55.43	63.48	77.95
Community development	30.68	32.6	36.84	42.66	49.33
Culture and recreation	31.9	76.14	84.84	94.41	102.56
Water	4.31	5.36	6.25	7.46	9.68
Sanitation	6.68	8.03	11.06	15.81	22.55
Sewer	11.47	14.29	16.66	19.89	25.79
Replenishment	0.58	0.72	0.84	1.01	1.31
Total	349.19	428.99	468.81	533.63	629.71

*Data limited to five years due to data availability.

**City of Surprise
Operating Indicators by Function
Last Five Fiscal Years***

Function	Fiscal Year				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Public Safety:					
Police:					
Calls	41,600	52,700	58,800	60,450	69,000
Citations issued	N/A	N/A	9,119	11,080	12,117
Officers per capita	1.2	1.3	1.2	1.1	1.1
Fire:					
Number of responses	4,179	5,086	6,628	7,416	8,668
Inspections	1,413	1,796	852	1,023	1,055
Public works and streets:					
Sq. ft. Of buildings to maintain	213,034	287,034	320,700	340,700	375,000
Vehicles/equipment maintained per month	N/A	27	200	229	244
Number of street lights repaired	N/A	20	50	135	150
Street miles maintained	N/A	418	525	550	592
Community development:					
Approved single family homes platted	3,908	5,195	9,229	11,080	3,189
Culture and recreation:					
Organized recreation program participants	14,798	29,430	34,700	41,700	29,000
Special events/open facility participants	45,558	116,109	146,200	150,300	144,000
Sewer:					
Average daily sewage treatment (million gallons per day)	2.8	3.1	4.5	5.9	7.0
Sanitation:					
Refuse collected (tons/annually)	14,487	17,241	18,470	21,200	28,100
Number of routes	6	7	8	11	31
Total services	11,513	13,390	15,341	21,800	28,625

Sources: Various government departments

* Last five years selected based on availability of data and to be consistent with other schedules.

N/A - Not available.

City of Surprise
Capital Asset Statistics by Function
Last 5* Years

<u>Function</u>	<u>Fiscal Year</u>				
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Public Safety:					
Police:					
Stations	1	1	2	2	2
Patrol Units	40	40	46	55	75
Fire Stations	3	4	4	4	4
Fire Engines and Ladder Trucks	4	4	4	6	7
Public works and streets:					
Street miles	450	540	630	586	593
Street Lighting Improvement Districts	23	37	43	57	69
Traffic Signals	10	13	16	20	23
Bridges	1	1	1	1	1
Community development:					
Inspection vehicles	14	16	16	27	29
Annual New Residential Starts	3435	3263	5304	7704	6866
Culture and recreation:					
Parks acreage	15	277	277	278	284
Parks	4	5	5	6	7
Swimming pools	1	1	2	2	2
Softball fields	2	2	2	2	2
Baseball fields	0	15	15	15	15
Libraries	1	2	2	2	2
Water:					
Water Service Connections	5,116	5,939	7,593	11,047	13,249
Well Production Maximum daily capacity (millions of gallons)	3.3 mgd	3.3 mgd	5.8 mgd	5.8 mgd	20.2 mgd
Sewer:					
Sewer Treatment Plants	2	2	1	1	1
Sewer Service Connections	N/A	17,293	26,991	35,001	40,072
Maximum daily treatment capacity (millions of gallons)	3.2 mgd	3.3 mgd	7.2 mgd	7.2 mgd	7.5 mgd
Sanitation:					
Collection trucks	8	9	11	17	22

Sources: Various government departments

* Only five years presented to conform to other schedules.