

Surprise, Arizona

Getting Ahead of the Curve



Comprehensive Annual Financial Report
City of Surprise, Arizona
Fiscal Year Ended June 30, 2007

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2007

Prepared by:
Finance Department



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

The Introductory Section is the first of three essential components of the City’s Comprehensive Annual Financial Report (CAFR). The second essential component is the Financial Section, and the third is the Statistical Section. The Introductory Section provides general information on the City’s structure and personnel as well as information useful in assessing the City’s economic condition, with the letter of transmittal as the key element to formally introduce the CAFR to the intended readers.

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October 27, 2007

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, 2007.

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.

Henry & Horne, L.L.P., 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, 2007, 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, 2007, 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 88 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 over 100,000 people in 2007. 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 202 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.

In 2006, the council approved a strategic vision for Surprise. The Surprise Vision reads:

"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"

The Vision includes seven goals:

- Surprise's neighborhoods are strong, unique, and cohesive.***
- Surprise has a diverse, vibrant, and sustainable economy.***
- Surprise has a seamless, comprehensive, and safe transportation system.***
- Surprise is environmentally sustainable and preserves the desert character.***
- Surprise is financially sustainable.***
- Surprise has a well-educated, workforce-prepared citizenry.***
- Surprise effectively communicates with its citizens.***

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 one section A. (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 the 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.



-Example of development in the City/Sun City Grand-

Local economy. Housing starts are the City's primary source of revenue. By Surprise's standards, we are in a time of limited growth. For the fiscal year 2007, 1,788 homes were permitted; by contrast 3,805 home permits were issued in fiscal year 2006. This trend is expected to continue in fiscal year 2008, where we are expecting to issue 1,200 home permits. 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 MD&A , pages 6 through 10, and the statistical section that begins on page 78, of this financial statement.

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. 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 are in place 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. Allocate 100% of collections from the 1.5% construction transaction tax to transportation improvements; and,
4. Maintain a minimum reserved fund balance equal to one year of non-General Obligation (G.O.) debt service payments.



-New City Hall Planned-

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 million in the budget 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



-Photograph of the Public Safety/Municipal Court Facility-

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.

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. During the past twelve months, the City of Surprise completed the Public Safety/Municipal Court Facility to centralize the court system at Surprise Center and a Surprise Tennis and Racquet Facility. The City has broken ground on a new City Hall with an estimated completion date in 2009.



-Tennis and Racquet Facility-

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, 2007 were from approximately 3.5% to 5.2%. 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. 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 10 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 third-party administrators to facilitate employee participation in deferred compensation plans, one that is in accordance with the Internal Revenue Code, Section 457, as well as a Post Employment Health Plan (PEHP).

For further information on these plans refer to Note nine (9) 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 every year since July 1, 2002. 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, 2006

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

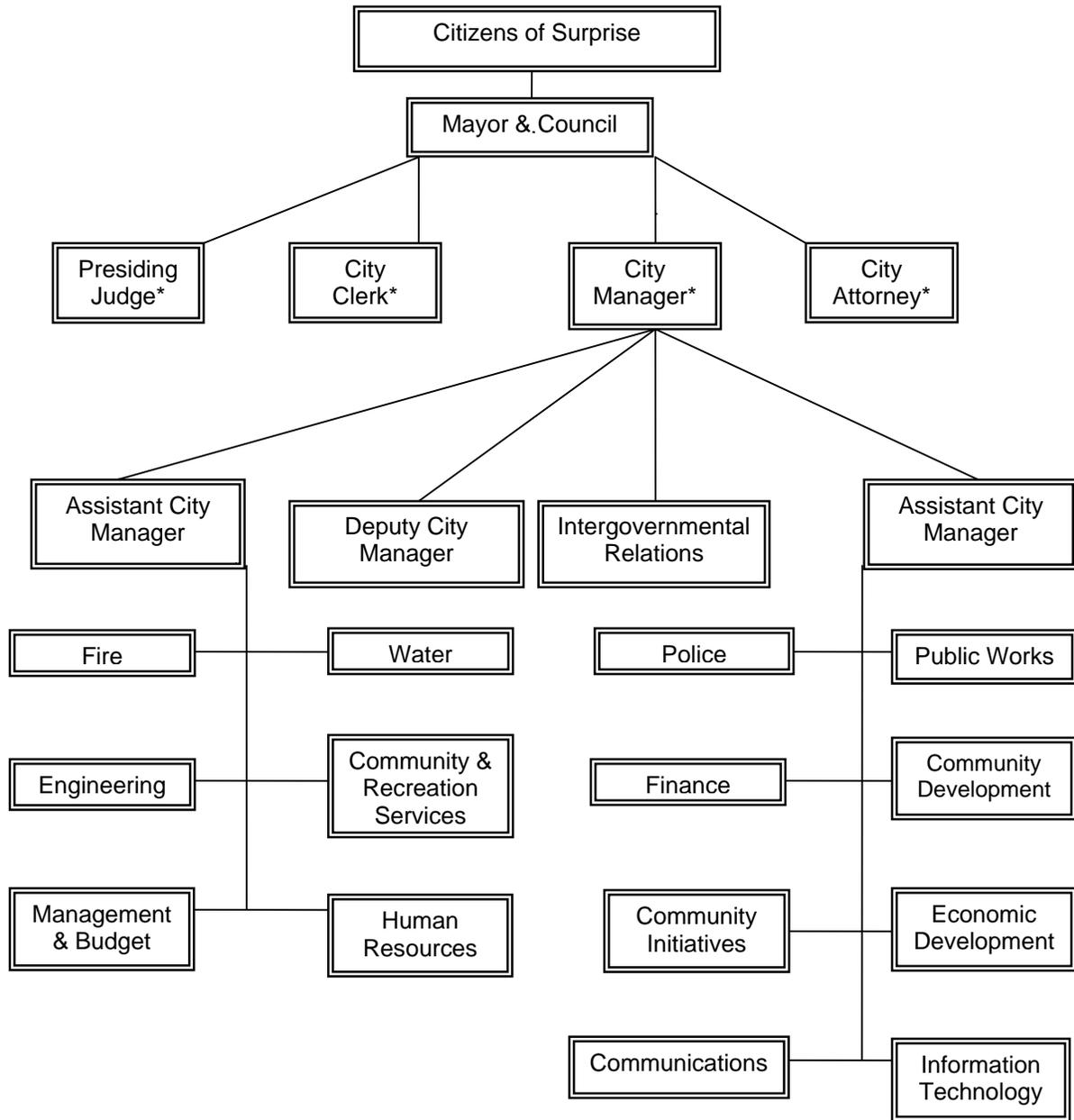


President

Executive Director



Organizational Chart FY2007



***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 December 2007. She is elected at-large.

VICE-MAYOR 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. He was elected to the Board of Directors

for Westmarc.

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 since 1972 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 the following residential areas: 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 December 2007.

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 residential area know as the Original Townsite, from Bell Road south to Greenway Road between Dysart Road and Jerry Street.

Arismendez's term expires in December 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 the following residential areas: 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 December 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 following residential areas: 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 December 2009.

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 the following residential areas: Sun City Grand, the northwest portion of Sun Village, Stonebrook, Summerfield and Bell West Ranch.

Bail's term expires in December 2007.

JOHN LONGABAUGH – John.Longabaugh@surpriseaz.com



John Longabaugh, a Surprise resident since 2003, represents the Acacia District (1) and was appointed to the City Council in June 2007 to fill a vacancy.

Longabaugh had a 33 year career at Santa Clara County in California, serving in human resources as the administrator of the county's disabilities program before retiring.

He was appointed by the Surprise City Council to the newly formed Disability Advisory Commission in July 2005 until his recent appointment to the City Council. His proudest accomplishments during his tenure were the completion of Dream Catcher Park and the formation of the City's Wheelchair Basketball Team.

He is the father of a son and a daughter and has three grandchildren. He enjoys traveling with his family including the Cavalier King Charles Spaniel.

Longabaugh says for the next two years his goals are to guide the growth of Surprise, improve transportation throughout the city and increase employment opportunities for citizens. In addition, he dedicates himself to being a team player on the Council, working in harmony with both his fellow council members and the City's staff.

When he is not representing District 1, Longabaugh is an avid Bocce Player, enjoys a good game of Bridge, and plays Mah Jongg. He can also be found three or four times a week at the community pool working to keep in shape.

He likes being stopped in his travels throughout the District to listen to his constituents; because he recognizes he was appointed, not elected to his Council position. His favorite quote is: "I expect to pass through this world but once. Any good, therefore that I can do or any kindness I can show to a fellow human, let me do it now. Let me not defer or neglect it for I shall not pass this way again."

Longabaugh tries to follow these words. The ultimate public service in a City is a Councilman – a true servant of the people he or she represents.

The Acacia District encompasses the northwest portion of Surprise, including the following residential areas: Sun City Grand, Happy Trails and Arizona Traditions.

Longabaugh's term expires in December 2009.

APPOINTED OFFICIALS

Manager

Clerk

Attorney

Magistrate

James Rumpeltes

Sherry Aguilar

Michael Bailey

George Logan



SURPRISE
ARIZONA



FINANCIAL SECTION – INDEPENDENT AUDITOR’S OPINION

The Financial Section is divided into five sections. The first section is the Independent auditor’s report, which is the official written communication of the audit results provided by the independent auditors expressing their opinion on the City’s financial statements as to whether the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

FINANCIAL
SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council
City of Surprise
Surprise, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Surprise (the City), Arizona, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Surprise, Arizona, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Surprise failed to use highway user revenue fund monies received by the City of Surprise pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City of Surprise solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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FINANCIAL SECTION – MANAGEMENT DISCUSSION AND ANALYSIS

The Financial Section is divided into five sections. The second section is the Management Discussion and Analysis. This component of required supplementary information is used to introduce the basic financial statements and provide an analytical overview of the City’s financial activities.

	Page
Management Discussion and Analysis	3-16

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, 2007. *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 over 12% from \$326.0 million to \$365.6 million, a difference of \$39.6 million.
 - The increases in Current and other assets of \$9.4 million and Governmental Activity Capital assets of \$97.3 million more than offset the increase in liabilities of \$67.1 million.
 - The \$59.4 million excess of revenues before transfers (\$150.4 million) over expenses (\$91.0 million) was due primarily to Grants and Contributions (\$47.2 million) and tax revenues (\$56.0 million).
 - Transfers out of \$36.5 million less the Prior period adjustments \$16.7 million reduced the Increase in net assets to \$39.6 million (see Note 14).
- ❖ **Business Type net assets** increased 36% from \$196.4 million to \$271.5 million, a difference of \$75.1 million.
 - Total assets increased \$78.4 million. Capital assets (net) made up \$76.2 million of the increase. In Capital assets, Construction in progress accounted for \$56.1 million of the increase. While Current and other assets increased \$2.2 million. See Note 14 for the effect of prior period adjustments in the increase of business type capital assets.
 - Liabilities recorded a \$3.2 million increase. Contracts payable increased by \$3.2 million within the Current liabilities classification.
- ❖ **Governmental Activities Expenses** of \$91.0 million exceeded Program Revenues of \$66.1 million, a difference of \$24.9 million in Fiscal Year 2007.
 - Charges for Services (\$18.9 million) covered over 20% of expenses (\$91.0 million).
 - Grants and contributions (\$47.2 million) covered approximately 73% of Governmental Activities Expenses (\$91.0 million).
 - We rely upon General revenues (e.g. taxes), to cover operating expenses.
 - General revenues were \$84.3 million.
- ❖ **Business Type Expenses** were \$21.4 million, while program revenues, including development fees, transfers, and prior period adjustments were \$55.2 million, \$36.5 million, and \$4.9 million respectively, a difference of \$75.2 million.
 - The addition of General Revenues \$4.1 million increases the change in net assets from \$71.1 million to \$75.2 million.
 - For the fourth consecutive year, all but one of the Business type activities (Replenishment) 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 (CFD), 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 one (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 17 and 18) 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 19. 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 17. 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 19. The fund financial statements begin on page 19, 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 31-32.

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, 2006 and June 30, 2007.

City of Surprise's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007*	2006	2007*	2006	2007
Current and other assets	\$ 154.0	\$ 163.4	\$ 83.4	\$ 85.5	\$ 237.3	\$ 248.9
Capital assets, net	243.5	340.8	131.8	208.0	375.3	548.8
Total assets	397.5	504.2	215.2	293.5	612.6	797.7
Liabilities:						
Liabilities - except general obligations	15.5	34.3	18.8	22.0	34.3	56.3
Bonds Payable: Due within one year	3.0	3.1	-	-	3.0	3.1
Due within more than one year	53.0	101.2	-	-	53.0	101.2
Total liabilities	71.5	138.6	18.8	22.0	90.3	160.6
Net assets:						
Invested in capital assets, net						
of related debt	187.5	235.6	128.2	204.4	315.7	440.0
Restricted	62.6	38.8	-	-	62.6	38.8
Unrestricted	75.9	91.2	68.2	67.1	144.1	158.3
Total net assets	\$ 326.0	\$ 365.6	\$ 196.4	\$ 271.5	\$ 522.4	\$ 637.1

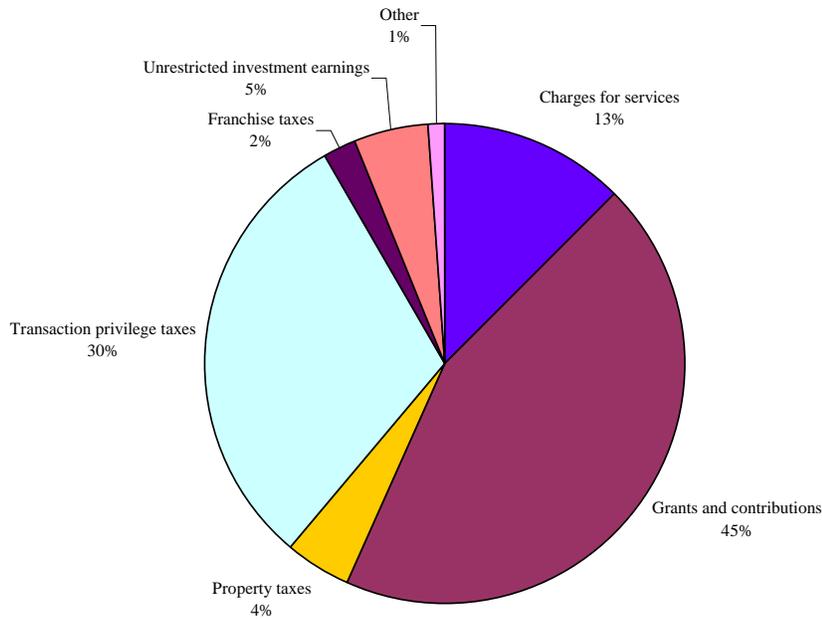
*Prior period adjustments see Note 14.

Our **combined net assets** increased by 43% from \$522.4 million to \$637.1 million, a difference of \$114.7 million.

- ❖ 69% of Total net assets (\$797.7 million) are invested in Capital assets, net of related debt (\$548.8 million).
- ❖ A more in-depth analysis of this table shows that current and other assets (\$248.9 million) exceed total liabilities (\$160.6 million) by \$88.3 million, suggesting that all debts of the City of Surprise could be satisfied without having to sell off capital assets.

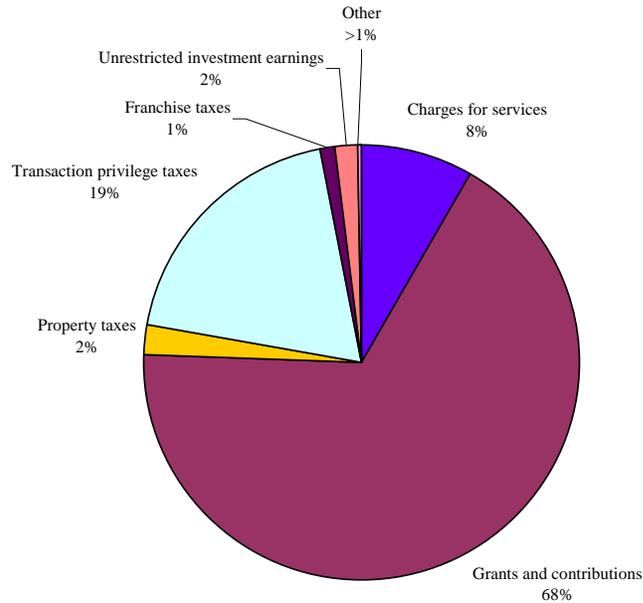
Governmental Activities Revenues for the fiscal year ended June 30, 2007 totaled \$150.4 million and are identified by major revenue source in percentage format as follows:

Fiscal Year 2007 Governmental Activities Revenue Sources - \$150.4 Million



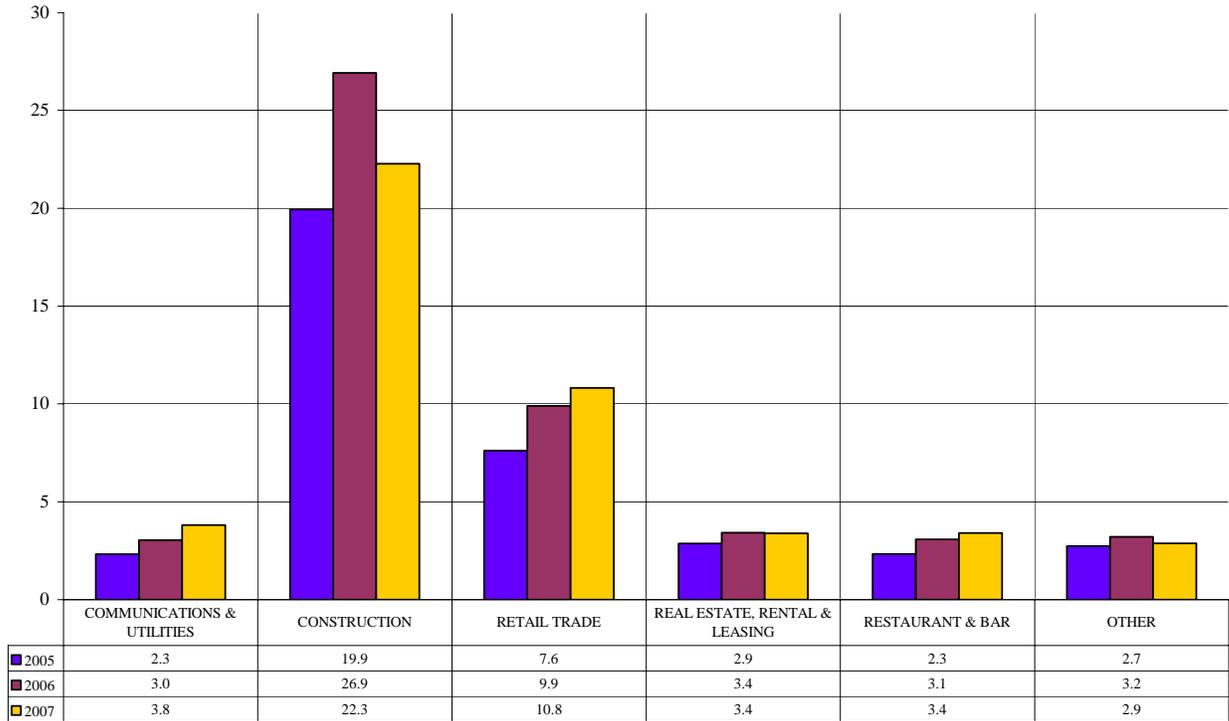
- ❖ The 2006 chart is provided for comparison purposes only.
 - Revenues for the fiscal year ended June 30, 2006 totaled \$253.9 million.

Fiscal Year 2006 Governmental Activities Revenue Sources - \$253.9 Million

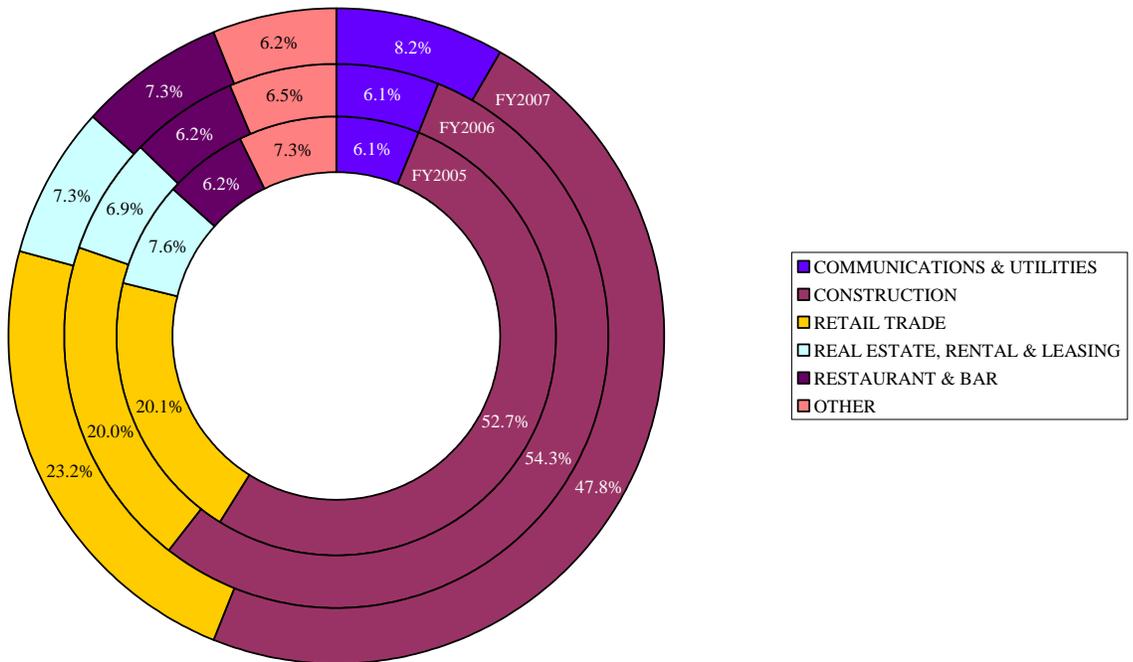


- ❖ Our largest revenue source continues to be Grants and contributions at 45% (which includes development impact fees).
- ❖ Last year, Grants and contributions accounted for 68% of total revenues.
- ❖ All other revenue sources remained consistent with past performance led by Transaction privilege taxes (sales taxes) at 30% of revenues and all other revenues combining for 25%.

Transaction Privilege Tax Reported - by Major Business Type
in millions



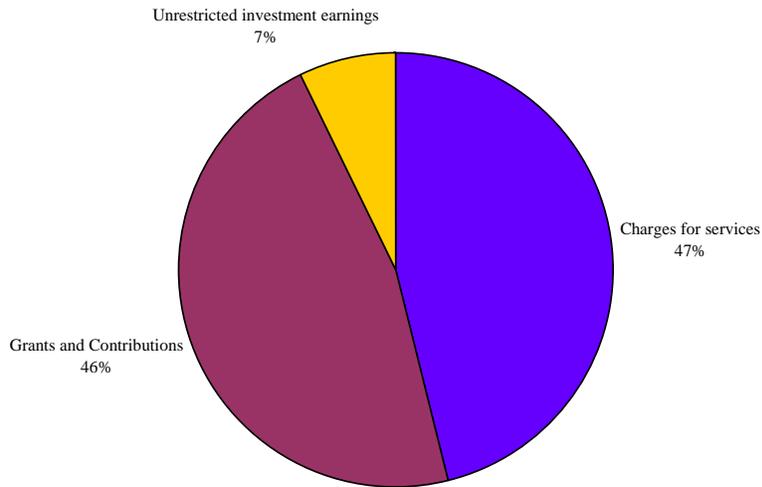
Transaction Privilege Tax Reported by Major Business Type as a Percentage of Total



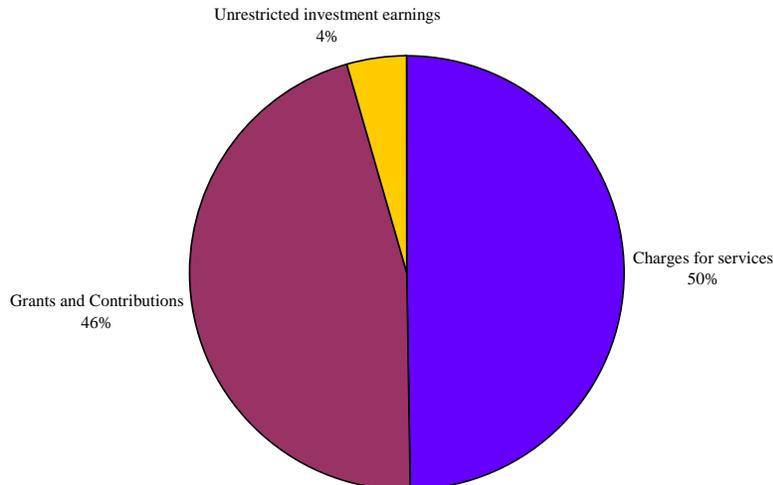
- ❖ The first graph on the previous page represents reported transaction privilege tax in dollars by each major category compared year to year from Fiscal Year 2005 to Fiscal Year 2007.
- ❖ The second graph shows that Construction transaction privilege tax accounts for about 50% of all transaction privilege tax collected in the City of Surprise followed by Retail taxes at about 20%.
- ❖ Combined, Construction and Retail Trade, subcategories represent over 70% of all transaction privilege tax revenue collected each year.
- ❖ Construction transaction privilege tax collections decreased in Fiscal Year 2007 due to the slow down in new home construction.

Business Type Revenues for the fiscal year ended June 30, 2007 totaled \$55.2 million (does not include prior period adjustments of \$4.9 million) and are identified by major revenue source in percentage format as follows:

Fiscal Year 2007 Revenue Sources Business Type - Total of \$55.2 Million



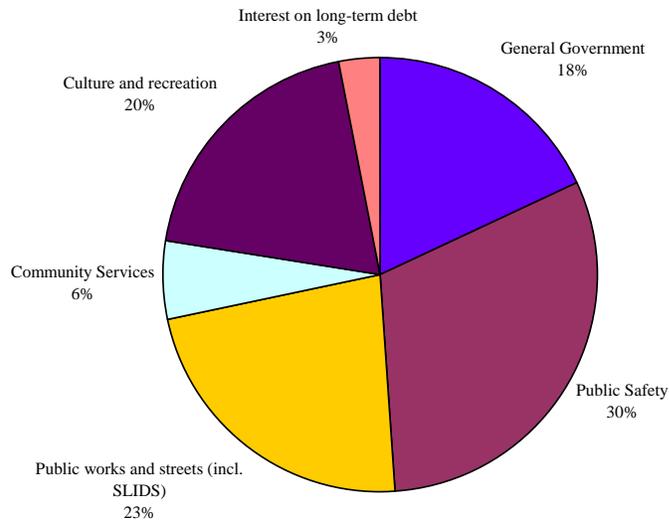
Fiscal Year 2006 Revenue Sources Business Type - Total of \$45.9 Million



- ❖ The 2006 chart, on the previous page is provided for comparison purposes only.
 - Revenues for the Fiscal year ended June 30, 2006 totaled \$45.9 million.
- ❖ Total Business Type Revenues increased \$9.3 million from Fiscal Year 2006 to Fiscal Year 2007 not including prior period adjustments of \$4.9 million. This increase is related to an increase in developer contributions (\$4.6 million), charges for services (\$2.6 million) and investment earnings (\$2.1 million) not including the prior period adjustments of \$4.9 million (see Note 14).
- ❖ Charges for Services of \$25.5 million were \$2.6 million higher than last year and constitute 46% of all Business Type Revenue.
- ❖ By Business Type, revenues break down as follows: Water \$7.7 million; Sewer \$12.4 million; Sanitation \$4.6 million; Replenishment \$.8 million.

Governmental Activities Expense (excluding transfers & capital outlays) for the fiscal year ended June 30, 2007 totaled \$91.0 million and are identified by function in percentage format as follows:

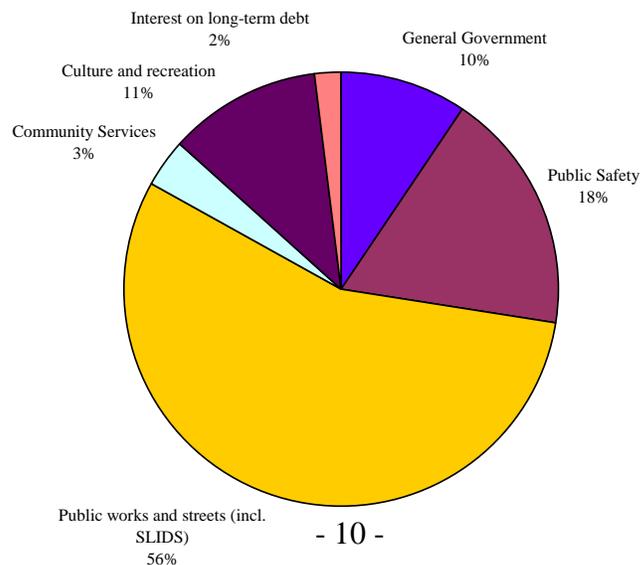
Fiscal Year 2007 Governmental Activities Functional Expenses - Total \$91.0 Million



The 2006 chart is provided for comparison purposes only.

- ❖ Expenses (excluding transfers & capital outlays) were \$124.8 million in 2006.

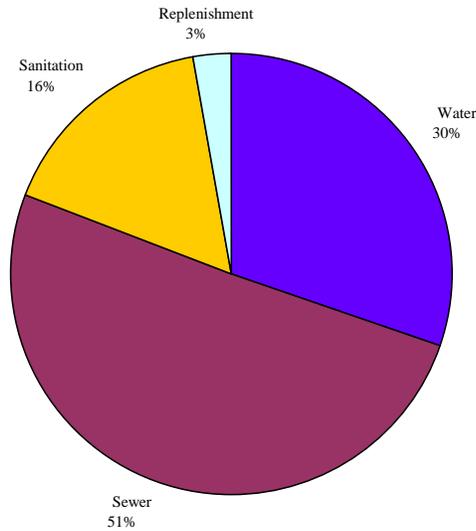
Fiscal Year 2006 Governmental Activities Functional Expenses - Total \$124.8 Million



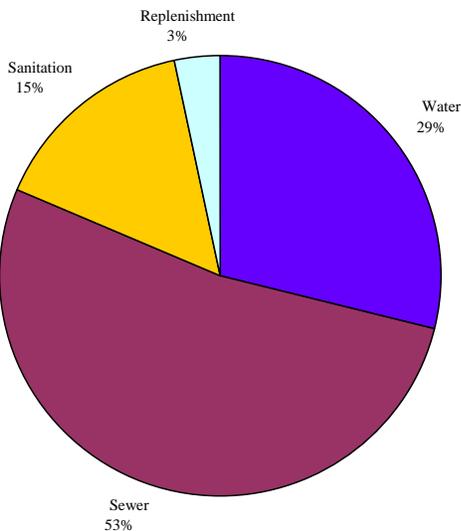
- ❖ Public safety (Police, Fire, and Courts) was 30% of program expenditures (\$28.0 million in 2007 and \$22.5 million in 2006).
- ❖ Public works and streets was next and accounted for approximately 23% (\$20.9 million in 2007 and \$69.4 million in 2006)
- ❖ Culture and recreation was third with 20% (\$17.8 million in 2007 and \$14.2 million in 2006).
- ❖ General government was fourth with 18% (\$16.4 million in 2007 and \$11.9 million in 2006).
- ❖ All others make up 9% (\$7.9 million in 2007 and \$6.8 million in 2006).

Business Type Expense (excluding transfers and capital outlays) for the fiscal year ended June 30, 2007 totaled \$21.4 million and are identified by function in percentage format as follows:

Fiscal Year 2007 Functional Expenses - Business Type - Total \$21.4 Million



Fiscal Year 2006 Functional Expenses - Business Type - Total \$17.7 Million



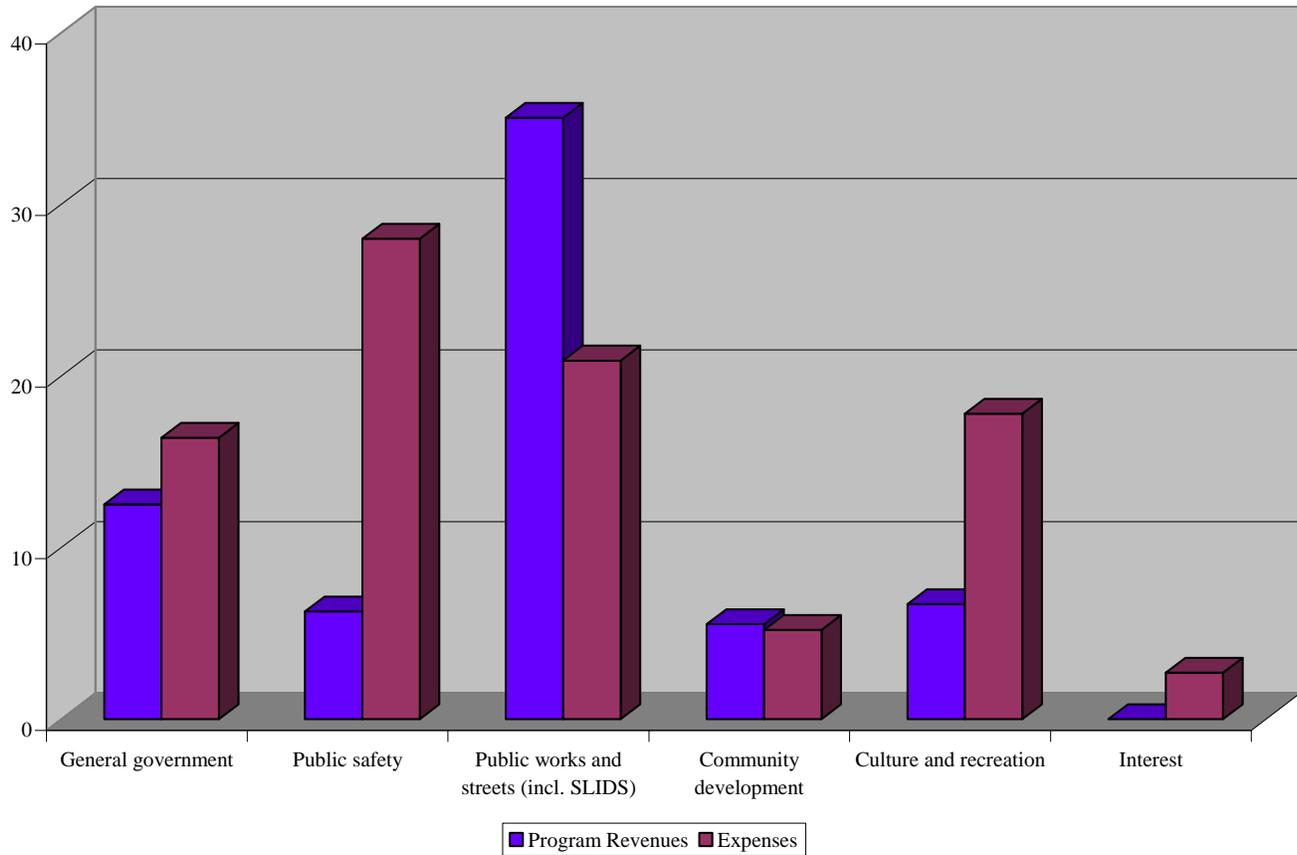
The 2006 chart, on the previous page is provided for comparison purposes only.

- ❖ Expenses (excluding Transfers) were \$17.7 million in 2006.
- ❖ \$21.4 million was related to Cost of sales and services an increase of \$3.7 million over the previous year.
- ❖ \$3.5 million was related to Depreciation, an increase of \$0.5 million over the previous year.
- ❖ By Business Type, expenses break down as follows: Water \$6.5 million; Sewer \$10.8 million; Sanitation \$3.5 million; Replenishment \$0.6 million.

City of Surprises Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
REVENUES						
Program Revenues:						
Charges for service	\$ 21.4	\$ 18.9	\$ 22.9	\$ 25.5	\$ 44.3	\$ 44.4
Grants and contributions	163.3	47.2	21.0	25.6	184.3	72.8
General revenues:						
Property taxes	5.1	6.7	-	-	5.1	6.7
Transaction privilege taxes	48.6	45.7	-	-	48.6	45.7
Franchise taxes	3.0	3.6	-	-	3.0	3.6
Grants and contributions unrestricted	7.4	19.3	-	-	7.4	19.3
Unrestricted investment earnings	4.3	7.2	2.0	4.1	6.3	11.3
Other	0.8	1.8	-	-	0.8	1.8
Total revenues	<u>253.9</u>	<u>150.4</u>	<u>45.9</u>	<u>55.2</u>	<u>299.8</u>	<u>205.6</u>
EXPENSES						
Program activities:						
Governmental activities:						
General government	11.9	16.4	-	-	11.9	16.4
Public safety	22.5	28.0	-	-	22.5	28.0
Public works and streets (incl. SLIDS)	69.4	20.9	-	-	69.4	20.9
Community services	4.2	5.2	-	-	4.2	5.2
Culture and recreation	14.2	17.8	-	-	14.2	17.8
Interest on long-term debt	2.6	2.7	-	-	2.6	2.7
Administrative	-	-	-	-	-	-
Business-type activities:						
Water	-	-	5.1	6.5	5.1	6.5
Sewer	-	-	9.3	10.8	9.3	10.8
Sanitation	-	-	2.7	3.5	2.7	3.5
Replenishment	-	-	0.6	0.6	0.6	0.6
Total expenses	<u>124.8</u>	<u>91.0</u>	<u>17.7</u>	<u>21.4</u>	<u>142.5</u>	<u>112.4</u>
Excess before transfers	<u>129.1</u>	<u>59.4</u>	<u>28.2</u>	<u>33.8</u>	<u>157.3</u>	<u>93.2</u>
Transfers in (out)	0.8	(36.5)	(0.8)	36.5	-	-
Prior period adjustments	-	16.7	-	4.9	-	21.6
Increase in net assets	<u>\$ 129.9</u>	<u>\$ 39.6</u>	<u>\$ 27.4</u>	<u>\$ 75.2</u>	<u>\$ 157.3</u>	<u>\$ 114.8</u>

**FY 2007 Governmental Program Revenues & Expenses
(in Millions)**



- ❖ More than 45% 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 2007 continued to decline.
- ❖ **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 \$201.3 million (plus \$15.0 million in budgeted operating transfers). Budget transfers totaling \$8.1 million were made increasing the final budget to \$209.4 million (plus \$15.0 million in budgeted operating transfers). Actual General Fund expenditures were \$92.7 million (plus \$15.0 million in operating transfers) leaving \$116.7 million in unused budget authority.
- ❖ Actual expenditures for Current – General Government were about 45% 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 Legal salaries and consulting/legal services.
 - The remainder, \$1.0 million was transferred from various departments back to General Operations as adjustments to budget expenditure projections for projects were made because they were actually completed in the prior year or deemed to not be needed.
 - **Between the General Fund and other Funds:**
 - \$0.3 million from General Fund unforeseen grants to Debt Service to allow for the prepayment of debt.
 - \$0.6 million from the General Fund to the Parks and Recreation Enhancement Fund for construction costs of park facilities such as the tennis center.
 - From enterprise funds, capital outlay, \$9.0 million to the General Fund for adjustments.

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

	<u>General Government</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	\$24.1	\$33.1	\$4.1	\$4.1	\$28.2	\$37.2
Parks Land	5.7				5.7	
Buildings & Improvements	63.5	69.8			63.5	69.8
Equipment & Vehicles	10.6	14.7	3.0	6.0	13.6	20.7
Streets	82.8	93.9			82.8	93.9
Curb Gutter & Sidewalks	31.1	41.5			31.1	41.5
Traffic Signals	3.1	3.9			3.1	3.9
Storm Drains	4.5	8.2			4.5	8.2
Other Infrastructure	0.3	0.3			0.3	0.3
Sewer System			72.7	80.7	72.7	80.7
Water System			19.9	27.8	19.9	27.8
Construction in Progress	<u>17.8</u>	<u>74.6</u>	<u>32.1</u>	<u>89.3</u>	<u>49.9</u>	<u>163.9</u>
Total Capital Assets (Net)	<u>\$243.5</u>	<u>\$340.0</u>	<u>\$131.8</u>	<u>\$207.9</u>	<u>\$375.3</u>	<u>\$547.9</u>

- ❖ The **capital assets of the Governmental Activities funds** increased by \$96.5 million net of annual depreciation (\$108.9 million before depreciation), \$7.4 million was from prior period adjustments and were added to the beginning balances in the Capital Assets schedule in Note four (4). For further information on the period adjustments see Note 14 on page 52. 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. Further, Governments are required to report depreciation for all capital assets, including general infrastructure assets.
 - Major additions to Governmental Capital Assets for FY07 are as follows:
 - To comply with GASB 34, Infrastructure was reported and valued as follows:
 - \$17.3 million – streets, includes \$2.5 million in prior period adjustments
 - \$11.6 million – curb, gutter and sidewalks, includes \$2.1 million in prior period adjustments.
 - \$3.8 million – storm drains, includes \$.5 million in prior period adjustments.
 - \$3.0 million – donated land, includes \$2.3 million in prior period adjustments.
 - \$1.0 million – traffic signals
 - Cultural Arts Facility was completed and booked at \$3.3 million
 - \$1.9 million was spent on Fire vehicles and apparatus
 - \$1.2 million was spent on Police vehicles and electronic equipment
 - Construction in Progress as of the end of FY07 included:
 - \$19.0 million Public Safety Building
 - \$6.3 million Tennis Racquet Facility
 - \$5.9 million Central Plant
 - \$4.2 million Fire Station #6
 - \$3.5 million Fire Station #5
 - \$3.4 million Surprise Center Streetscape
 - \$3.1 million City Hall
 - \$3.1 million Fire Joint Training Center
 - \$2.8 million Bell Road Improvements
 - \$1.8 million Dream Catcher Park

- ❖ The **capital assets of the Business-type Activities funds** increased by \$76.1 million net of annual depreciation (\$79.4 million before depreciation), \$4.9 million was from prior period adjustments and were added to the beginning balances in the Capital Assets schedule in Note 4. For further information on the period adjustments see Note 14 on page 52.
 - The City of Surprise continued 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. \$59.9 million in business type activities capital construction was started in the last 12 months. \$58.8 amount was added to construction in progress this year, \$1.1 million was added to the beginning balance as a prior period adjustment. This was offset by a \$2.7 million reduction in construction in progress.
 - Buildings and Equipment increased by \$22.2 million, \$4.9 million was added to the beginning balance as a prior period adjustment.
 - Water Services is currently working with developers on the design of Water Reclamation Facilities in SPA 2 and SPA 3. Additionally, the department has continued expansion of the City’s reclaimed water line infrastructure and water storage facilities.

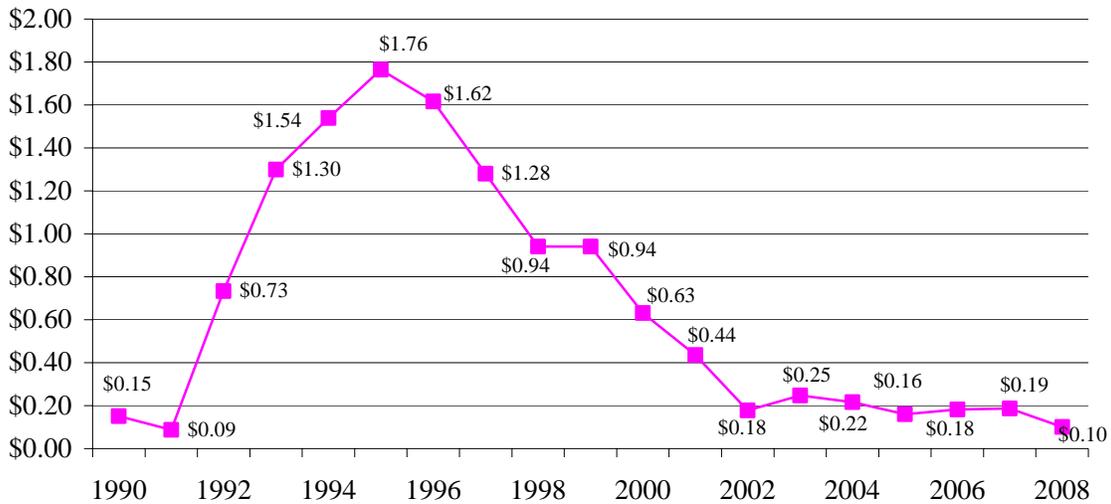
- ❖ For more detailed information on Capital Assets see Note four (4) of this report.

- ❖ **Long-term debt** increased this year from \$53.0 million to \$101.2 million. Greater detail of outstanding Long-term debt can be found in Note six (6).
 - \$1.4 million and \$50.7 million in bonds were issued this year for the Marley Park CFD and the Surprise Municipal Property Corporation, respectively.

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 - 2008**



- ❖ **Secondary Property Tax Rate** – The Fiscal Year 2008 rate decreased by \$0.0872 from the previous year. The above graph shows that since 1995 the rate has dropped precipitously from \$1.76 to \$0.10.
- ❖ **Development Impact Fees** – The City adopted new impact fees that increased fees starting July 1, 2007. However, the housing market has cooled off and new home permits are expected to be 100 per month in FY2008 versus a realized 146 per month in FY2007.
- ❖ **Revenues expected to increase** – City transaction privilege tax for all other sources (except construction) is expected to increase along with state shared revenues in FY2008.

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.



FINANCIAL SECTION - BASIC FINANCIAL STATEMENTS

The Financial Section is divided into five sections. The third section is comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments, and are separated into three components. The first component is comprised of the government-wide financial statements. These financial statements incorporate all of the City's governmental and business-type activities. The business-type activities are financed in whole or in part by fees charged to external parties for goods or services. There are two basic government-wide financial statements: the statement of net assets and the statement of activities.

Government-wide Financial Statements:	Page
Statement of Net Assets	17
Statement of Activities	18

CITY OF SURPRISE, ARIZONA

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 148,366,726	\$ 72,131,992	\$ 220,498,718
Receivables (net of allowances)			
Accounts	-	4,518,887	4,518,887
Interest	259,346	52,893	312,239
Taxes and franchise fees	8,629,086	-	8,629,086
Grants	237,320	-	237,320
Intergovernmental	1,968,359	-	1,968,359
Other	304,472	-	304,472
Debt issuance cost, net of amortization	2,225,698	-	2,225,698
Other assets	2,289,580	8,886,983	11,176,563
Capital assets, non-depreciable	107,672,321	93,398,476	201,070,797
Capital assets, depreciable	328,214,741	131,367,819	459,582,560
Accumulated depreciation	(95,973,979)	(16,861,423)	(112,835,402)
	<u>504,193,670</u>	<u>293,495,627</u>	<u>797,689,297</u>
LIABILITIES			
Accounts payable	13,591,544	7,109,794	20,701,338
Accrued payroll and related taxes	2,039,399	195,848	2,235,247
Deposits	6,720	179,851	186,571
Accrued interest payable	1,512,683	-	1,512,683
Unearned revenues	10,887,335	5,632,399	16,519,734
Contracts payable, due in less than one year	-	689,080	689,080
Contracts payable, due in more than one year	-	7,975,801	7,975,801
Other liabilities	3,567,701	-	3,567,701
Compensated absences payable, due in less than one year	2,507,738	214,114	2,721,852
Compensated absences payable, due in more than one year	147,036	-	147,036
Bonds, loans, and payables due in less than one year	3,135,643	-	3,135,643
Bonds, loans, and payables due in more than one year	101,183,589	-	101,183,589
	<u>138,579,388</u>	<u>21,996,887</u>	<u>160,576,275</u>
NET ASSETS			
Invested in capital assets, net of related debt and depreciation	235,593,851	204,428,757	440,022,608
Restricted for			
Debt service	651,086	-	651,086
Marley Park debt service	139,777	-	139,777
Surprise Municipal Property Corporation	15,730,800	-	15,730,800
Marley Park Community Facilities District	968,742	-	968,742
General government	1,567,497	-	1,567,497
Public safety	1,957,616	-	1,957,616
Public works and streets (incl. SLIDS)	18,196,023	-	18,196,023
Culture and recreation	4,148,281	-	4,148,281
Unrestricted	86,660,609	67,069,983	153,730,592
Total net assets	<u>\$ 365,614,282</u>	<u>\$ 271,498,740</u>	<u>\$ 637,113,022</u>

See Notes to Financial Statements



FINANCIAL SECTION - BASIC FINANCIAL STATEMENTS

The Financial Section is divided into five sections. The fourth section is also comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments, and are separated into three components. The second component is comprised of the fund financial statements. These financial statements are presented on the basis of funds, in contrast to the government-wide financial statements.

Fund Financial Statements:	Page
Balance Sheet – Governmental Funds	19-20
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Assets – Proprietary Funds	25-26
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	27-28
Combining Statement of Cash Flows – Proprietary Funds	29-30
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Statement of Changes in Fiduciary Net Assets – Pension Trust Fund	32



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

ASSETS	General Fund	Municipal Property Corporation Fund	Highway User Fund
ASSETS			
Cash and cash equivalents	\$ 84,130,347	\$ 30,986,125	\$ 2,308,308
Investment in employee deferred compensation fund			
Receivables (net of allowances)			
Interest	120,095	101,187	4,603
Taxes and franchise fees	7,181,165	-	-
Grants	237,320	-	-
Intergovernmental	1,400,395	-	567,964
Due from other funds	6,622,206	-	-
Other	265,855	-	-
Prepaid items	272	-	-
Total assets	<u>\$ 99,957,655</u>	<u>\$ 31,087,312</u>	<u>\$ 2,880,875</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 5,855,580	\$ 3,327,598	\$ 434,083
Accrued payroll and related taxes	1,875,737	-	132,541
Due to other funds	-	-	-
Deposits	6,720	-	-
Deferred revenues	675,941	10,165,935	45,459
Other liabilities	1,013,024	1,862,979	-
Total liabilities	<u>9,427,002</u>	<u>15,356,512</u>	<u>612,083</u>
 FUND BALANCE			
Fund Balances			
Reserved for prepaid items	-	-	-
Unreserved, reported in			
General fund	90,530,653	-	-
Special revenue funds	-	15,730,800	2,268,792
Debt service funds	-	-	-
Total fund balance	<u>90,530,653</u>	<u>15,730,800</u>	<u>2,268,792</u>
Total liabilities and fund balance	<u>\$ 99,957,655</u>	<u>\$ 31,087,312</u>	<u>\$ 2,880,875</u>

<u>Police Development Fee Fund</u>	<u>Fire Development Fee Fund</u>	<u>Transportation Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,303,573	\$ -	\$ 11,147,637	\$ 16,732,433	\$ 146,608,423
-	-	18,777	12,494	257,156
-	-	1,394,370	53,551	8,629,086
-	-	-	-	237,320
-	-	-	-	1,968,359
-	-	-	-	6,622,206
-	-	-	38,617	304,472
439,635	-	-	1,849,673	2,289,580
<u>\$ 1,743,208</u>	<u>\$ -</u>	<u>\$ 12,560,784</u>	<u>\$ 18,686,768</u>	<u>\$ 166,916,602</u>
\$ 4,174	\$ 1,310,749	\$ 252,338	\$ 2,396,409	\$ 13,580,931
-	-	-	19,776	2,028,054
-	2,910,327	-	3,711,879	6,622,206
-	-	-	-	6,720
-	-	-	-	10,887,335
-	148,771	-	542,927	3,567,701
<u>4,174</u>	<u>4,369,847</u>	<u>252,338</u>	<u>6,670,991</u>	<u>36,692,947</u>
439,635	-	-	1,849,673	2,289,308
-	-	-	-	90,530,653
1,299,399	(4,369,847)	12,308,446	9,515,018	36,752,608
-	-	-	651,086	651,086
<u>1,739,034</u>	<u>(4,369,847)</u>	<u>12,308,446</u>	<u>12,015,777</u>	<u>130,223,655</u>
<u>\$ 1,743,208</u>	<u>\$ -</u>	<u>\$ 12,560,784</u>	<u>\$ 18,686,768</u>	<u>\$ 166,916,602</u>

See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances	\$ 130,223,655
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in funds	339,913,083
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	2,225,698
Current liabilities, including accrued interest, are not due and payable in the current period, and therefore, are not reported in the funds	(1,512,683)
Internal service funds used by the management to charge cost of insurance to individual fund	1,731,965
Internal service funds compensated absences included in calculation of charge individual funds as well as in Long-term liabilities.	6,570
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(106,974,006)</u>
Net assets of governmental activities	<u><u>\$ 365,614,282</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, 2007

	General Fund	Municipal Property Corporation Fund	Highway User Fund
REVENUES			
Taxes	\$ 41,580,022	\$ -	\$ -
Licenses and permits	3,602,764	-	-
Intergovernmental	22,290,160	-	6,293,129
Charges for services	9,794,127	-	-
Grants	797,025	-	152,069
Fines	1,168,245	-	-
Rents	363,604	4,861,100	-
Development fees	-	-	-
Interest	3,805,978	1,114,787	50,424
Other	2,430,544	-	397,023
	<u>85,832,469</u>	<u>5,975,887</u>	<u>6,892,645</u>
Total revenues			
EXPENDITURES			
Current			
General government	15,396,902	-	-
Public safety	25,163,951	5,643	-
Public works and streets	5,377,725	-	4,881,736
Community development	4,906,263	-	-
Culture and recreation	11,536,966	-	404,596
Costs of sales and services (SLD's)			
Administration			
Capital outlay	30,305,597	11,878,861	1,731,546
Debt service			
Principal	-	2,410,000	-
Interest and fiscal charges	-	2,361,375	-
Debt issuance costs	-	1,566,439	-
	<u>92,687,404</u>	<u>18,222,318</u>	<u>7,017,878</u>
Total expenditures			
REVENUES OVER (UNDER) EXPENDITURES	<u>(6,854,935)</u>	<u>(12,246,431)</u>	<u>(125,233)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	14,977,100	(40,258,655)	2,008,500
From Bonding	-	50,768,243	-
	<u>14,977,100</u>	<u>10,509,588</u>	<u>2,008,500</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCE	<u>8,122,165</u>	<u>(1,736,843)</u>	<u>1,883,267</u>
FUND BALANCES, beginning of year	<u>74,818,915</u>	<u>17,691,211</u>	<u>385,525</u>
PRIOR PERIOD ADJUSTMENTS	<u>7,589,573</u>	<u>(223,568)</u>	<u>-</u>
FUND BALANCES, end of year	<u>\$ 90,530,653</u>	<u>\$ 15,730,800</u>	<u>\$ 2,268,792</u>

See Notes to Financial Statements

Police Development Fee Fund	Fire Development Fee Fund	Transportation Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 9,270,773	\$ 1,589,131	\$ 52,439,926
-	-	-	-	3,602,764
-	-	-	833,252	29,416,541
-	-	-	1,438,353	11,232,480
-	73,490	-	684,432	1,707,016
-	-	-	54,546	1,222,791
-	-	-	-	5,224,704
2,085,418	2,266,095	-	6,214,049	10,565,562
198,107	244,477	247,577	1,477,322	7,138,672
-	-	-	673,473	3,501,040
<u>2,283,525</u>	<u>2,584,062</u>	<u>9,518,350</u>	<u>12,964,558</u>	<u>126,051,496</u>
2,300	2,125	8,900	201,828	15,612,055
557,694	407,775	-	68,388	26,203,451
-	-	310,517	2,085,275	12,655,253
-	-	-	-	4,906,263
-	-	-	3,596,166	15,537,728
-	-	-	-	-
414,746	11,319,841	1,217,711	20,567,646	77,435,948
-	-	-	1,273,399	3,683,399
-	-	-	157,702	2,519,077
-	-	-	180,951	1,747,390
<u>974,740</u>	<u>11,729,741</u>	<u>1,537,128</u>	<u>28,131,355</u>	<u>160,300,564</u>
<u>1,308,785</u>	<u>(9,145,679)</u>	<u>7,981,222</u>	<u>(15,166,797)</u>	<u>(34,249,068)</u>
(4,000,000)	-	-	(9,196,100)	(36,469,155)
-	-	-	1,365,000	52,133,243
<u>(4,000,000)</u>	<u>-</u>	<u>-</u>	<u>(7,831,100)</u>	<u>15,664,088</u>
<u>(2,691,215)</u>	<u>(9,145,679)</u>	<u>7,981,222</u>	<u>(22,997,897)</u>	<u>(18,584,980)</u>
<u>4,430,249</u>	<u>4,775,832</u>	<u>2,545,105</u>	<u>35,038,579</u>	<u>139,685,416</u>
-	-	1,782,119	(24,905)	9,123,219
<u>\$ 1,739,034</u>	<u>\$ (4,369,847)</u>	<u>\$ 12,308,446</u>	<u>\$ 12,015,777</u>	<u>\$ 130,223,655</u>

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, 2007

Net change in fund balances - total governmental funds \$ (18,584,980)

Governmental funds report capital outlays as expenditures,
do not record capital contributions as revenue,
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:

Capital outlays	77,435,948	
Capital contributions - to governmental funds	24,285,688	
Depreciation expense	<u>(12,903,016)</u>	88,818,620

In the statement of activities, interest is accrued on outstanding bonds,
whereas in governmental funds, an interest expenditure is reported when due (280,560)

Internal service funds used by management to charge the cost of insurance to individual
funds 432,772

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. (812,930)

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

Proceeds from issuance refunding bonds	(52,040,000)	
Repayments on long-term debt	3,683,399	
Deferred charges on issuance costs (to be amortized over the life of the debt)	1,747,390	
Amortization of deferred charges issuance cost	(77,616)	
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>21,750</u>	(46,695,173)

\$ 22,877,749



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
ASSETS				
Current assets				
Cash and cash equivalents	\$ 16,731,641	\$ 44,863,974	\$ 2,747,029	\$ 7,789,348
Receivables (net of allowances)				
Accounts	1,590,071	1,986,639	801,807	140,370
Interest	11,801	38,576	-	2,516
Other assets	1,010,356	7,876,627	-	-
	<u>19,343,869</u>	<u>54,765,816</u>	<u>3,548,836</u>	<u>7,932,234</u>
Non-current assets				
Capital assets	44,044,394	175,151,562	4,234,639	1,335,699
Accumulated depreciation	(2,312,376)	(13,561,776)	(961,920)	(25,350)
	<u>41,732,018</u>	<u>161,589,786</u>	<u>3,272,719</u>	<u>1,310,349</u>
Total assets	<u>61,075,887</u>	<u>216,355,602</u>	<u>6,821,555</u>	<u>9,242,583</u>
LIABILITIES				
Current liabilities				
Accounts payable	1,250,101	5,607,277	140,153	112,263
Accrued payroll and related taxes	26,873	105,477	55,266	8,232
Deposits	30,562	88,453	52,658	8,178
Deferred revenues	779,200	4,494,429	316,569	42,201
Compensated absences payable	34,733	122,482	44,201	12,698
Contracts payable	253,303	435,777	-	-
	<u>2,374,772</u>	<u>10,853,895</u>	<u>608,847</u>	<u>183,572</u>
Non-current liabilities				
Contracts payable	3,476,115	4,499,686	-	-
	<u>3,476,115</u>	<u>4,499,686</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>5,850,887</u>	<u>15,353,581</u>	<u>608,847</u>	<u>183,572</u>
NET ASSETS				
Invested in capital assets, net of related debt	38,255,903	161,589,786	3,272,719	1,310,349
Unrestricted	16,969,097	39,412,235	2,939,989	7,748,662
Total net assets	<u>\$ 55,225,000</u>	<u>\$ 201,002,021</u>	<u>\$ 6,212,708</u>	<u>\$ 9,059,011</u>

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 72,131,992	\$ 1,758,303
4,518,887	-
52,893	2,190
8,886,983	-
<u>85,590,755</u>	<u>1,760,493</u>
224,766,294	-
(16,861,422)	-
<u>207,904,872</u>	<u>-</u>
<u>293,495,627</u>	<u>1,760,493</u>
7,109,794	10,613
195,848	11,345
179,851	-
5,632,399	-
214,114	6,570
689,080	-
<u>14,021,086</u>	<u>28,528</u>
7,975,801	-
<u>7,975,801</u>	<u>-</u>
<u>21,996,887</u>	<u>28,528</u>
204,428,757	-
67,069,983	1,731,965
<u>\$ 271,498,740</u>	<u>\$ 1,731,965</u>

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, 2007

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
OPERATING REVENUES				
Charges for services	\$ 7,737,813	\$ 12,367,546	\$ 4,573,178	\$ 796,503
OPERATING EXPENSES				
Cost of sales and services	5,789,245	8,353,524	3,211,342	609,684
Depreciation	697,155	2,411,846	330,682	18,830
Total operating expenses	6,486,400	10,765,370	3,542,024	628,514
Operating income	1,251,413	1,602,176	1,031,154	167,989
NONOPERATING REVENUES				
Development fees	2,075,799	8,823,474	-	341,941
Extension fees	4,000	357,064	-	-
Interest revenue	851,469	2,642,001	121,751	438,292
Total nonoperating revenues	2,931,268	11,822,539	121,751	780,233
Income before transfers	4,182,681	13,424,715	1,152,905	948,222
CAPITAL CONTRIBUTIONS				
Capital contributions	5,279,877	7,522,105	1,211,982	-
TRANSFERS				
Transfers in (out)	(568,300)	39,504,855	(1,011,900)	(1,455,500)
CHANGE IN NET ASSETS	8,894,258	60,451,675	1,352,987	(507,278)
NET ASSETS, beginning of the year	43,638,349	138,333,091	4,859,721	9,566,289
PRIOR PERIOD ADJUSTMENTS	2,692,393	2,217,255	-	-
NET ASSETS, end of year	<u>\$ 55,225,000</u>	<u>\$ 201,002,021</u>	<u>\$ 6,212,708</u>	<u>\$ 9,059,011</u>

See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 25,475,040	\$ 1,747,463
17,963,795	1,394,818
3,458,513	-
<u>21,422,308</u>	<u>1,394,818</u>
4,052,732	352,645
11,241,214	-
361,064	-
4,053,513	80,127
<u>15,655,791</u>	<u>80,127</u>
<u>19,708,523</u>	<u>432,772</u>
14,013,964	-
36,469,155	-
70,191,642	432,772
196,397,450	1,299,193
4,909,648	-
<u>\$ 271,498,740</u>	<u>\$ 1,731,965</u>

See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,458,880	\$ 6,843,719	\$ 4,408,467	\$ 765,981
Cash paid to suppliers	(5,525,815)	(7,416,454)	(1,752,069)	(355,087)
Cash paid to employees	(587,271)	(2,376,837)	(1,558,529)	(153,753)
Cash paid for insurance	-	-	-	-
Net cash provided by (used in) operating activities	<u>1,345,794</u>	<u>(2,949,572)</u>	<u>1,097,869</u>	<u>257,141</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING TRANSACTIONS				
Proceeds received from development fees	2,075,799	8,823,474	-	341,941
Proceeds received from extension fees	4,000	357,064	-	-
Acquisitions, construction, and transfer of capital assets	<u>(3,371,229)</u>	<u>(51,426,094)</u>	<u>(18,921)</u>	<u>(560,946)</u>
Net cash provided by (used in) capital and related financing transactions	<u>(1,291,430)</u>	<u>(42,245,556)</u>	<u>(18,921)</u>	<u>(219,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	<u>847,481</u>	<u>2,630,719</u>	<u>126,551</u>	<u>437,317</u>
Net cash provided by investing activities	<u>847,481</u>	<u>2,630,719</u>	<u>126,551</u>	<u>437,317</u>
NET CHANGE IN CASH	333,545	(3,059,554)	193,599	(980,047)
CASH AND CASH EQUIVALENTS, beginning of year	<u>16,398,096</u>	<u>47,923,528</u>	<u>2,553,430</u>	<u>8,769,395</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 16,731,641</u>	<u>\$ 44,863,974</u>	<u>\$ 2,747,029</u>	<u>\$ 7,789,348</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income	\$ 1,251,413	\$ 1,602,176	\$ 1,031,154	\$ 167,989
Reconciliation of operating income to net cash provided (used) by operating activities:				
Depreciation expense	697,155	2,411,846	330,682	18,830
(Increase) decrease in				
Accounts receivable	(275,130)	(96,558)	(193,040)	(19,171)
Other assets	-	(5,166,325)	-	-
Increase (decrease) in				
Accounts payable	108,897	(1,512,825)	(111,499)	90,356
Accrued payroll and taxes	3,018	28,192	11	3,457
Utility deposits	(3,803)	(8,353)	(5,717)	(864)
Deferred revenues	-	(252,591)	34,046	(10,487)
Compensated absences payable	3,582	44,866	12,232	7,031
Other Liabilities	(439,338)	-	-	-
Total adjustments	<u>94,381</u>	<u>(4,551,748)</u>	<u>66,715</u>	<u>89,152</u>
Net cash provided by (used in) operating activities	<u>\$ 1,345,794</u>	<u>\$ (2,949,572)</u>	<u>\$ 1,097,869</u>	<u>\$ 257,141</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Capital Asset Contributions from Developers	\$ 5,279,877	\$ 7,522,105	\$ 1,211,982	\$ -

See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
Totals	Internal Service
\$ 19,477,047	\$ 1,747,463
(15,049,425)	(416,718)
(4,676,390)	(243,503)
-	(933,148)
<u>(248,768)</u>	<u>154,094</u>
11,241,214	-
361,064	-
<u>(55,377,190)</u>	<u>-</u>
<u>(43,774,912)</u>	<u>-</u>
<u>4,042,068</u>	<u>81,299</u>
<u>4,042,068</u>	<u>81,299</u>
(3,512,457)	235,393
<u>75,644,449</u>	<u>1,522,910</u>
<u>\$ 72,131,992</u>	<u>\$ 1,758,303</u>
<u>\$ 4,052,732</u>	<u>\$ 352,645</u>
3,458,513	-
(583,899)	-
(5,166,325)	-
(1,425,071)	(208,533)
34,678	7,902
(18,737)	-
(229,032)	-
67,711	2,080
(439,338)	-
<u>(4,301,500)</u>	<u>(198,551)</u>
<u>\$ (248,768)</u>	<u>\$ 154,094</u>
\$ 14,013,964	\$ -

See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
JUNE 30, 2007

	Volunteer Firefighters Pension and Relief Fund
ASSETS	
Cash and cash equivalents	\$ 94,859
Receivables	
Interest	-
	<hr/>
Total assets	94,859
	<hr/>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net assets	\$ 94,859
	<hr/> <hr/>

CITY OF SURPRISE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Volunteer Firefighters Pension and Relief Fund
REVENUES	
Interest	\$ 2,742
Total revenues	<u>2,742</u>
NET ASSETS , beginning of year	<u>92,117</u>
NET ASSETS , end of year	<u><u>\$ 94,859</u></u>



SURPRISE
ARIZONA



FINANCIAL SECTION - NOTES TO THE FINANCIAL STATEMENTS

The Financial Section is divided into five sections. The fifth section is also comprised of the Basic Financial Statements, which are the core of general-purpose external financial reporting for local governments, and are separated into three components. In addition to the government-wide and fund financial statements, the third component, the notes to the basic financial statements are an integral part of the those financial statements, and include a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying financial statements.

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NOTES TO FINANCIAL STATEMENTS

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 1960 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. City of Surprise voters approved an Alternative Expenditure Limitation (Permanent Base Adjustment) on November 7, 2006. 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 Improvement Districts (SLID's) are maintained by the City for developing areas. The SLID assessment rates are approved by the City's council. The SLID'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, 2007, 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 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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS

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. Non-major 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.

The ***transportation improvement fund*** accounts for revenue and expenditures that are legally restricted to expenditures of existing roadway corridor improvements and the related costs of the construction of new roadways.

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 enterprise 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:

Enterprise Funds:

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 un-collectibles 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, 2007 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.

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

(Continued)

NOTES TO FINANCIAL STATEMENTS

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 appropriated 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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS

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 \$220,593,578 as of June 30, 2007, including the \$94,859 from the Volunteer Firefighters Pension Fund.

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, 2007 was \$5,825.

Sweeps in Transit – Overnight sweeps of the operating account invested until the following morning total \$5,338,938 and are included as part of the difference between the City's operating deposits and the bank balance.

Deposits and Invested Deposits - At year-end, the carrying amount of the City's operating deposits were \$4,346,658 and the bank balance was \$1,888,701, not including the overnight sweep of the account. 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. The City's Community Facility District (CFD) also has \$177,000 on deposit in a separate checking account used for pass-thru of bond proceeds, receipt of CFD property taxes, reimbursement of CFD construction costs, and debt service on the bonds. The City has an additional \$3,757,689 with fiscal agent Zion's Bank, and \$9,280,214 with fiscal agent Wells Fargo Bank, both under the Municipal Property Corporation Fund.

Cash Invested - Funds of \$33,180,089 are held in the Local Government Investment Pool (LGIP) managed by the Arizona State Treasurer in accordance with Arizona Revised Statutes, and \$169,846,100 at Wells Capital Management (WCM) an investment advisor in accordance with the City's investment policy.

(Continued)

NOTES TO FINANCIAL STATEMENTS

The City Council adopted an investment policy on August 26, 2004, as amended on May 24, 2007, related to the City's investment practices. The policy, which is reviewed annually by the City Council, permits investments in obligations of the U.S. government agencies, corporations or instrumentalities, commercial paper of domestic corporations with A-1/P-1 or better ranking with Standard and Poor's or Moody's Investors Service, banker's acceptances, negotiable certificates of deposit, repurchase agreements, the State of Arizona Local Government Investment Pool, and U.S. corporate notes that are rated A or better by Standard and Poors' or Moody's Investor Service. The City further limits its investments to those rated at least "AA."

The City's investment in LGIP represents shares of the pool's portfolio. The fair value of each share in the LGIP is one dollar. These shares are not identified with specific investments and are not subject to custodial credit risk. Neither the State Treasurer or LGIP are registered with the Securities and Exchange Commission as investment companies. The State Board of Investment reviews the activity and performance of the pools monthly.

The City utilizes the following methods and assumptions to account for its investments:

1. Investments are recorded at fair value which is based on quoted market prices as of the date of valuation.
2. Investment income is allocated to various funds monthly based on the prior month's ending cash balance.
3. Unrealized gain/loss resulting from the valuation is recognized and distributed to all funds with an investment balance, as investment revenue.

Arizona Revised Statutes and the City's investment policy define the types of securities authorized as appropriate investments and the conditions for making investment transactions. The securities are reported at fair value on the Government – wide Statement of Net Assets.

As of June 30, 2007, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>
Commercial Paper	\$ 66,808,101	0.10
U.S. Agency Securities	47,840,664	0.88
Local Government Investment Pool	33,180,089	0.14
Corporate Securities	29,810,047	0.37
Money Market Funds	18,898,695	0.00
U.S. Treasury	<u>6,488,593</u>	<u>0.38</u>
Total Fair Value	<u>\$ 203,026,189</u>	
Portfolio Weighted Average		<u>0.33</u>

Interest rate risk - is the risk that changes in market interest rates and will adversely affect the fair value of an investment. 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 ongoing operations, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity.
- 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.

As of June 30, 2007, there were no investments considered highly sensitive to interest rate changes.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Credit Risk – is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. The City’s investment policy limits investments in commercial paper to those of prime quality that is rated “P1” by Moody’s Investors Service or rated “A-1” or better by Standard and Poors. Corporate bonds, debentures and notes are limited to those doing business in the U.S. and that are rated “AA” or better by Moody’s and Standard and Poors rating service.

The LGIP pooled investments are rated individually, but the LGIP is not rated as a whole by a nationally recognized statistical rating organization.

There is no State statute or investment policy on ratings or credit quality for obligation issued by the U.S. government or its agencies or repurchase agreements. Although the U.S. Agency Securities listed in the tables are not backed by the full faith and credit of the federal government, investors generally treat agency securities as if they had negligible credit risk. Because of the importance of the agencies in promoting public policy, there is a widespread view that the federal government would prevent an agency from defaulting on its debt obligation.

Presented below is the rating for each investment type as of June 30, 2007, using Standard and Poor’s, Moody’s and/or Fitch’s rating scale:

(in thousands of dollars)

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>A-1/P1</u>	<u>AA</u>	<u>AAA</u>	<u>EXEMPT</u>	<u>NOT RATED</u>
Commercial Paper	\$ 66,808	\$ 66,808	\$	\$	\$	\$
U.S. Agency Securities	47,841			47,841		
Local Government Investment Pool	33,180					33,180
Corporate Securities	29,810		22,546	7,265		
Money Market Funds	18,899					18,899
U.S. Treasury	6,488				6,488	
Total Investments	\$ 203,026	\$ 66,808	\$ 22,546	\$ 55,106	\$ 6,488	\$ 52,079

Concentration of credit risk - is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City’s investment policy requires diversified investments to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, issuer or class of securities.

At the time of purchase, a maximum of 5% of the market value of the portfolio may be invested in debt issued by any single entity. Debt issued and backed by the United States Treasury of Government Sponsored Entities (GSE’s) and the State of Arizona LGIP are exempt from this concentration criteria.

(Continued)

NOTES TO FINANCIAL STATEMENTS

Investment that represent 5% or more of the total investments are as follows:

(in thousands of dollars)

<u>ISSUER NAME</u>	<u>INVESTMENT TYPE</u>	<u>MARKET VALUE</u>	<u>PERCENTAGE</u>
Wells Fargo and Company	Money Market Funds	\$18,799	9.30%
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	17,973	8.89%
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	17,772	8.79%
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	11,842	5.86%
		<u>\$ 66,386</u>	<u>32.84%</u>

Custodial credit risk- deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's 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 normally covered by the Federal Depository Insurance Corporation (FDIC) for the first \$100,000 and by collateral held in the pledging financial institution's trust department in the City's name for the remainder of the deposits. At year end, the first \$100,000 of the City's operating deposits of \$1,888,701 was covered by FDIC insurance. Pledged collateral in the amount of \$4,175,000 covered the remaining operating balance of \$1,788,701, and the first \$2,386,299 of the \$5,338,938 overnight sweep. The remaining overnight sweep balance of \$2,952,639 was uncollateralized.

Custodial credit risk – investments is the risk that, in the event of the failure of the counter party (e.g., broker dealer, investment advisor) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus payment (DVP) basis. Securities are held by a third party custodian and evidenced by monthly custodial reports. This safekeeping institution provides a copy of their most recent report on internal controls annually.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, was as follows:

Primary Government					
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Not being depreciated:					
Land and land improvements	* \$ 32,128,598	\$ 652,500	\$ -	\$ 292,396	\$ 33,073,494
Construction in progress	* 18,072,801	72,889,083	-	(16,363,057)	74,598,827
Total Not Being Depreciated	<u>50,201,399</u>	<u>73,541,583</u>	<u>-</u>	<u>(16,070,661)</u>	<u>107,672,321</u>
Other capital assets:					
Buildings and improvements	70,761,112	213,438	-	5,709,526	76,684,076
Improvements other than buildings	904,028	-	-	3,000,000	3,904,028
Equipment and vehicles	17,281,180	3,684,863	(418,717)	2,985,789	23,533,115
Infrastructure	* 195,436,424	24,281,752	-	4,375,346	224,093,522
Total Other Capital Assets	<u>284,382,744</u>	<u>28,180,053</u>	<u>(418,717)</u>	<u>16,070,661</u>	<u>328,214,741</u>
Total Assets before Depreciation	<u>334,584,143</u>	<u>101,721,636</u>	<u>(418,717)</u>	<u>-</u>	<u>435,887,062</u>
Accumulated depreciation:					
Building and improvements	(8,153,243)	(2,468,280)	-	-	(10,621,523)
Improvements other than buildings	(129,117)	(91,033)	-	-	(220,150)
Equipment and vehicles	(6,689,810)	(2,557,602)	418,717	-	(8,828,695)
Infrastructure	(68,517,510)	(7,786,101)	-	-	(76,303,611)
Total Accumulated Depreciation	<u>(83,489,680)</u>	<u>(12,903,016)</u>	<u>418,717</u>	<u>-</u>	<u>(95,973,979)</u>
Net Capital Assets - Governmental Activities	<u>* \$ 251,094,463</u>	<u>\$ 88,818,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,913,083</u>
Depreciation was charged by function as follows:					
General government			\$ 666,827		
Public safety			1,713,907		
Public works and streets, includes depreciation for infrastructure			8,259,086		
Community services			26,206		
Culture and recreation			2,236,990		
Total governmental activities depreciation expense			<u>\$ 12,903,016</u>		

	Fiscal Year Ended June 30, 2006 Ending Balance	Prior Period Adjustment Donated Land *(B)	Prior Period Adjustment Donated Infrastructure *(C)	Prior Period Adjustment Project Retainage *(D)	Adjusted Fiscal Year Ended June 30, 2007 Beginning Balance
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 29,824,341	\$ 2,304,257	-	-	\$ 32,128,598
Construction in progress	17,849,233	-	-	223,568	18,072,801
Other capital assets:					
Infrastructure	190,344,009	-	5,092,415	-	195,436,424
Net Capital Assets - Governmental Activities	<u>\$ 243,474,223</u>	<u>\$ 2,304,257</u>	<u>\$ 5,092,415</u>	<u>\$ 223,568</u>	<u>\$ 251,094,463</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Not being depreciated:					
Land	* \$ 4,060,242	\$ -	\$ -	\$ -	\$ 4,060,242
Construction in progress	* 33,196,220	58,813,648	-	(2,671,634)	89,338,234
Total not being depreciated	37,256,462	58,813,648	-	(2,671,634)	93,398,476
Other capital assets:					
Buildings and system	* 109,997,460	12,956,815	-	1,728,939	124,683,214
Improvements other than buildings	105,017	-	-	600,000	705,017
Vehicles and equipment	3,989,752	1,789,896	(142,755)	342,695	5,979,588
Total other capital assets	114,092,229	14,746,711	(142,755)	2,671,634	131,367,819
Total assets before depreciation	151,348,691	73,560,359	(142,755)	-	224,766,295
Accumulated depreciation:					
Buildings and system	(12,502,281)	(2,980,991)	-	-	(15,483,272)
Improvements other than buildings	(1,750)	(13,501)	-	-	(15,251)
Vehicles and equipment	(984,531)	(464,021)	85,652	-	(1,362,900)
Total accumulated depreciation	(13,488,562)	(3,458,513)	85,652	-	(16,861,423)
Net capital assets - business activities	* \$ 137,860,129	\$ 70,101,846	\$ (57,103)	\$ -	\$ 207,904,872
Depreciation was charged by function as follows:					
Water			\$ 697,155		
Replenishment			18,830		
Sewer			2,411,846		
Sanitation			330,682		
Total Depreciation Expense			\$ 3,458,513		

	Fiscal Year Ended June 30, 2006 Ending Balance	Prior Period Adjustment Donated Land *(B)	Prior Period Adjustment Donated Infrastructure *(C)	Prior Period Adjustment Project Retainage *(D)	Adjusted Fiscal Year Ended June 30, 2007 Beginning Balance
Business-type activities:					
Not being depreciated:					
Land	\$ 4,042,242	\$ 18,000	-	-	\$ 4,060,242
Construction in progress	32,087,097	-	-	1,109,123	33,196,220
Other capital assets:					
Buildings and system	105,105,812	-	4,891,648	-	109,997,460
Net capital assets - business activities	\$ 131,841,358	\$ 18,000	\$ 4,891,648	\$ 1,109,123	\$ 137,860,129

* See Note 14 - Prior Period Adjustments

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, 2007, the water rights had not been used; therefore, no amortization expense was incurred.

(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	\$ 730,000	\$ -	\$ (730,000)	\$ -	\$ -
4.5% 1994 Series B, \$2,530,000 issued	1,225,000	-	(155,000)	1,070,000	160,000
	<u>1,955,000</u>	<u>-</u>	<u>(885,000)</u>	<u>1,070,000</u>	<u>160,000</u>
General municipal property corporation fund obligation					
Series 2000 Bonds, \$59,120,000 issued	9,695,000	-	(2,250,000)	7,445,000	2,375,000
Series 2003 Bonds, \$42,860,000 issued	41,770,000	-	(160,000)	41,610,000	160,000
Series 2007 Bonds, \$50,675,000 issued	-	50,675,000	-	50,675,000	-
Deferred amounts					
For issuance premium 2003	1,900,664	-	(131,080)	1,769,584	-
On refunding 2003	(2,337,060)	-	161,176	(2,175,884)	-
Expected administrative expenses	21,750	-	(21,750)	-	-
	<u>51,050,354</u>	<u>50,675,000</u>	<u>(2,401,654)</u>	<u>99,323,700</u>	<u>2,535,000</u>
Community Facilities Districts					
Series 2006 Bonds, \$1,365,000 issued	-	1,365,000	-	1,365,000	40,000
	<u>-</u>	<u>1,365,000</u>	<u>-</u>	<u>1,365,000</u>	<u>40,000</u>
Total governmental obligation bonds	<u>53,005,354</u>	<u>52,040,000</u>	<u>(3,286,654)</u>	<u>101,758,700</u>	<u>2,735,000</u>
Notes payable					
3.15% Loan-Wastewater Management Authority, \$4,765,955 issued	1,202,311	-	(388,399)	813,912	400,643
Compensated absences	1,784,877	2,507,738	(1,637,841)	2,654,774	2,507,738
Developer payable	1,803,587	-	(56,967)	1,746,620	-
Total governmental activities debt	<u>\$ 57,796,129</u>	<u>\$ 54,547,738</u>	<u>\$ (5,369,861)</u>	<u>\$ 106,974,006</u>	<u>\$ 5,643,381</u>
Business-type activities:					
Compensated absences	146,403	230,215	(162,504)	214,114	214,114
Contracts payable	3,882,994	5,188,765	(406,879)	8,664,880	689,080
Total business-type activities debt	<u>\$ 4,029,397</u>	<u>\$ 5,418,980</u>	<u>\$ (569,383)</u>	<u>\$ 8,878,994</u>	<u>\$ 903,194</u>

The following is a summary of long-term debt for the year ended June 30, 2007:

Year Ended	Governmental Activities - Bonds & Loans			
	Governmental Obligation		WWMA Loan	
	Principal	Interest	Principal	Interest
June 30				
2008	2,735,000	4,551,326	400,642	25,654
2009	2,830,000	4,616,236	413,270	13,026
2010	2,975,000	4,462,581	-	-
2011	3,135,000	4,299,576	-	-
2012	3,305,000	4,139,775	-	-
2013-2017	29,225,000	16,505,618	-	-
2018-2022	32,210,000	11,252,940	-	-
2023-2027	325,000	6,281,750	-	-
2028-2032	25,425,000	6,183,963	-	-
Total	<u>\$ 102,165,000</u>	<u>\$ 62,293,765</u>	<u>\$ 813,912</u>	<u>\$ 38,680</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, 2007, the remaining balance of these costs was \$1,746,620. 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 2007, \$200,525 was paid to the developer, with \$56,967 applied to principal and the remaining \$143,558 applied to accrued interest. Payments continue for twenty years, or until principal balance is paid, beginning with tax revenue collected in 2001 and remitted in 2002, with a final payment to be remitted in 2021 for taxes collected in 2020.

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 2007 secondary assessed valuation of the City is \$744,529,285. Accordingly, the legal limit for bonded indebtedness for the City is \$148,905,857 for the fiscal year ended June 30, 2007, less the net debt applicable to limit of \$1,372,603 leaving \$147,533,254 respectively of unused borrowing capacity.

Business-Type Activities – Contracts Payable

Of the \$8,664,880, \$280,000 is explained in Note 5 as an amount due for water rights. The remaining \$8,384,880 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: Fulton Homes for Royal Ranch, \$253,302.73; Cortessa and Citrus Northern for Cortessa/Citrus \$1,814,838; and Taylor/Woodrow for Sierra Verde, \$3,196,115. Payments of these are contingent based on number of permits issued and development fees collected. Additionally, retainage of \$3,120,625 for completed work on the south waste water treatment plant is owed to contractor Archer Western. Payments of \$689,080 toward these amounts are expected to be made in the next twelve months.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CONSTRUCTION COMMITMENTS

City of Surprise has active construction projects as of June 30, 2007. The projects include the new public safety building , street construction, recreation facilities, the construction of additional water reclamation facilities and reimbursements for development agreement obligations. At year end, the City commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Public Safety Building	\$ 22,840,967	\$ 6,072,699
Residential Street Construction - public purpose	4,108,243	635,290
Residential Street Construction - special assessments	1,171,000	280,408
Recreation Campus Park	312,920	148,805
Recreation Center	1,730,656	6,457
Tennis Raquet Facility	6,461,305	178,754
Recreation Administration Office Expansion	1,524,355	80,723
Streetscape for Public Buildings	3,779,733	1,443,310
Central Plant for Public Buildings	5,337,601	743,604
IT Infrastructure for Public Buildings	190,386	194,532
Recreation - Youth Baseball Facility	389,532	32,058
Water Reclamation Facility	65,924,252	20,702,957
Development Agreements - Water System Infrastructure	2,935,433	3,449,418
Development Agreements - Wastewater Infrastructure	201,235	1,814,838
Development Agreements - Fire Station site improvements	34,050	148,771
	<u>\$ 116,941,669</u>	<u>\$ 35,932,624</u>

The special assessment portion of the commitment for residential street construction is being financed by special assessment bonds that will be repaid by the benefiting property owners. Public purpose street construction is funded by highway user fund and general fund (transportation) revenue. Parks and recreation facilities are financed by park impact fees and the general fund. Public building construction of Information technology, streetscapes and the central plant are financed by the general fund. The commitment for the water reclamation facility is being financed by sewer impact fees and sewer revenue bonds sold through the Municipal Property Corporation. Development agreement water system infrastructure is being financed by water system impact fees, development agreement wastewater infrastructure is being financed by sewer impact fees, and development agreement fire station site improvements are being financed by fire impact fees

NOTE 8 – 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, 2007, the deferred revenue balance of \$10,165,935 in the Municipal Property Corporation Fund represents payments made by the City for use in future periods, \$4,999,610 for 2003 bonds and \$5,166,325 for 2007 bonds.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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 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 8.6% of their compensation for the year ended June 30, 2007, 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, 2007, 2006, and 2005, were, \$2,260,864, \$1,309,275, and \$812,620, 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, 2007, the City contributed 7.17% and 6.7% of annual covered police and firefighter payroll to the plan, respectively.

C. Annual Pension Cost

For 2006, the City's annual pension cost of \$847,253 for APSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the individual entry age normal cost method. Significant actuarial assumptions used in determining the pension

(Continued)

NOTES TO FINANCIAL STATEMENTS

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 5.5% 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 APSRS 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.

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 also offers a Post-Employment Health Plan (PEHP). The PEHP is a defined contribution plan designed to allow the City and employees to set aside money during the course of employment with the City, for the payment of qualified medical expenses incurred post employment. The Post-Employment Health Plan consists of two sub-accounts that can accept contributions. One account accepts fixed contributions, and the other accepts earned and unused sick leave. After voluntary termination of employment with the City, employees are provided with the option to be paid for all, or a portion of, earned and unused vacation and sick leave or move earned and unused vacation and sick leave into their PEHP account.

The City's fiduciary responsibility for both plans is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that Section 457 plan and post-employment health plan assets be held in trust for employees, therefore, employee assets held in Section 457 plan and post-employment plan assets are held in trust for employees. Employee assets held in Section 457 plans and post-employment health 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 Funds are not included in the City's Financial Statements.

NOTE 10 - 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,

(Continued)

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 11 - 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, 2007.

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 12 - INTERFUND ASSETS, LIABILITIES, AND TRANSFERS

Transfers	Transfers in:				
	Governmental Type Funds:			Enterprise-type funds:	
	General Fund	Highway User Fund	Nonmajor Governmental	Sewer	Total
Transfers out:					
Governmental Funds					
General Fund	\$ -	\$ 2,008,500	\$ 1,345,200	-	\$ 3,353,700
Police Development Fee Fund	4,000,000	-	-	-	4,000,000
Municipal Property Corporation Fund	-	-	-	40,258,655	40,258,655
Other governmental funds	10,541,300	-	-	-	10,541,300
Enterprise-type funds					
Water	568,300	-	-	-	568,300
Sewer	753,800	-	-	-	753,800
Sanitation	1,011,900	-	-	-	1,011,900
Replenishment	1,455,500	-	-	-	1,455,500
Total	<u>\$ 18,330,800</u>	<u>\$ 2,008,500</u>	<u>\$ 1,345,200</u>	<u>\$ 40,258,655</u>	<u>\$ 61,943,155</u>
Due to/from other funds:					
Receivable fund:	Payable Fund:	Amount			
General	Nonmajor Governmental	\$ 6,622,206			
Total		<u>\$ 6,622,206</u>			

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

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – DEFICIT FUND NET ASSETS

The following is a detail of *Special Revenue SLID Districts* fund equity balances as of June 30, 2007 reported as non-major special revenue funds.

Special Revenue SLID Districts Fund Balances:

Kingswood Park SLID	\$	35,851
DW Sun City Grand SLID		(49,419)
Westpoint Towne Center SLID		(2,683)
Continental @ Kingswood SLID		11,615
Mountain Vista Ranch SLID		(16,116)
Sun City Grand II SLID		(45,154)
Sun City Grand III SLID		(21,347)
Bell West Ranch SLD		11,854
Canyon Ridge West SLID		(4,429)
Ashton Ranch Unit I SLID		(224)
Ashton Ranch Unit II SLID		16,122
Mountain Vista Ranch II SLID		(4,193)
Mountain Vista Ranch III SLD		(1,455)
Legacy Park SLID		(1,472)
Greenway Park SLID		278
Roseview SLID		(1,835)
Countryside SLD		3,667
Park Row SLID		134
Northwest Ranch #2 SLID		(2,464)
Bell West Ranch 1B SLID		(77)
Ashton Ranch Unit III SLID		(1,403)
Ashton Ranch Unit IV SLID		(1,023)
Legacy Park GHI SLID		(568)
Rancho Gabriela Phase I SLID		18,461
Northwest Ranch #1 SLID		(314)
Sun City Grand IV SLID		(57,247)
Rancho Gabriela 2,3, 4A-B SLD		10,993
Greenway Park II SLD		(2,176)
Greenway Park III SLD		(539)
Bell West Ranch 1A SLID		(849)
Tash/Western Meadows SLD		(1,136)
Roseview 5, 5A, 7&8 SLID		3,817
Orchards 1,2,3,4,5 SLD		(2,428)
Surprise Farms 1A SLD		(1,527)
Legacy Park Parcels E, F & J SLD		(1,155)
Sierra Montana 1A SLD		(41,415)
Bell West Ranch II SLD		14,650
Royal Ranch Unit I SLID		(7,943)

(Continued)

NOTES TO FINANCIAL STATEMENTS

Special Revenue SLID District Fund Balances (continued)

Surprise Farms 1B SLID	8,280
Desert Oasis #1 SLID	(3,753)
Sierra Montana Phase II SLID	5,184
Litchfield Manor SLID	43,775
Cotton Gin SLID	(7,088)
Summerfield at Litchfield SLID	(2,829)
Marley Park Phase Ph 1, Parcels 1-4	(11,160)
Greer Ranch South SLID	(14,851)
Bell West Ranch Parcel 3 SLID	(318)
Sierra Montana Parcel 12 SLID	8,353
Sierra Verde Phase One SLID	14,926
Surprise Farms II	12,486
Kenly Farms	(4,240)
Veramonte	(415)
Bell Point 1	(8,162)
Rancho Gabriela Phase II Parcel 11 SLID	(380)
Royal Ranch Unit II, Parcels 5,6 & 9	(13,549)
Sierra Verde Parcel 4	3,660
Marley Park Phase Ph 1, Parcels 7 & 8	(7,933)
Surprise Farms Phase III	(26,593)
Greer Ranch Phase 1	(13,120)
Royal Ranch Unit 2 Parcel 8	(694)
Roayl Ranch Unit 2 Parcel 7	(3,159)
Greer Ranch Phase 2	(620)
Marley Park Phase 2, Parcels 9, 11 & 12	(2,557)
Surprise Farms Phase 4, Parcels 1-6	(9,282)
Desert Oasis Lancer Parcels 5A, 5B, & 14A	(6,121)
Sarah Ann Ranch	(11,656)
Rancho Gabriela Phase 3, Parcel 17	(2,867)
City at Surprise Phase 1	(7,448)
Marley Park Phase 1, Parcels 5 & 6	(14,118)
	<u>(219,399)</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.

In addition to the Special Revenue SLID Districts fund equity balances listed above, the following funds also have deficit fund balances as of June 30, 2007.

Other Special Revenue Funds with deficit Fund Balances:

Neighborhood Revitalization Fund	\$ (35,828)
Fire and EMS Development Fee Fund	\$ (4,369,847)
Marley Park Community Facility District Fund	(175,745)
	<u>\$ (4,581,420)</u>

Adequate grant revenues are expected to be received in the Neighborhood Revitalization to fund the deficit fund equity balance, and future property (ad valorem) taxes are expected to fund the deficit fund balance in the Marley Park Community Facilities District Fund. The deficit fund balance in the Fire and EMS Development Fee Fund is expected to be funded with future fire development impact fees received from issued building permits.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 14 –PRIOR PERIOD ADJUSTMENTS

A. SALES TAX REVENUE

The July 1, 2006, fund balance/net assets do not agree to the prior year financial statements due to the correction for sales tax revenue recognition of \$9,371,692 in the correct period as shown in the following tables.

B. LAND PARCELS DONATED TO THE CITY

The July 1, 2006 fund balance/net assets do not agree to the prior year financial statements due to a correction for land with a value of \$2,322,257 donated to the City in a prior year, and not recognized until fiscal year 2006/2007, as shown in the tables below.

C. DEVELOPER INSTALLED INFRASTRUCTURE DONATED TO THE CITY

The July 1, 2006 fund balance/net assets do not agree to the prior year financial statements due to a correction in developer installed infrastructure with a value of \$9,984,064 donated to the City in a prior year, but not recognized until fiscal year 2006/2007, as shown in the tables below.

D. RETAINAGES DUE TO PRIME CONTRACTORS FOR CAPITAL PROJECTS

The July 1, 2006 fund balance/net assets do not agree to the prior year financial statements due to an error of \$248,473 in construction project retainages owed to contractors for work completed on on-going projects prior to the end of fiscal year 2005/2006, and not recognized as a liability or construction in progress, as shown in the following tables.

Effect of Prior Period Adjustments by Activity			
Government-wide Statement of Net Assets			
Government-wide Statement of Activities			
	Governmental Activities	Business-type Activities	Total
Fiscal year ended June 30, 2006 - Ending	\$ 325,993,074	\$ 196,397,450	\$ 522,390,524
Prior Period Adjustment - Taxes	(A) 9,371,692	-	9,371,692
Prior Period Adjustment - Donated Land	(B) 2,304,257	18,000	2,322,257
Prior Period Adjustment - Donated Infrastructure	(C) 5,092,416	4,891,648	9,984,064
Prior Period Adjustment - Project Retainage	(D) (248,473)		(248,473)
Fiscal year ended June 30, 2007 - Beginning	\$ 342,512,966	\$ 201,307,098	\$ 543,820,064

(Continued)

NOTES TO FINANCIAL STATEMENTS

Effect of Prior Period Adjustments by Fund			
Financial Statements - Governmental Funds			
Balance Sheet			
Statement of Revenues, Expenditures and Changes in Fund Balance			
		Municipal Property Corporation Fund	Other Governmental Funds (includes Transportation Fund)
	General Fund		
Fund Balance Fiscal year ended June 30, 2006 - Ending	\$ 74,818,915	\$ 17,691,211	\$ 37,583,684
Prior Period Adjustment - Taxes	(A) 7,589,573		1,782,119
Prior Period Adjustment - Project Retainage	(D)	(223,568)	(24,905)
Fiscal year ended June 30, 2007 - Beginning	<u>\$ 82,408,488</u>	<u>\$ 17,467,643</u>	<u>\$ 39,340,898</u>

Effect of Prior Period Adjustments by Fund			
Supplemental Information			
Combining Balance Sheet			
Combining Statement of Revenues, Expenditures and Changes in Fund Balance			
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General & Major Special Revenue Funds (by Activity and by Department)			
Combining Balance Sheet - Nonmajor Special Revenue Funds			
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Special Revenue Funds			
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Nonmajor Governmental Funds			
	General Fund	Transportation Improvement	
Fund Balance Fiscal year ended June 30, 2006 - Ending	\$ 74,818,915	\$ 2,545,105	
Prior Period Adjustment - Taxes	(A) 7,589,573	1,782,119	
Fiscal year ended June 30, 2007 - Beginning	<u>\$ 82,408,488</u>	<u>\$ 4,327,224</u>	

Effect of Prior Period Adjustments by Fund			
Supplemental Information			
Combining Balance Sheet - Nonmajor Governmental Funds			
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds			
		Special Revenue Funds	Total Nonmajor Governmental Funds
Fiscal year ended June 30, 2006 - Ending		\$ 37,124,863	\$ 37,583,684
Prior Period Adjustment - Taxes	(A)	1,782,119	1,782,119
Prior Period Adjustment - Project Retainage	(D)	(24,905)	
Fiscal year ended June 30, 2007 - Beginning		<u>\$ 38,882,077</u>	<u>\$ 39,365,803</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

Business-type Activities		
Proprietary Funds - Water		
Statement of Net Assets		
Statement of Revenues, Expenses and Changes in Net Assets		
		Total Water Net Assets
Fiscal year ended June 30, 2006 - Ending		\$ 43,638,349
Prior Period Adjustment - Donated Land	(B)	18,000
Prior Period Adjustment - Donated Infrastructure	(C)	2,674,393
Fiscal year ended June 30, 2007 - Beginning		<u>\$ 46,330,742</u>

Business-type Activities		
Proprietary Funds - Sewer		
Statement of Net Assets		
Statement of Revenues, Expenses and Changes in Net Assets		
		Total Sewer Net Assets
Fiscal year ended June 30, 2006 - Ending		\$ 138,333,091
Prior Period Adjustment - Donated Infrastructure	(C)	2,217,255
Fiscal year ended June 30, 2007 - Beginning		<u>\$ 140,550,346</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – SUBSEQUENT EVENTS

On September 12, 2007, the City of Surprise issued \$3,950,000 of general obligation bonds to finance the acquisition of public infrastructure in the Marley Park Community Facilities District. The interest rate on the bonds is 5.5 percent and the maturity date is July 15, 2032. An ad valorem property tax of \$3.00 per \$100 of secondary assessed value was levied on property owners in the District to provide for debt service of the general obligation bonds.

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(Continued)



SURPRISE
ARIZONA



SUPPLEMENTAL INFORMATION

This portion of supplementary information contains statements, schedules, statistical data, or other information that the Governmental Accounting Standards Board (GASB) has determined to be necessary to supplement, although not required to be part of, the basic statements of the City.

Required Supplementary Information:	Page
Required Supplementary Information – Arizona Public Safety Personnel Retirement System (APSPRS): Schedule of Employer Contributions, Schedule of Funding Progress, and Six-Year Trend Information	56
Required Supplementary Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	57
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund by Department	58-59
Changes in Fund Balances – Budget and Actual – Major Special Revenue Funds	60-64
Other Supplementary Information:	
Combining Balance Sheet – Nonmajor Governmental Funds	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	66
Combining Balance Sheet – Nonmajor Special Revenue Funds	67-68
Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Special Revenue Funds	69-70
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service and Special Revenue Funds	71-77

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	Police	Percent
	Fighters		Contributed
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	100.0%
2007 *	396,654	450,556	

*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)
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	90.7%	8,808,048	17%
2006	16,771,274	18,496,123	1,724,849	90.7%	12,204,117	14%

Schedule of Funding Progress
Figure 1

Fiscal Year Ended June 30,	Annual Pension Cost		Percent Contributed	Net Pension Obligation
	Fire	Police		
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%	-
2006	396,697	450,556	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, 2007**

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 53,186,400	\$ 53,186,400	\$ 41,580,022
Licenses and permits	3,725,000	3,725,000	3,602,764
Intergovernmental	18,640,200	18,640,200	22,290,160
Charges for services	11,151,100	11,151,100	9,794,127
Grants	21,846,900	21,846,900	797,025
Fines	1,515,000	1,515,000	1,168,245
Rents	123,200	123,200	363,604
Interest	500,000	500,000	3,805,978
Other	1,334,900	1,334,900	2,430,544
Total revenues	<u>112,022,700</u>	<u>112,022,700</u>	<u>85,832,469</u>
EXPENDITURES			
Current			
General government	56,515,850	65,712,740	15,396,902
Public safety	28,274,200	28,092,100	25,163,951
Public works and streets	7,215,150	7,199,150	5,377,725
Community development	6,895,500	6,268,500	4,906,263
Culture and recreation	12,558,600	12,450,300	11,536,966
Capital Outlay	87,656,000	87,514,310	30,305,597
Debt Service			
Principal	2,200,000	2,200,000	-
Total expenditures	<u>201,315,300</u>	<u>209,437,100</u>	<u>92,687,404</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(89,292,600)</u>	<u>(97,414,400)</u>	<u>(6,854,935)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	14,977,100	14,977,100	14,977,100
NET CHANGE IN FUND BALANCES	<u>(74,315,500)</u>	<u>(82,437,300)</u>	<u>8,122,165</u>
FUND BALANCES, beginning of the year	<u>74,818,915</u>	<u>74,818,915</u>	<u>74,818,915</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>7,589,573</u>
FUND BALANCES, end of the year	<u>\$ 503,415</u>	<u>\$ (7,618,385)</u>	<u>\$ 90,530,653</u>

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, 2007

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 53,186,400	\$ 53,186,400	\$ 41,580,022
Licenses and permits	3,725,000	3,725,000	3,602,764
Intergovernmental	18,640,200	18,640,200	22,290,160
Charges for services	11,151,100	11,151,100	9,794,127
Grants	21,846,900	21,846,900	797,025
Fines	1,515,000	1,515,000	1,168,245
Rents	123,200	123,200	363,604
Development Fees	-	-	-
Interest	500,000	500,000	3,805,978
Other	1,334,900	1,334,900	2,430,544
Total revenues	<u>112,022,700</u>	<u>112,022,700</u>	<u>85,832,469</u>
EXPENDITURES			
GENERAL GOVERNMENT			
City council	562,200	561,100	318,019
City manager	1,079,200	1,079,200	1,023,671
Intergovernmental relations	442,900	442,900	333,345
Legal	1,308,100	1,373,200	1,366,742
City clerk	766,200	766,200	612,001
Finance	1,896,450	1,896,450	1,801,062
Human resources	1,261,600	1,261,600	1,258,749
Information technology	3,484,300	3,429,090	3,233,175
Management and Budget	1,284,500	1,284,500	1,094,457
Public information	982,500	982,500	889,696
General operations	43,447,900	52,636,000	3,465,985
Total general government	<u>56,515,850</u>	<u>65,712,740</u>	<u>15,396,902</u>
PUBLIC SAFETY			
City court	1,903,300	1,903,300	1,893,142
Police	15,163,100	15,182,100	12,922,001
Fire	11,207,800	11,006,700	10,348,808
Total public safety	<u>28,274,200</u>	<u>28,092,100</u>	<u>25,163,951</u>
PUBLIC WORKS AND STREETS			
Engineering	3,200,600	3,200,600	2,326,736
Vehicle maintenance	1,511,650	1,495,650	1,194,005
Facilities Management	2,242,100	2,242,100	1,642,610
Traffic engineering	165,000	165,000	138,835
Stormwater	95,800	95,800	75,539
Total public works and streets	<u>7,215,150</u>	<u>7,199,150</u>	<u>5,377,725</u>
COMMUNITY DEVELOPMENT			
Econ development	819,300	819,300	620,305
Community development	6,076,200	5,449,200	4,285,958
Total community service	<u>6,895,500</u>	<u>6,268,500</u>	<u>4,906,263</u>

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, 2007**

	General Fund		
	Original Budget	Final Budget	Actual
CULTURE AND RECREATION			
Com Initiatives	1,559,400	1,549,100	1,476,003
Parks and Recreation	10,999,200	10,901,200	10,060,963
Total culture and recreation	12,558,600	12,450,300	11,536,966
DEBT SERVICE			
Principal	2,200,000	2,200,000	-
Total debt service	2,200,000	2,200,000	-
CAPITAL OUTLAY	87,656,000	87,514,310	30,305,597
Total expenditures	201,315,300	209,437,100	92,687,404
REVENUES OVER (UNDER) EXPENDITURES	(89,292,600)	(97,414,400)	(6,854,935)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	14,977,100	14,977,100	14,977,100
Total other financing sources	14,977,100	14,977,100	14,977,100
NET CHANGE IN FUND BALANCES	(74,315,500)	(82,437,300)	8,122,165
FUND BALANCES, beginning of the year	74,818,915	74,818,915	74,818,915
PRIOR PERIOD ADJUSTMENTS	-	-	7,589,573
FUND BALANCES, end of the year	\$ 503,415	\$ (7,618,385)	\$ 90,530,653

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, 2007

	Municipal Property Corporation Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Rents	\$ 4,824,000	\$ 4,824,000	\$ 4,861,100
Interest	-	-	1,114,787
Total revenues	<u>4,824,000</u>	<u>4,824,000</u>	<u>5,975,887</u>
EXPENDITURES			
Current			
Public safety	-	-	5,643
Capital outlay	18,039,900	18,039,900	11,878,861
Debt Service			
Principal	2,500,000	2,500,000	2,410,000
Interest and fiscal charges	2,324,000	2,324,000	2,361,375
Debt issuance costs	-	-	1,566,439
Total expenditures	<u>22,863,900</u>	<u>22,863,900</u>	<u>18,222,318</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(18,039,900)</u>	<u>(18,039,900)</u>	<u>(12,246,431)</u>
OTHER FINANCING SOURCES (USES)			
Bonds issued			50,768,243
Transfers in (out)	-	-	(40,258,655)
Total other financing sources	<u>-</u>	<u>-</u>	<u>10,509,588</u>
NET CHANGE IN FUND BALANCES	<u>(18,039,900)</u>	<u>(18,039,900)</u>	<u>(1,736,843)</u>
FUND BALANCES, beginning of the year	<u>17,691,211</u>	<u>17,691,211</u>	<u>17,691,211</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>(223,568)</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (348,689)</u>	<u>\$ (348,689)</u>	<u>\$ 15,730,800</u>

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, 2007

	Highway User Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 5,470,200	5,470,200	\$ 6,293,129
Grants	56,000	56,000	152,069
Interest	-	-	50,424
Other	-	-	397,023
Total revenues	<u>5,526,200</u>	<u>5,526,200</u>	<u>6,892,645</u>
EXPENDITURES			
Current			
General government	4,600	4,600	-
Public works and streets	5,082,100	5,082,100	4,881,736
Culture and recreation	401,900	401,900	404,596
Capital outlay	<u>2,197,200</u>	<u>2,197,200</u>	<u>1,731,546</u>
Total expenditures	<u>7,685,800</u>	<u>7,685,800</u>	<u>7,017,878</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,159,600)</u>	<u>(2,159,600)</u>	<u>(125,233)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>2,008,500</u>	<u>2,008,500</u>	<u>2,008,500</u>
NET CHANGE IN FUND BALANCES	<u>(151,100)</u>	<u>(151,100)</u>	<u>1,883,267</u>
FUND BALANCES, beginning of the year	<u>385,525</u>	<u>385,525</u>	<u>385,525</u>
FUND BALANCES, end of the year	<u>\$ 234,425</u>	<u>\$ 234,425</u>	<u>\$ 2,268,792</u>

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, 2007

	Police Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development Fees	\$ 1,939,400	\$ 1,939,400	\$ 2,085,418
Interest	20,000	20,000	198,107
Total revenues	<u>1,959,400</u>	<u>1,959,400</u>	<u>2,283,525</u>
EXPENDITURES			
Current			
General government	2,300	2,300	2,300
Public safety	477,100	477,100	557,694
Capital outlay	<u>2,188,200</u>	<u>2,188,200</u>	<u>414,746</u>
Total expenditures	<u>2,667,600</u>	<u>2,667,600</u>	<u>974,740</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(708,200)</u>	<u>(708,200)</u>	<u>1,308,785</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(3,002,900)</u>	<u>(3,002,900)</u>	<u>(4,000,000)</u>
Total other financing sources	<u>(3,002,900)</u>	<u>(3,002,900)</u>	<u>(4,000,000)</u>
NET CHANGE IN FUND BALANCES	<u>(3,711,100)</u>	<u>(3,711,100)</u>	<u>(2,691,215)</u>
FUND BALANCES, beginning of the year	<u>4,430,249</u>	<u>4,430,249</u>	<u>4,430,249</u>
FUND BALANCES, end of the year	<u>\$ 719,149</u>	<u>\$ 719,149</u>	<u>\$ 1,739,034</u>

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, 2007

	Fire Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ -	\$ -	\$ 73,490
Development Fees	1,915,400	1,915,400	2,266,095
Interest	20,000	20,000	244,477
Total revenues	<u>1,935,400</u>	<u>1,935,400</u>	<u>2,584,062</u>
EXPENDITURES			
Current			
General government	2,100	2,100	2,125
Public safety	535,000	535,000	407,775
Capital outlay	13,533,000	13,533,000	11,319,841
Total expenditures	<u>14,070,100</u>	<u>14,070,100</u>	<u>11,729,741</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(12,134,700)</u>	<u>(12,134,700)</u>	<u>(9,145,679)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>7,996,300</u>	<u>7,996,300</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(4,138,400)</u>	<u>(4,138,400)</u>	<u>(9,145,679)</u>
FUND BALANCES, beginning of the year	<u>4,775,832</u>	<u>4,775,832</u>	<u>4,775,832</u>
FUND BALANCES, end of the year	<u>\$ 637,432</u>	<u>\$ 637,432</u>	<u>\$ (4,369,847)</u>

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, 2007

	Transportation Improvement Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 12,200,000	\$ 12,200,000	\$ 9,270,773
Interest	-	-	247,577
Total revenues	<u>12,200,000</u>	<u>12,200,000</u>	<u>9,518,350</u>
EXPENDITURES			
Current			
General government	4,800	4,800	8,900
Public works and streets	1,250,000	1,250,000	310,517
Capital Outlay	<u>9,796,500</u>	<u>9,796,500</u>	<u>1,217,711</u>
Total expenditures	<u>11,051,300</u>	<u>11,051,300</u>	<u>1,537,128</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,148,700</u>	<u>1,148,700</u>	<u>7,981,222</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>5,476,200</u>	<u>5,476,200</u>	<u>-</u>
Total Other Financing Sources	<u>5,476,200</u>	<u>5,476,200</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>6,624,900</u>	<u>6,624,900</u>	<u>7,981,222</u>
FUND BALANCES, beginning of the year	<u>2,545,105</u>	<u>2,545,105</u>	<u>2,545,105</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>1,782,119</u>
FUND BALANCES, end of the year	<u>\$ 9,170,005</u>	<u>\$ 9,170,005</u>	<u>\$ 12,308,446</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

ASSETS	Special Revenue Funds	Debt Service Fund	Marley Park Debt Svc Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 16,134,757	\$ 458,886	\$ 138,790	\$ 16,732,433
Receivables (net of allowances)				
Interest	11,985	509	-	12,494
Taxes and franchise fees	-	52,564	987	53,551
Other	38,617	-	-	38,617
Prepaid items	1,849,673	-	-	1,849,673
Total assets	\$ 18,035,032	\$ 511,959	\$ 139,777	\$ 18,686,768
 LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 2,395,759	\$ 650	\$ -	\$ 2,396,409
Accrued payroll and related taxes	19,776	-	-	19,776
Due to other funds	3,711,879	-	-	3,711,879
Other	542,927	-	-	542,927
Total liabilities	6,670,341	650	-	6,670,991
 FUND BALANCE				
Reserved for prepaid items	1,849,673	-	-	1,849,673
Unreserved, reported in				
Special revenue funds	9,515,018			9,515,018
Debt service funds	-	511,309	139,777	651,086
Total fund balance	11,364,691	511,309	139,777	12,015,777
Total liabilities and fund balance	\$ 18,035,032	\$ 511,959	\$ 139,777	\$ 18,686,768

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, 2007

	Special Revenue Funds	Debt Service Fund	Marley Park CFD Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ 1,424,194	\$ 164,937	\$ 1,589,131
Intergovernmental	833,252	-	-	833,252
Charges for services	1,438,353	-	-	1,438,353
Grants	684,432	-	-	684,432
Fines	54,546	-	-	54,546
Development fees	6,214,049	-	-	6,214,049
Interest	1,443,087	34,235	-	1,477,322
Other	673,473	-	-	673,473
	<u>11,341,192</u>	<u>1,458,429</u>	<u>164,937</u>	<u>12,964,558</u>
Total revenues				
EXPENDITURES				
Current				
General government	201,828	-	-	201,828
Public safety	68,388	-	-	68,388
Public works and streets	2,085,275	-	-	2,085,275
Culture and recreation	3,596,166	-	-	3,596,166
Capital outlay	20,567,646	-	-	20,567,646
Debt service				
Principal	-	1,273,399	-	1,273,399
Interest and fiscal charges	-	132,542	25,160	157,702
Debt issuance costs	180,951	-	-	180,951
	<u>26,700,254</u>	<u>1,405,941</u>	<u>25,160</u>	<u>28,131,355</u>
Total expenditures				
REVENUES OVER (UNDER) EXPENDITURES	<u>(15,359,062)</u>	<u>52,488</u>	<u>139,777</u>	<u>(15,166,797)</u>
OTHER FINANCING USES				
Interfund transfers in(out)	(9,196,100)	-	-	(9,196,100)
From bonding	1,365,000	-	-	1,365,000
	<u>(7,831,100)</u>	<u>-</u>	<u>-</u>	<u>(7,831,100)</u>
Total other financing uses				
NET CHANGE IN FUND BALANCES	<u>(23,190,162)</u>	<u>52,488</u>	<u>139,777</u>	<u>(22,997,897)</u>
FUND BALANCES, beginning of year	<u>34,579,758</u>	<u>458,821</u>	<u>-</u>	<u>35,038,579</u>
PRIOR PERIOD ADJUSTMENTS	<u>(24,905)</u>	<u>-</u>	<u>-</u>	<u>(24,905)</u>
FUND BALANCES, end of year	<u>\$ 11,364,691</u>	<u>\$ 511,309</u>	<u>\$ 139,777</u>	<u>\$ 12,015,777</u>

CITY OF SURPRISE, ARIZONA

SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2007

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Parks & Recreational Enhancement	Library Development Fund	General Govt. Dev Fee Fund
ASSETS						
Cash and cash equivalents	\$ 726,845	\$ 1,296,871	\$ 27,785	\$ 176,122	\$ 3,345,068	\$ 1,557,343
Receivables, net						
Interest	942	1,844	-	-	3,077	-
Other	-	-	-	-	-	-
Prepaid items	-	-	-	1,849,673	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,849,673</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 727,787</u>	<u>\$ 1,298,715</u>	<u>\$ 27,785</u>	<u>\$ 2,025,795</u>	<u>\$ 3,348,145</u>	<u>\$ 1,557,343</u>
LIABILITIES						
Accounts payable	\$ 18,115	\$ 1,320	\$ 63,613	\$ 1,753,207	\$ 2,616	\$ 4,066
Accrued payroll and related taxes	19,776	-	-	-	-	-
Due to other funds	-	-	-	-	140,231	-
Other liabilities	-	-	-	262,519	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,519</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>37,891</u>	<u>1,320</u>	<u>63,613</u>	<u>2,015,726</u>	<u>142,847</u>	<u>4,066</u>
FUND BALANCE						
Fund balances						
Reserved for prepaid items	-	-	-	1,849,673	-	-
Unreserved						
Undesignated	689,896	1,297,395	(35,828)	(1,839,604)	3,205,298	1,553,277
	<u>689,896</u>	<u>1,297,395</u>	<u>(35,828)</u>	<u>(1,839,604)</u>	<u>3,205,298</u>	<u>1,553,277</u>
Total fund equity	<u>689,896</u>	<u>1,297,395</u>	<u>(35,828)</u>	<u>10,069</u>	<u>3,205,298</u>	<u>1,553,277</u>
Total liabilities and fund balances	<u>\$ 727,787</u>	<u>\$ 1,298,715</u>	<u>\$ 27,785</u>	<u>\$ 2,025,795</u>	<u>\$ 3,348,145</u>	<u>\$ 1,557,343</u>

<u>Employee Dep Scholarship</u>	<u>Street Lighting Districts</u>	<u>Marley Park Comm. Fac. District</u>	<u>10% Set Aside OTS</u>	<u>Municipal Court Enhancement</u>	<u>Public Works Expansion Development</u>	<u>Totals</u>
\$ 12,696	\$ 251,896	\$ 101,866	\$ 972,099	\$ 218,582	\$ 7,447,584	\$ 16,134,757
1,524	872	2,797	929	-	-	11,985
.	38,617	-	-	-	-	38,617
-	-	-	-	-	-	1,849,673
<u>\$ 14,220</u>	<u>\$ 291,385</u>	<u>\$ 104,663</u>	<u>\$ 973,028</u>	<u>\$ 218,582</u>	<u>\$ 7,447,584</u>	<u>\$ 18,035,032</u>
\$ -	\$ 155,794	\$ -	\$ 4,286	\$ -	\$ 392,742	\$ 2,395,759
-	-	-	-	-	-	19,776
-	354,990	-	-	-	3,216,658	3,711,879
-	-	280,408	-	-	-	542,927
-	510,784	280,408	4,286	-	3,609,400	6,670,341
-	-	-	-	-	-	1,849,673
<u>14,220</u>	<u>(219,399)</u>	<u>(175,745)</u>	<u>968,742</u>	<u>218,582</u>	<u>3,838,184</u>	<u>9,515,018</u>
<u>14,220</u>	<u>(219,399)</u>	<u>(175,745)</u>	<u>968,742</u>	<u>218,582</u>	<u>3,838,184</u>	<u>11,364,691</u>
<u>\$ 14,220</u>	<u>\$ 291,385</u>	<u>\$ 104,663</u>	<u>\$ 973,028</u>	<u>\$ 218,582</u>	<u>\$ 7,447,584</u>	<u>\$ 18,035,032</u>

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, 2007

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Parks & Recreational Enhancement	Library Development Fund	General Govt. Dev Fee Fund
REVENUES						
Intergovernmental	\$ 636,007	\$ 197,245	\$ -	\$ -	\$ -	\$ -
Charges for services	17,719	-	-	-	-	-
Grants	32,512	-	649,419	-	-	-
Fines	-	-	-	-	-	-
Development fees	-	-	-	2,372,710	561,269	945,094
Interest	26,762	38,490	-	387,374	134,034	315,491
Other	-	307,195	21,988	-	-	25,000
Total revenues	<u>713,000</u>	<u>542,930</u>	<u>671,407</u>	<u>2,760,084</u>	<u>695,303</u>	<u>1,285,585</u>
EXPENDITURES						
Current						
General government	-	-	-	2,375	2,025	2,525
Public safety	-	68,388	-	-	-	-
Public works and streets	-	-	-	-	-	-
Culture and recreation	682,733	246,984	596,986	2,069,463	-	-
Capital outlay	-	-	-	15,646,859	-	80,132
Debt issuance Costs	-	-	-	-	-	-
Total expenditures	<u>682,733</u>	<u>315,372</u>	<u>596,986</u>	<u>17,718,697</u>	<u>2,025</u>	<u>82,657</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>30,267</u>	<u>227,558</u>	<u>74,421</u>	<u>(14,958,613)</u>	<u>693,278</u>	<u>1,202,928</u>
OTHER FINANCING SOURCES						
Interfund transfers in	258,900	586,300	-	-	-	(5,891,800)
From bonding	-	-	-	-	-	-
Total other financing sources	<u>258,900</u>	<u>586,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,891,800)</u>
NET CHANGE IN FUND BALANCES	289,167	813,858	74,421	(14,958,613)	693,278	(4,688,872)
FUND BALANCES, beginning of year	400,729	483,537	(110,249)	14,993,587	2,512,020	6,242,149
PRIOR PERIOD ADJUSTMENTS	-	-	-	(24,905)	-	-
FUND BALANCES, end of year	<u>\$ 689,896</u>	<u>\$ 1,297,395</u>	<u>\$ (35,828)</u>	<u>\$ 10,069</u>	<u>\$ 3,205,298</u>	<u>\$ 1,553,277</u>

Employee Dep Scholarship	Street Lighting Districts	Marley Park Comm. Fac. District	10% Set Aside OTIS	Municipal Court Enhancement	Public Works Expansion Development	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$833,252
-	1,420,634	-	-	-	-	1,438,353
-	-	-	2,501	-	-	684,432
-	-	-	-	54,546	-	54,546
-	-	-	-	-	2,334,976	6,214,049
2,153	8,720	3,278	37,934	-	488,851	1,443,087
1,228	148,731	169,331	-	-	-	673,473
3,381	1,578,085	172,609	40,435	54,546	2,823,827	11,341,192
1,000	-	141,525	51,203	-	1,175	201,828
-	-	-	-	-	-	68,388
-	1,594,482	-	52,034	-	438,759	2,085,275
-	-	-	-	-	-	3,596,166
-	-	1,451,408	113,951	-	3,275,296	20,567,646
-	-	180,951	-	-	-	180,951
1,000	1,594,482	1,773,884	217,188	-	3,715,230	26,700,254
2,381	(16,397)	(1,601,275)	(176,753)	54,546	(891,403)	(15,359,062)
-	-	-	500,000	-	(4,649,500)	(9,196,100)
-	-	1,365,000	-	-	-	1,365,000
-	-	1,365,000	500,000	-	(4,649,500)	(7,831,100)
2,381	(16,397)	(236,275)	323,247	54,546	(5,540,903)	(23,190,162)
11,839	(203,002)	60,530	645,495	164,036	9,379,087	34,579,758
-	-	-	-	-	-	(24,905)
\$ 14,220	\$ (219,399)	\$ (175,745)	\$ 968,742	\$ 218,582	\$ 3,838,184	\$ 11,364,691

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, 2007

	Transit Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 375,300	\$ 375,300	\$ 636,007
Charges for services	10,000	10,000	17,719
Grants	196,800	196,800	32,512
Interest	2,500	2,500	26,762
Total revenues	<u>584,600</u>	<u>584,600</u>	<u>713,000</u>
EXPENDITURES			
Current			
Culture and recreation	888,900	888,900	682,733
Capital outlay	156,000	156,000	-
Total expenditures	<u>1,044,900</u>	<u>1,044,900</u>	<u>682,733</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(460,300)</u>	<u>(460,300)</u>	<u>30,267</u>
OTHER FINANCING SOURCES			
Transfers in (out)	258,900	258,900	258,900
NET CHANGE IN FUND BALANCES	<u>(201,400)</u>	<u>(201,400)</u>	<u>289,167</u>
FUND BALANCES, beginning of the year	<u>400,729</u>	<u>400,729</u>	<u>400,729</u>
FUND BALANCES, end of the year	<u>\$ 199,329</u>	<u>\$ 199,329</u>	<u>\$ 689,896</u>
	Donations Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 197,245
Interest	-	-	38,490
Other	600,000	600,000	307,195
Total revenues	<u>600,000</u>	<u>600,000</u>	<u>542,930</u>
EXPENDITURES			
Current			
General government	600,000	600,000	68,388
Community development	-	-	246,984
Culture and recreation	586,300	586,300	-
Total expenditures	<u>1,186,300</u>	<u>1,186,300</u>	<u>315,372</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(586,300)</u>	<u>(586,300)</u>	<u>227,558</u>
OTHER FINANCING SOURCES			
Transfers in (out)	586,300	586,300	586,300
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>813,858</u>
FUND BALANCES, beginning of the year	<u>483,537</u>	<u>483,537</u>	<u>483,537</u>
FUND BALANCES, end of the year	<u>\$ 483,537</u>	<u>\$ 483,537</u>	<u>\$ 1,297,395</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Neighborh. Revitaliz. Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ -	\$ -	\$ 649,419
Other	-	-	21,988
Total revenues	<u>-</u>	<u>-</u>	<u>671,407</u>
EXPENDITURES			
Current			
Culture and recreation	1,226,600	1,226,600	596,986
Total expenditures	<u>1,226,600</u>	<u>1,226,600</u>	<u>596,986</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,226,600)</u>	<u>(1,226,600)</u>	<u>74,421</u>
NET CHANGE IN FUND BALANCES	<u>(1,226,600)</u>	<u>(1,226,600)</u>	<u>74,421</u>
FUND BALANCES, beginning of the year	<u>(110,249)</u>	<u>(110,249)</u>	<u>(110,249)</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (1,336,849)</u>	<u>\$ (1,336,849)</u>	<u>\$ (35,828)</u>
	Parks & Recreational Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 4,057,200	\$ 4,057,200	\$ 2,372,710
Interest	200,000	200,000	387,374
Total revenues	<u>4,257,200</u>	<u>4,257,200</u>	<u>2,760,084</u>
EXPENDITURES			
Current			
General government	2,200	2,200	2,375
Culture and recreation	2,707,300	2,607,300	2,069,463
Capital Outlay	20,581,200	21,304,400	15,646,859
Total expenditures	<u>23,290,700</u>	<u>23,913,900</u>	<u>17,718,697</u>
REVENUES OVER EXPENDITURES	<u>(19,033,500)</u>	<u>(19,656,700)</u>	<u>(14,958,613)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>6,076,900</u>	<u>6,076,900</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(12,956,600)</u>	<u>(13,579,800)</u>	<u>(14,958,613)</u>
FUND BALANCES, beginning of the year	<u>14,993,587</u>	<u>14,993,587</u>	<u>14,993,587</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>(24,905)</u>
FUND BALANCES, end of the year	<u>\$ 2,036,987</u>	<u>\$ 1,413,787</u>	<u>\$ 10,069</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Library Development Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 957,600	\$ 957,600	\$ 561,269
Interest	20,000	20,000	134,034
Total revenues	<u>977,600</u>	<u>977,600</u>	<u>695,303</u>
EXPENDITURES			
Current			
General government	2,000	2,000	2,025
Capital Outlay	200,000	200,000	-
Total expenditures	<u>202,000</u>	<u>202,000</u>	<u>2,025</u>
REVENUES OVER EXPENDITURES	<u>775,600</u>	<u>775,600</u>	<u>693,278</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>(3,353,100)</u>	<u>(3,353,100)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(2,577,500)</u>	<u>(2,577,500)</u>	<u>693,278</u>
FUND BALANCES, beginning of the year	<u>2,512,020</u>	<u>2,512,020</u>	<u>2,512,020</u>
FUND BALANCES, end of the year	<u>\$ (65,480)</u>	<u>\$ (65,480)</u>	<u>\$ 3,205,298</u>
	General Govt. Dev Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 1,196,400	\$ 1,196,400	\$ 945,094
Grants	41,600	41,600	-
Interest	40,000	40,000	315,491
Other	-	-	25,000
Total revenues	<u>1,278,000</u>	<u>1,278,000</u>	<u>1,285,585</u>
EXPENDITURES			
Current			
General government	36,500	36,500	2,525
Capital outlay	1,579,400	1,579,400	80,132
Total expenditures	<u>1,615,900</u>	<u>1,615,900</u>	<u>82,657</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(337,900)</u>	<u>(337,900)</u>	<u>1,202,928</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>(5,891,800)</u>	<u>(5,891,800)</u>	<u>(5,891,800)</u>
NET CHANGE IN FUND BALANCES	<u>(6,229,700)</u>	<u>(6,229,700)</u>	<u>(4,688,872)</u>
FUND BALANCES, beginning of the year	<u>6,242,149</u>	<u>6,242,149</u>	<u>6,242,149</u>
FUND BALANCES, end of the year	<u>\$ 12,449</u>	<u>\$ 12,449</u>	<u>\$ 1,553,277</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Employee Dependent Scholarship Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Interest	\$ 600	\$ 600	\$ 2,153
Other	-	-	1,228
Total revenues	<u>600</u>	<u>600</u>	<u>3,381</u>
EXPENDITURES			
Current			
General government	11,500	11,500	1,000
Total expenditures	<u>11,500</u>	<u>11,500</u>	<u>1,000</u>
REVENUES OVER (UNDER)			
EXPENDITURES	<u>(10,900)</u>	<u>(10,900)</u>	<u>2,381</u>
NET CHANGE IN FUND BALANCES	<u>(10,900)</u>	<u>(10,900)</u>	<u>2,381</u>
FUND BALANCES , beginning of the year	<u>11,839</u>	<u>11,839</u>	<u>11,839</u>
FUND BALANCES (DEFICIT) , end of the year	<u>\$ 939</u>	<u>\$ 939</u>	<u>\$ 14,220</u>

	Street Lighting District		
	Original Budget	Final Budget	Actual
REVENUES			
Charges for services	\$ 1,555,500	\$ 1,555,500	\$ 1,420,634
Interest	-	-	8,720
Other	1,257,400	1,257,400	148,731
Total revenues	<u>2,812,900</u>	<u>2,812,900</u>	<u>1,578,085</u>
EXPENDITURES			
Current			
Public works	2,488,500	2,488,500	1,594,482
Total expenditures	<u>2,488,500</u>	<u>2,488,500</u>	<u>1,594,482</u>
REVENUES OVER (UNDER)			
EXPENDITURES	<u>324,400</u>	<u>324,400</u>	<u>(16,397)</u>
NET CHANGE IN FUND BALANCES	<u>324,400</u>	<u>324,400</u>	<u>(16,397)</u>
FUND BALANCES , beginning of the year	<u>(203,002)</u>	<u>(203,002)</u>	<u>(203,002)</u>
FUND BALANCES , end of the year	<u>\$ 121,398</u>	<u>\$ 121,398</u>	<u>\$ (219,399)</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Marley Park Community Facilities District		
	Original Budget	Final Budget	Actual
REVENUES			
Property Tax	\$ 10,000	\$ 10,000	\$ -
Interest	-	-	3,278
Other	40,000	40,000	169,331
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>172,609</u>
EXPENDITURES			
Current			
General government	50,000	50,000	141,525
Capital Outlay	20,000,000	20,000,000	1,451,408
Debt issuance costs	-	-	180,951
Total expenditures	<u>20,050,000</u>	<u>20,050,000</u>	<u>1,773,884</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(20,000,000)</u>	<u>(20,000,000)</u>	<u>(1,601,275)</u>
OTHER FINANCING SOURCES			
From bonding	30,000,000	30,000,000	1,365,000
NET CHANGE IN FUND BALANCES	<u>10,000,000</u>	<u>10,000,000</u>	<u>(236,275)</u>
FUND BALANCES , beginning of the year	<u>60,530</u>	<u>60,530</u>	<u>60,530</u>
FUND BALANCES , end of the year	<u>\$ 10,060,530</u>	<u>\$ 10,060,530</u>	<u>\$ (175,745)</u>
	10% Set Aside Square Mile		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ -	\$ -	\$ 2,501
Interest	3,000	3,000	37,934
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>40,435</u>
EXPENDITURES			
Current			
General government	108,400	108,400	51,203
Public works and streets	100,000	100,000	52,034
Community development	40,000	40,000	-
Culture and recreation	35,000	35,000	-
Capital outlay	1,691,700	1,691,700	113,951
Total expenditures	<u>1,975,100</u>	<u>1,975,100</u>	<u>217,188</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,972,100)</u>	<u>(1,972,100)</u>	<u>(176,753)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	500,000	500,000	500,000
NET CHANGE IN FUND BALANCES	<u>(1,472,100)</u>	<u>(1,472,100)</u>	<u>323,247</u>
FUND BALANCES , beginning of the year	<u>645,495</u>	<u>645,495</u>	<u>645,495</u>
FUND BALANCES , end of the year	<u>\$ (826,605)</u>	<u>\$ (826,605)</u>	<u>\$ 968,742</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Municipal Court Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Fines	\$ -	\$ -	\$ 54,546
Total revenues	-	-	54,546
EXPENDITURES			
Current			
Public safety	39,300	39,300	-
Capital Outlay	47,200	47,200	-
Total expenditures	86,500	86,500	-
REVENUES OVER (UNDER)			
EXPENDITURES	(86,500)	(86,500)	54,546
NET CHANGE IN FUND			
BALANCES	(86,500)	(86,500)	54,546
FUND BALANCES, beginning of			
the year	164,036	164,036	164,036
FUND BALANCES, end of the year	<u>\$ 77,536</u>	<u>\$ 77,536</u>	<u>\$ 218,582</u>
	Public Works Expansion Development		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 3,322,600	\$ 6,331,600	\$ 2,334,976
Interest	75,000	75,000	488,851
Total revenues	3,397,600	6,406,600	2,823,827
EXPENDITURES			
Current			
General government	1,200	1,200	1,175
Public works	690,400	690,400	438,759
Capital outlay	8,121,700	8,121,700	3,275,296
Total expenditures	8,813,300	8,813,300	3,715,230
REVENUES OVER (UNDER)			
EXPENDITURES	(5,415,700)	(2,406,700)	(891,403)
OTHER FINANCING SOURCES			
Transfers in (out)	(4,649,500)	(4,649,500)	(4,649,500)
NET CHANGE IN FUND			
BALANCES	(10,065,200)	(7,056,200)	(5,540,903)
FUND BALANCES, beginning of			
the year	9,379,087	9,379,087	9,379,087
FUND BALANCES, end of the year	<u>\$ (686,113)</u>	<u>\$ 2,322,887</u>	<u>\$ 3,838,184</u>



STATISTICAL SECTION

This section provides detailed information, for purposes of providing a context for comprehending the information presented in the financial statements, note disclosures and required supplementary information, and gaining a better understanding of the financial shape of the City of Surprise, Arizona.

Contents:	Page
Financial Trends:	78-83
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity:	84-89
These schedules contain information to help the reader assess the government's most significant local revenue sources, transaction privilege (sales) tax and property taxes.	
Debt Capacity:	90-93
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information:	94-95
These schedules of demographic and economic indicators help the reader understand the environment that the government's financial activities take place.	
Operating Information:	96-98
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Reports for the relevant year.

City of Surprise
Net Assets by Component
Last Six* 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>2006/07</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	\$ 235,593,851
Restricted	1,119,550	127,420	3,484,897	56,071,995	62,577,192	43,359,822
Unrestricted	53,516,461	52,764,531	60,780,976	57,596,080	75,952,911	86,660,609
Total governmental activities net assets	<u>\$ 75,887,500</u>	<u>\$ 108,636,829</u>	<u>\$ 133,264,194</u>	<u>\$ 196,053,377</u>	<u>\$ 325,993,074</u>	<u>\$ 365,614,282</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	204,428,757
Restricted	-	-	-	-	-	-
Unrestricted	18,396,644	25,685,807	46,457,623	70,827,452	68,439,086	67,069,983
Total business-type activities net assets	<u>\$ 75,654,844</u>	<u>\$ 106,331,891</u>	<u>\$ 134,105,005</u>	<u>\$ 169,050,221</u>	<u>\$ 196,397,450</u>	<u>\$ 271,498,740</u>

* Only last six fiscal years available for this schedule.

City of Surprise
Changes in Net Assets
Last Six* 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>2006/07</u>
<u>Expenses</u>						
Governmental Activities:						
General government	\$ 6,151,129	\$ 7,261,998	\$10,048,590	\$ 9,183,596	\$ 11,940,344	\$ 16,453,191
Public safety	10,638,974	12,421,571	16,091,306	18,142,250	22,468,552	27,987,949
Public works & streets (incl. SLIDS)	6,663,461	6,443,612	8,725,321	9,754,900	69,404,991	20,868,755
Community Development	2,271,931	2,765,942	3,494,720	3,565,707	4,230,145	5,244,991
Culture and Recreation	5,959,097	8,814,719	9,693,533	12,579,822	14,205,034	17,809,127
Interest	4,988,389	3,439,953	2,149,947	2,802,299	2,579,639	2,706,394
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>	<u>91,070,407</u>
Business-type Activities:						
Water	1,782,272	2,520,676	2,743,166	3,761,890	5,100,815	6,486,400
Sewer	5,659,805	5,299,290	431,316	7,348,509	9,261,758	10,765,370
Sanitation	1,171,441	1,286,846	5,310,460	2,064,479	2,705,418	3,542,024
Replenishment	104,292	269,688	1,641,006	461,179	637,096	628,514
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>	<u>21,422,308</u>
Total primary government expenses	<u>\$45,390,791</u>	<u>\$50,524,295</u>	<u>\$60,329,365</u>	<u>\$ 69,664,631</u>	<u>\$142,533,792</u>	<u>\$112,492,715</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	4,981,861
Public safety	762,521	809,559	741,975	1,181,405	1,998,261	1,719,969
Public works & streets (incl. SLIDS)	1,627,168	2,445,654	1,002,286	2,729,991	3,294,580	4,165,635
Community Development	10,022	6,501,088	10,698,217	13,613,078	8,715,983	5,527,926
Culture and Recreation	5,175,842	6,938,081	2,309,967	2,637,300	2,447,816	2,474,416
Operating grants and contributions	3,001,252	472,278	1,393,209	1,549,862	2,269,888	2,414,175
Capital grants and contributions	5,890,971	44,075,851	19,008,175	40,482,590	161,045,621	44,804,100
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>	<u>66,088,082</u>

Business-type activities:						
Charges for services:						
Water	4,190,250	2,402,258	3,087,993	3,878,556	7,091,232	7,737,813
Sewer	7,870,493	5,416,830	6,856,787	8,155,012	10,844,860	12,367,546
Sanitation	1,161,758	1,771,777	2,036,690	2,569,783	3,893,555	4,573,178
Replenishment	1,586,721	319,719	535,862	650,607	1,037,188	796,503
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	6,384,863	12,927,699	20,778,789	30,736,541	21,040,118	25,616,242
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>	<u>51,091,282</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>	<u>117,179,364</u>
Net revenue/expense:						
Governmental activities	(15,480,084)	20,228,379	(9,972,717)	11,104,398	59,913,779	(24,982,325)
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>	<u>29,668,974</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>	<u>4,686,649</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	6,728,647
Sales taxes	21,892,601	18,649,326	24,087,555	37,433,674	48,617,437	45,707,048
Franchise taxes	1,260,845	1,469,246	1,844,692	2,283,688	2,990,582	3,602,776
Grants and contributions not restricted to specific programs	3,397,899	5,919,754	5,605,862	6,084,821	7,437,667	19,247,219
Unrestricted investment earnings	2,102,205	(151,038)	718,264	2,480,100	4,253,352	7,218,793
Other	1,379,420	1,137,581	617,820	704,004	815,436	1,824,746
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>	<u>(36,469,155)</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>	<u>47,860,074</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	4,053,513
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>	<u>36,469,155</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>	<u>40,522,668</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>	<u>88,382,742</u>
<u>Change in Net Assets</u>						
Governmental activities	14,639,463	32,739,518	21,887,659	62,789,183	129,939,697	22,877,749
Business-type activities	15,393,059	30,677,047	27,773,113	34,945,216	27,347,229	70,191,642
Prior Period Adjustments						21,653,107
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>	<u>\$114,722,498</u>

* Only last six fiscal years available for this schedule.

City of Surprise
Governmental Activities Tax Revenues by Source
Last Six* Fiscal Years
(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	\$2,576,629	\$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
2006/07	6,728,647	45,707,048	3,602,776	\$56,038,471

* Only last six fiscal years available for this schedule.

City of Surprise
Fund Balances of Governmental Funds
Last Six* 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>	<u>2006/07</u>
General Fund						
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,692,310	25,055,910	38,526,585	56,760,611	74,818,915	90,530,653
Total general fund	<u>\$16,692,310</u>	<u>\$25,055,910</u>	<u>\$38,526,585</u>	<u>\$ 56,760,611</u>	<u>\$ 74,818,915</u>	<u>\$ 90,530,653</u>
All other governmental funds						
Reserved	\$ 3,469,287	\$ 2,289,308	\$ 5,643,105	\$ 2,289,308	\$ 2,289,309	\$ 2,289,308
Unreserved, reported in:						
Special revenue funds	36,546,845	27,757,570	30,678,909	55,938,643	62,118,371	36,752,608
Debt service funds	189,929	127,420	131,100	133,352	458,821	651,086
Total all other governmental funds	<u>\$56,898,371</u>	<u>\$55,230,208</u>	<u>\$74,979,699</u>	<u>\$ 115,121,914</u>	<u>\$ 139,685,416</u>	<u>\$ 130,223,655</u>

* Only six 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 Six* 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>	<u>2006/07</u>
Revenues						
Taxes	\$ 21,733,191	\$25,270,676	\$27,126,908	\$41,459,268	\$53,696,072	\$ 52,439,926
Licenses and permits	4,518,042	30,212,048	1,844,692	2,283,688	2,990,582	3,602,764
Intergovernmental	6,065,448	6,180,140	9,962,621	9,654,739	12,012,572	29,416,541
Charges for services	6,925,318	9,567,747	14,716,657	17,597,356	13,543,581	11,232,480
Grants	-	119,309	468,774	1,232,108	1,938,848	1,707,016
Fines	681,061	778,307	689,721	1,076,701	1,515,169	1,222,791
Rents	5,630,923	5,431,504	5,524,818	5,520,616	5,274,430	5,224,704
Development fees	4,551,017	8,369,809	15,421,946	24,690,132	16,021,064	10,565,562
Interest	2,127,574	(111,290)	715,156	2,468,787	4,215,995	7,138,672
Other	1,569,922	2,686,313	2,352,780	1,876,431	2,137,960	3,501,040
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>	<u>126,051,496</u>
Expenditures						
General government	7,509,924	7,116,791	9,051,514	8,944,454	11,764,388	15,612,055
Public safety	10,187,801	12,032,201	14,652,086	17,057,307	21,076,990	26,203,451
Public works and streets (incl. SLIDS)	5,309,349	5,333,461	6,506,475	7,527,300	9,294,252	12,655,253
Community development	2,255,604	2,726,882	3,241,710	3,501,454	4,176,022	4,906,263
Culture and recreation	4,639,572	8,577,218	7,328,847	10,644,800	12,137,290	15,537,728
Capital outlay	44,160,723	30,839,511	12,703,354	13,404,250	24,756,609	77,435,948
Debt Service						
Principal	2,027,278	2,613,138	2,673,823	3,645,047	2,941,531	3,683,399
Interest	3,422,375	3,483,891	2,168,792	3,014,562	2,635,689	2,519,077
Other charges	-	-	647,024	-	-	1,747,390
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>	<u>160,300,564</u>
Excess of revenues over (under) expenses	(25,710,130)	15,781,470	19,850,448	40,120,652	24,563,502	(34,249,068)
Other financing sources (uses)						
Transfers in (out)	(2,490,052)	(17,459,444)	(50,000)	21,563	-	(36,469,155)
From Bonding	-	-	45,660,720	-	-	52,133,243
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>	<u>15,664,088</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>	<u>\$ (18,584,980)</u>
 Debt service as a percentage of noncapital expenditures	 18.2%	 17.0%	 11.9%	 14.0%	 9.5%	 8.3%

* Only six 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 Six Fiscal Years¹
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
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
2006/07	6,728,647	45,707,048	3,602,776	56,038,471

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

City of Surprise
Major Sources of Municipal Transaction Privilege Tax*
Last 3 Fiscal Years

<u>Description of Payors Business**</u>	<u>Fiscal Year</u>		
	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
Construction	19,944,596	26,920,187	22,273,119
Retail Trade	7,614,991	9,898,903	10,818,523
Communications and utilities	2,319,957	3,043,575	3,817,854
Restaurant and Bar	2,329,386	3,079,599	3,399,278
Real estate, rental and leasing	2,863,422	3,427,657	3,392,492
Other	2,747,576	3,213,600	2,873,787
	<u>37,819,927</u>	<u>49,583,522</u>	<u>46,575,052</u>

*As reported to the City by the Arizona Department of Revenue on the cash basis.. Only last three years available.

** Based on self reported SIC codes by individual taxpayers.

Note: State and local laws prohibit the disclosure of individual taxpayer information.

City of Surprise
Assessed and Estimated Actual Value of Taxable Property
Last Six 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	0.9101	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%
2006/07	539,743,346	256,601,719	51,815,780	744,529,285	0.9101	6,750,201,089	11.03%

¹Limited all schedules to six 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 Six Calendar Years¹**

Year	City of Surprise			Overlapping Rates								Total Direct & Overlapping Rates
	Operating Millage	Debt Service Millage	Total City Millage	Maricopa County			Dysart School District					
				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
2007	0.7229	0.1872	0.9101	1.1046	0.0000	0.0391	1.1437	4.4326	1.6402	6.0728	1.3281	9.4547

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

²Source: Maricopa County Assessor's Office

**City of Surprise
Principal Taxpayers¹
June 30, 2007**

Taxpayer	Type of Property	2005/06 ²		1995/96		As % of City's Total Assessed Valuation	As % of City's Total Assessed Valuation
		Taxable Assessed Valuation	Rank	Taxable Assessed Valuation	Rank		
Arizona Public Service Company	Gas & Electric Utility	\$ 15,085,898	1	2.52%	\$ 3,232,319	1	7.16%
Southwest Gas Corporation	Gas & Electric Utility	4,439,791	2	0.74%	321,004	14	0.71%
Cox Com Inc.	Commercial	3,858,373	3	0.64%			
Wal Mart Stores	Shopping Center	3,560,573	4	0.59%			
Surprise Center Development, L.L.C.	Vacant Land	3,398,151	5	0.57%			
Surprise Towne Center	Shopping Center	3,337,137	6	0.56%			
Sun City Grand	Health & Fitness Club	2,860,749	7	0.48%	800,757	5	1.77%
Arizona American Water	Water Utility	2,855,105	8	0.48%			
Qwest U.S. West Communications, Inc.	Telecommunications	2,734,603	9	0.46%	1,481,870	2	3.28%
Surprise Marketplace Holdings	Shopping Center	2,521,735	10	0.42%			
Target Corp.	Department Store	2,132,926	11	0.36%			
Cox Arizona Telecom, L.L.C.	Telecommunications	2,112,782	12	0.35%			
Lowe's HI W Inc.	Warehouse	1,939,950	13	0.32%			
Crossroads Town Center Investors, L.L.C.	Shopping Center	1,933,243	14	0.32%			
Safeway, Inc.	Shopping Center	1,929,416	15	0.32%			
Marley Park	Vacant Land	1,877,392	16	0.53%			
Smiths Food & Drug Centers Inc.	Shopping Center	1,733,741	17	0.49%			
Richmond American Homes	Vacant Land	1,717,842	18	0.49%			
Austin Ranch, L.L.C.	Vacant Land	1,650,366	19	0.47%			
Continental Surprise, L.L.C.	Shopping Center	1,649,950	20	0.47%			
Surprise Village Co. L.L.C.	Vacant Land				888,819	3	1.97%
Happy Trails Acquisition Limited Partners	Club & Lodge Halls				829,963	4	1.84%
Windmill Inn	Hotel				731,996	6	1.62%
United Properties Investment Company					613,008	7	1.36%
Coastal American Corporation					579,854	8	1.28%
Paseo Village Ltd. Partnership					524,787	9	1.16%
Partnership Q.					468,000	10	1.04%
Bell Plaza Lakes Management					456,958	11	1.01%
Coyote Lakes Joint Venture					432,688	12	0.96%
Sun Village Homeowners Assoc.					357,020	13	0.79%
Sage Development Corporation					288,826	15	0.64%
Agua Fria Water Co.					283,928	16	0.63%
Village at Surprise					283,278	17	0.63%
Burlington Northern/Santa Fe Railway Co.					261,770	18	0.58%
		<u>63,329,723</u>		<u>11.58%</u>	<u>12,836,845</u>		<u>28.43%</u>

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

²Most recent data available.

*Comparison of sales tax payers is not possible as identities and financial information provided is confidential according to State law and City Code.

**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	121,954	4,079,172	100.4
2006/07	5,030,600	4,830,192	96.0	67,607	4,897,799	97.4

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

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

Fiscal Year	Governmental Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special (CFD) Assessment Bonds	Municipal Property Corp. Bonds			
2001/02	\$ 5,470,796	\$ -	\$ 57,845,000	\$ 63,315,796	N/A	1,649
2002/03	4,922,738	-	55,995,000	60,917,738	2.4%	1,174
2003/04	4,353,867	-	56,785,000	61,138,867	N/A	1,178
2004/05	3,763,842	-	53,800,000	57,563,842	N/A	896
2005/06	3,157,311	-	51,465,000	54,622,311	1.26%	619
2006/07	1,883,912	1,365,000	99,730,000	102,978,912	N/A	1,068

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 94 for personal income and population data.

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

N/A - Not available

City of Surprise
Ratios of General Bonded Debt Outstanding
Last Six³ 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
2006/07	1,883,912	511,309	1,372,603	0.02%	14

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 84 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 94.

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

City of Surprise
Direct and Overlapping Governmental Activities Debt
As of June 30, 2007

<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	\$ 77,665,000	1.65%	\$ 1,281,473
Maricopa County Community College	392,680,000	1.65%	6,479,220
Dysart Unified School District No. 89	74,005,000	59.52%	44,045,600
Subtotal, overlapping debt			<u>\$ 51,806,293</u>
City of Surprise, Arizona direct debt			<u>1,883,912</u>
Total direct and overlapping debt			<u><u>\$ 53,690,205</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 Six* Fiscal Years

	<u>Unrestricted</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>	<u>2006/07</u>
Debt limit 6%	\$ 13,779,754	\$ 16,811,454	\$ 21,121,049	\$ 28,849,802	\$ 35,912,240	\$ 44,671,757
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>	<u>\$ 44,671,757</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Unrestricted Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$ 796,345,065
Less: exempt real property	<u>51,815,780</u>
Total net assessed value	\$ 744,529,285
Debt limit (6% of total assessed value)	44,671,757
Debt applicable to limit:	
General obligation bonds	-
Total net debt applicable to limit	<u>-</u>
Legal debt margin	<u>\$ 44,671,757</u>

	<u>Restricted</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>	<u>2006/07</u>
Debt limit 20%	\$ 45,932,514	\$ 56,038,180	\$ 70,403,497	\$ 96,166,008	\$ 119,707,465	\$ 148,905,857
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>	<u>1,372,603</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>	<u>\$ 147,533,254</u>
Total net debt applicable to the limit as a percentage of debt limit	11.50%	8.56%	6.00%	3.78%	2.25%	0.92%

Restricted Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$ 796,345,065
Less: exempt real property	<u>51,815,780</u>
Total assessed value	\$ 744,529,285
Debt limit (20% of total assessed value)	148,905,857
Debt applicable to limit:	
General obligation bonds	1,883,912
Less: Amount set aside for repayment of general obligation debt	<u>511,309</u>
Total net debt applicable to limit	<u>1,372,603</u>
Legal debt margin	<u>\$ 147,533,254</u>

Note: Under state finance law, the City of Surprise's outstanding general obligation debt should not exceed a combined 26% of total assessed property value.

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

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

Year	Population^{1,2}	Personal Income³	Median Household Income^{1,2}	Median Age^{1,2}	Education Level in Years of Formal Schooling²	Unemployment Rate²
1995 *	10,737	\$ 112,666,068	\$ 26,443	41.7	N/A	N/A
2000 *	30,848	540,525,511	44,156	46.1	13.5	3.3%
2001	38,400	N/A	N/A	N/A	N/A	4.2%
2002	45,125	N/A	N/A	N/A	N/A	5.7%
2003	51,885	1,008,545,571	48,984	45.3	N/A	5.3%
2004	64,210	N/A	N/A	N/A	N/A	4.4%
2005 *	88,265	1,889,921,774	53,958	35.4	N/A	4.1%
2006	96,425	N/A	N/A	N/A	N/A	4.5%

Data Sources:

* U.S. Census Bureau

¹ Maricopa County and City of Surprise

² U.S. Department of Labor Bureau of Labor Statistics for Phoenix, Mesa, Scottsdale areas, and Arizona Dept. of Commerce

³ Calculation based on average household size 2.52 people, source: Sperlings Best Places

**City of Surprise
Principal Employers¹
As of December 31**

Employer	2006²		2005³		2004³		2003³		2002³	
	Employees	Rank								
Del Webb Hospital, Surrounding Clinics, Services					1531	1	1399	1	1108	1
Dysart School District (Surprise Schools Only)	1,040	1	450	4	557	2	413	4	219	6
City of Surprise*	830	2	660	1	501	4	449	3	389	3
Wal-Mart	685	3	600	2	550	3	550	2	740	2
Del Webb/Pulte	500	4	555	3	370	5	350	5	350	4
Surprise Charter Schools (3)	335	5	280	5	181	6				
Home Depot	230	6	115	12	160	10	160	9	160	9
Sun City Grand Community Association	230	7	210	7						
Fry's Food Store	165	8			175	7	165	8	165	8
Albertson's Food Store	150	9	215	6	175	8	175	6	250	5
Waste Management - Arizona			200	8						
Smith Food and Drugs			145	9						
Dillon's Restaurant/Catering					165	9	165	7		
Maricopa County Facilities					154	11	154	10		
Red Lobster					150	12	150	13		
Macayo's Mexican Restaurant					150	13				
APS	140	10	130	11	150	14	150	11	175	7
Target	140	11	135	10	115	18	100	17	110	12
Sunstate Components - Truss Mfg.	130	12	105	13	85	23	85	18		
Olive Garden					140	15	140	14		
Lowe's	115	13			140	16	115	15	115	11
Kohl's Department Store					120	17	150	12		
Best Buy					105	19				
Surprise Post Office					100	20	85	19		
Foxworth-Galbraith - Truss Mfg.					100	21	100	16	100	13
Volvo Proving Grounds					85	22	85	20		
Cobblestone Auto Spa & Market					75	24				
Red Eagle/El Porvenir Tortilla Factory					70	25	70	21		
Concrete Reinforcement Inc.					60	26	54	22		
Janus International - Steel Door Mfg.					49	27	45	23		
Arizona Republic Distribution Center					41	28	41	24		
Safeway Food Store									130	10

¹Presented for years information was available.

²Estrella Mountain Community College Office of Planning and Institutional Effectiveness and phone surveys

³City of Surprise Economic Development Division

*Average FTEs

City of Surprise
Full-time Equivalent City Government Employees by Function
Last Six* 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>	<u>2006-07</u>
General government	60	68	65	80	97	124
Public Safety:						
Police:						
Officers	73	80	84	97	117	128
Civilians	11	12	13	13	14	15
Fire:						
Firefighters and officers	68	77	91	94	106	129
Civilians	2	3	3	4	6	9
Public works and streets:						
All others	50	52	55	63	78	89
Community development	31	33	37	43	49	51
Culture and recreation	32	76	85	94	103	112
Water	4	5	6	7	10	8
Sanitation	7	8	11	16	23	29
Sewer	11	14	17	20	26	30
Replenishment	1	1	1	1	1	3
Total	350	429	468	532	630	727

*Data limited to six years due to data availability.

**City of Surprise
Operating Indicators by Function
Last Six Fiscal 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>	<u>2006/07</u>
Public Safety:						
Police:						
Calls- incidents responded to	41,600	52,700	58,800	60,450	69,000	84,863
Citations issued	N/A	N/A	9,119	11,080	12,117	8,347
Officers per 1000 residents	1.2	1.3	1.2	1.1	1.1	1.2
Fire:						
Number of responses	4,179	5,086	6,628	7,416	8,668	9120
Inspections	1,413	1,796	852	1,023	1,055	2164
Public works and streets:						
Sq. ft. Of buildings to maintain	213,034	287,034	320,700	340,700	375,000	378,900
Vehicles/equipment maintained per month	N/A	27	200	229	244	394
Number of street lights repaired	N/A	20	50	135	150	148
Street miles maintained	N/A	418	525	550	592	592
Community development:						
Building Safety Inspections Performed	N/A	53,821	76,843	61,215	37,607	38,000
Culture and recreation:						
Organized recreation program participants	14,798	29,430	34,700	41,700	29,000	27,760
Special events/open facility participants	45,558	116,109	146,200	150,300	144,000	157,800
Sewer:						
Average daily sewage treatment (million gallons per day)	2.8	3.1	4.5	5.9	7.0	7.0
Sanitation:						
Refuse collected (tons/annually)	14,487	17,241	18,470	21,200	28,100	30,700
Number of routes	6	7	8	11	31	31
Total services	11,513	13,390	15,341	21,800	28,625	30,800

Sources: Various government departments

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

N/A - Not available.

**Capital Asset Statistics by Function
Last Six* Years**

Function	Fiscal Year					
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
Public Safety:						
Police:						
Stations	1	1	2	2	2	2
Patrol Units	40	40	46	55	75	66
Fire Stations	3	4	4	4	4	4
Fire Engines and Ladder Trucks	4	4	4	6	7	7
Public works and streets:						
Street miles	450	540	630	586	593	593
Street Lighting Improvement Districts	23	37	43	57	69	71
Traffic Signals	10	13	16	20	23	27
Bridges	1	1	1	1	1	1
Community development:						
Inspection vehicles	14	16	16	27	29	23
Annual New Residential Starts	3435	3263	5304	7704	6866	1759
Culture and recreation:						
Parks acreage	15	277	277	278	284	284
Parks	4	5	5	6	7	9
Swimming pools	1	1	2	2	2	2
Softball fields	2	2	2	2	2	3
Baseball fields	0	15	15	15	15	17
Libraries	1	2	2	2	2	2
Water:						
Water Service Connections	5,116	5,939	7,593	11,047	13,249	13,985
Well Production Maximum daily capacity (millions of gallons)	3.3 mgd	3.3 mgd	5.8 mgd	5.8 mgd	20.2 mgd	22.mgd
Sewer:						
Sewer Treatment Plants - City owned	2	2	1	1	1	1
Sewer Treatment Plants - City managed						1
Sewer Service Connections	N/A	17,293	26,991	35,001	40,072	42,284
City owned						
Maximum daily treatment capacity	3.2 mgd	3.3 mgd	7.2 mgd	7.2 mgd	7.5 mgd	8.3 mgd
City managed						
Maximum daily treatment capacity						0.4 mgd
Sanitation:						
Collection trucks	8	9	11	17	22	22

Sources: Various government departments

* Only six years presented to conform to other schedules.



SURPRISE
ARIZONA