



Comprehensive Annual Financial Report
City of Surprise, Arizona
Fiscal Year Ended June 30, 2008

Defining vibrant Southwest living



CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2008

Prepared by:
Finance Department



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Page

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor’s Opinion.....	1 – 2
Management Discussion and Analysis.....	3 – 17

Basic Financial Statements:

Government-wide Financial Statements:	
Statement of Net Assets.....	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	20 – 21
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23 – 24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Statement of Net Assets – Proprietary Funds.....	26 – 27
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	28 – 29
Combining Statement of Cash Flows – Proprietary Funds	30 – 31
Statement of Fiduciary Net Assets – Pension Trust Fund.....	32
Statement of Changes in Fiduciary Net Assets – Pension Trust Fund	33

Notes to Financial Statements:

1. Summary of Significant Accounting Policies.....	34 – 39
2. Compliance and Accountability	39
3. Cash and Cash Equivalents.....	39 – 42
4. Capital Assets	43 – 44
5. Long-Term Debt.....	45 – 46
6. Construction Commitments.....	47
7. Municipal Property Corporation Fund Construction Commitment Liability	47
8. Retirement Plans.....	47 – 50
9. Risk Management.....	50
10. Contingent Liabilities	50
11. Interfund Assets, Liabilities, and Transfers.....	51
12. Deficit Fund Net Assets.....	52 – 53
13. Prior Period Adjustments	54 – 58
14. Subsequent Events	58

TABLE OF CONTENTS

	<u>Page</u>
Required Supplementary Information:	
Required Supplemental Information – APSPRS: Schedule of Employer Contributions, Schedule of Funding Progress, and Six Year Trend Information	59
Required Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	60
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund by Department	61 – 62
Changes in Fund Balances – Budget and Actual –Major Special Revenue Funds	63 – 68
Combining Balance Sheet – Nonmajor Governmental Funds.....	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	70
Combining Balance Sheet – Nonmajor Special Revenue Funds.....	71 – 72
Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	73 – 74
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service and Special Revenue Funds	75 – 81

STATISTICAL SECTION

Net assets by Component	82
Changes in Net Assets	83-84
Governmental Activities Tax Revenues by Source	85
Fund Balances of Governmental Funds.....	86
Changes in Fund Balances of Governmental Funds.....	87
Major Sources of Municipal Transaction Privilege Tax	88
Assessed Value and Estimated Actual Value of Taxable Property	89
Property Tax Rates- Direct and Overlapping Governments	90
Principal Property Taxpayers	91
Property Tax Levies and Collections.....	92
Ratios of Outstanding Debt by Type	93
Ratios of General Bonded Debt Outstanding	94
Direct and Overlapping Governmental Activities Debt	95
Legal Debt Margin Information	96
Demographic and Economic Statistic.....	97
Principal Employers	98
Full-time Equivalent City Government Employees by Function	99
Operating Indicators by Function	100
Capital Asset Statistics by Function	101



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.

	Page
Letter of Transmittal	iii – viii
Certificate of Achievement for Excellence in Financial Reporting	ix
Organizational Chart	x
List of Elected and Appointed Officials	xi – xvi



October 27, 2008

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. We hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Surprise for the fiscal year ended June 30, 2008 pursuant to that requirement.

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.

City of Surprise management has established a comprehensive internal control framework that is designed 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. To provide a reasonable basis for making these representations, 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 because the cost of internal controls should not outweigh the benefits. As management, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Eide Bailly, 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, 2008, 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, 2008, 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 45 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 105,000 people in 2008. 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 309 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. The City's Tennis and Racquet Facility hosted the Cancer Treatment Center of America Championships tournament. 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 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, between departments and to and from projects.

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 environment within which the City of Surprise operates.

Local economy. Construction is the City's primary source of revenue. By Surprise's standards, we are in a time of limited growth. For the fiscal year 2008, approximately 863 homes were permitted; by contrast 2007, 1,788 homes and 3,805 home permits were issued in fiscal year 2006. This trend is expected to continue in fiscal year 2009, where we are expecting to issue 700 home permits. Still, as a city on the fringe of a well-developed metropolitan area, our population increase 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 continued to follow the rooftops. This business development 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 in the MD&A , pages 6 through 13, and the statistical section that begins on page 80, of this financial statement.

Long-term financial planning. During the coming years, we are faced with the challenge of accommodating growth while ensuring that the City develops as a place in which people want to live,

work and play. While much slower than in prior years, increases in population, tax base, commercial and retail activity and the City's economic development efforts continue to provide sufficient revenue to offset the costs related to providing services and maintaining 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.

At least \$26.5 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 of expenditures) are only available to fund capital or other one-time projects.



- Public Safety/Municipal Court Facility located at 14250 W. Statler Plaza -

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's new City Hall was about half way completed and will be neighbored by the recently completed Public Safety/Municipal Court Facility and the Surprise Tennis and Racquet Complex. The City Hall is on track to be completed in the summer of 2009.

Based on the current state of the economy the City is contemplating a general obligation bond election to finance future expansions of streets, parks, other public facilities and economic development.



-New City Hall located at 15984 N. Civic Center Plaza

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, 2008 were between 3.81% to 5.07%. Yield on investments 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. As of August 14, 2008, all of the City's funds are invested in U.S. government backed securities.

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 established an in house risk management program in 2001. This program ensures that risk is minimized and 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. The program is responsible for updating and maintaining policies and procedures related to insurance and other risk related exposures. For further information regarding risk management, please refer to Note nine (9) in the financial statements.

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

The City also must maintain a pension and relief fund for volunteer firefighters funded by the City as required under Title 9 of the Arizona Revised Statutes in the amount of \$97,102. 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 eight (8) in the financial statement.

Awards and Acknowledgements

The City of Surprise has received the Government Finance Officers Association's (GFOA's) Certificate of Achievement for Excellence in Financial Reporting for our CAFR every year since July 1, 2002. The document must be easily readable, efficiently organized and compliant with GAAP and applicable legal requirements in order to qualify for the award.

The City of Surprise has received the GFOA's Distinguished Budget Presentation Award for its annual budget document every year since July 1, 2001. 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,



Charles R. Oliver, CPA, PE
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, 2007

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.



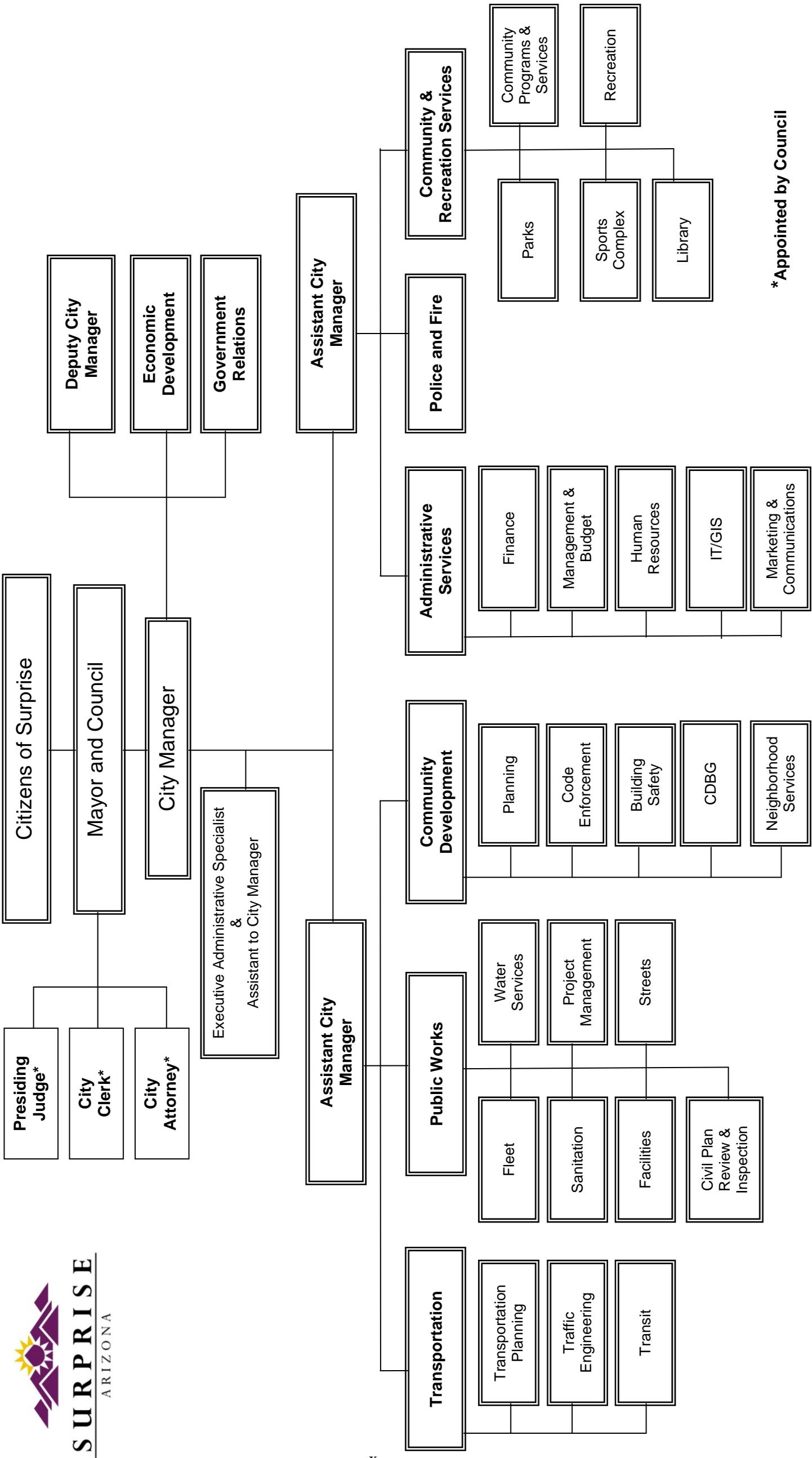
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

Organizational Chart FY 2008



*Appointed by Council





COUNCIL MEMBERS

MAYOR - LYN TRUITT – Mayor@surpriseaz.com



Mayor Truitt moved to Surprise in 1997. He has two children and three grandchildren. His daughter-in-law, Nicole, is a music teacher in the Dysart Unified School District.

Truitt has been a self-employed businessman for the past 30 years. As national training consultant for a contract delivery systems company, he trained entrepreneurs in small business ownership, management, and operations. He is currently owner/broker of L.E. Truitt & Associates Real Estate Consulting and a Certified International Property Specialist.

Truitt is a graduate of Leadership West, Class IX and his commitment to effective and ethical leadership is demonstrated through participation in neighborhood and community initiatives, support for quality education, a willingness to volunteer and dedication to our City and residents.

Participation in neighborhood and community initiatives includes leadership on the Coyote Lakes HOA and work on various community initiatives. He was presented the Arizona Golden Rule Award for volunteerism by Secretary of State Jan Brewer. Truitt is active with the Salvation Army Board, organizes an annual drive for St. Mary's Westside Food Bank, and serves on the Board of the West Valley Art Museum.

His support for quality education includes service on committees that worked to pass school bond issues, membership on the Dysart Tax Credit Committee, Chair of the Dysart Wall of Unity Committee and the Community Advisory Team Board.

Truitt's passion for our community is evidenced by successful campaigns to reduce the restaurant tax in Surprise, improve Bell Road, and preserve areas around Luke Auxiliary Field 1. He served as Chair of the Surprise Planning & Zoning Commission prior to his election as Mayor.

As Mayor, he desires to serve as a catalyst to inspire, educate, and promote opportunities for all Surprise residents to grow, prosper, and create the best community possible.

Truitt's term expires in December 2011. He is elected at-large.

VICE MAYOR ROY VILLANUEVA – Roy.Villanueva@surpriseaz.com



Roy Villanueva rejoins the Mayor and Council as the representative from the Mulberry District (4).

Villanueva brings a combined 25 years of experience as Surprise Mayor, Vice Mayor, and council member. During his many years of service, Villanueva has initiated many important improvements in the area of housing rehabilitation, economic development, utilities, police services, fire services, and federal grants.

While serving as chair of the Community Development Block Grant Committee, Villanueva was instrumental in targeting these important federal dollars to improve

housing, roads, streetlights, sidewalks, baseball fields, sewer systems, and other important neighborhood infrastructure around the city. He was also instrumental in developing important Surprise economic milestones such as the West Pointe Towne Center, and bringing major league baseball and Surprise stadium to the community.

He is excited and ready to introduce progressive programs and services to all residents of Surprise. His goals for his current term:

- Work with all council members to respectfully represent our city and the residents of District 4.
- Improve transportation.
- Continue to improve and promote businesses in the Original Townsite.
- Continue recreation programs for young people.
- Support public services such as the Fire and Police Departments.
- Explore more job opportunities for Surprise residents.

Villanueva has lived in Surprise for 32 years and has been married to Rachel for 39 years. His three grown children, all Dysart High School graduates, were raised in Surprise. He has one grandson.

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

Villanueva's term expires in December 2011.

RICHARD ALTON – Richard.Alton@surpriseaz.com



Richard Alton represents the Cottonwood District (2).

Alton is not new to city of Surprise committees and commissions. Since arriving in Surprise in 2003, he has served as a member of the Surprise Revitalization Committee, served on the ad hoc committee to analyze and recommend an auto mileage reimbursement method (Alton voted for the IRS standards), and most recently, he served as a Commissioner on the Surprise Planning and Zoning Commission.

His experience on these commissions has given him valuable insight into the complexities and importance of zoning decisions, planning strategies, and redeveloping needy areas. His professional experience in the banking industry gives him a unique understanding of the economic and business development aspects of proper planning, zoning, and revitalization.

Alton brings more than 35 years of banking experience to his post, which will be a valuable asset in the city's budgeting and planning processes. He will address Surprise's urgent transportation needs, and make an impact in economic development strategies and networking. He is committed to enhancing the communications between citizens and the Mayor and Council regarding Council agenda items.

He and his wife re-located to Surprise from the Seattle, Washington area. He has six children (all grown) and seven grandchildren.

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

Alton's term expires in December 2011.

SKIP HALL – Skip.Hall@surpriseaz.com



Skip Hall was elected in a March 2008 recall election to represent Palo Verde District(6).

A resident of Surprise since 2003, Hall served on the Surprise Planning and Zoning Commission for three years and currently serves on the Sun Village Board of Directors as Treasurer.

Hall's goals for the city include additional east-west road crossings over the Agua Fria River, working with other transportation partners to expand Grand Avenue, and attracting new businesses to Surprise.

He grew up in Idaho and received a business degree from Seattle University. Hall is a Vietnam War Veteran and was awarded the Bronze Star for his outstanding service 1969-1970. He worked in the restaurant and lodging business for decades, opening restaurants in California, Oregon, and Washington and earning a certification in Hotel Administration. He was involved in multi-unit management for two lodging chains and achieved the Best Practice Award from American Express and the National Lodging Institute. He has worked with Junior Achievement, Veterans of Foreign Wars and is currently working with the U.S. Department of Education on testing programs for Arizona students. He has also taught community college courses on the hospitality business and restaurant and hotel management.

Hall and his wife Dale have been married for more than 36 years and have two daughters, a son, and five grandchildren.

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

Hall'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 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.

JOHN WILLIAMS – John.Williams@surpriseaz.com



John Williams was elected to the City Council from District 3 (Mesquite) in November 2007.

As a teacher, parent, and husband, Williams brings a community perspective to his commitment to serve as a voice for all residents. He has been in Education and Sports Medicine since he and his wife Melissa bought their home in Surprise in 2000.

A graduate of Hofstra University in New York, Williams also holds a Masters in Health Science from Towson University in Maryland. His professional career began in Sports Medicine and transitioned into education when he and Melissa came to Surprise.

For the past 7 years, Williams has been working as a teacher, building the Career and Technical Education Sports Medicine program in the Peoria Unified School District. He has been selected by his peers to be the Program Lead for the past 2 years.

Williams and his wife have three children, Connor, Ashlyn, and Matthew. They are animal lovers and have opened their home to numerous animals in need including Blaze, the three-legged cocker spaniel whose life was extended for 8 years after they took him into their home in 1999.

"I want to give my kids, our kids, the opportunity to be part of the city that is defining vibrant southwest living. In 15 years, I hope my oldest, Connor, can attend the next great university right here in Surprise. I hope when he graduates he will have the option of building his own family here because we will have grown a sustainable economy that offers high quality jobs to our residents. These are my hopes and dreams. I believe working together, we can make them happen."

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

William's term expires in December 2011.

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.

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

Charles R. Oliver, CPA, PE

Sherry Aguilar

Michael Bailey

George Logan



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

	Page
Independent Auditor’s Opinion	1 – 2



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the **City of Surprise, Arizona** as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Surprise, Arizona** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Surprise, Arizona** at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the City applied various adjustments to restate the 2007 financial statements. We have audited the adjustments described in Note 13; such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2008 on our consideration of the **City of Surprise, Arizona's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

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

Eide Bailly LLP

Phoenix, Arizona
November 21, 2008



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	3-17

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, 2008. *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 10% from \$365.6 million to \$402.9 million, a difference of \$37.3 million.
 - The decreases in Current and other assets of \$40.2 million were offset by increases in Governmental Activity Capital assets of \$73.2 million. While liabilities actually decreased by \$4.2 million.
 - The \$33.8 million excess of revenues before transfers (\$142.3 million) over expenses (\$108.5 million) was due primarily to Grants and Contributions (\$45.3 million) and tax revenues (\$50.6 million).
 - Transfers in of \$4.1 million less the Prior period adjustments \$0.6 million further increased the change in net assets to \$37.3 million (see Note 13).
- ❖ **Business Type net assets** increased 8% from \$271.5 million to \$293.5 million, a difference of \$22.0 million.
 - Total assets increased \$14.4 million. Capital assets (net) increased \$31.5 million while current assets decreased \$17.1 million. In Capital assets, Construction in progress accounted for \$21.4 million of the increase. See Note 13 for the effect of prior period adjustments in the increase of business type capital assets.
 - Liabilities recorded a \$7.5 million decrease. Contracts payable decreased by \$6.4 million within the liabilities classification.
- ❖ **Governmental Activities Expenses** of \$108.5 million exceeded Program Revenues of \$65.5 million, a difference of \$43.0 million in Fiscal Year 2008.
 - Charges for Services (\$20.2 million) covered over 18% of expenses (\$108.5 million).
 - Grants and contributions (\$45.3 million) covered approximately 42% of Governmental Activities Expenses (\$108.5million).
 - We rely upon General revenues (e.g. taxes), to cover operating expenses.
 - General revenues were \$76.8 million.
- ❖ **Business Type Expenses** were \$23.7 million, while program revenues, including development fees, transfers, and prior period adjustments were \$52.6 million, negative \$4.1 million, and a negative \$2.8 million respectively, a difference of \$22.0 million.
 - The addition of Investment earnings \$2.4 million increases the change in net assets from \$50.2 million to \$52.6 million.
 - For the fifth consecutive year, Water Sewer and Sanitation activities reported increases in net assets.
- ❖ **Component units** – The City includes four types of separate legal entities in its report – the City of Surprise Voluntary Firefighters' Pension and Relief Fund, the Surprise Municipal Property Corporation, Marley Park Community Facilities District (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 18 and 19) 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 20. 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 18. 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 20 where the fund financial statements begin. These 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 32-33.

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, 2007 and June 30, 2008.

City of Surprise's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007*	2008*	2007*	2008	2007	2008
Current and other assets	\$ 163.4	\$ 123.2	\$ 85.6	\$ 68.5	\$ 249.0	\$ 191.7
Capital assets, net	340.8	414.0	208.0	239.5	548.8	653.5
Total assets	<u>504.2</u>	<u>537.2</u>	<u>293.6</u>	<u>308.0</u>	<u>797.8</u>	<u>845.2</u>
Liabilities:						
Liabilities - except general obligations	34.3	30.1	22.0	14.5	56.3	44.6
Bonds Payable: Due within one year	3.1	3.2	-	-	3.1	3.2
Due within more than one year	101.2	101.0	-	-	101.2	101.0
Total liabilities	<u>138.6</u>	<u>134.3</u>	<u>22.0</u>	<u>14.5</u>	<u>160.6</u>	<u>148.8</u>
Net assets:						
Invested in capital assets, net						
of related debt	235.6	309.9	204.4	238.4	440.0	548.3
Restricted	38.8	38.9	-	-	38.8	38.9
Unrestricted	91.2	54.1	67.1	55.1	158.3	109.2
Total net assets	<u>\$ 365.6</u>	<u>\$ 402.9</u>	<u>\$ 271.5</u>	<u>\$ 293.5</u>	<u>\$ 637.1</u>	<u>\$ 696.4</u>

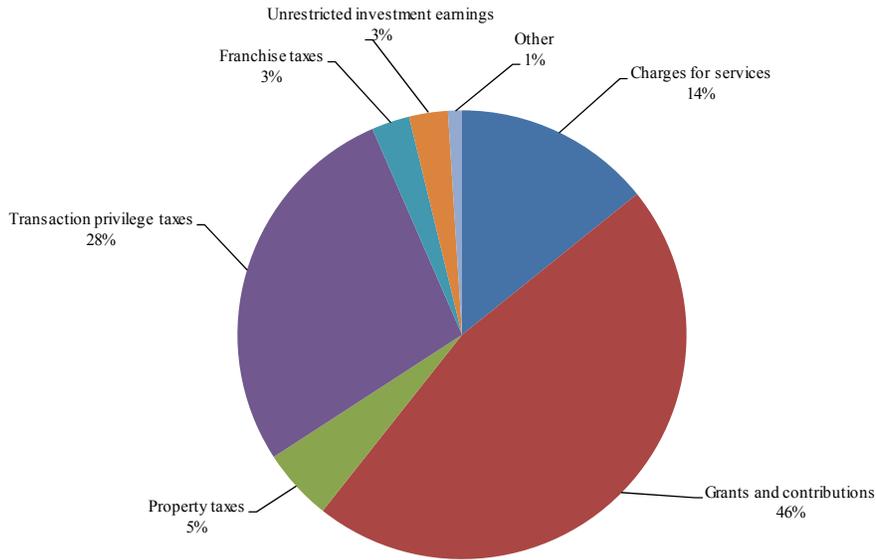
*Prior period adjustments see Note 13.

Our **combined net assets** increased by over 9.% from \$637.1 million to \$696.4 million, a difference of \$59.3 million.

- ❖ 77% of Total net assets (\$845.2 million) are invested in Capital assets, net of related debt (\$653.4 million).
- ❖ A more in-depth analysis of this table shows that current and other assets (\$191.7 million) exceed total liabilities (\$148.8 million) by \$42.9 million, suggesting that all debts of the City of Surprise could be satisfied without having to sell off capital assets.

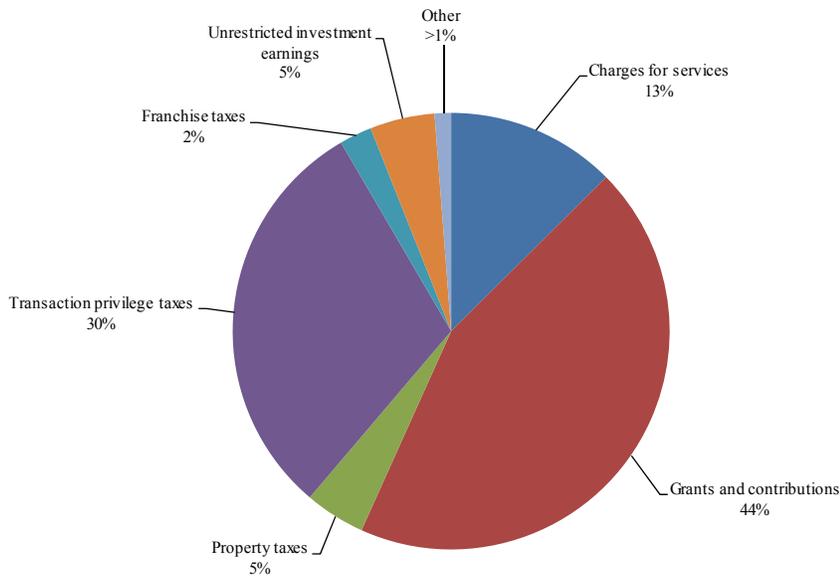
Governmental Activities Revenues for the fiscal year ended June 30, 2008 totaled \$142.3 million (excluding transfers in) and are identified by major revenue source in percentage format as follows:

Fiscal Year 2008 Governmental Activities Revenue Sources - \$142.3 Million



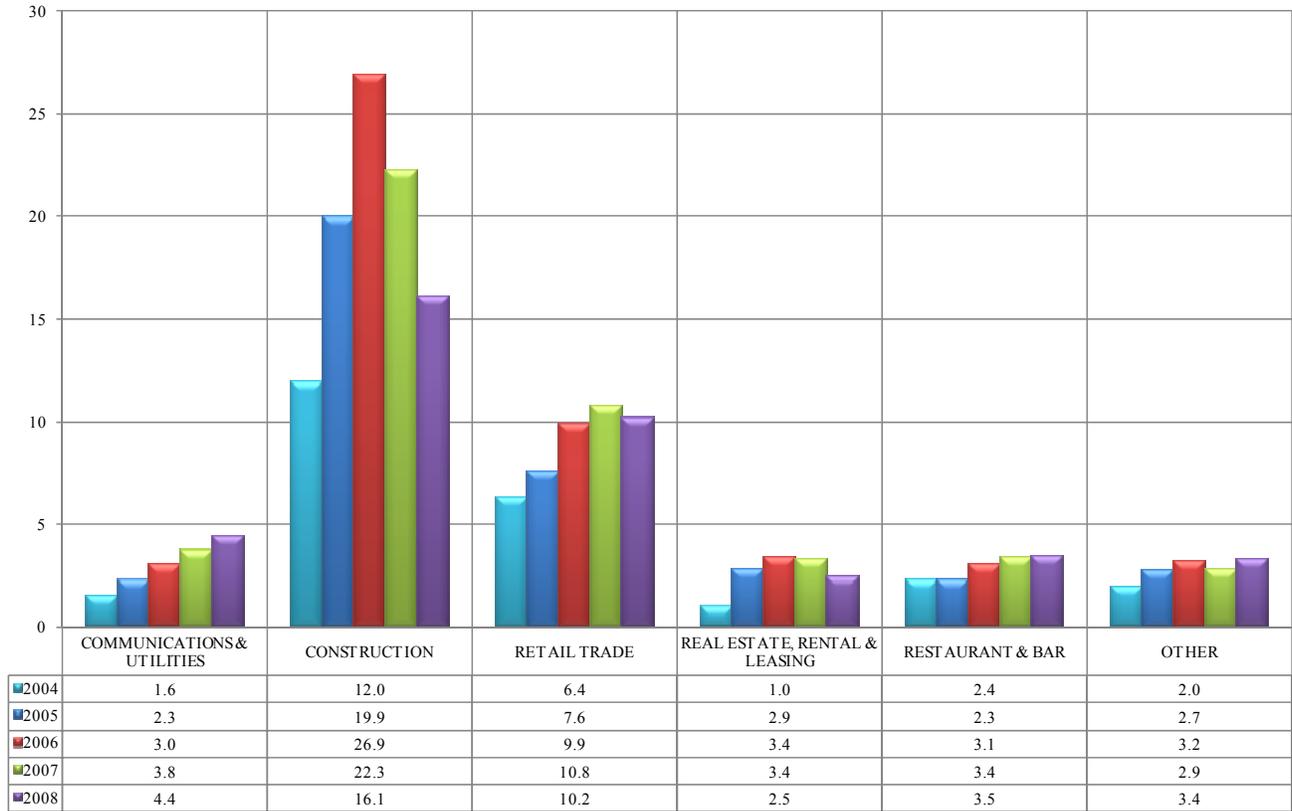
- ❖ The 2007 chart is provided for comparison purposes only.
 - Revenues for the fiscal year ended June 30, 2007 totaled \$150.4 million.

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

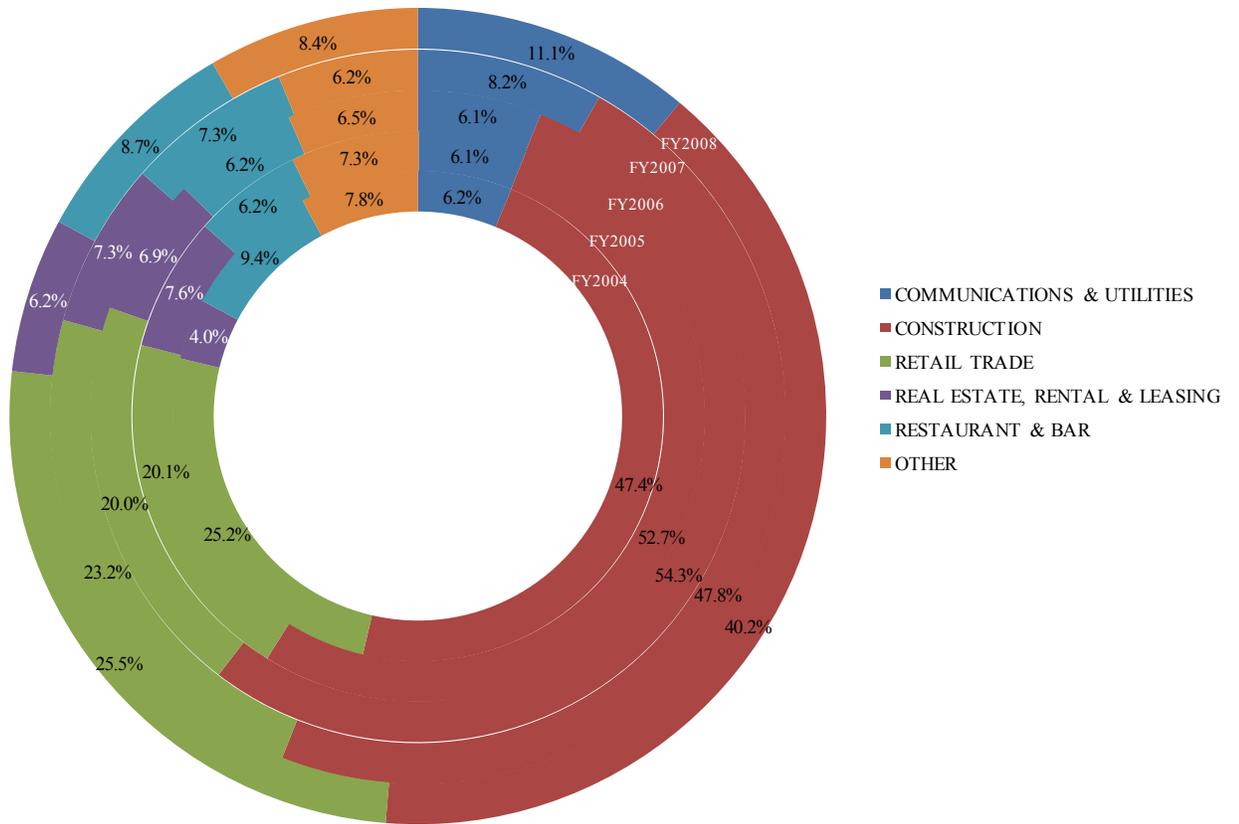


- ❖ Our largest revenue source continues to be Grants and contributions at 46% (which includes development impact fees) due to conveyance of developer built infrastructure.
- ❖ Last year, Grants and contributions accounted for 44% of total revenues.
- ❖ All other revenue sources remained consistent with past performance led by Transaction privilege taxes (sales taxes) at 28% of revenues and all other revenues combining for 26%.

***Transaction Privilege Tax Reported - by Major Business Type
in millions**



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

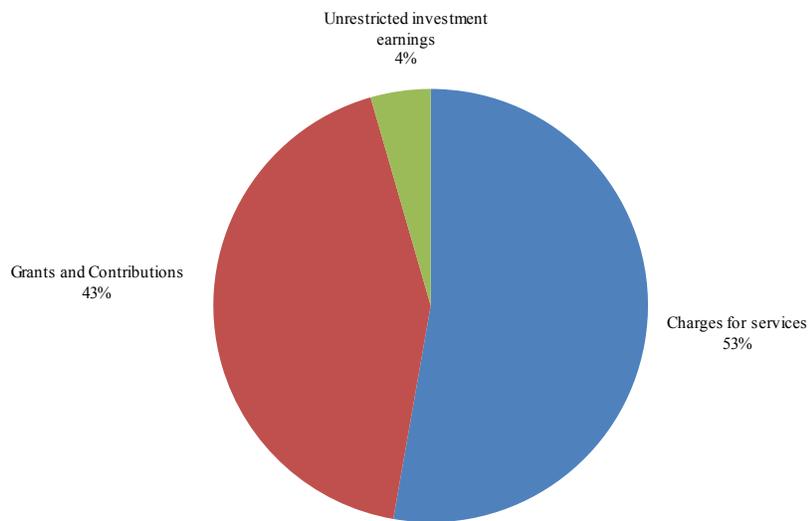


*Based on data contained in Major Sources of Municipal Transaction Privilege Tax, page 88.

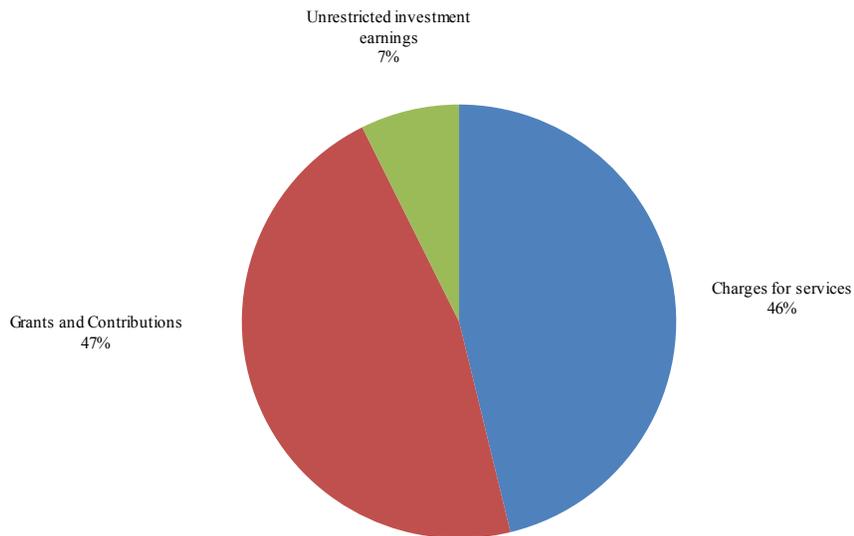
- ❖ The first graph on the previous page represents reported transaction privilege tax in dollars by each major category compared year to year from Fiscal Year 2005 to Fiscal Year 2008.
- ❖ The second graph shows that Construction transaction privilege tax accounts for about 40% of all transaction privilege tax collected in the City of Surprise followed by Retail taxes at about 25%.
- ❖ Combined, Construction and Retail Trade, subcategories represent over 65% of all transaction privilege tax revenue collected each year.
- ❖ Construction transaction privilege tax collections decreased in Fiscal Year 2008 due to the downturn in new home construction.

Business Type Revenues for the fiscal year ended June 30, 2008 totaled \$52.6 million (does not include prior period adjustments of \$2.8 million) and are identified by major revenue source in percentage format as follows:

Fiscal Year 2008 Revenue Sources Business Type - Total of \$52.6 Million



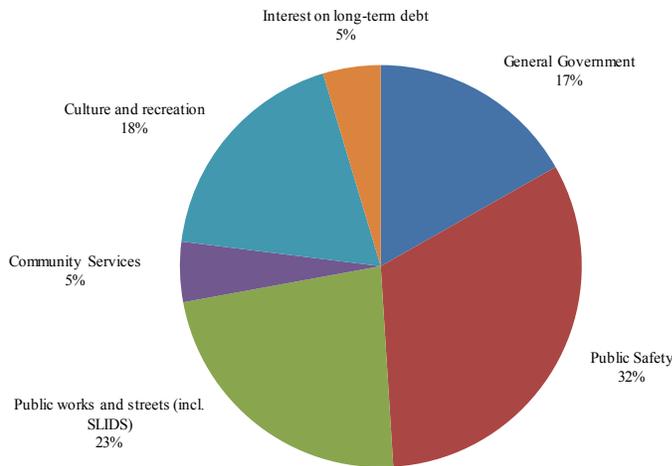
Fiscal Year 2007 Revenue Sources Business Type - Total of \$55.7 Million



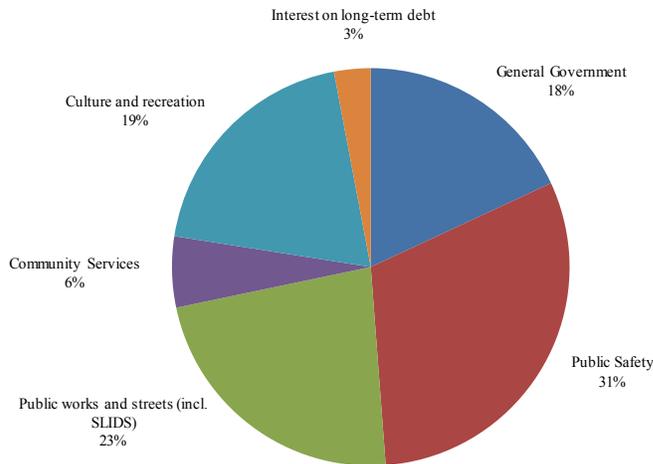
- ❖ The 2007 chart, on the previous page is provided for comparison purposes only.
 - Revenues for the Fiscal year ended June 30, 2007 totaled \$55.2 million.
- ❖ Total Business Type Revenues decreased \$2.6 million from Fiscal Year 2007 to Fiscal Year 2008 not including prior period adjustments of \$2.8 million (see Note 13). This decrease is related to a decrease in developer contributions (\$3.1 million), an increase in charges for services revenue (\$2.2 million) and a decrease in investment earnings (\$1.7 million).
- ❖ Charges for Services of \$27.7 million were \$2.2 million higher than last year and constitute 53% of all Business Type Revenue.
- ❖ By Business Type, revenues break down as follows: Water \$8.7 million; Sewer \$12.9 million; Sanitation \$5.3 million; Replenishment \$0.8 million.

Governmental Activities Expense (excluding transfers & capital outlays) for the fiscal year ended June 30, 2008 totaled \$108.5 million and are identified by function in percentage format as follows:

Fiscal Year 2008 Governmental Activities Functional Expenses - Total \$108.5 Million



Fiscal Year 2007 Governmental Activities Functional Expenses - Total \$91.1 Million

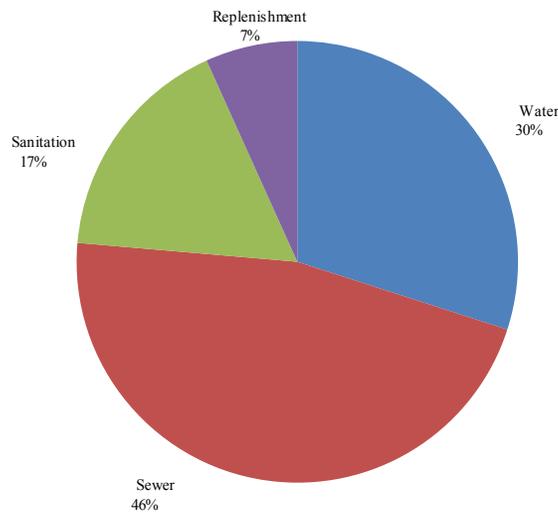


The 2007 chart on the previous page is provided for comparison purposes only.

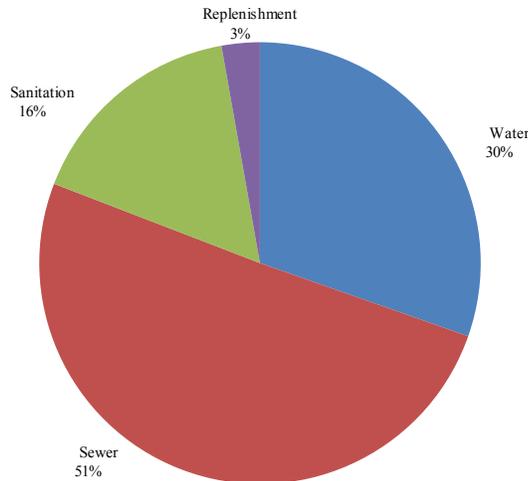
- ❖ Expenses (excluding transfers & capital outlays) were \$91.1 million in 2007.
- ❖ Public safety (Police, Fire, and Courts) was 32% of program expenditures (\$35.0 million in 2008 and \$28.0 million in 2007).
- ❖ Public works and streets was next and accounted for approximately 23% (\$25.1 million in 2008 and \$20.9 million in 2007)
- ❖ Culture and recreation was third with 18% (\$20.0 million in 2008 and \$17.8 million in 2007).
- ❖ General government was fourth with 17% (\$18.2 million in 2008 and \$16.4 million in 2007).
- ❖ All others make up 10% (\$10.2 million in 2008 and \$7.9 million in 2007).

Business Type Expense (excluding transfers and capital outlays) for the fiscal year ended June 30, 2008 totaled \$23.7 million and are identified by function and fund in percentage format as follows:

Fiscal Year 2008 Functional Expenses - Business Type - Total \$23.7 Million



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



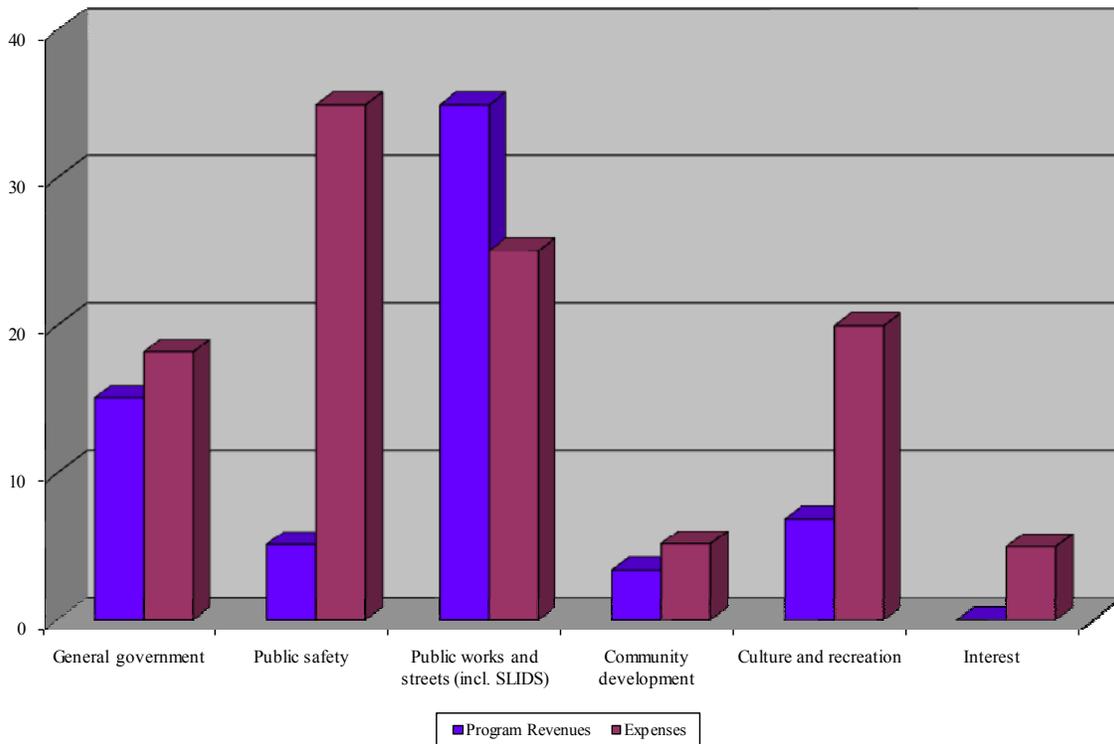
The 2007 chart, on the previous page is provided for comparison purposes only.

- ❖ Expenses (excluding Transfers) were \$21.4 million in 2007.
- ❖ The 2008 \$23.7 million was related to Cost of sales and services an increase of \$2.3 million over the previous year.
- ❖ Of the \$23.7 million, \$4.0 million was related to Depreciation, an increase of \$0.5 million over the previous year.
- ❖ By Business Type, expenses break down as follows: Water \$7.1 million; Sewer \$11.0 million; Sanitation \$4.0 million; Replenishment \$1.6 million.

City of Surprises Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
REVENUES						
Program Revenues:						
Charges for service	\$ 18.9	\$ 20.2	\$ 25.5	\$ 27.7	\$ 44.4	\$ 47.9
Grants and contributions	47.2	45.3	25.6	22.5	72.8	67.8
General revenues:						
Property taxes	6.7	7.4	-	-	6.7	7.4
Transaction privilege taxes	45.7	39.3	-	-	45.7	39.3
Franchise taxes	3.6	3.9	-	-	3.6	3.9
Grants and contributions unrestricted	19.3	20.8	-	-	19.3	20.8
Unrestricted investment earnings	7.2	4.0	4.1	2.4	11.3	6.4
Other	1.8	1.4	-	-	1.8	1.4
Total revenues	<u>150.4</u>	<u>142.3</u>	<u>55.2</u>	<u>52.6</u>	<u>205.6</u>	<u>194.9</u>
EXPENSES						
Program activities:						
Governmental activities:						
General government	16.4	18.2	-	-	16.4	18.2
Public safety	28.0	35.0	-	-	28.0	35.0
Public works and streets (incl. SLIDS)	20.9	25.1	-	-	20.9	25.1
Community services	5.2	5.2	-	-	5.2	5.2
Culture and recreation	17.8	20.0	-	-	17.8	20.0
Interest on long-term debt	2.7	5.0	-	-	2.7	5.0
Business-type activities:						
Water	-	-	6.5	7.1	6.5	7.1
Sewer	-	-	10.8	11.0	10.8	11.0
Sanitation	-	-	3.5	4.0	3.5	4.0
Replenishment	-	-	0.6	1.6	0.6	1.6
Total expenses	<u>91.0</u>	<u>108.5</u>	<u>21.4</u>	<u>23.7</u>	<u>112.4</u>	<u>132.2</u>
Excess before transfers	<u>59.4</u>	<u>33.8</u>	<u>33.8</u>	<u>28.9</u>	<u>93.2</u>	<u>62.7</u>
Transfers in (out)	(36.5)	4.1	36.5	(4.1)	-	-
Prior period adjustments	16.7	(0.6)	4.9	(2.8)	21.6	(3.4)
Increase in net assets	<u>\$ 39.6</u>	<u>\$ 37.3</u>	<u>\$ 75.2</u>	<u>\$ 22.0</u>	<u>\$ 114.8</u>	<u>\$ 59.3</u>

**FY2008 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 funded 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 Development** revenues come primarily from construction related activities.
 - Construction activity in Fiscal Year 2008 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

- ❖ **Major Governmental Funds** assets decreased from \$167.0 million to \$129.8 million, but assets exceeded liabilities (\$36.3 million) by \$93.5 million. The Governmental Funds expenses of \$163.3 million exceeded revenues of \$118.5 million by \$44.8 million.
 - The General fund balance decreased \$37.2 million from \$90.5 million in FY07 to \$53.3 million in FY08. This was due to planned increases in Capital outlay from \$30.3 million to \$41.1 million and operational costs from \$62.4 million to \$73.7 and a reduction in Transfers in(out) from \$15.0 million transfer in to a \$2.7 million transfer out. The increase in operation costs is mostly due to increased personnel costs, while the Capital outlay increase is due to the start of the new City Hall building.
 - The Municipal Property Corp. fund balance increased from \$15.7 million to \$18.1 million due to a prior period adjustment of \$1.9 million (see note 13) as well as a timing difference in the Rents collected and Debt payments made.
 - The Highway User fund balance decreased from \$2.3 million to \$1.9 million due to decrease in revenues from \$6.9 million in FY07 to \$6.4 million in FY08. This reflects the downturn in the economy affecting state shared revenues, county participation, and investment income.
 - The Police Development Fee fund balance increased from \$1.7 million to \$2.0 million due to fact that major construction expenses for the Public Safety building have come to a close early in FY08 (Capital outlay in FY07 was \$0.4 million, in FY08 \$0.1 million).
 - The Fire Development Fee fund balance continues to decline from a negative \$4.4 million in FY07 to a negative \$7.8 million in FY08. New facility construction outpaces collections of related Development fees (Capital outlay – \$11.3 and \$4.5 million while Development fees – \$2.3 and \$1.5 million in FY07 and FY08 respectively. In the beginning of FY07 the Fire Development fee fund had a positive \$4.8 million in fund balance.
 - The Transportation Improvement fund balance increased from \$12.3 million to \$14.5 million. Because revenues in FY08 as in FY07 although decreased were still in excess of expenditures. The tax revenues in this fund, are dedicated from a portion of the sales tax related to construction activity in the City, were \$6.4 million.
 - The Park and Recreation Enhancement fund became a major fund due to its increase in liabilities. Liabilities increased from \$2.0 million to over \$4.1 million created by expenditures exceeding revenues from impact fees creating an amount due to other funds.

- ❖ **Proprietary fund** financial statements provide similar information contained in the government-wide financial statements but in more detail. Their results are thoroughly discussed in the review of business type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

- ❖ The City as a whole was well within its **budgeted expenditure limitation**.

- ❖ The original General Fund budget for expenditures was \$197.4 million (plus \$2.7 million in budgeted operating transfers). Budget transfers totaling \$0.2 million were made increasing the final budget to \$200.3 million. Actual General Fund expenditures were \$116.7 million (plus \$2.7 million in operating transfers) leaving \$80.9 million in unused budget authority.
- ❖ Actual expenditures for Current – General Government were about 59% of budget due to statutory requirements to budget for all possible expenditures.
- ❖ 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:**
 - \$0.6 million was transferred from various departments back to General Operations as adjustments to project budgets were made because they were completed in the prior year or deemed to not be needed.

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

	General Government		Business-type Activities		Total Primary Government	
	<u>2007*</u>	<u>2008</u>	<u>2007*</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Land	33.1	40.8	4.1	4.1	37.2	44.9
Buildings & Improvements	69.8	119.5			69.8	119.5
Equipment & Vehicles	14.7	18.7	6.0	4.6	20.7	23.3
Streets	93.8	116.6			93.8	116.6
Curb Gutter & Sidewalks	41.5	49.6			41.5	49.6
Traffic Signals	3.9	5.6			3.9	5.6
Storm Drains	8.2	10.6			8.2	10.6
Other Infrastructure	0.3	0.3		1.2	0.3	1.5
Sewer System			80.7	87.3	80.7	87.3
Water System			26.1	31.7	26.1	31.7
Construction in Progress	<u>74.0</u>	<u>52.4</u>	<u>84.6</u>	<u>110.7</u>	<u>158.6</u>	<u>163.1</u>
Total Capital Assets (Net)	<u>339.3</u>	<u>414.1</u>	<u>201.5</u>	<u>239.6</u>	<u>540.8</u>	<u>653.7</u>

*2007 restated for prior period adjustments, see note 13.

CAPITAL ASSET AND DEBT ADMINISTRATION

- ❖ **The capital assets of the Governmental Activities funds** increased by \$74.8 million net of annual depreciation (\$90.3 million before depreciation). Governments with total revenues of \$10.0 million or more, but less than \$100.0 million are required to capitalize all previously constructed infrastructure assets for fiscal periods beginning after June 15, 2006. GASB Statement No. 34 requires the inclusion of general infrastructure assets, and that they are capitalized in the financial statements at their historical cost or estimated historical cost. Governments' further are required to report depreciation for all capital assets, including general infrastructure assets.

- **Major additions to Governmental Capital Assets** for FY08 are as follows:
 - To comply with GASB 34, Infrastructure was reported and valued as follows:
 - \$30.0 million – streets
 - \$9.7 million – curb, gutter and sidewalks
 - \$2.7 million – storm drains
 - \$3.5 million – donated land
 - \$1.9 million – traffic signals
 - Public Safety Building was completed and booked at \$30.4 million
 - Bell Road Improvements completed and booked at \$5.2 million
 - Dream Catcher Park completed and booked at \$1.9 million
 - Fire Station #5 completed and booked at \$5.4 million
 - Fire Station #6 completed and booked at \$4.2 million
 - Fire Joint Training Center completed and booked at \$3.5 million
 - Tennis Racquet Facility completed and booked at \$7.5 million
 - Surprise Center Streetscape completed and booked at \$5.2 million
 - \$1.0 million was spent on Fire vehicles and apparatus
 - \$1.1 million was spent on Police vehicles and electronic equipment
 - Construction in Progress as of the end of FY08 included:
 - \$3.6 million Fire Station #7
 - \$1.7 million Surprise Farms Park
 - \$7.2 million Central Plant
 - \$30.2 million City Hall

- ❖ **The capital assets of the Business-type Activities funds** increased by \$38.1 million net of annual depreciation (\$42.1 million before depreciation) from the adjusted beginning balance of \$201.5 million.
 - A row for Other Infrastructure was added to the schedule on the previous page (Capital Assets at Year End) for Business Type Activities.
 - The City of Surprise continued construction of the fourth expansion of the Special Planning Area (SPA) 1's water reclamation facility increasing the plant capacity from 7.2 million gallons per day to 16.3 mgd. \$30.0 million in business type activities capital construction was started in the last twelve months. This amount was added to construction in progress this year. This was offset by a \$4.0 million reduction in construction in progress.
 - Buildings and Equipment increased by \$15.7 million.
 - Water Services is currently working with developers on the design phase of the Water Reclamation Facility in SPA2. Additionally, the department has continued expansion of the city's reclaimed water line infrastructure and water storage facilities.

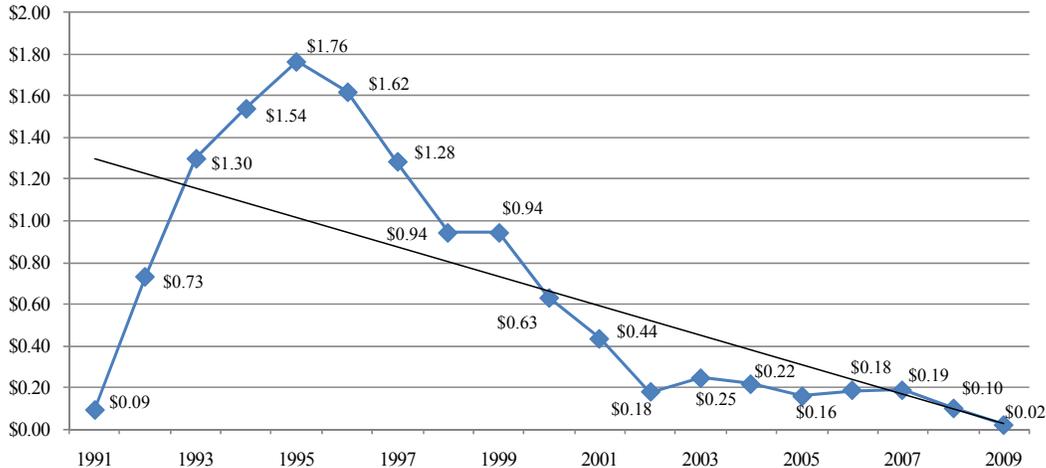
- ❖ For more detailed information on Capital Assets see note four (4) of this report.

- ❖ **Long-term debt** increased this year from \$101.8 million to \$102.1 million. Greater detail of outstanding Long-term debt can be found in Note five (5).
 - \$4.0 million in bonds were issued this year for the Marley Park CFD.

ECONOMIC FACTORS, RATES, AND NEXT YEAR'S BUDGET

- ❖ **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
1991-2009**



- ❖ **Secondary Property Tax Rate** – The Fiscal Year 2008 rate decreased from \$0.1007 to \$0.0195 the previous year. The above graph shows that since 1995 the rate has dropped precipitously from \$1.76 to \$0.0195.
- ❖ **Development Impact Fees** – The City adopted new impact fees that increased fees starting July 1, 2007. However, the commercial and housing markets have cooled off. New home permits are expected to be about 58 per month in FY2009 versus a realized 73 per month in FY2008.
- ❖ **Revenues expected to stabilize** – City transaction privilege tax for all other sources (except construction) is expected to stabilize while state shared revenues are expected to decline by 13% in FY2009.
- ❖ **Investment Income** – In Fiscal Year 2008 investment income was \$6.5 million including a \$1.6 million dollar loss on a single investment. An additional loss of \$0.4 million dollars on this investment will be recognized in Fiscal Year 2009. Due to the state of economy and the investment loss, total investment income is expected to be significantly less in Fiscal Year 2009.
- ❖ **Next year's budget** due to the economic condition in the fall of 2008, as a precaution, the City began looking at reducing certain planned expenditures in the Fiscal Year 2009 for an overall effect of reducing expenditures by approximately 5%.

FINANCIAL CONTACT

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



SURPRISE
ARIZONA



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	18
Statement of Activities	19

CITY OF SURPRISE, ARIZONA

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 83,440,500	\$ 42,165,928	\$ 125,606,428
Investments	19,615,580	12,635,150	32,250,730
Receivables (net of allowances)			
Accounts	109,851	4,776,260	4,886,111
Interest	7,117,675	47,999	7,165,674
Taxes and franchise fees	347,182	-	347,182
Grants	1,334,537	-	1,334,537
Internal balances	5,273,619	(5,273,619)	-
Other	1,202,907	-	1,202,907
Debt issuance cost, net of amortization	2,385,525	-	2,385,525
Other assets	2,345,975	8,892,199	11,238,174
Capital assets, non-depreciable	93,112,776	114,695,792	207,808,568
Capital assets, depreciable	431,859,898	145,379,207	577,239,105
Accumulated depreciation	(110,894,066)	(20,606,035)	(131,500,101)
	<u>537,251,959</u>	<u>302,712,881</u>	<u>839,964,840</u>
LIABILITIES			
Accounts payable	7,906,921	2,862,491	10,769,412
Accrued payroll and related taxes	2,311,606	224,343	2,535,949
Deposits	47,164	205,725	252,889
Accrued interest payable	1,754,114	-	1,754,114
Unearned revenues	11,250,190	3,404,577	14,654,767
Contracts payable, due in less than one year	-	1,100,517	1,100,517
Contracts payable, due in more than one year	-	1,197,039	1,197,039
Other liabilities	3,839,622	1,025	3,840,647
Compensated absences payable, due in less than one year	3,039,880	249,832	3,289,712
Bonds, loans, and payables due in less than one year	3,223,269	-	3,223,269
Bonds, loans, and payables due in more than one year	100,952,391	-	100,952,391
	<u>134,325,157</u>	<u>9,245,549</u>	<u>143,570,706</u>
NET ASSETS			
Invested in capital assets, net of related debt and depreciation	309,902,948	238,368,447	548,271,395
Restricted for			
Debt service	170,095	-	170,095
Marley Park debt service	385,618	-	385,618
Surprise Municipal Property Corporation	18,052,194	-	18,052,194
General government	1,157,304	-	1,157,304
Public works and streets (incl. SLIDS)	23,222,913	-	23,222,913
Culture and recreation	2,183,947	-	2,183,947
Unrestricted	47,851,783	55,098,885	102,950,668
Total net assets	<u>\$ 402,926,802</u>	<u>\$ 293,467,332</u>	<u>\$ 696,394,134</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 18,230,474	\$ 7,468,412	\$ 23,114	\$ 7,581,855	\$ (3,157,093)	\$ -	\$ (3,157,093)
Public safety	34,962,539	2,409,665	426,195	2,315,485	(29,811,194)	-	(29,811,194)
Public works and streets (incl. SLIDS)	25,092,309	4,017,706	400,087	30,579,347	9,904,831	-	9,904,831
Community development	5,237,442	3,441,463	-	-	(1,795,979)	-	(1,795,979)
Culture and recreation	19,972,094	2,903,069	1,418,678	2,562,970	(13,087,377)	-	(13,087,377)
Interest	5,047,505	-	-	-	(5,047,505)	-	(5,047,505)
	<u>108,542,363</u>	<u>20,240,315</u>	<u>2,268,074</u>	<u>43,039,657</u>	<u>(42,994,317)</u>	<u>-</u>	<u>(42,994,317)</u>
Business-type Activities							
Water	7,060,228	8,683,732	-	4,654,740	-	6,278,244	6,278,244
Sewer	11,021,010	12,990,898	-	16,495,811	-	18,465,699	18,465,699
Sanitation	4,015,174	5,280,028	-	292,874	-	1,557,728	1,557,728
Replenishment	1,585,734	771,602	-	1,045,337	-	231,205	231,205
	<u>23,682,146</u>	<u>27,726,260</u>	<u>-</u>	<u>22,488,762</u>	<u>-</u>	<u>26,532,876</u>	<u>26,532,876</u>
Total primary government	<u>\$ 132,224,509</u>	<u>\$ 47,966,575</u>	<u>\$ 2,268,074</u>	<u>\$ 65,528,419</u>	<u>\$ (42,994,317)</u>	<u>\$ 26,532,876</u>	<u>\$ (16,461,441)</u>
General Revenues							
Property taxes					\$ 7,379,236	\$ -	\$ 7,379,236
Sales taxes					39,336,323	-	39,336,323
Franchise taxes					3,907,778	-	3,907,778
Grants and contributions not restricted to specific programs					20,808,942	-	20,808,942
Unrestricted investment earnings					3,959,328	2,344,100	6,303,428
Other					1,437,163	-	1,437,163
Transfers					4,078,000	(4,078,000)	-
Total general revenues and transfers					<u>80,906,770</u>	<u>(1,733,900)</u>	<u>79,172,870</u>
Increase (decrease) in net assets					37,912,453	24,798,976	62,711,429
Net assets - beginning					365,614,282	271,498,740	637,113,022
Prior period adjustments					(599,933)	(2,830,384)	(3,430,317)
Net assets - ending					<u>\$ 402,926,802</u>	<u>\$ 293,467,332</u>	<u>\$ 696,394,134</u>



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	20-21
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	23-24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Net Assets – Proprietary Funds	26-27
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	28-29
Combining Statement of Cash Flows – Proprietary Funds	30-31
Statement of Fiduciary Net Assets – Pension Trust Fund	32
Statement of Changes in Fiduciary Net Assets – Pension Trust Fund	33



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2008

ASSETS	General Fund	Municipal Property Corporation Fund	Highway User Fund	Police Development Fee Fund
ASSETS				
Cash and cash equivalents	\$ 29,019,943	\$ 22,385,513	\$ 1,633,496	\$ 1,277,830
Investments	8,968,541	5,812,749	537,025	289,305
Receivables (net of allowances)				
Interest	42,715	32,305	1,092	1,397
Taxes and franchise fees	6,179,512	-	-	-
Grants	347,182	-	-	-
Intergovernmental	833,771	-	500,766	-
Due from other funds	16,225,835	-	-	-
Other	1,129,002	-	-	-
Prepaid items	56,667	-	-	439,635
Total assets	\$ 62,803,168	\$ 28,230,567	\$ 2,672,379	\$ 2,008,167
 LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 4,131,078	\$ 12,438	\$ 214,356	\$ 2,864
Accrued payroll and related taxes	2,143,620	-	140,991	-
Due to other funds	-	-	-	-
Deposits	47,164	-	-	-
Deferred revenues	672,848	10,165,935	411,407	-
Other liabilities	2,510,853	-	938	-
Total liabilities	9,505,563	10,178,373	767,692	2,864
 FUND BALANCE				
Fund Balances				
Reserved for prepaid items	56,667	-	-	439,635
Unreserved, reported in				
General fund	53,240,938	-	-	-
Special revenue funds	-	18,052,194	1,904,687	1,565,668
Debt service funds	-	-	-	-
Total fund balance	53,297,605	18,052,194	1,904,687	2,005,303
Total liabilities and fund balance	\$ 62,803,168	\$ 28,230,567	\$ 2,672,379	\$ 2,008,167

<u>Fire Development Fee Fund</u>	<u>Transportation Improvement Fund</u>	<u>Parks & Rec Enhancement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 15,120,617	\$ -	\$ 12,421,762	\$ 81,859,161
-	9	-	3,602,930	19,210,559
-	14,847	-	15,935	108,291
-	903,381	-	34,782	7,117,675
-	-	-	-	347,182
-	-	-	-	1,334,537
-	-	-	-	16,225,835
-	1	-	73,904	1,202,907
-	-	1,849,672	-	2,345,974
<u>\$ -</u>	<u>\$ 16,038,855</u>	<u>\$ 1,849,672</u>	<u>\$ 16,149,313</u>	<u>\$ 129,752,121</u>
\$ 600,573	\$ 1,388,472	\$ 856,532	\$ 673,941	\$ 7,880,254
-	-	-	18,901	2,303,512
6,916,330	-	3,171,852	864,034	10,952,216
-	-	-	-	47,164
-	-	-	-	11,250,190
267,163	119,408	112,478	828,585	3,839,425
<u>7,784,066</u>	<u>1,507,880</u>	<u>4,140,862</u>	<u>2,385,461</u>	<u>36,272,761</u>
-	-	1,849,672	-	2,345,974
-	-	-	-	53,240,938
(7,784,066)	14,530,975	(4,140,862)	13,208,139	37,336,735
-	-	-	555,713	555,713
<u>(7,784,066)</u>	<u>14,530,975</u>	<u>(2,291,190)</u>	<u>13,763,852</u>	<u>93,479,360</u>
<u>\$ -</u>	<u>\$ 16,038,855</u>	<u>\$ 1,849,672</u>	<u>\$ 16,149,313</u>	<u>\$ 129,752,121</u>

CITY OF SURPRISE, ARIZONA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances	\$ 93,479,361
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in funds	414,078,608
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	2,385,525
Current liabilities, including accrued interest, are not due and payable in the current period, and therefore, are not reported in the funds	(1,754,114)
Internal service funds used by the management to charge cost of insurance to individual fund	1,942,475
Internal service funds compensated absences included in calculation of charge individual funds as well as in Long-term liabilities.	10,487
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>(107,215,540)</u>
Net assets of governmental activities	<u>\$ 402,926,802</u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Municipal Property Corporation Fund</u>	<u>Highway User Fund</u>	<u>Police Development Fee Fund</u>
REVENUES				
Taxes	\$ 38,674,911	\$ -	\$ -	\$ -
Licenses and permits	3,907,778	-	-	-
Intergovernmental	23,747,993	-	6,064,928	-
Charges for services	8,149,699	-	27,775	-
Grants	491,892	-	228,538	-
Fines	1,282,024	-	-	-
Rents	509,382	7,335,211	-	-
Development fees	-	-	-	766,873
Interest	2,033,149	713,054	82,231	62,223
Other	3,375,163	27,170	42,722	-
Total revenues	<u>82,171,991</u>	<u>8,075,435</u>	<u>6,446,194</u>	<u>829,096</u>
EXPENDITURES				
Current				
General government	17,161,610	-	-	-
Public safety	30,685,756	69,306	-	477,100
Public works and streets	7,311,925	-	5,407,050	-
Community development	5,179,121	-	-	-
Culture and recreation	13,237,068	-	557,579	-
Capital outlay	41,072,063	573,284	4,637,970	85,727
Debt service				
Principal	78,026	2,535,000	-	-
Interest and fiscal charges	140,591	4,439,430	-	-
Debt issuance costs	-	-	-	-
Total expenditures	<u>114,866,160</u>	<u>7,617,020</u>	<u>10,602,599</u>	<u>562,827</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(32,694,169)</u>	<u>458,415</u>	<u>(4,156,405)</u>	<u>266,269</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(2,675,900)	-	3,792,300	-
Bonds issued	-	-	-	-
Total other financing sources (uses)	<u>(2,675,900)</u>	<u>-</u>	<u>3,792,300</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(35,370,069)</u>	<u>458,415</u>	<u>(364,105)</u>	<u>266,269</u>
FUND BALANCES (DEFICIT), beginning of year	<u>90,530,653</u>	<u>15,730,800</u>	<u>2,268,792</u>	<u>1,739,034</u>
PRIOR PERIOD ADJUSTMENTS	<u>(1,862,979)</u>	<u>1,862,979</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICIT), end of year	<u>\$ 53,297,605</u>	<u>\$ 18,052,194</u>	<u>\$ 1,904,687</u>	<u>\$ 2,005,303</u>

Fire Development Fee Fund	Transportation Improvement Fund	Parks & Rec Enhancement Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 6,420,536	\$ -	\$ 1,620,112	\$ 46,715,559
-	-	-	-	3,907,778
-	-	-	726,741	30,539,662
-	-	-	1,463,009	9,640,483
-	-	-	1,161,113	1,881,543
-	-	-	66,283	1,348,307
-	-	-	-	7,844,593
1,548,612	-	2,101,227	4,493,678	8,910,390
38,620	301,327	34,088	630,258	3,894,950
-	-	-	386,501	3,831,556
<u>1,587,232</u>	<u>6,721,863</u>	<u>2,135,315</u>	<u>10,547,695</u>	<u>118,514,821</u>
-	-	-	59,705	17,221,315
504,822	-	-	195,907	31,932,891
-	68,647	-	2,358,174	15,145,796
-	-	-	-	5,179,121
-	-	1,959,300	1,572,541	17,326,488
4,496,629	4,430,687	2,477,274	9,521,684	67,295,318
-	-	-	1,510,642	4,123,668
-	-	-	226,053	4,806,074
-	-	-	256,445	256,445
<u>5,001,451</u>	<u>4,499,334</u>	<u>4,436,574</u>	<u>15,701,151</u>	<u>163,287,116</u>
<u>(3,414,219)</u>	<u>2,222,529</u>	<u>(2,301,259)</u>	<u>(5,153,456)</u>	<u>(44,772,295)</u>
-	-	-	2,961,600	4,078,000
-	-	-	3,950,000	3,950,000
-	-	-	6,911,600	8,028,000
<u>(3,414,219)</u>	<u>2,222,529</u>	<u>(2,301,259)</u>	<u>1,758,144</u>	<u>(36,744,295)</u>
<u>(4,369,847)</u>	<u>12,308,446</u>	<u>10,069</u>	<u>12,005,708</u>	<u>130,223,655</u>
-	-	-	-	-
<u>\$ (7,784,066)</u>	<u>\$ 14,530,975</u>	<u>\$ (2,291,190)</u>	<u>\$ 13,763,852</u>	<u>\$ 93,479,360</u>

CITY OF SURPRISE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ (36,744,295)

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	67,295,318	
Capital contributions - to governmental funds	24,515,234	
Gain (loss) on sale of capital assets	(717,642)	
Depreciation expense	<u>(16,304,502)</u>	74,788,408

In the statement of activities, interest is accrued on outstanding bonds,
whereas in governmental funds, an interest expenditure is reported when due (241,431)

Internal service funds used by management to charge the cost of insurance to individual
funds 210,510

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. (385,106)

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	(3,950,000)	
Repayments on long-term debt	4,123,668	
Deferred charges on issuance costs (to be amortized over the life of the debt)	256,445	
Amortization of deferred charges issuance cost	(115,649)	
Amortization on issuance premiums (amortized over the life of the debt)	131,081	
Amortized charges on refunding (amortized over the life of the debt)	<u>(161,178)</u>	284,367

\$ 37,912,453



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,879,326	\$ 21,619,289	\$ 2,654,610	\$ 6,012,703
Investments	1,638,429	9,165,021	351,456	1,480,244
Receivables (net of allowances)				
Accounts	1,725,189	2,043,546	866,705	140,820
Interest	4,625	33,833	3,623	5,918
Other assets	1,010,355	7,876,626	5,218	-
	<u>16,257,924</u>	<u>40,738,315</u>	<u>3,881,612</u>	<u>7,639,685</u>
Non-current assets				
Capital assets	51,869,426	201,985,419	4,275,525	1,944,629
Accumulated depreciation	(3,135,817)	(16,246,974)	(1,155,888)	(67,356)
	<u>48,733,609</u>	<u>185,738,445</u>	<u>3,119,637</u>	<u>1,877,273</u>
Total assets	<u>64,991,533</u>	<u>226,476,760</u>	<u>7,001,249</u>	<u>9,516,958</u>
LIABILITIES				
Current liabilities				
Accounts payable	1,942,848	688,179	187,469	43,995
Accrued payroll and related taxes	27,016	113,532	74,630	9,165
Due to other funds	-	5,273,619	-	-
Deposits	26,476	107,311	63,076	8,862
Deferred revenues	779,200	2,350,428	235,691	39,258
Compensated absences payable	36,414	138,528	59,833	15,057
Other liabilities	427	598	-	-
	<u>2,812,381</u>	<u>8,672,195</u>	<u>620,699</u>	<u>116,337</u>
Non-current liabilities				
Contracts payable	1,100,517	1,197,039	-	-
	<u>1,100,517</u>	<u>1,197,039</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>3,912,898</u>	<u>9,869,234</u>	<u>620,699</u>	<u>116,337</u>
NET ASSETS				
Invested in capital assets, net of related debt	47,633,092	185,738,445	3,119,637	1,877,273
Unrestricted	13,445,543	30,869,081	3,260,913	7,523,348
Total net assets	<u>\$ 61,078,635</u>	<u>\$ 216,607,526</u>	<u>\$ 6,380,550</u>	<u>\$ 9,400,621</u>

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 42,165,928	\$ 1,581,339
12,635,150	405,021
4,776,260	-
47,999	1,560
8,892,199	-
<u>68,517,536</u>	<u>1,987,920</u>
260,074,999	-
(20,606,035)	-
<u>239,468,964</u>	<u>-</u>
<u>307,986,500</u>	<u>1,987,920</u>
2,862,491	26,667
224,343	8,094
5,273,619	-
205,725	-
3,404,577	-
249,832	10,487
1,025	197
<u>12,221,612</u>	<u>45,445</u>
2,297,556	-
<u>2,297,556</u>	<u>-</u>
<u>14,519,168</u>	<u>45,445</u>
238,368,447	-
55,098,885	1,942,475
<u>\$ 293,467,332</u>	<u>\$ 1,942,475</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Business-type Activities</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Replenishment</u>
OPERATING REVENUES				
Charges for services	\$ 8,683,732	\$ 12,990,898	\$ 5,280,028	\$ 771,602
OPERATING EXPENSES				
Cost of sales and services	6,208,953	8,328,016	3,594,478	1,543,728
Depreciation	851,275	2,692,994	420,696	42,006
Total operating expenses	7,060,228	11,021,010	4,015,174	1,585,734
Operating income	1,623,504	1,969,888	1,264,854	(814,132)
NONOPERATING REVENUES				
Development fees	2,099,090	7,956,425	-	957,013
Extension fees	80	71,742	-	88,324
Interest revenue	577,661	1,428,020	60,014	278,405
Total nonoperating revenues	2,676,831	9,456,187	60,014	1,323,742
Income before transfers	4,300,335	11,426,075	1,324,868	509,610
CAPITAL CONTRIBUTIONS				
Capital contributions	2,555,570	8,467,644	292,874	-
TRANSFERS				
Transfers in (out)	(943,000)	(1,517,100)	(1,449,900)	(168,000)
CHANGE IN NET ASSETS	5,912,905	18,376,619	167,842	341,610
NET ASSETS, beginning of the year	55,225,000	201,002,021	6,212,708	9,059,011
PRIOR PERIOD ADJUSTMENTS	(59,270)	(2,771,114)	-	-
NET ASSETS, end of year	<u>\$ 61,078,635</u>	<u>\$ 216,607,526</u>	<u>\$ 6,380,550</u>	<u>\$ 9,400,621</u>

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 27,726,260	\$ 1,691,041
19,675,175	1,544,935
<u>4,006,971</u>	<u>-</u>
<u>23,682,146</u>	<u>1,544,935</u>
<u>4,044,114</u>	<u>146,106</u>
11,012,528	-
160,146	-
<u>2,344,100</u>	<u>64,404</u>
<u>13,516,774</u>	<u>64,404</u>
<u>17,560,888</u>	<u>210,510</u>
11,316,088	-
<u>(4,078,000)</u>	<u>-</u>
24,798,976	210,510
271,498,740	1,731,965
<u>(2,830,384)</u>	<u>-</u>
<u>\$ 293,467,332</u>	<u>\$ 1,942,475</u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities			
	Water	Sewer	Sanitation	Replenishment
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 8,544,529	\$ 10,808,849	\$ 5,139,452	\$ 768,893
Cash paid to suppliers	(4,822,938)	(5,120,471)	(1,807,879)	(1,371,415)
Cash paid to employees	(691,017)	(2,828,325)	(1,704,287)	(237,289)
Cash paid for insurance	-	-	-	-
Net cash provided by (used in) operating activities	<u>3,030,574</u>	<u>2,860,053</u>	<u>1,627,286</u>	<u>(839,811)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING TRANSACTIONS				
Proceeds received from development fees	2,099,090	7,956,425	-	957,013
Proceeds received from extension fees	80	71,742	-	88,324
Acquisitions, construction, and transfer of capital assets	<u>(7,985,467)</u>	<u>(26,400,647)</u>	<u>25,260</u>	<u>(608,930)</u>
Net cash provided by (used in) capital and related financing transactions	<u>(5,886,297)</u>	<u>(18,372,480)</u>	<u>25,260</u>	<u>436,407</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	<u>(943,000)</u>	<u>-</u>	<u>(1,449,900)</u>	<u>(168,000)</u>
Net cash provided by (used in) noncapital financing activities	<u>(943,000)</u>	<u>-</u>	<u>(1,449,900)</u>	<u>(168,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Purchase/Sales of Investments	(1,638,429)	(9,165,021)	(351,456)	(1,480,244)
Cash received from interest income	<u>584,837</u>	<u>1,432,763</u>	<u>56,391</u>	<u>275,003</u>
Net cash provided by investing activities	<u>(1,053,592)</u>	<u>(7,732,258)</u>	<u>(295,065)</u>	<u>(1,205,241)</u>
NET CHANGE IN CASH	(4,852,315)	(23,244,685)	(92,419)	(1,776,645)
CASH AND CASH EQUIVALENTS, beginning of year	<u>16,731,641</u>	<u>44,863,974</u>	<u>2,747,029</u>	<u>7,789,348</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 11,879,326</u>	<u>\$ 21,619,289</u>	<u>\$ 2,654,610</u>	<u>\$ 6,012,703</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income	<u>\$ 1,623,504</u>	<u>\$ 1,969,888</u>	<u>\$ 1,264,854</u>	<u>\$ (814,132)</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Depreciation expense	851,275	2,692,994	420,696	42,006
(Increase) decrease in				
Accounts receivable	(135,118)	(56,907)	(64,898)	(450)
Other assets	1	1	(5,218)	-
Increase (decrease) in				
Accounts payable	692,747	(4,919,098)	47,316	(68,268)
Accrued payroll and taxes	143	8,055	19,364	933
Utility deposits	(4,086)	18,858	10,418	684
Deferred revenues	-	(2,144,001)	(80,878)	(2,943)
Compensated absences payable	1,681	16,046	15,632	2,359
Other Liabilities	427	5,274,217	-	-
Total adjustments	<u>1,407,070</u>	<u>890,165</u>	<u>362,432</u>	<u>(25,679)</u>
Net cash provided by (used in) operating activities	<u>\$ 3,030,574</u>	<u>\$ 2,860,053</u>	<u>\$ 1,627,286</u>	<u>\$ (839,811)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Capital Asset Contributions from Developers	\$ 2,555,570	\$ 8,467,644	\$ 292,874	\$ -

See Notes to Financial Statements

<u>Business-type Activities</u>	<u>Governmental Activities</u>
<u>Totals</u>	<u>Internal Service</u>
\$ 25,261,723	\$ 1,691,041
(13,122,703)	(356,895)
(5,460,918)	(211,852)
-	(959,271)
<u>6,678,102</u>	<u>163,023</u>
11,012,528	-
160,146	-
<u>(34,969,784)</u>	<u>-</u>
<u>(23,797,110)</u>	<u>-</u>
<u>(2,560,900)</u>	<u>-</u>
<u>(2,560,900)</u>	<u>-</u>
(12,635,150)	(405,021)
<u>2,348,994</u>	<u>65,034</u>
<u>(10,286,156)</u>	<u>(339,987)</u>
(29,966,064)	(176,964)
<u>72,131,992</u>	<u>1,758,303</u>
<u>\$ 42,165,928</u>	<u>\$ 1,581,339</u>
<u>\$ 4,044,114</u>	<u>\$ 146,106</u>
4,006,971	-
(257,373)	-
(5,216)	-
(4,247,303)	16,054
28,495	(3,251)
25,874	-
(2,227,822)	-
35,718	3,917
<u>5,274,644</u>	<u>197</u>
<u>2,633,988</u>	<u>16,917</u>
<u>\$ 6,678,102</u>	<u>\$ 163,023</u>
\$ 11,316,088	-

See Notes to Financial Statements

CITY OF SURPRISE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
JUNE 30, 2008

	Volunteer Fire fighters Pension and Relief Fund
ASSETS	
Cash and cash equivalents	\$ 96,900
Investments	15
Receivables	
Interest	<u>187</u>
Total assets	<u>97,102</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net assets	<u><u>\$ 97,102</u></u>

CITY OF SURPRISE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Volunteer Fire fighters Pension and Relief Fund
REVENUES	
Interest	\$ 2,243
Total revenues	<u>2,243</u>
NET ASSETS, beginning of year	<u>94,859</u>
NET ASSETS, end of year	<u><u>\$ 97,102</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.

Note:	Page
1 Summary of Significant Accounting Policies	34-39
2 Compliance and Accountability	39
3 Cash and Cash Equivalents	39-42
4 Capital Assets and Construction Commitments	43-44
5 Long-Term Debt	45-46
6 Construction Commitments	47
7 Municipal Property Corporation Fund Construction Commitment Liability	47
8 Retirement Plans	47-50
9 Risk Management	50
10 Contingent Liabilities	50
11 Interfund Assets, Liabilities, and Transfers	51
12 Deficit Fund Net Assets	52-53
13 Prior Period Adjustments	54-58
14 Subsequent Events	58

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, 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, 2008, 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.

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.

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.

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 AND PREPAID ITEMS

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, 2008 are immaterial, they were not included in the statement of net assets.

Certain payments to vendors reflect costs applicable to future accounting periods. Because the City's Prepaid items are immaterial, they are also recorded using the purchases method. At the time of purchase, they are recorded as expenditures in the fund from which the purchases were made, and therefore, are 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.

NOTES TO FINANCIAL STATEMENTS

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.

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 the amount necessary by the City to pay its debts. (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.

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.

The Marley Park Debt Service Fund and the Roads of Regional Significance Special Planning Areas 2, 4 and 6 Fund are not budgeted, but are presented in supplemental information for financial statement purposes. The Marley Park activity is budgeted for in one fund, the Marley Park Community Facilities District for budget but separated out for financial reporting purposes. The Roads of Regional Significance Special Planning Areas 2, 4 and 6 fund was not budgeted yet because activity was not expected in FY08, amounts will be budgeted in subsequent years.

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents are made up of deposits in the bank, invested deposits, cash on hand, cash invested in the Local Government Investment Pool (L.G.I.P.) managed by the Arizona State Treasurer in accordance with Arizona Statutes. and short term investments at Wells Capital Management (WCM), an investment advisor in accordance with the City's investment policy. Total cash and cash equivalents were \$125,703,328 as of June 30, 2008, including the \$96,900 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, 2008 was \$8,050.

Sweeps in Transit – Overnight sweeps of the operating account invested until the following morning total \$5,904,335 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 \$1,284,623 and the bank balance was \$1,198,000; 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 \$423,073 on deposit in a separate checking account used for pass-thru of bond proceeds, receipt of

NOTES TO FINANCIAL STATEMENTS

CFD property taxes, reimbursement of CFD construction costs, and debt service on the bonds. The City has an additional \$3,852,868 with fiscal agent Zion’s Bank, and \$5,278,344 with fiscal agent Wells Fargo Bank, both under the Municipal Property Corporation Fund.

Cash Invested – \$34,471,526 held in the LGIP and \$78,234 held at Wells Fargo in a restricted escrow account are cash equivalents. Of the total \$112,857,353 held at WCM, short term investments of \$80,306,623 are considered to be cash equivalents with the balance of \$32,250,730 is considered to be investments.

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 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 (LGIP), and U.S. corporate notes that exceed the City’s current General Obligation (G.O.) Bond rating.

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 nor 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, 2008, the City had the following investments:

INVESTMENT TYPE	<u>FAIR VALUE</u>	<u>WEIGHTED AVG MATURITY (YEARS)</u>
Commercial Paper	\$ 56,684,028	0.09
U.S. Agency Securities	36,588,821	1.05
Local Government Investment Pool	34,471,526	0.06
Money Market Funds	14,511,984	0.00
Corporate Securities	<u>4,850,756</u>	1.03
 Total Investments	 <u>\$ 147,107,115</u>	
 Portfolio Weighted Average		 0.35

Of the \$147,107,115 the amount of \$113,856,385 is considered cash and cash equivalents, the remainder of \$32,250,730 is displayed as investments on the Statement of Net Assets.

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:

NOTES TO FINANCIAL STATEMENTS

- 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, 2008, there were no investments considered highly sensitive to interest rate changes.

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 not rated by a nationally recognized statistical rating organization.

There is no State statute or investment policy on ratings or credit quality for obligations 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, 2008, using Standard and Poor’s, Moody’s and/or Fitch’s rating scale:

(in thousands of dollars)

INVESTMENT TYPE	FAIR VALUE	A-1/P1	AA	AAA	EXEMPT
Commercial Paper	\$ 56,685	\$ 56,685			
U.S. Agency securities	36,588				36,588
Local Government Investment Pool	34,471			34,471	
Money Market Funds	14,512	14,512			
U.S. Treasury	4,851		2,835	2,016	
Total Investments	\$ 147,107	\$ 71,197	\$ 2,835	\$ 36,487	\$ 36,588

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.

NOTES TO FINANCIAL STATEMENTS

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

<u>ISSUER NAME</u>	<u>INVESTMENT TYPE</u>	<u>MARKET VALUE</u>	<u>PERCENTAGE</u>
Wells Fargo and Company	Money Market Funds	\$14,512	10.02%
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	9,110	6.35%
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	14,101	9.83%
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	13,233	9.22%
		<u>\$ 50,956</u>	<u>35.42%</u>

* Note: These were liquidated in August, 2008

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’s deposits and bank balances are normally covered by federal depository insurance (FDIC) for the first \$100,000 in each account 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 \$218,942 of the City’s operating deposits of \$1,198,000 in three separate bank accounts, was covered by FDIC insurance. The remaining balance of \$979,058 was uncollateralized. The first \$100,000 in the City’s Community Facility District(CFD) checking account was also covered by FDIC insurance, with the remaining balance of \$323,073 uncollateralized. Pledged collateral in the amount of \$5,904,335 covered the \$5,904,335 overnight sweep, in the main operating account.

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 to the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Primary Government			Ending Balance
		Increases	Decreases	Transfers	
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 33,073,494	\$ 3,514,811	\$ (254,957)	\$ 4,421,180	\$ 40,754,528
Construction in process	* 74,011,511	59,780,640	-	(81,433,903)	52,358,248
Total Not Being Depreciated	107,085,005	63,295,451	(254,957)	(77,012,723)	93,112,776
Other capital assets:					
Buildings and improvements	76,684,076	-	(312,357)	52,676,825	129,048,544
Improvements other than buildings	3,904,028	-	-	829,883	4,733,911
Equipment and vehicles	23,533,115	2,522,755	(1,547,360)	5,115,905	29,624,415
Infrastructure	224,093,522	25,969,396	-	18,390,110	268,453,028
Total Other Capital Assets	328,214,741	28,492,151	(1,859,717)	77,012,723	431,859,898
Total Assets before Depreciation	435,299,746	91,787,602	(2,114,674)	0	524,972,674
Accumulated depreciation:					
Building and improvements	(10,621,523)	(3,436,197)	172,648	-	(13,885,072)
Improvements other than buildings	(220,150)	(157,625)	-	-	(377,775)
Equipment and vehicles	(8,828,695)	(3,342,321)	1,224,384	-	(10,946,632)
Infrastructure	* (76,316,228)	(9,368,359)	-	-	(85,684,587)
Total Accumulated Depreciation	(95,986,596)	(16,304,502)	1,397,032	-	(110,894,066)
Net Capital Assets - Governmental Activities	\$ 339,313,150	\$ 75,483,100	\$ (717,642)	\$ 0	\$ 414,078,608
Depreciation was charged by function as follows:					
General government			\$ 873,916		
Public safety			2,832,047		
Public works and streets, includes depreciation for infrastructure			9,959,079		
Community services			26,206		
Culture and recreation			2,613,254		
Total governmental activities depreciation expense			\$ 16,304,502		

	Fiscal Year Ended June 30, 2007 Ending Balance	Prior Period Adjustment Streets Construction *(A)	Prior Period Adjustment Infrastructure Accum. Depr. *(C)	Adjusted Fiscal Year Ended June 30, 2007 Beginning Balance
Governmental activities:				
Not being depreciated:				
Construction in progress	74,598,827	(587,316)		74,011,511
Accumulated depreciation:				
Infrastructure	(76,303,611)		(12,617)	(76,316,228)
Net Capital Assets - Governmental Activities	\$ 339,913,083	\$ (587,316)	\$ (12,617)	\$ 339,313,150

* See Note 13 - Prior Period Adjustments

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Primary Government			Ending Balance
		Increases	Decreases	Transfers	
Business-type activities:					
Not being depreciated:					
Land	\$ 4,060,242	\$ -	\$ -	(18,000)	\$ 4,042,242
Construction in progress *	84,582,774	30,029,033	-	(3,958,257)	110,653,550
Total not being depreciated	<u>88,643,016</u>	<u>30,029,033</u>	<u>-</u>	<u>(3,976,257)</u>	<u>114,695,792</u>
Other capital assets:					
Buildings and system *	122,961,274	11,506,024	-	3,379,364	137,846,661
Improvements other than buildings	705,017	-	-	500,046	1,205,063
Vehicles and equipment	5,979,588	544,852	(293,805)	96,848	6,327,483
Total other capital assets	<u>129,645,879</u>	<u>12,050,876</u>	<u>(293,805)</u>	<u>3,976,257</u>	<u>145,379,207</u>
Total assets before depreciation	<u>218,288,895</u>	<u>42,079,909</u>	<u>(293,805)</u>	<u>-</u>	<u>260,074,999</u>
Accumulated depreciation:					
Buildings and system *	(15,455,437)	(3,372,133)	-	-	(18,827,570)
Improvements other than buildings	(15,251)	(31,835)	-	-	(47,086)
Vehicles and equipment	(1,362,900)	(603,003)	234,524	-	(1,731,379)
Total accumulated depreciation	<u>(16,833,588)</u>	<u>(4,006,971)</u>	<u>234,524</u>	<u>-</u>	<u>(20,606,035)</u>
Net capital assets - business activities	<u>\$ 201,455,307</u>	<u>\$ 38,072,938</u>	<u>\$ (59,281)</u>	<u>\$ -</u>	<u>\$ 239,468,964</u>
Depreciation was charged by function as follows:					
Water			\$ 851,275		
Replenishment			42,006		
Sewer			2,692,994		
Sanitation			420,696		
Total Depreciation Expense			<u>\$ 4,006,971</u>		

	Fiscal Year Ended June 30, 2007 Ending Balance	Prior Period Adjustment Development Infrastructure *(D)	Prior Period Adjustment Donated Infrastructure *(E)	Prior Period Adjustment Accumulated Depreciation *(F)	Prior Period Adjustment Development Infrastructure *(G)	Prior Period Adjustment Construction Retainage *(H)	Adjusted Fiscal Year Ended June 30, 2007 Beginning Balance
Business-type activities:							
Not being depreciated:							
Construction in progress	\$ 89,338,234	\$ (1,527,392)	-	-	\$ (107,443)	\$ (3,120,625)	\$ 84,582,774
Other capital assets:							
Buildings and system	124,683,214	-	(1,721,940)	-	-	-	122,961,274
Accumulated Depreciation							
Buildings and system	(15,483,272)	-	-	27,835	-	-	(15,455,437)
Net capital assets - business activities	<u>\$ 207,904,872</u>	<u>\$ (1,527,392)</u>	<u>\$ (1,721,940)</u>	<u>\$ 27,835</u>	<u>\$ (107,443)</u>	<u>\$ (3,120,625)</u>	<u>\$ 201,455,307</u>

* See Note 13 - Prior Period Adjustments

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds					
4.5% 1994 Series B, \$2,530,000 issued	1,070,000	-	(1,070,000)	-	-
	<u>1,070,000</u>	<u>-</u>	<u>(1,070,000)</u>	<u>-</u>	<u>-</u>
General municipal property corporation fund obligation					
Series 2000 Bonds, \$59,120,000 issued	7,445,000	-	(2,375,000)	5,070,000	2,470,000
Series 2003 Bonds, \$42,860,000 issued	41,610,000	-	(160,000)	41,450,000	165,000
Series 2007 Bonds, \$50,675,000 issued	50,675,000	-	-	50,675,000	-
	<u>99,730,000</u>	<u>-</u>	<u>(2,535,000)</u>	<u>97,195,000</u>	<u>2,635,000</u>
Deferred amounts					
For issuance premium 2003	1,769,584	-	(131,081)	1,638,503	-
On refunding 2003	(2,175,884)	-	161,178	(2,014,706)	-
	<u>(406,300)</u>	<u>-</u>	<u>30,097</u>	<u>(376,203)</u>	<u>-</u>
Community Facilities Districts					
Series 2006 Bonds, \$1,365,000 issued	1,365,000	-	(40,000)	1,325,000	30,000
Series 2007 Bonds, \$ issued	-	3,950,000	-	3,950,000	145,000
	<u>1,365,000</u>	<u>3,950,000</u>	<u>(40,000)</u>	<u>5,275,000</u>	<u>175,000</u>
Total governmental obligation bonds	<u>101,758,700</u>	<u>3,950,000</u>	<u>(3,614,903)</u>	<u>102,093,797</u>	<u>2,810,000</u>
Notes payable					
3.15% Loan-Wastewater Management Authority, \$4,765,955 issue	813,912	-	(400,643)	413,269	413,269
Compensated absences	2,654,774	3,840,515	(3,455,409)	3,039,880	3,039,880
Developer payable	1,746,620	-	(78,026)	1,668,594	-
Total governmental activities debt	<u>\$ 106,974,006</u>	<u>\$ 7,790,515</u>	<u>\$ (7,548,981)</u>	<u>\$ 107,215,540</u>	<u>\$ 6,263,149</u>
Business-type activities:					
Compensated absences	\$ 214,114	\$ 351,020	\$ (315,302)	\$ 249,832	\$ 249,832
Contracts payable	8,664,880	4,230,479	(7,464,962)	5,430,397	1,100,517
Total business-type activities debt	<u>\$ 8,878,994</u>	<u>\$ 4,581,499</u>	<u>\$ (7,780,264)</u>	<u>\$ 5,680,229</u>	<u>\$ 1,350,349</u>

The following is a summary of long-term debt for the year ended June 30, 2008:

<u>Year Ended</u> <u>June 30</u>	<u>Governmental Activities - Bonds & Loans</u>			
	<u>Governmental Obligation</u>		<u>WWMA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	2,810,000	4,799,667	413,269	13,026
2010	2,880,000	4,648,444		
2011	3,040,000	4,489,497		
2012	3,200,000	4,333,822		
2013	3,365,000	4,194,245		
2014-2018	30,400,000	16,076,651		
2019-2023	28,835,000	10,699,864		
2024-2028	1,260,000	6,814,925		
2029-2033	26,680,000	5,161,990		
Total	<u>\$ 102,470,000</u>	<u>\$ 61,219,105</u>	<u>\$ 413,269</u>	<u>\$ 13,026</u>

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, 2008, the remaining balance of these costs was \$1,668,594. 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 2008, \$218,617 was paid to the developer, with \$78,026 applied to principal and the remaining \$140,591 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

The balance of \$2,297,556 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, \$2,879; Cortessa and Citrus Northern for Cortessa/Citrus \$1,197,039; and Taylor/Morrison for Sierra Verde, \$835,000; Payments of these are contingent based on number of permits issued and development fees collected. Additionally, retainage of \$262,638 is owed to Archer Western for the Ashton Ranch Water facility. Payments of \$1,100,517 toward these amounts are expected to be made in the next twelve months.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CONSTRUCTION COMMITMENTS

City of Surprise has active construction projects as of June 30, 2008. The projects include the new city hall building, street construction, fire station #7, 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>
City Hall	\$ 30,153,997	\$ 30,703,803
Residential Street Construction - public purpose	13,157,273	11,275,900
Surprise Farms Park	1,652,793	5,567,207
Water Reclamation Facility	84,930,057	1,869,944
Fire Station #7	3,597,616	1,719,384
Development Agreements - Wastewater Infrastructure	652,308	1,001,879
Development Agreements - Water System Infrastructure	4,400,056	837,879
Residential Street Construction - special assessments	4,864,555	798,595
Central Plant for Public Buildings	7,177,885	751,000
	<u>\$ 150,586,540</u>	<u>\$ 54,525,591</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, 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 7 – MUNICIPAL PROPERTY CORPORATION FUND CONSTRUCTION COMMITMENT LIABILITY

Governmental funds report deferred revenue in connection to resources that have been received, but not yet earned. As of June 30, 2008, 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.

NOTE 8 - RETIREMENT PLANS

Arizona State Retirement Plan

A. Plan Description

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

NOTES TO FINANCIAL STATEMENTS

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 9.1% of their compensation for the year ended June 30, 2008, 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 the contribution rate from that actuarially determined rate. The total contributions made by the City for the years ended June 30, 2008, 2007, and 2006, were, \$2,817,288, \$2,260,864, and \$1,309,275, 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, 2008, the City contributed 8.49% and 8.25% of annual covered police and firefighter payroll to the plan, respectively.

C. Annual Pension Cost

For fiscal year 2007, the City's annual pension cost of \$847,253 for ASPSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the individual entry age normal cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually attributable to inflation and (c) additional projected salary increases .5% - 3.5% per year, depending on age, attributable to seniority/merit. The actuarial value of ASPSPRS 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.

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information for ASPSPRS

Fiscal Year Ended June 30,	Annual Pension Cost		Percent Contributed	Net Pension Obligation
	Fire	Police		
2005	242,684	360,477	100.0%	-
2006	339,656	477,092	100.0%	-
2007	396,697	450,556	100.0%	-

Elected Officials Retirement Plan

A. Plan Description

The City’s Mayor and Council members participate in the Elected Officials Retirement Plan (EORP), a multiple-employer defined benefit cost sharing pension plan. The Fund Manager of the Arizona Public Safety Personnel Retirement System (APSPR) is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain elected city officials. EORP provides retirement benefits as well as death and disability benefits. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 3010 E. Camelback Rd., Ste 200, Phoenix, Arizona, 85016, by calling (602) 255-5575, or on the internet at www.psprs.com.

B. Funding Policy

The EORP’s funding policy required by State Statutes provides for periodic employer contributions at actuarially determined rates and employee contributions of 7 percent of their annual covered salary. The employer rate for fiscal year 2007-2008 was 20.21 percent. The City’s contributions to EORP for the fiscal year ended June 30, 2008 was \$27,479, which equals the required contributions for the year. The City’s employees contributed \$9,405 for the same time period.

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. The City no longer utilizes volunteer firefighters and there are no qualifying recipients for the funds contained in the plan.

NOTES TO FINANCIAL STATEMENTS

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 9 - RISK MANAGEMENT

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

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

NOTE 10 - CONTINGENT LIABILITIES

The City was not involved in any pending or threatened litigation that could materially affect the City's financial position and results of operations at June 30, 2008.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - INTERFUND ASSETS, LIABILITIES, AND TRANSFERS

<u>Transfers</u>	<u>Transfers in:</u>			
	<u>Governmental Type Funds:</u>			
	<u>General Fund</u>	<u>Highway User Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Transfers out:				
Governmental Funds				
General Fund	\$ -	\$ 3,792,300	\$ 3,345,700	\$ 7,138,000
Other governmental funds	384,100			384,100
Enterprise-type funds				
Water	943,000			943,000
Sewer	1,517,100			1,517,100
Sanitation	1,449,900			1,449,900
Replenishment	168,000			168,000
Total	<u>\$ 4,462,100</u>	<u>\$ 3,792,300</u>	<u>\$ 3,345,700</u>	<u>\$ 11,600,100</u>
Due to/from other funds:				
<u>Receivable fund:</u>	<u>Payable Fund:</u>	<u>Amount</u>		
General	Fire Development Fee Fund	\$ 6,916,330		
	Nonmajor Governmental	4,035,886		
	Sewer	5,273,619		
	Total	<u>\$ 16,225,835</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.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – DEFICIT FUND NET ASSETS

The following is a detail of *Special Revenue SLID Districts* fund equity balances as of June 30, 2008 reported as non-major special revenue funds.

Special Revenue SLID Districts Fund Balances:

Kingswood Park SLID	\$	18,421
DW Sun City Grand SLID		(148,346)
Westpoint Towne Center SLID		(7,674)
Continental @ Kingswood SLID		2,135
Mountain Vista Ranch SLID		(22,225)
Sun City Grand II SLID		(145,899)
Sun City Grand III SLID		(8,554)
Bell West Ranch SLD		14,054
Canyon Ridge West SLID		(1,965)
Ashton Ranch Unit I SLID		(1,321)
Ashton Ranch Unit II SLID		4,773
Mountain Vista Ranch II SLID		(9,925)
Mountain Vista Ranch III SLD		819
Legacy Park SLID		(5,175)
Greenway Park SLID		2,590
Roseview SLID		(4,075)
Countryside SLD		4,372
Park Row SLID		867
Northwest Ranch #2 SLID		(2,388)
Bell West Ranch 1B SLID		(42)
Ashton Ranch Unit III SLID		(3,120)
Ashton Ranch Unit IV SLID		(1,769)
Legacy Park GHI SLID		(358)
Rancho Gabriela Phase I SLID		2,426
Northwest Ranch #1 SLID		37
Sun City Grand IV SLID		(63,969)
Rancho Gabriela 2,3, 4A-B SLD		(709)
Greenway Park II SLD		1,158
Greenway Park III SLD		1,907
Bell West Ranch 1A SLID		(935)
Tash/Western Meadows SLD		1,767
Roseview 5, 5A, 7&8 SLID		2,187
Orchards 1,2,3,4,5 SLD		(2,971)
Surprise Farms 1A SLD		24,826
Legacy Park Parcels E, F & J SLD		(187)
Sierra Montana 1A SLD		(93,855)
Bell West Ranch II SLD		7,056
Royal Ranch Unit I SLID		(18,389)
Surprise Farms 1B SLID		(7,185)
Desert Oasis #1 SLID		(4,016)
Sierra Montana Phase II SLID		120,495
Litchfield Manor SLID		4,583
Cotton Gin SLID		4,090
Summerfield at Litchfield SLID		(3,580)

Special Revenue SLID District Fund Balances (continued)

NOTES TO FINANCIAL STATEMENTS

Marley Park Ph 1, Parcels 1-4	23,763
Greer Ranch South SLID	12,051
Bell West Ranch Parcel 3 SLID	(8,016)
Sierra Montana Parcel 12 SLID	5,719
Sierra Verde Phase One SLID	(7,383)
Surprise Farms II	15,167
Kenly Farms	6,382
Veramonte	(11,688)
Bell Point 1	(22,269)
Rancho Gabriela Phase II Parcel 11 SLID	(2,953)
Royal Ranch Unit II, Parcels 5, 6 & 9	(15,509)
Sierra Verde Parcel 4	3,848
Marley Park Ph 1, Parcels 7 & 8	(8,677)
Surprise Farms Phase III	(28,581)
Greer Ranch Phase 1	(20,301)
Royal Ranch Unit 2 Parcel 8	8,098
Royal Ranch Unit 2 Parcel 7	(5,380)
Greer Ranch Phase 2	(4,921)
Marley Park Phase 2, Parcels 9, 11 & 12	(3,505)
Sycamore Estates Parcel 13	(28,910)
Sierra Montana Parcel 7	(4,777)
Surprise Farms Phase 4, Parcels 1-6	(25,762)
Desert Oasis Lancer Parcels 5A, 5B, & 14A	(32,971)
Sarah Ann Ranch	(47,252)
Rancho Gabriela Phase 3, Parcel 17	(2,998)
City at Surprise Phase 1	5,622
Marley Park Phase 1, Parcels 5 & 6	(13,644)
Sierra Montana, Parcel 14	(660)
	\$ (555,750)

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, 2008.

Other Special Revenue Funds with deficit Fund Balances:

Neighborhood Revitalization Fund	\$ (109,614)
Marley Park Community Facility District Fund	(692,455)
Parks and Recreation Development Fund	(2,291,189)
Fire and EMS Development Fee Fund	(7,784,066)
	\$ (10,877,325)

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 balances in the Parks and Recreation Development Fund and the Fire and EMS Development Fee Fund are expected to be funded with future development impact fees received from issued building permits in their respective funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 –PRIOR PERIOD ADJUSTMENTS

A. STREETS CONSTRUCTION IN PROGRESS

The July 1, 2007, fund balance/net assets do not agree to the prior year financial statements due to a correction of \$587,316 in Streets construction in progress which has been reduced by that amount. Streets repairs and maintenance were incorrectly charged to a capital outlay item instead of a maintenance expenditure. Governmental construction in progress has been reduced as shown in the following tables.

Each year, several millions of dollars are budgeted under a capital outlay object code in the Highway User Fund for street improvements. Some of the improvements are capitalized and some of the improvements are for street preservation and are not capitalized. In FY07 an actual total of \$1,699,813 was charged to capital expenses (HURF Fund, Streets Dept, Operations, Street Improvements) \$587,316 of that total was for street maintenance incorrectly identified as capital improvements.

B. RETAINAGE DUE TO PRIME CONTRACTORS FOR CAPITAL PROJECTS

The July 1, 2007, fund balance/net assets agree overall, but do not agree to the prior year financial statements in the individual funds, due to a correction of \$1,862,979 in the General Fund and Municipal Property Corporation (MPC) Fund construction in progress. A liability and expenditure were previously recorded as a liability and expenditure in an incorrect fund. MPC construction in progress has been reduced, and General Fund construction in progress has been increased by that amount, as shown in the following tables.

C. ACCUMULATED DEPRECIATION ON STREET IMPROVEMENTS PREVIOUSLY RECORDED AS LAND

The July 1, 2007, fund balance/net assets do not agree to the prior year financial statements due to a correction of \$12,617, for accumulated depreciation on street improvements previously classified as land in a prior year. In FY07 an amount of \$252,164 was identified as Drainage, booked as general government land, and no depreciation was taken for FY07. This asset should have been added to streets and depreciation should have been taken during FY07. Depreciation during FY07 should have been \$12,617. Accumulated Depreciation on General Government Infrastructure has been increased, as shown in the following tables.

D. DEVELOPMENT INFRASTRUCTURE FINANCED WITH PERMIT REVENUE

The July 1, 2007, fund balance/net assets do not agree to the prior year financial statements due to a correction of \$1,527,392, for overvaluation of a development water system well and tank. In FY06, \$1,303,867 was paid to developer Taylor/Woodrow for the development Sierra Verde's water system. An additional amount of \$3,196,115 for the balance owed to the Taylor/Woodrow was booked as construction in progress and contracts payable. In FY07, permit credits and payments in the amount of \$1,527,392 was issued to Developer Fulton Homes of the Royal Ranch development, and were recorded as construction in progress. However, these payments were a reduction of contracts payable that were recorded as amounts due to Taylor/Woodrow and not an additional water system construction/expansion. The payments should have been applied against the contracts payable amount of \$3,196,115. Construction in progress and contracts payable have been reduced, as shown in the following tables.

NOTES TO FINANCIAL STATEMENTS

E. DEVELOPER INSTALLED INFRASTRUCTURE DONATED TO THE CITY

The July 1, 2007 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 \$1,721,940 recorded as donated to the City in FY07. To book the donated infrastructure from developers, we use the engineers estimate on the building permits issued to the developers prior to developing the subdivision. The permits have totals for the various components, such as curb and gutter, streets, water, sewer, etc. In FY07, \$1,721,940 included on the permits for water systems was added to our capital assets for water infrastructure and represented 13 different areas of development. However the City does not own or maintain any of these systems, so the \$1,721,940 should not have been added to our assets. In FY08 it was discovered to be part of water systems not maintained by the City. The assets and net income have been reduced, as indicated in the tables that follow.

F. ACCUMULATED DEPRECIATION ON DEVELOPER INSTALLED INFRASTRUCTURE DONATED TO THE CITY

The July 1, 2007 fund balance/net assets do not agree to the prior year financial statements due to a correction of \$27,835 in accumulated depreciation related to water donated infrastructure incorrectly recorded as donated to the City in FY07. The depreciation should not have been recorded and was removed on the water infrastructure as it did not belong to the City Water infrastructure; accumulated depreciation has been reduced, as shown in the tables that follow.

G. DEVELOPER INSTALLED INFRASTRUCTURE FINANCED WITH PERMIT FEES

The July 1, 2007 fund balance/net assets do not agree to the prior year financial statements due to a correction in development infrastructure reimbursed to the developer with development fees. An installment payment of \$107,443 was included in construction in progress and also recorded as a completed asset in a prior year. In FY05, developer reimbursements from permits fees totaling \$498,156 were booked as a completed water infrastructure. A payment was made in FY07 of \$107,443 and was recorded in construction in progress in FY07 related to the same asset. In FY08 it was discovered that the \$107,443 amount was already recorded as part of the original \$498,156 that was recorded in FY05. The \$107,443 was then removed from construction in progress as shown in the tables below.

H. RETAINAGE DUE TO PRIME CONTRACTORS FOR CAPITAL PROJECTS

The July 1, 2007 fund balance/net assets do not agree to the prior year financial statements due to an error of \$3,120,625 in construction retainages owed to contractors for work completed on on-going projects prior to the end of FY07. This amount was recognized as an expense and liability in error because it had already been recorded as paid to the contractor. At the end of FY07, retainage in the amount of \$3,120,625 for prime contractor Archer Western for the Waste Water Reclamation Facility was booked as construction in progress and contracts payable. However, this amount was already included and recorded in expenses and the retainage portion was transferred to an escrow account. Therefore, \$3,120,625 is being removed from contracts payable and construction in progress. Contracts payable and construction in progress have been reduced, as shown in the tables below.

NOTES TO FINANCIAL STATEMENTS

I. DEVELOPMENT INFRASTRUCTURE FINANCED WITH PERMIT REVENUE

The July 1, 2007 fund balance/net assets do not agree to the prior year financial statements due to an error of \$349,511 added to contracts payable in the Sewer Fund for developer infrastructure. The amount originally recorded as due to the developer included the portion the developer was donating. In FY07, Developers Cortessa and Citrus Northern started constructing sewer infrastructure for the City of Surprise that will be reimbursed with Permit reimbursements and buy-in fees from other developers. The total buy-in fees for the project allocated to the various developers totaled \$1,165,036. This amount was added to Contracts Payable. However, the \$1,165,036 included the portion of the buy-in fees attributable to the two developers (Cortessa and Citrus) constructing the infrastructure. Cortessa and Citrus Northern were to each contribute \$174,755.39, for a total of \$349,511. Therefore, their portion was removed from contracts payable and recognized as contributed capital. Contracts payable have been reduced, as shown in the following tables.

NOTES TO FINANCIAL STATEMENTS

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, 2007 - Ending		\$ 365,614,282	\$ 271,498,740	\$ 637,113,022
Prior Period Adjustment - Streets Construction	(A)	(587,316) *		(587,316)
Prior Period Adjustment - Project Retainage	(B)	(1,862,979)		(1,862,979)
Prior Period Adjustment - Project Retainage	(B)	1,862,979		1,862,979
Prior Period Adjustment - Accumulated Depreciation	(C)	(12,617) *		(12,617)
Prior Period Adjustment - Development Infrastructure	(D)		1,527,392	1,527,392
Prior Period Adjustment - Donated Infrastructure	(E)		(1,721,940)	(1,721,940)
Prior Period Adjustment - Accumulated Depreciation	(F)		27,835	27,835
Prior Period Adjustment - Development Infrastructure	(G)		107,443	107,443
Prior Period Adjustment - Project Retainage	(H)		(3,120,625)	(3,120,625)
Prior Period Adjustment - Development Infrastructure	(I)		349,511	349,511
Fiscal year ended June 30, 2008 - Beginning		\$ 365,014,349	\$ 268,668,356	\$ 633,682,705

Effect of Prior Period Adjustments by Fund			
Financial Statements - Governmental Funds			
Balance Sheet			
Statement of Revenues, Expenditures, and Changes in Fund Balance			
		MPC Fund	General Fund
Fund Balance Fiscal year ended June 30, 2007 - Ending		\$ 15,730,800	\$ 90,530,653
Prior Period Adjustment - Project Retainage	(B)	1,862,979	(1,862,979)
Fiscal year ended June 30, 2008 - Beginning		\$ 17,593,779	\$ 88,667,674

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			
		MPC Fund	General Fund
Fund Balance Fiscal year ended June 30, 2007 - Ending		\$ 15,730,800	\$ 90,530,653
Prior Period Adjustment - Project Retainage	(B)	1,862,979	(1,862,979)
Fiscal year ended June 30, 2008 - Beginning		\$ 17,593,779	\$ 88,667,674

* Only affects Government wide statements

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, 2007 - Ending		\$ 55,225,000
Prior Period Adjustment - Development Infrastructure	(D)	1,527,392
Prior Period Adjustment - Donated Infrastructure	(E)	(1,721,940)
Prior Period Adjustment - Accumulated Depreciation	(F)	27,835
Prior Period Adjustment - Development Infrastructure	(G)	107,443
Fiscal year ended June 30, 2008 - Beginning		\$ 55,165,730

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, 2007 - Ending		\$ 201,002,021
Prior Period Adjustment - Development Infrastructure	(H)	(3,120,625)
Prior Period Adjustment - Development Infrastructure	(I)	349,511
Fiscal year ended June 30, 2008 - Beginning		\$ 198,230,907

NOTE 14 – SUBSEQUENT EVENTS

On September 25, 2008, the City of Surprise issued \$3,395,000 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 6.83 percent average coupon yield and the maturity date is July 15, 2033. 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.

An investment loss of \$0.4 million dollars on a single investment will be recognized in Fiscal Year 2009.

###



SURPRISE
ARIZONA



REQUIRED 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	59
Required Supplementary Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	60
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund by Department	61-62
Changes in Fund Balances – Budget and Actual – Major Special Revenue Funds	63-68
Combining Balance Sheet – Nonmajor Governmental Funds	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	70
Combining Balance Sheet – Nonmajor Special Revenue Funds	71-72
Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Special Revenue Funds	73-74
Supplemental Information – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service and Special Revenue Funds	75-81

Required Supplemental Information:

APSPRS: Schedule of Employer Contributions, Schedule of Funding Progress, and Seven 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	242,684	360,477	100.0%
2006	339,656	477,092	100.0%
2007	396,697	450,556	100.0%
2008 *	552,568	621,367	

*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%
2007	18,593,343	25,841,960	7,248,617	72.0%	14,971,142	48%

**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	339,656	477,092	100.0%	-
2007	396,697	450,556	100.0%	-

**Seven-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, 2008**

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 41,740,900	\$ 41,740,900	\$ 38,674,911
Licenses and permits	4,057,500	4,057,500	3,907,778
Intergovernmental	25,339,900	25,339,900	23,747,993
Charges for services	7,800,200	7,800,200	8,149,699
Grants	7,281,000	7,281,000	491,892
Fines	1,563,700	1,563,700	1,282,024
Rents	129,600	129,600	509,382
Interest	7,802,300	7,802,300	2,033,149
Other	1,979,300	1,979,300	3,375,163
Total revenues	<u>97,694,400</u>	<u>97,694,400</u>	<u>82,171,991</u>
EXPENDITURES			
Current			
General government	60,147,200	59,062,100	16,942,993
Public safety	32,514,600	33,024,400	30,685,756
Public works and streets	8,544,200	8,794,200	7,311,925
Community development	5,952,300	5,968,800	5,179,121
Culture and recreation	13,829,200	13,805,200	13,237,068
Capital Outlay	73,932,800	74,491,300	41,072,063
Debt Service			
Principal	2,500,000	2,500,000	156,052
Interest	-	-	281,182
Total expenditures	<u>197,420,300</u>	<u>197,646,000</u>	<u>114,866,160</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(99,725,900)</u>	<u>(99,951,600)</u>	<u>(32,694,169)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(2,675,900)</u>	<u>(2,675,900)</u>	<u>(2,675,900)</u>
Total Other Financing Sources	<u>(2,675,900)</u>	<u>(2,675,900)</u>	<u>(2,675,900)</u>
NET CHANGE IN FUND BALANCES	<u>(102,401,800)</u>	<u>(102,627,500)</u>	<u>(35,370,069)</u>
FUND BALANCES, beginning of the year	<u>90,530,653</u>	<u>90,530,653</u>	<u>90,530,653</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>(1,862,979)</u>
FUND BALANCES, end of the year	<u>\$ (11,871,147)</u>	<u>\$ (12,096,847)</u>	<u>\$ 53,297,605</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, 2008

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 41,740,900	\$ 41,740,900	\$ 38,674,911
Licenses and permits	4,057,500	4,057,500	3,907,778
Intergovernmental	25,339,900	25,339,900	23,747,993
Charges for services	7,800,200	7,800,200	8,149,699
Grants	7,281,000	7,281,000	491,892
Fines	1,563,700	1,563,700	1,282,024
Rents	129,600	129,600	509,382
Interest	7,802,300	7,802,300	2,033,149
Other	1,979,300	1,979,300	3,375,163
Total revenues	<u>97,694,400</u>	<u>97,694,400</u>	<u>82,171,991</u>
EXPENDITURES			
GENERAL GOVERNMENT			
City council	556,700	500,300	363,832
City manager	1,102,000	1,142,000	1,139,476
Intergovernmental relations	438,500	438,500	413,054
Legal	1,668,500	1,668,500	1,647,835
City clerk	793,900	804,900	774,260
Finance	2,181,100	2,181,100	1,983,744
Human resources	1,407,500	1,432,500	1,230,256
Information technology	4,143,300	4,108,500	3,908,647
Management and budget	1,443,300	1,443,300	1,411,372
Public information	1,030,700	1,030,700	957,900
General operations	45,381,700	44,311,800	3,331,234
Total general government	<u>60,147,200</u>	<u>59,062,100</u>	<u>17,161,610</u>
PUBLIC SAFETY			
City court	2,288,500	2,288,500	2,132,627
Police	16,789,200	17,236,500	16,070,891
Fire	13,436,900	13,499,400	12,482,238
Total public safety	<u>32,514,600</u>	<u>33,024,400</u>	<u>30,685,756</u>
PUBLIC WORKS AND STREETS			
Engineering	3,123,600	3,123,600	2,740,603
Vehicle maintenance	1,716,300	1,716,300	1,520,599
Facilities management	3,546,300	3,796,300	2,935,852
Traffic engineering	60,000	60,000	37,645
Stormwater	98,000	98,000	77,226
Total public works and streets	<u>8,544,200</u>	<u>8,794,200</u>	<u>7,311,925</u>
COMMUNITY DEVELOPMENT			
Econ development	688,900	741,400	678,658
Community development	5,263,400	5,227,400	4,500,463
Total community service	<u>5,952,300</u>	<u>5,968,800</u>	<u>5,179,121</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, 2008

	General Fund		
	Original Budget	Final Budget	Actual
CULTURE AND RECREATION			
Community initiatives	1,578,300	1,598,300	1,486,570
Parks and recreation	12,250,900	12,206,900	11,750,498
Total culture and recreation	<u>13,829,200</u>	<u>13,805,200</u>	<u>13,237,068</u>
DEBT SERVICE			
Principal	2,500,000	2,500,000	78,026
Interest	-	-	140,591
Total debt service	<u>2,500,000</u>	<u>2,500,000</u>	<u>218,617</u>
CAPITAL OUTLAY	<u>73,932,800</u>	<u>74,491,300</u>	<u>41,072,063</u>
Total expenditures	<u>197,420,300</u>	<u>197,646,000</u>	<u>114,866,160</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(99,725,900)</u>	<u>(99,951,600)</u>	<u>(32,694,169)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>(2,675,900)</u>	<u>(2,675,900)</u>	<u>(2,675,900)</u>
Total other financing sources	<u>(2,675,900)</u>	<u>(2,675,900)</u>	<u>(2,675,900)</u>
NET CHANGE IN FUND BALANCES	<u>(102,401,800)</u>	<u>(102,627,500)</u>	<u>(35,370,069)</u>
FUND BALANCES, beginning of the year	<u>90,530,653</u>	<u>90,530,653</u>	<u>90,530,653</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>(1,862,979)</u>
FUND BALANCES, end of the year	<u>\$ (11,871,147)</u>	<u>\$ (12,096,847)</u>	<u>\$ 53,297,605</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, 2008

	Municipal Property Corporation Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Rents	\$ 6,643,500	\$ 6,643,500	\$ 7,335,211
Interest	-	-	713,054
Other	-	-	27,170
Total revenues	<u>6,643,500</u>	<u>6,643,500</u>	<u>8,075,435</u>
EXPENDITURES			
Current			
Public safety	-	-	69,306
Capital outlay	7,095,900	7,095,900	573,284
Debt Service			
Principal	2,500,000	2,500,000	2,535,000
Interest and fiscal charges	2,324,000	2,324,000	4,439,430
Total expenditures	<u>11,919,900</u>	<u>11,919,900</u>	<u>7,617,020</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,276,400)</u>	<u>(5,276,400)</u>	<u>458,415</u>
NET CHANGE IN FUND BALANCES	<u>(5,276,400)</u>	<u>(5,276,400)</u>	<u>458,415</u>
FUND BALANCES, beginning of the year	<u>15,730,800</u>	<u>15,730,800</u>	<u>15,730,800</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>1,862,979</u>
FUND BALANCES, end of the year	<u>\$ 10,454,400</u>	<u>\$ 10,454,400</u>	<u>\$ 18,052,194</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, 2008

	Highway User Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 6,259,500	6,259,500	\$ 6,064,928
Charges for services	-	-	27,775
Grants	-	-	228,538
Interest	-	-	82,231
Other	-	-	42,722
Total revenues	<u>6,259,500</u>	<u>6,259,500</u>	<u>6,446,194</u>
EXPENDITURES			
Current			
Public works and streets	5,596,000	5,571,000	5,407,050
Culture and recreation	558,800	558,800	557,579
Capital outlay	<u>4,573,500</u>	<u>4,747,800</u>	<u>4,637,970</u>
Total expenditures	<u>10,728,300</u>	<u>10,877,600</u>	<u>10,602,599</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,468,800)</u>	<u>(4,618,100)</u>	<u>(4,156,405)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>3,792,300</u>	<u>3,792,300</u>	<u>3,792,300</u>
NET CHANGE IN FUND BALANCES	<u>(676,500)</u>	<u>(825,800)</u>	<u>(364,105)</u>
FUND BALANCES, beginning of the year	<u>2,268,792</u>	<u>2,268,792</u>	<u>2,268,792</u>
FUND BALANCES, end of the year	<u>\$ 1,592,292</u>	<u>\$ 1,442,992</u>	<u>\$ 1,904,687</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, 2008

	Police Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development Fees	\$ 683,400	\$ 683,400	\$ 766,873
Interest	20,000	20,000	62,223
Total revenues	<u>703,400</u>	<u>703,400</u>	<u>829,096</u>
EXPENDITURES			
Current			
Public safety	477,100	477,100	477,100
Capital outlay	1,043,600	1,043,600	85,727
Total expenditures	<u>1,520,700</u>	<u>1,520,700</u>	<u>562,827</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(817,300)</u>	<u>(817,300)</u>	<u>266,269</u>
NET CHANGE IN FUND BALANCES	<u>(817,300)</u>	<u>(817,300)</u>	<u>266,269</u>
FUND BALANCES, beginning of the year	<u>1,739,034</u>	<u>1,739,034</u>	<u>1,739,034</u>
FUND BALANCES, end of the year	<u>\$ 921,734</u>	<u>\$ 921,734</u>	<u>\$ 2,005,303</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, 2008

	Fire Development Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development Fees	\$ 1,297,200	\$ 1,297,200	\$ 1,548,612
Interest	-	-	38,620
Total revenues	<u>1,297,200</u>	<u>1,297,200</u>	<u>1,587,232</u>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	228,500	228,500	504,822
Capital outlay	<u>7,411,800</u>	<u>7,411,800</u>	<u>4,496,629</u>
Total expenditures	<u>7,640,300</u>	<u>7,640,300</u>	<u>5,001,451</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(6,343,100)</u>	<u>(6,343,100)</u>	<u>(3,414,219)</u>
OTHER FINANCING SOURCES (USES)			
Bonds issued	<u>11,979,300</u>	<u>11,979,300</u>	<u>-</u>
Total other financing sources	<u>11,979,300</u>	<u>11,979,300</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>5,636,200</u>	<u>5,636,200</u>	<u>(3,414,219)</u>
FUND BALANCES, beginning of the year	<u>(4,369,847)</u>	<u>(4,369,847)</u>	<u>(4,369,847)</u>
FUND BALANCES, end of the year	<u>\$ 1,266,353</u>	<u>\$ 1,266,353</u>	<u>\$ (7,784,066)</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, 2008

	Transportation Improvement Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 4,887,300	\$ 4,887,300	\$ 6,420,536
Interest	-	-	301,327
Total revenues	<u>4,887,300</u>	<u>4,887,300</u>	<u>6,721,863</u>
EXPENDITURES			
Public works and streets	750,000	750,000	68,647
Capital Outlay	<u>15,129,400</u>	<u>14,479,400</u>	<u>4,430,687</u>
Total expenditures	<u>15,879,400</u>	<u>15,229,400</u>	<u>4,499,334</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,992,100)</u>	<u>(10,342,100)</u>	<u>2,222,529</u>
NET CHANGE IN FUND BALANCES	<u>(10,992,100)</u>	<u>(10,342,100)</u>	<u>2,222,529</u>
FUND BALANCES, beginning of the year	<u>12,308,446</u>	<u>12,308,446</u>	<u>12,308,446</u>
FUND BALANCES, end of the year	<u>\$ 1,316,346</u>	<u>\$ 1,966,346</u>	<u>\$ 14,530,975</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, 2008

	Parks & Recreational Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 2,663,600	\$ 2,663,600	\$ 2,101,227
Interest	-	-	34,088
Total revenues	<u>2,663,600</u>	<u>2,663,600</u>	<u>2,135,315</u>
EXPENDITURES			
Current			
Culture and recreation	3,029,100	3,029,100	1,959,300
Capital Outlay	<u>8,321,800</u>	<u>8,321,800</u>	<u>2,477,274</u>
Total expenditures	<u>11,350,900</u>	<u>11,350,900</u>	<u>4,436,574</u>
REVENUES OVER EXPENDITURES	<u>(8,687,300)</u>	<u>(8,687,300)</u>	<u>(2,301,259)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>8,077,500</u>	<u>8,077,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(609,800)</u>	<u>(609,800)</u>	<u>(2,301,259)</u>
FUND BALANCES, beginning of the year	<u>10,069</u>	<u>10,069</u>	<u>10,069</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (599,731)</u>	<u>\$ (599,731)</u>	<u>\$ (2,291,190)</u>



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

ASSETS	Special Revenue Funds	Debt Service Fund	Marley Park Debt Svc Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 11,900,837	\$ 138,562	\$ 382,363	\$ 12,421,762
Investments	3,602,930	-	-	3,602,930
Receivables (net of allowances)				
Interest	15,929	6	-	15,935
Taxes and franchise fees	-	31,527	3,255	34,782
Other	73,904	-	-	73,904
Prepaid items	-	-	-	-
Total assets	<u>\$ 15,593,600</u>	<u>\$ 170,095</u>	<u>\$ 385,618</u>	<u>\$ 16,149,313</u>
 LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 673,941	\$ -	\$ -	\$ 673,941
Accrued payroll and related taxes	18,901	-	-	18,901
Due to other funds	864,034	-	-	864,034
Other	828,585	-	-	828,585
Total liabilities	<u>2,385,461</u>	<u>-</u>	<u>-</u>	<u>2,385,461</u>
FUND BALANCE				
Reserved for prepaid items	-	-	-	-
Unreserved, reported in				
Special revenue funds	13,208,139	-	-	13,208,139
Debt service funds	-	170,095	385,618	555,713
Total fund balance	<u>13,208,139</u>	<u>170,095</u>	<u>385,618</u>	<u>13,763,852</u>
Total liabilities and fund balance	<u>\$ 15,593,600</u>	<u>\$ 170,095</u>	<u>\$ 385,618</u>	<u>\$ 16,149,313</u>

CITY OF SURPRISE, ARIZONA
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund	Marley Park CFD Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ 1,184,785	\$ 435,327	\$ 1,620,112
Intergovernmental	726,741	-	-	726,741
Charges for services	1,463,009	-	-	1,463,009
Grants	1,161,113	-	-	1,161,113
Fines	66,283	-	-	66,283
Development fees	4,493,678	-	-	4,493,678
Interest	609,048	21,210	-	630,258
Other	386,501	-	-	386,501
Total revenues	<u>8,906,373</u>	<u>1,205,995</u>	<u>435,327</u>	<u>10,547,695</u>
EXPENDITURES				
Current				
General government	59,705	-	-	59,705
Public safety	195,907	-	-	195,907
Public works and streets	2,358,174	-	-	2,358,174
Culture and recreation	1,572,541	-	-	1,572,541
Capital outlay	9,521,684	-	-	9,521,684
Debt service				
Principal	-	1,470,642	40,000	1,510,642
Interest and fiscal charges	-	76,567	149,486	226,053
Debt issuance costs	256,445	-	-	256,445
Total expenditures	<u>13,964,456</u>	<u>1,547,209</u>	<u>189,486</u>	<u>15,701,151</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,058,083)</u>	<u>(341,214)</u>	<u>245,841</u>	<u>(5,153,456)</u>
OTHER FINANCING USES				
Interfund transfers in(out)	2,961,600	-	-	2,961,600
Bonds issued	3,950,000	-	-	3,950,000
Total other financing uses	<u>6,911,600</u>	<u>-</u>	<u>-</u>	<u>6,911,600</u>
NET CHANGE IN FUND BALANCES	<u>1,853,517</u>	<u>(341,214)</u>	<u>245,841</u>	<u>1,758,144</u>
FUND BALANCES, beginning of year	<u>11,354,622</u>	<u>511,309</u>	<u>139,777</u>	<u>12,005,708</u>
FUND BALANCES, end of year	<u>\$ 13,208,139</u>	<u>\$ 170,095</u>	<u>\$ 385,618</u>	<u>\$ 13,763,852</u>

CITY OF SURPRISE, ARIZONA

**SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008**

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Library Development Fund	General Govt. Dev Fee Fund	Employee Dep Scholarship
ASSETS						
Cash and cash equivalents	\$ 867,694	\$ 820,662	\$ -	\$ 3,026,871	\$ 828,556	\$ 14,281
Investments	159,073	417,957	-	750,469	337,957	-
Receivables, net						
Interest	382	702	-	3,070	355	-
Other	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-
Total assets	\$ 1,027,149	\$ 1,239,321	\$ -	\$ 3,780,410	\$ 1,166,868	\$ 14,281
LIABILITIES						
Accounts payable	11,065	9,350	23,862	2,264	23,845	-
Accrued payroll and related taxes	18,901	-	-	-	-	-
Due to other funds	-	-	85,752	-	-	-
Other liabilities	-	-	-	-	-	-
Total liabilities	29,966	9,350	109,614	2,264	23,845	-
FUND BALANCE						
Fund balances						
Reserved for prepaid items	-	-	-	-	-	-
Unreserved						
Undesignated	997,183	1,229,971	(109,614)	3,778,146	1,143,023	14,281
Total fund balances	997,183	1,229,971	(109,614)	3,778,146	1,143,023	14,281
Total liabilities and fund balances	\$ 1,027,149	\$ 1,239,321	\$ -	\$ 3,780,410	\$ 1,166,868	\$ 14,281

Street Lighting Districts	Marley Park Comm. Fac. District	10% Set Aside OTS	Municipal Court Enhancement	Public Works Expansion Development	Roads SPA 2, 4 & 6	Roads SPA 3 & 5	Totals
\$ 308,710	\$ 105,917	\$ 596,662	\$ 250,506	\$ 4,024,600	\$ 1,041,451	\$ 14,927	\$ 11,900,837
-	-	220,649	-	1,716,825	-	-	3,602,930
721	223	319	483	7,638	2,007	29	15,929
73,904	-	-	-	-	-	-	73,904
-	-	-	-	-	-	-	-
\$ 383,335	\$ 106,140	\$ 817,630	\$ 250,989	\$ 5,749,063	\$ 1,043,458	\$ 14,956	\$ 15,593,600
160,623	-	11,025	58	426,134	5,715	-	673,941
-	-	-	-	-	-	-	18,901
778,282	-	-	-	-	-	-	864,034
-	798,595	-	-	29,990	-	-	828,585
938,905	798,595	11,025	58	456,124	5,715	-	2,385,461
-	-	-	-	-	-	-	-
(555,570)	(692,455)	806,605	250,931	5,292,939	1,037,743	14,956	13,208,139
(555,570)	(692,455)	806,605	250,931	5,292,939	1,037,743	14,956	13,208,139
\$ 383,335	\$ 106,140	\$ 817,630	\$ 250,989	\$ 5,749,063	\$ 1,043,458	\$ 14,956	\$ 15,593,600

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, 2008

	Transit Fund	Donations Fund	Neighborh. Revitaliz. Fund	Library Development Fund	General Govt. Dev Fee Fund	Employee Dep Scholarship
REVENUES						
Intergovernmental	\$ 612,270	\$ 114,471	\$ -	\$ -	\$ -	\$ -
Charges for services	20,333	500	-	-	-	-
Grants	29,182	-	459,252	-	-	-
Fines	-	-	-	-	-	-
Development fees	-	-	-	461,743	1,344,928	-
Interest	19,494	47,691	-	111,105	70,289	-
Other	-	213,393	-	-	-	1,561
Total revenues	681,279	376,055	459,252	572,848	1,415,217	1,561
EXPENDITURES						
Current						
General government	-	-	-	-	-	1,500
Public safety	-	161,490	-	-	-	-
Public works and streets	-	-	-	-	-	-
Culture and recreation	721,392	281,989	533,038	-	-	-
Capital outlay	-	-	-	-	1,441,371	-
Debt issuance Costs	-	-	-	-	-	-
Total expenditures	721,392	443,479	533,038	-	1,441,371	1,500
REVENUES OVER (UNDER) EXPENDITURES	(40,113)	(67,424)	(73,786)	572,848	(26,154)	61
OTHER FINANCING SOURCES						
Interfund transfers in	347,400	-	-	-	(384,100)	-
Bonds issued	-	-	-	-	-	-
Total other financing sources	347,400	-	-	-	(384,100)	-
NET CHANGE IN FUND BALANCES	307,287	(67,424)	(73,786)	572,848	(410,254)	61
FUND BALANCES (DEFICIT), beginning of year	689,896	1,297,395	(35,828)	3,205,298	1,553,277	14,220
FUND BALANCES (DEFICIT), end of year	\$ 997,183	\$1,229,971	\$ (109,614)	\$ 3,778,146	\$ 1,143,023	\$ 14,281

Street Lighting Districts	Marley Park Comm. Fac. District	10% Set Aside OTS	Municipal Court Enhancement	Public Works Expansion Development	Roads SPA 2, 4 & 6	Roads SPA 3 & 5	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 726,741
1,442,176	-	-	-	-	-	-	1,463,009
-	-	672,679	-	-	-	-	1,161,113
-	-	-	66,283	-	-	-	66,283
-	-	-	-	1,646,552	1,025,616	14,839	4,493,678
5,383	1,477	29,791	483	311,091	12,127	117	609,048
171,547	-	-	-	-	-	-	386,501
1,619,106	1,477	702,470	66,766	1,957,643	1,037,743	14,956	8,906,373
-	-	58,205	-	-	-	-	59,705
-	-	-	34,417	-	-	-	195,907
1,955,277	-	47,633	-	355,264	-	-	2,358,174
-	-	36,122	-	-	-	-	1,572,541
-	4,211,742	1,302,647	-	2,565,924	-	-	9,521,684
-	256,445	-	-	-	-	-	256,445
1,955,277	4,468,187	1,444,607	34,417	2,921,188	-	-	13,964,456
(336,171)	(4,466,710)	(742,137)	32,349	(963,545)	1,037,743	14,956	(5,058,083)
-	-	580,000	-	2,418,300	-	-	2,961,600
-	3,950,000	-	-	-	-	-	3,950,000
-	3,950,000	580,000	-	2,418,300	-	-	6,911,600
(336,171)	(516,710)	(162,137)	32,349	1,454,755	1,037,743	14,956	1,853,517
(219,399)	(175,745)	968,742	218,582	3,838,184	-	-	11,354,622
\$ (555,570)	\$ (692,455)	\$ 806,605	\$ 250,931	\$ 5,292,939	\$ 1,037,743	\$ 14,956	\$ 13,208,139

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, 2008

	Debt Service Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 1,091,700	\$ 1,091,700	\$ 1,184,785
Interest	1,500	1,500	21,210
Total revenues	<u>1,093,200</u>	<u>1,093,200</u>	<u>1,205,995</u>
EXPENDITURES			
Capital outlay	333,300	333,300	-
Debt service			
Principal	1,051,200	1,051,200	1,470,642
Interest	165,000	165,000	76,567
Total expenditures	<u>1,549,500</u>	<u>1,549,500</u>	<u>1,547,209</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(456,300)</u>	<u>(456,300)</u>	<u>(341,214)</u>
NET CHANGE IN FUND BALANCES	<u>(456,300)</u>	<u>(456,300)</u>	<u>(341,214)</u>
FUND BALANCES, beginning of the year	<u>511,309</u>	<u>511,309</u>	<u>511,309</u>
FUND BALANCES, end of the year	<u>\$ 55,009</u>	<u>\$ 55,009</u>	<u>\$ 170,095</u>
	Transit Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ 450,500	\$ 450,500	\$ 612,270
Charges for services	10,000	10,000	20,333
Grants	-	-	29,182
Interest	2,600	2,600	19,494
Total revenues	<u>463,100</u>	<u>463,100</u>	<u>681,279</u>
EXPENDITURES			
Current			
Culture and recreation	914,200	914,200	721,392
Total expenditures	<u>914,200</u>	<u>914,200</u>	<u>721,392</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(451,100)</u>	<u>(451,100)</u>	<u>(40,113)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	347,400	347,400	347,400
NET CHANGE IN FUND BALANCES	<u>(103,700)</u>	<u>(103,700)</u>	<u>307,287</u>
FUND BALANCES, beginning of the year	<u>689,896</u>	<u>689,896</u>	<u>689,896</u>
FUND BALANCES, end of the year	<u>\$ 586,196</u>	<u>\$ 586,196</u>	<u>\$ 997,183</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, 2008

	Donations Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 114,471
Charges for services	-	-	500
Interest	-	-	47,691
Other	600,000	600,000	213,393
Total revenues	600,000	600,000	376,055
EXPENDITURES			
Current			
General government	600,000	600,000	161,490
Community development	-	-	281,989
Culture and recreation	760,100	760,100	-
Total expenditures	1,360,100	1,360,100	443,479
REVENUES OVER (UNDER) EXPENDITURES	(760,100)	(760,100)	(67,424)
NET CHANGE IN FUND BALANCES	(760,100)	(760,100)	(67,424)
FUND BALANCES, beginning of the year	1,297,395	1,297,395	1,297,395
FUND BALANCES, end of the year	\$ 537,295	\$ 537,295	\$ 1,229,971
	Neighborh. Revitaliz. Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ 261,300	\$ 261,300	\$ 459,252
Total revenues	261,300	261,300	459,252
EXPENDITURES			
Current			
Culture and recreation	1,068,100	1,343,100	533,038
Total expenditures	1,068,100	1,343,100	533,038
REVENUES OVER (UNDER) EXPENDITURES	(806,800)	(1,081,800)	(73,786)
NET CHANGE IN FUND BALANCES	(806,800)	(1,081,800)	(73,786)
FUND BALANCES, beginning of the year	(35,828)	(35,828)	(35,828)
FUND BALANCES (DEFICIT), end of the year	\$ (842,628)	\$ (1,117,628)	\$ (109,614)

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, 2008

	Library Development Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fee	\$ 588,400	\$ 588,400	\$ 461,743
Interest	20,000	20,000	111,105
Total revenues	<u>608,400</u>	<u>608,400</u>	<u>572,848</u>
EXPENDITURES			
Capital Outlay	<u>3,738,000</u>	<u>3,738,000</u>	<u>-</u>
Total expenditures	<u>3,738,000</u>	<u>3,738,000</u>	<u>-</u>
REVENUES OVER EXPENDITURES	<u>(3,129,600)</u>	<u>(3,129,600)</u>	<u>572,848</u>
NET CHANGE IN FUND BALANCES	<u>(3,129,600)</u>	<u>(3,129,600)</u>	<u>572,848</u>
FUND BALANCES, beginning of the year	<u>3,205,298</u>	<u>3,205,298</u>	<u>3,205,298</u>
FUND BALANCES, end of the year	<u>\$ 75,698</u>	<u>\$ 75,698</u>	<u>\$ 3,778,146</u>
	General Govt. Dev Fee Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 872,500	\$ 872,500	\$ 1,344,928
Interest	-	-	70,289
Total revenues	<u>872,500</u>	<u>872,500</u>	<u>1,415,217</u>
EXPENDITURES			
Current			
Capital outlay	<u>1,472,200</u>	<u>1,472,200</u>	<u>1,441,371</u>
Total expenditures	<u>1,472,200</u>	<u>1,472,200</u>	<u>1,441,371</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(599,700)</u>	<u>(599,700)</u>	<u>(26,154)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>(384,100)</u>	<u>(384,100)</u>	<u>(384,100)</u>
NET CHANGE IN FUND BALANCES	<u>(983,800)</u>	<u>(983,800)</u>	<u>(410,254)</u>
FUND BALANCES, beginning of the year	<u>1,553,277</u>	<u>1,553,277</u>	<u>1,553,277</u>
FUND BALANCES, end of the year	<u>\$ 569,477</u>	<u>\$ 569,477</u>	<u>\$ 1,143,023</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, 2008

	Employee Dependent Scholarship Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Interest	\$ 600	\$ 600	\$ -
Other	-	-	1,561
Total revenues	<u>600</u>	<u>600</u>	<u>1,561</u>
EXPENDITURES			
Current			
General government	9,800	9,800	1,500
Total expenditures	<u>9,800</u>	<u>9,800</u>	<u>1,500</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(9,200)</u>	<u>(9,200)</u>	<u>61</u>
NET CHANGE IN FUND BALANCES	<u>(9,200)</u>	<u>(9,200)</u>	<u>61</u>
FUND BALANCES, beginning of the year	<u>14,220</u>	<u>14,220</u>	<u>14,220</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ 5,020</u>	<u>\$ 5,020</u>	<u>\$ 14,281</u>
	Street Lighting District		
	Original Budget	Final Budget	Actual
REVENUES			
Charges for services	\$ 1,532,600	\$ 1,532,600	\$ 1,442,176
Interest	-	-	5,383
Other	553,000	553,000	171,547
Total revenues	<u>2,085,600</u>	<u>2,085,600</u>	<u>1,619,106</u>
EXPENDITURES			
Current			
Public works	2,000,000	2,000,000	1,955,277
Total expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,955,277</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>85,600</u>	<u>85,600</u>	<u>(336,171)</u>
NET CHANGE IN FUND BALANCES	<u>85,600</u>	<u>85,600</u>	<u>(336,171)</u>
FUND BALANCES, beginning of the year	<u>(219,399)</u>	<u>(219,399)</u>	<u>(219,399)</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (133,799)</u>	<u>\$ (133,799)</u>	<u>\$ (555,570)</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, 2008

	Marley Park Community Facilities District		
	Original Budget	Final Budget	Actual
REVENUES			
Property Tax	\$ 10,000	\$ 10,000	\$ -
Interest	-	-	1,477
Other	40,000	40,000	-
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>1,477</u>
EXPENDITURES			
Current			
General government	50,000	50,000	-
Capital Outlay	20,000,000	20,000,000	4,211,742
Debt issuance costs	-	-	256,445
Total expenditures	<u>20,050,000</u>	<u>20,050,000</u>	<u>4,468,187</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(20,000,000)</u>	<u>(20,000,000)</u>	<u>(4,466,710)</u>
OTHER FINANCING SOURCES			
Bonds issued	<u>20,000,000</u>	<u>20,000,000</u>	<u>3,950,000</u>
NET CHANGE IN FUND BALANCES			
	<u>-</u>	<u>-</u>	<u>(516,710)</u>
FUND BALANCES, beginning of the year	<u>(175,745)</u>	<u>(175,745)</u>	<u>(175,745)</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (175,745)</u>	<u>\$ (175,745)</u>	<u>\$ (692,455)</u>
	10% Set Aside Square Mile		
	Original Budget	Final Budget	Actual
REVENUES			
Grants	\$ -	\$ -	\$ 672,679
Interest	3,000	3,000	29,791
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>702,470</u>
EXPENDITURES			
Current			
General government	42,800	42,800	58,205
Public works and streets	47,700	47,700	47,633
Community development	40,000	40,000	-
Culture and recreation	30,700	30,700	36,122
Capital outlay	1,904,900	1,904,900	1,302,647
Total expenditures	<u>2,066,100</u>	<u>2,066,100</u>	<u>1,444,607</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,063,100)</u>	<u>(2,063,100)</u>	<u>(742,137)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>580,000</u>	<u>580,000</u>	<u>580,000</u>
NET CHANGE IN FUND BALANCES			
	<u>(1,483,100)</u>	<u>(1,483,100)</u>	<u>(162,137)</u>
FUND BALANCES, beginning of the year	<u>968,742</u>	<u>968,742</u>	<u>968,742</u>
FUND BALANCES (DEFICIT), end of the year	<u>\$ (514,358)</u>	<u>\$ (514,358)</u>	<u>\$ 806,605</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, 2008

	Municipal Court Enhancement		
	Original Budget	Final Budget	Actual
REVENUES			
Fines	\$ -	\$ -	\$ 66,283
Interest	-	-	483
Total revenues	-	-	66,766
EXPENDITURES			
Current			
Public safety	32,000	32,000	34,417
Capital Outlay	100,000	100,000	-
Total expenditures	132,000	132,000	34,417
REVENUES OVER (UNDER) EXPENDITURES	<u>(132,000)</u>	<u>(132,000)</u>	<u>32,349</u>
NET CHANGE IN FUND BALANCES	<u>(132,000)</u>	<u>(132,000)</u>	<u>32,349</u>
FUND BALANCES, beginning of the year	<u>218,582</u>	<u>218,582</u>	<u>218,582</u>
FUND BALANCES, end of the year	<u>\$ 86,582</u>	<u>\$ 86,582</u>	<u>\$ 250,931</u>
	Public Works Expansion Development		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 1,317,400	\$ 1,317,400	\$ 1,646,552
Interest	600,000	600,000	311,091
Total revenues	<u>1,917,400</u>	<u>1,917,400</u>	<u>1,957,643</u>
EXPENDITURES			
Current			
Public works	352,000	352,000	355,264
Community Development	4,700	4,700	-
Capital outlay	<u>7,236,400</u>	<u>7,236,400</u>	<u>2,565,924</u>
Total expenditures	<u>7,593,100</u>	<u>7,593,100</u>	<u>2,921,188</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,675,700)</u>	<u>(5,675,700)</u>	<u>(963,545)</u>
OTHER FINANCING SOURCES			
Transfers in (out)	<u>2,418,300</u>	<u>2,418,300</u>	<u>2,418,300</u>
NET CHANGE IN FUND BALANCES	<u>(3,257,400)</u>	<u>(3,257,400)</u>	<u>1,454,755</u>
FUND BALANCES, beginning of the year	<u>3,838,184</u>	<u>3,838,184</u>	<u>3,838,184</u>
FUND BALANCES, end of the year	<u>\$ 580,784</u>	<u>\$ 580,784</u>	<u>\$ 5,292,939</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, 2008

	Roads of Regional Significance SPA 3 & 5		
	Original Budget	Final Budget	Actual
REVENUES			
Development fees	\$ 2,698,700	\$ 2,698,700	\$ 14,839
Interest	-	-	117
Total revenues	<u>2,698,700</u>	<u>2,698,700</u>	<u>14,956</u>
EXPENDITURES			
Current			
Public works	269,900	269,900	-
Capital outlay	<u>2,428,800</u>	<u>2,428,800</u>	-
Total expenditures	<u>2,698,700</u>	<u>2,698,700</u>	-
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>14,956</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>14,956</u>
FUND BALANCES, beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,956</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:	82-87
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:	88-92
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:	93-96
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:	97-98
These schedules of demographic and economic indicators help the reader understand the environment that the government's financial activities take place.	
Operating Information:	99-101
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 Seven* 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>2007/08</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	\$ 309,902,948
Restricted	1,119,550	127,420	3,484,897	56,071,995	62,577,192	43,359,822	38,951,785
Unrestricted	53,516,461	52,764,531	60,780,976	57,596,080	75,952,911	86,660,609	54,072,069
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>	<u>\$ 402,926,802</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	238,368,447
Restricted	-	-	-	-	-		
Unrestricted	18,396,644	25,685,807	46,457,623	70,827,452	68,439,086	67,069,983	55,098,885
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>	<u>\$ 293,467,332</u>

* Only last seven fiscal years available for this schedule.

City of Surprise
Changes in Net Assets
Last Seven* 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>2007/08</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	\$ 18,230,474
Public safety	10,638,974	12,421,571	16,091,306	18,142,250	22,468,552	27,987,949	34,962,539
Public works & streets (incl. SLIDS)	6,663,461	6,443,612	8,725,321	9,754,900	69,404,991	20,868,755	25,092,309
Community Development	2,271,931	2,765,942	3,494,720	3,565,707	4,230,145	5,244,991	5,237,442
Culture and Recreation	5,959,097	8,814,719	9,693,533	12,579,822	14,205,034	17,809,127	19,972,094
Interest	4,988,389	3,439,953	2,149,947	2,802,299	2,579,639	2,706,394	5,047,505
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>	<u>108,542,363</u>
Business-type Activities:							
Water	1,782,272	2,520,676	2,743,166	3,761,890	5,100,815	6,486,400	7,060,228
Sewer	5,659,805	5,299,290	431,316	7,348,509	9,261,758	10,765,370	11,021,010
Sanitation	1,171,441	1,286,846	5,310,460	2,064,479	2,705,418	3,542,024	4,015,174
Replenishment	104,292	269,688	1,641,006	461,179	637,096	628,514	1,585,734
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>	<u>23,682,146</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>\$132,224,509</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	7,468,412
Public safety	762,521	809,559	741,975	1,181,405	1,998,261	1,719,969	2,409,665
Public works & streets (incl. SLIDS)	1,627,168	2,445,654	1,002,286	2,729,991	3,294,580	4,165,635	4,017,706
Community Development	10,022	6,501,088	10,698,217	13,613,078	8,715,983	5,527,926	3,441,463
Culture and Recreation	5,175,842	6,938,081	2,309,967	2,637,300	2,447,816	2,474,416	2,903,069
Operating grants and contributions	3,001,252	472,278	1,393,209	1,549,862	2,269,888	2,414,175	2,268,074
Capital grants and contributions	5,890,971	44,075,851	19,008,175	40,482,590	161,045,621	44,800,049	43,039,657
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>66,084,031</u>	<u>65,548,046</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	8,683,732
Sewer	7,870,493	5,416,830	6,856,787	8,155,012	10,844,860	12,367,546	12,990,898
Sanitation	1,161,758	1,771,777	2,036,690	2,569,783	3,893,555	4,573,178	5,280,028
Replenishment	1,586,721	319,719	535,862	650,607	1,037,188	796,503	771,602
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	22,488,762
Total business-type activities program revenues	21,194,085	22,838,283	33,296,121	45,990,499	43,906,953	51,091,282	50,215,022
Total primary government program revenues	42,386,982	84,214,457	73,526,821	113,123,471	228,649,437	117,175,313	115,763,068
Net revenue/expense:							
Governmental activities	(15,480,084)	20,228,379	(9,972,717)	11,104,398	59,913,779	(24,986,376)	(42,994,317)
Business-type activities	12,476,275	13,461,783	23,170,173	32,354,442	26,201,866	29,668,974	26,532,876
Total primary government net expense	(3,003,809)	33,690,162	13,197,456	43,458,840	86,115,645	4,682,598	(16,461,441)
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	7,379,236
Sales taxes	21,892,601	18,649,326	24,087,555	37,433,674	48,617,437	45,707,048	39,336,323
Franchise taxes	1,260,845	1,469,246	1,844,692	2,283,688	2,990,582	3,602,776	3,907,778
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	20,808,942
Unrestricted investment earnings	2,102,205	(151,038)	718,264	2,480,100	4,253,352	7,218,793	3,959,328
Other	1,379,420	1,137,581	617,820	704,004	815,436	1,824,746	1,437,163
Transfers	(2,490,052)	(17,459,444)	(4,053,169)	(1,321,453)	832,783	(36,469,155)	4,078,000
Total governmental activities	30,119,547	12,511,139	31,860,376	51,684,785	70,025,918	47,860,074	80,906,770
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	2,344,100
Transfers	2,490,052	17,459,444	4,053,169	1,321,453	(832,783)	36,469,155	(4,078,000)
Total business-type activities	2,916,784	17,215,264	4,602,940	2,590,774	1,145,363	40,522,668	(1,733,900)
Total primary government	33,036,331	29,726,403	36,463,316	54,275,559	71,171,281	88,382,742	79,172,870
Change in Net Assets							
Governmental activities	14,639,463	32,739,518	21,887,659	62,789,183	129,939,697	22,873,698	37,912,453
Business-type activities	15,393,059	30,677,047	27,773,113	34,945,216	27,347,229	70,191,642	24,798,976
Prior Period Adjustments						21,653,107	(3,430,317)
Total primary government	\$30,032,522	\$63,416,565	\$49,660,772	\$ 97,734,399	\$157,286,926	\$114,718,447	\$ 59,281,112

* Only last seven fiscal years available for this schedule.

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

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
2001/02	\$2,576,629	\$21,892,601	\$1,260,845	\$25,730,075
2002/03	2,945,714	18,649,326	1,469,246	\$23,064,286
2003/04	3,039,352	24,087,555	1,844,692	\$28,971,599
2004/05	4,019,951	37,433,674	2,283,688	\$43,737,313
2005/06	5,078,661	48,617,437	2,990,582	\$56,686,680
2006/07	6,728,647	45,707,048	3,602,776	\$56,038,471
2007/08	7,379,236	39,336,323	3,907,778	\$50,623,337

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

	<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>	<u>2007/08</u>
General Fund							
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<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>	<u>53,297,605</u>
Total general fund	<u><u>\$16,692,310</u></u>	<u><u>\$25,055,910</u></u>	<u><u>\$38,526,585</u></u>	<u><u>\$ 56,760,611</u></u>	<u><u>\$ 74,818,915</u></u>	<u><u>\$ 90,530,653</u></u>	<u><u>\$ 53,297,605</u></u>
All other governmental funds							
Reserved	\$ 3,469,287	\$ 2,289,308	\$ 5,643,105	\$ 2,289,308	\$ 2,289,309	\$ 2,289,308	\$ 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	37,336,735
Debt service funds	<u>189,929</u>	<u>127,420</u>	<u>131,100</u>	<u>133,352</u>	<u>458,821</u>	<u>651,086</u>	<u>555,713</u>
Total all other governmental funds	<u><u>\$56,898,371</u></u>	<u><u>\$55,230,208</u></u>	<u><u>\$74,979,699</u></u>	<u><u>\$ 115,121,914</u></u>	<u><u>\$ 139,685,416</u></u>	<u><u>\$ 130,223,655</u></u>	<u><u>\$ 93,479,361</u></u>

* Only seven 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 Seven* 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>	<u>2007/08</u>
Revenues							
Taxes	\$ 21,733,191	\$25,270,676	\$27,126,908	\$41,459,268	\$53,696,072	\$ 52,439,926	\$ 46,715,559
Licenses and permits	4,518,042	30,212,048	1,844,692	2,283,688	2,990,582	3,602,764	3,907,778
Intergovernmental	6,065,448	6,180,140	9,962,621	9,654,739	12,012,572	29,416,541	30,539,662
Charges for services	6,925,318	9,567,747	14,716,657	17,597,356	13,543,581	11,232,480	9,640,483
Grants	-	119,309	468,774	1,232,108	1,938,848	1,707,016	1,881,543
Fines	681,061	778,307	689,721	1,076,701	1,515,169	1,222,791	1,348,307
Rents	5,630,923	5,431,504	5,524,818	5,520,616	5,274,430	5,224,704	7,844,593
Development fees	4,551,017	8,369,809	15,421,946	24,690,132	16,021,064	10,565,562	8,910,391
Interest	2,127,574	(111,290)	715,156	2,468,787	4,215,995	7,138,672	3,894,950
Other	1,569,922	2,686,313	2,352,780	1,876,431	2,137,960	3,501,040	3,831,556
Total revenues	53,802,496	88,504,563	78,824,073	107,859,826	113,346,273	126,051,496	118,514,822
Expenditures							
General government	7,509,924	7,116,791	9,051,514	8,944,454	11,764,388	15,612,055	17,221,315
Public safety	10,187,801	12,032,201	14,652,086	17,057,307	21,076,990	26,203,451	31,932,891
Public works and streets (incl. SLIDS)	5,309,349	5,333,461	6,506,475	7,527,300	9,294,252	12,655,253	15,145,796
Community development	2,255,604	2,726,882	3,241,710	3,501,454	4,176,022	4,906,263	5,179,121
Culture and recreation	4,639,572	8,577,218	7,328,847	10,644,800	12,137,290	15,537,728	17,326,488
Capital outlay	44,160,723	30,839,511	12,703,354	13,404,250	24,756,609	77,435,948	67,295,318
Debt Service							
Principal	2,027,278	2,613,138	2,673,823	3,645,047	2,941,531	3,683,399	4,123,668
Interest	3,422,375	3,483,891	2,168,792	3,014,562	2,635,689	2,519,077	4,806,074
Other charges	-	-	647,024	-	-	1,747,390	256,445
Total expenditures	79,512,626	72,723,093	58,973,625	67,739,174	88,782,771	160,300,564	163,287,116
Excess of revenues over (under) expenses	(25,710,130)	15,781,470	19,850,448	40,120,652	24,563,502	(34,249,068)	(44,772,294)
Other financing sources (uses)							
Transfers in (out)	(2,490,052)	(17,459,444)	(50,000)	21,563	-	(36,469,155)	4,078,000
From Bonding	-	-	45,660,720	-	-	52,133,243	3,950,000
Payments to refunded bond escrow agent	-	-	(45,711,677)	-	-	-	-
Total other financing sources (uses)	(2,490,052)	(17,459,444)	(100,957)	21,563	-	15,664,088	8,028,000
Prior Period Adjustments		9,811				9,123,219	(599,933)
Net change in fund balances	\$ (28,200,182)	\$ (1,668,163)	\$ 19,749,491	\$ 40,142,215	\$ 24,563,502	\$ (9,461,761)	\$ (37,344,227)
Debt service as a percentage of noncapital expenditures	18.2%	17.0%	11.9%	14.0%	9.5%	8.3%	10.3%

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

City of Surprise
Major Sources of Municipal Transaction Privilege Tax - Cash Basis*
Last 7 Fiscal Years

Description of Payors Business**	Fiscal Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Construction	7,572,938	8,387,094	11,995,287	19,944,596	26,920,187	22,273,119	19,944,596
Retail Trade	5,122,486	5,473,753	6,376,568	7,614,991	9,898,903	10,818,523	7,614,991
Communications and utilities	1,087,945	1,438,346	1,568,774	2,319,957	3,043,575	3,817,854	2,319,957
Restaurant and Bar	1,264,908	2,036,162	2,369,481	2,329,386	3,079,599	3,399,278	2,329,386
Real estate, rental and leasing	594,988	743,144	1,018,429	2,863,422	3,427,657	3,392,492	2,863,422
Other	446,952	547,031	1,974,909	2,747,576	3,213,600	2,873,787	2,747,576
	<u>16,090,217</u>	<u>18,625,530</u>	<u>25,303,448</u>	<u>37,819,927</u>	<u>49,583,522</u>	<u>46,575,052</u>	<u>37,819,927</u>

*Reported on by Arizona Department of Revenue on the cash basis to the City. The City records transaction privilege tax on the modified accrual basis. Therefore there is a difference between the amounts on this schedule and transaction privilege tax reported on page 84.

** 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 Seven 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%
2007/08	1,079,864,541	510,525,409	133,155,590	1,457,234,360	0.7600	13,645,111,961	10.68%

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

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

Year ³	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	4.5856	1.3185	5.9041	1.8891	10.0362
2004	0.7501	0.1600	0.9101	1.2108	0.0000	0.0521	1.2629	5.0924	1.3014	6.3938	1.8320	10.3988
2005	0.7277	0.1824	0.9101	1.1971	0.0000	0.0521	1.2492	5.4627	1.6924	7.1551	1.9267	11.2411
2006	0.7229	0.1872	0.9101	1.1794	0.0000	0.0507	1.2301	5.1144	1.8378	6.9522	1.5145	10.6069
2007	0.6593	0.1007	0.76	1.1046	0.0000	0.0391	1.1437	4.4326	1.6402	6.0728	1.3281	9.3046
2008	0.5939	0.0195	0.6134	1.0327	0.0000	0.0353	1.0680	4.0525	1.5226	5.5751	1.2662	8.5227

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

³Year 2002 is for 02/03, 2003 for 03/04, etc..

**City of Surprise
Principal Taxpayers¹
June 30, 2008**

Taxpayer	Type of Property	2006/07 ²		1996/97			
		Taxable Assessed Valuation	Rank	As % of City's Total Assessed Valuation	Taxable Assessed Valuation	Rank	As % of City's Total Assessed Valuation
Arizona Public Service Company	Gas & Electricity Utility Operating Property	16,900,644	1	2.27%	3,200,238	1	6.61%
Surprise Center Development LLC	Vacant Commercial Urban Non-Subdivide	6,960,570	2	0.93%			
Southwest Gas Corporation (T&D)	Gas & Electricity Utility Operating Property	4,987,782	3	0.67%	341,735	15	0.71%
Courtland Homes Inc.	Vacant Residential Rural Subdivided	4,193,714	4	0.56%			
Cox Com Inc	Commercial Property-Cable Infrastructure	3,689,709	5	0.50%			
Aawc: Agua Fria Water Division	Water Utility	3,678,656	6	0.49%	380,125	12	0.78%
Surprise Towne Center Holdings	Power Center	3,662,462	7	0.49%			
Dtr8 LLC	Vacant Residential Urban-Non-Subdivided	3,656,553	8	0.49%			
Surprise Marketplace Holdings	Neighborhood Shop Ctr Nonqualifying	3,222,369	9	0.43%			
Wal-Mart Stores Inc	Power Center	3,207,471	10	0.43%			
Qwest Corporation	Telecommunications Property	3,044,495	11	0.41%	1,651,829	2	3.41%
Chi Construction Company	Vacant Undetermined Rural Non-Subdivided	2,677,459	12	0.36%			
Litchfield Bell/Grand LLC	Miscellaneous Commercial	2,490,982	13	0.33%			
Target Corporation	Department Store	2,452,675	14	0.33%			
Lowe's H I W Inc	Warehouse Type Store	2,399,075	15	0.32%			
Safeway Inc	Neighborhood Shopping Center	2,287,206	16	0.31%			
Bell Rd Towne Center L.L.C.	Retail Strip Center	2,283,628	17	0.31%			
Smiths Food & Drug Centers Inc	Neighborhood Shopping Center	2,261,837	18	0.30%			
Austin Ranch LLC	Vacant Undetermined Rural Non-Subdivided	2,219,266	19	0.30%			
Surprise Village North LLC	Golf Course	2,055,210	20	0.28%			
Del Webbs Sun City Grand	Field Crops				1,410,918	3	2.91%
Paseo Village Ltd. Partnership	Auto Sales				1,039,842	4	2.15%
Surprises Village Co. L.L.C.	Field Crops				888,819	5	1.83%
Happy Trails Acquisition Limited Partners	Club & Lodge Halls				829,983	6	1.71%
Windmill Inn/Attn: Property Tax	Hotel				731,996	7	1.51%
Coastal American Corporation	Commercial Bldg				579,954	8	1.20%
Partnership Q.Afford HSNG 2	Apartments				468,000	9	0.97%
Bell Plaza Lakes Management	Warehouse/Truck Terminal				458,858	10	0.95%
Coyote Lakes Joint Venture	Dive-In/Golf Course/Race Track				430,479	11	0.89%
First American Title	Lands not included in prior class				359,439	13	0.74%
Sun Village Homeowners Assoc.	Club & Lodge Halls				357,020	14	0.74%
Sage Development Corporation	Citrus				288,826	16	0.60%
Stewart Title & Trust of Phoenix Inc. Tr.	Vacant Land				278,400	17	0.57%
Burlington Northern/Santa Fe Railway Co.	Railroad Property Operating				262,684	18	0.54%
		<u>78,331,763</u>		<u>10.52%</u>	<u>13,959,145</u>		<u>28.81%</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
2007/08	5,848,170	5,745,663	98.2	-	5,745,663	98.2

City of Surprise
Ratios of Outstanding Debt by Type
Last Seven 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	6.0%	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	2.9%	619
2006/07	1,883,912	1,365,000	99,730,000	102,978,912	4.5%	1,068
2007/08	413,270	5,275,000	97,195,000	102,883,270	4.1%	1,048

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 97 for personal income and population data.

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

City of Surprise
Ratios of General Bonded Debt Outstanding
Last Seven³ 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	0.267%	\$ 138
2002/03	4,922,738	127,420	4,795,318	0.198%	106
2003/04	4,353,867	131,100	4,222,767	0.136%	81
2004/05	3,763,842	133,352	3,630,490	0.087%	57
2005/06	3,157,311	458,821	2,698,490	0.051%	31
2006/07	1,883,912	511,309	1,372,603	0.020%	14
2007/08	413,270	170,095	243,175	0.002%	2

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 88 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 97.

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

City of Surprise
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008

<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	\$ 177,865,000	1.65%	\$ 2,934,773
Maricopa County Community College	577,995,000	1.65%	9,536,918
Dysart Unified School District No. 89	95,255,000	59.52%	56,692,976
Subtotal, overlapping debt			<u>\$ 69,164,666</u>
City of Surprise, Arizona direct debt			<u>413,270</u>
Total direct and overlapping debt			<u><u>\$ 69,577,936</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 Seven* Fiscal Years

	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>Unrestricted</u> <u>Fiscal Year</u> <u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
Debt limit 6%	\$ 13,779,754	\$ 16,811,454	\$ 21,121,049	\$ 28,849,802	\$ 35,912,240	\$ 44,671,757	\$ 87,434,062
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>	<u>\$ 87,434,062</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%	0.00%

Unrestricted Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$ 1,590,389,950
Less: exempt real property	133,155,590
Total net assessed value	<u>\$ 1,457,234,360</u>
Debt limit (6% of total assessed value)	87,434,062
Debt applicable to limit:	
General obligation bonds	-
Total net debt applicable to limit	<u>-</u>
Legal debt margin	<u>\$ 87,434,062</u>

	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>Restricted</u> <u>Fiscal Year</u> <u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
Debt limit 20%	\$ 45,932,514	\$ 56,038,180	\$ 70,403,497	\$ 96,166,008	\$ 119,707,465	\$ 148,905,857	\$ 291,446,872
Total net debt applicable to limit	5,280,867	4,795,318	4,222,767	3,630,490	2,698,490	1,372,603	243,175
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>	<u>\$ 291,203,697</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%	0.08%

Restricted Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$ 1,590,389,950
Less: exempt real property	133,155,590
Total assessed value	<u>\$ 1,457,234,360</u>
Debt limit (20% of total assessed value)	291,446,872
Debt applicable to limit:	
General obligation bonds	413,270
Less: Amount set aside for repayment of general obligation debt	170,095
Total net debt applicable to limit	<u>243,175</u>
Legal debt margin	<u>\$ 291,203,697</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 seven 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^{1,2,4}	Median Age^{1,2,4}	Education Level in Years of Formal Schooling^{2,4}	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	2,303,409,583	60,198	36.0	N/A	4.5%
2007	98,140	2,500,467,000	64,206	N/A	N/A	4.8%

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

⁴ City-Data.com

N/A - Not available at this time.

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

Employer	2007 ²		2006 ²		2005 ³		2004 ³		2003 ³		2002 ³	
	Employees	Rank										
Dysart School District (Surprise Schools Only)	1056	1	1,040	1	450	4	557	2	413	4	219	6
City of Surprise*	875	2	830	2	660	1	501	4	449	3	389	3
Wal-Mart	725	3	685	3	600	2	550	3	550	2	740	2
Del Webb/Pulte	360	4	500	4	555	3	370	5	350	5	350	4
Surprise Charter Schools (3)	280	5	335	5	280	5	181	6				
Home Depot	160	6	230	6	115	12	160	10	160	9	160	9
APS / Pinnacle West	175	7	140	10	130	11	150	14	150	11	175	7
Fry's Food Store	165	8	165	8	135	10	175	7	165	8	165	8
Target	160	9	140	11	135	10	115	18	100	17	110	12
Lowe's	150	10	115	13	105	13	140	16	115	15	115	11
Sunstate Components - Truss Mfg.	120	11	130	12	105	13	85	23	85	18		
Albertson's Food Store	110	12	150	9	215	6	175	8	175	6	250	5
Sun City Grand Community Association			230	7	210	7						
Waste Management - Arizona					200	8						
Smith Food and Drugs					145	9						
Del Webb Hospital, Surrounding Clinics, Services							1531	1	1399	1	1108	1
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				
Olive Garden							140	15	140	14		
Kohl's Department Store							120	17	150	12		
Best Buy					105	19	105	19				
Surprise Post Office					100	20	100	20	85	19		
Foxworth-Galbraith - Truss Mfg.					100	21	100	21	100	16	100	13
Volvo Proving Grounds					85	22	85	22	85	20		
Cobblestone Auto Spa & Market					75	24	75	24				
Red Eagle/El Porvenir Tortilla Factory					70	25	70	25	70	21		
Concrete Reinforcement Inc.					60	26	60	26	54	22		
Janus International - Steel Door Mfg.					49	27	49	27	45	23		
Arizona Republic Distribution Center					41	28	41	28	41	24		
Safeway Food Store											130	10

¹Presented for years information was available.

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

³ City of Surprise Economic Development Division

*Average FTE's

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

Function	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>	<u>2007-08</u>
General government	60	68	65	80	97	124	139
Public Safety:							
Police:							
Officers	73	80	84	97	117	128	150
Civilians	11	12	13	13	14	15	20
Fire:							
Firefighters and officers	68	77	91	94	106	129	156
Civilians	2	3	3	4	6	9	10
Public works and streets:							
All others	50	52	55	63	78	89	105
Community development	31	33	37	43	49	51	48
Culture and recreation	32	76	85	94	103	112	124
Water	4	5	6	7	10	8	8
Sanitation	7	8	11	16	23	29	29
Sewer	11	14	17	20	26	30	34
Replenishment	1	1	1	1	1	3	5
Total	350	429	468	532	630	727	828

*Data limited to seven years due to data availability.

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

Function	Fiscal Year						
	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
Public Safety:							
Police:							
Calls- incidents responded to	41,600	52,700	58,800	60,450	69,000	84,863	88,321
Citations issued	N/A	N/A	9,119	11,080	12,117	8,347	11,732
Officers per 1000 residents	1.2	1.3	1.2	1.1	1.1	1.2	1.2
Fire:							
Number of responses	4,179	5,086	6,628	7,416	8,668	9,120	10,281
Inspections	1,413	1,796	852	1,023	1,055	2,164	2,285
Public works and streets:							
Sq. ft. Of buildings to maintain	213,034	287,034	320,700	340,700	375,000	378,900	535,717
Vehicles/equipment maintained per month	N/A	27	200	229	244	394	418
Number of street lights repaired	N/A	20	50	135	150	148	124
Street miles maintained	N/A	418	525	550	593	593	593
Community development:							
Building Safety Inspections Performed	N/A	53,821	76,843	61,215	37,607	38,000	30,311
Culture and recreation:							
Organized recreation program participants	14,798	29,430	34,700	41,700	29,000	27,760	132,795
Special events/open facility participants	45,558	116,109	146,200	150,300	144,000	157,800	249,599
Sewer:							
Average daily sewage treatment (million gallons per day)	2.8	3.1	4.5	5.9	7.0	7.0	7.3
Sanitation:							
Refuse collected (tons/annually)	14,487	17,241	18,470	21,200	28,100	30,700	31,506
Number of routes	6	7	8	11	31	31	25
Total services	11,513	13,390	15,341	21,800	28,625	30,800	32,096

Sources: Various government departments

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

N/A - Not available.

**City of Surprise
Capital Asset Statistics by Function
Last Seven* 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>	<u>2007/08</u>
Public Safety:							
Police:							
Stations	1	1	2	2	2	2	2
Patrol Units	40	40	46	55	75	66	68
Fire Stations	3	4	4	4	4	4	6
Fire Engines and Ladder Trucks	4	4	4	6	7	7	9
Public works and streets:							
Street miles	450	540	630	586	593	593	593
Street Lighting Improvement Districts	23	37	43	57	69	71	79
Traffic Signals	10	13	16	20	23	27	34
Bridges	1	1	1	1	1	1	9
Community development:							
Inspection vehicles	14	16	16	27	29	23	14
Annual New Residential Starts	3435	3263	5304	7704	6866	1759	774
Culture and recreation:							
Parks acreage	15	277	277	278	284	284	367
Parks	4	5	5	6	7	9	12
Swimming pools	1	1	2	2	2	2	2
Softball fields	2	2	2	2	2	3	3
Baseball fields	0	15	15	15	15	17	17
Libraries	1	2	2	2	2	2	2
Water:							
Water Service Connections	5,116	5,939	7,593	11,047	13,249	13,985	14,375
Well Production Maximum daily capacity (millions of gallons)	3.3 mgd	3.3 mgd	5.8 mgd	5.8 mgd	20.2 mgd	21.8 mgd	21.8 mgd
Sewer:							
Sewer Treatment Plants - City owned	2	2	1	1	1	1	1
Sewer Treatment Plants - City managed						1	1
Sewer Service Connections	N/A	17,293	26,991	35,001	40,072	42,284	42,912
City owned							
Maximum daily treatment capacity	3.2 mgd	3.3 mgd	7.2 mgd	7.2 mgd	7.5 mgd	8.3 mgd	8.3 mgd
City managed							
Maximum daily treatment capacity						0.4 mgd	0.4 mgd
Sanitation:							
Collection trucks	8	9	11	17	22	22	25

Sources: Various government departments

* Only seven years presented to conform to other schedules.