

CITY OF MARICOPA

FINANCIAL STATEMENTS

Year Ended June 30, 2004

CITY OF MARICOPA

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON AUDIT OF FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Statement of Net Assets	8
Statement of Activities	9
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) - General Fund	21
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) - Highway Users Revenue Fund	22



HENRY & HORNE, P.L.C.
Advisors to Business

Independent Auditors' Report

The Honorable Mayor and Council
City of Maricopa, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Maricopa (the City), Arizona, for the period from inception (October 15, 2003) to June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Maricopa, Arizona, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and the Highway Users Revenue Fund for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages four through eight is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

October 5, 2004

City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004

As management of the City of Maricopa (City), we offer readers of the City's financial statements this narrative and analysis of the financial activities of the City for the period ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and the notes thereto.

Because the City was incorporated during the current fiscal year, no comparisons to prior year's results are available for analysis purposes.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's basic finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Net assets are categorized as invested in capital assets less related debt, restricted by a third party, and unrestricted. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

In the government-wide financial statements the City's activities are presented in the following category:

- **Governmental activities** – All of the City's basic services are included here, including general government, public works, and culture and recreation. Sales taxes, state shared revenues, and charges for services finance most of these activities.

The government-wide financial statements can be found on pages 8 through 9 of this report.

City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004

OVERVIEW OF FINANCIAL STATEMENTS, continued

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds currently used by the City are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the period. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are provided on pages 11 and 13, respectively.

During the period ended June 30, 2004, the City maintained only two governmental funds, the General Fund and the Highway Users Revenue Fund. Both of these funds are considered to be major funds.

The governmental funds financial statements can be found on pages 10 and 12 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund and the Highway Users Revenue Fund as required supplementary information. The required supplementary information can be found on pages 21 and 22 of this report.

City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 795,631 as of June 30, 2004.

The most significant portion of the City's net assets (98.2%) is reported as unrestricted as of June 30, 2004. This is a reflection of the "start-up" nature of the City's operations, as most established cities report a significant portion of their net assets as invested in capital assets net of related debt. In the case of the City, only 1.8% of its net assets are reported as invested in capital assets. The following table presents a condensed statement of net assets.

	Governmental Activities 2004	Total 2004
Current assets	\$ 1,036,437	\$ 1,036,437
Capital assets, net	14,000	14,000
Non-current assets	-	-
Total assets	1,050,437	1,050,437
Current liabilities	254,806	254,806
Non-current liabilities	-	-
Total liabilities	254,806	254,806
Net assets:		
Invested in capital assets, net of related debt	14,000	14,000
Restricted	-	-
Unrestricted	781,631	781,631
Total net assets	\$ 795,631	\$ 795,631

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The City incorporated in October 2003.
- The City adopted a sales tax ordinance during the current period that resulted in revenues of approximately \$ 859,800 during the year.
- The City received approximately \$ 129,600 of state shared revenues in the Highway Users Revenue Fund which was not obligated and spent until subsequent fiscal years.

**City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Changes in net assets. The City's total revenues for the period ended June 30, 2004 were \$ 1,246,841. The total cost of all programs and services was \$ 451,210. The following table presents a summary of the changes in net assets for the period ended June 30, 2004.

	Governmental Activities <u>2004</u>	Total <u>2004</u>
Revenues:		
Program revenues		
Charges for services	\$ 88,423	\$ 88,423
Operating grants and contributions	-	-
Capital grants and contributions	-	-
General revenues		
Sales taxes	859,799	859,799
State shared revenues	298,355	298,355
Contributions	264	264
Total revenues	<u>1,246,841</u>	<u>1,246,841</u>
Expenses:		
General government	432,863	432,863
Public works	11,507	11,507
Culture and recreation	4,785	4,785
Interest and fiscal charges	2,055	2,055
Total expenses	<u>451,210</u>	<u>451,210</u>
Increase in net assets	795,631	795,631
Beginning net assets	<u>-</u>	<u>-</u>
Ending net assets	<u>\$ 795,631</u>	<u>\$ 795,631</u>

As shown above, the City's primary financing sources are sales taxes (68.9%) and state shared revenues (23.9%). The City's largest use of resources was for general government (95.9%).

City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$ 784,706. Total fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion.

The general fund is the chief operating fund of the City. At the end of the current period, the general fund reported an unreserved fund balance of \$ 655,065. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 141.7% of total fund expenditures.

Fund balance of the City's general fund increased by \$ 655,065 during the current period, much of which is attributable to the "start up" nature of the City's operations during 2004.

BUDGETARY HIGHLIGHTS

The City adopted its first annual operating budget in October 2003. The budget was amended once during the year to reallocated projected expenditures across the City's departments. Schedules showing the budget amounts compared to the City's actual financial activity for the General and Highway Users Revenue Funds are provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2004, the City had invested \$14,000 in capital assets, which consisted solely of the City's investment in software. Total depreciation for the year was \$ 0 as the software was acquired and installed at the end of the year. Additional information on the City's capital assets can be found in Note 3 on pages 18 to 19 of this report.

**City of Maricopa, Arizona
Management's Discussion and Analysis (MD&A)
For the Period October 15, 2003 - June 30, 2004**

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Debt Administration. As of June 30, 2004, the City had no long-term debt outstanding and lacked the legal capacity to issue most common forms of long-term debt obligations. Arizona state statutes require the City to obtain the approval of the voters prior to issuing most forms of general obligation and revenue type bonds. To date, the City has not yet had to seek the approval of the voters to issue debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

City management considered many factors in the process of developing the operating budget for the fiscal year 2004-2005. The most significant factors affecting the subsequent year's budget are:

- As of July 1, 2004 the City is responsible for the provision of police protection and street operation and maintenance within its borders. Prior to that date, those services were provided by Pinal County. The City expects the costs to provide police services and street operations and maintenance to be approximately \$ 800,000 and \$ 500,000, respectively, in the next fiscal year.
- The City is currently in a "hyper-growth" phase that is projected to result in an increase in the City's population from its current level of approximately 5,000 to over 150,000 within ten years. As a result of this growth, the City anticipates that it will have to add approximately ten new full-time employees and an equal number of contract employees during the next fiscal year. The anticipated costs related to these new employees and contractors are approximately \$ 2 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Department, City of Maricopa, P.O. Box 610, Maricopa, AZ 85239.

City of Maricopa, Arizona
Statement of Net Assets
June 30, 2004

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Equity in pooled cash and investments	\$ 503,884
Receivables (net of allowance for uncollectibles)	532,553
Capital assets:	
Other capital assets (net of accumulated depreciation)	<u>14,000</u>
Total assets	<u>1,050,437</u>
LIABILITIES	
Accounts payable	97,587
Accrued wages	3,656
Compensated absences	3,163
Due to other governments	<u>150,400</u>
Total liabilities	<u>254,806</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,000
Unrestricted	<u>781,631</u>
Total net assets	<u>\$ 795,631</u>

City of Maricopa, Arizona
Statement of Activities
For The Period October 15, 2003 - June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 432,863	\$ 83,670	\$ -	\$ -
Public works	11,507	4,753	-	-
Culture and recreation	4,785	-	-	-
Interest	2,055	-	-	-
Total governmental activities	<u>\$ 451,210</u>	<u>\$ 88,423</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
City sales taxes
Shared revenues:
State sales taxes
Motor vehicle fuel taxes
Auto-in-lieu
Contributions not restricted to specific programs

Total general revenues

Change in net assets

Net assets-beginning

Net assets-ending

Net (Expense)
Revenue and
Changes in Net Assets

Total
Governmental
Activities

\$ (349,193)
(6,754)
(4,785)
(2,055)
(362,787)

859,799

120,386

129,641

48,328

264

1,158,418

795,631

\$ 795,631

City of Maricopa, Arizona
 Balance Sheet
 Governmental Funds
 June 30, 2004

ASSETS	General	Highway Users Revenue Fund	Total Governmental Funds
Equity in pooled cash and investments	\$ 412,188	\$ 91,696	\$ 503,884
Taxes receivables	493,279	37,945	531,224
Accounts receivable	1,329	-	1,329
 Total assets	 <u>\$ 906,796</u>	 <u>\$ 129,641</u>	 <u>\$ 1,036,437</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 97,587	\$ -	\$ 97,587
Accrued wages	3,656	-	3,656
Compensated absences	88	-	88
Due to other governments	150,400	-	150,400
 Total liabilities	 <u>251,731</u>	 <u>-</u>	 <u>251,731</u>
 Fund balances:			
Unreserved, reported in:			
General fund	655,065	-	655,065
Special revenue fund	-	129,641	129,641
 Total fund balances	 <u>655,065</u>	 <u>129,641</u>	 <u>784,706</u>
 Total liabilities and fund balance	 <u>\$ 906,796</u>	 <u>\$ 129,641</u>	 <u>\$ 1,036,437</u>

City of Maricopa, Arizona
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2004

Fund balance - total governmental funds balance sheet \$ 784,706

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 14,000	
Less accumulated depreciation	-	14,000

Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(3,075)
---	---------

Net assets of governmental activities - statement of net assets \$ 795,631

City of Maricopa, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Period October 15, 2003 - June 30, 2004

REVENUES	General	Highway Users Revenue Fund	Total Governmental Funds
City sales taxes	\$ 859,799	\$ -	\$ 859,799
Licenses and permits	18,239	-	18,239
Intergovernmental revenues	168,714	129,641	298,355
Charges for services	70,184	-	70,184
Miscellaneous	264	-	264
Total revenues	1,117,200	129,641	1,246,841
EXPENDITURES			
Current:			
General government	424,283	-	424,283
Public works	11,507	-	11,507
Culture and recreation	4,785	-	4,785
Capital outlay	19,505	-	19,505
Debt service-interest	2,055	-	2,055
Total expenditures	462,135	-	462,135
 Excess of revenues over expenditures	 655,065	 129,641	 784,706
 Fund balances - beginning of year	 -	 -	 -
 Fund balances - end of year	 <u>\$ 655,065</u>	 <u>\$ 129,641</u>	 <u>\$ 784,706</u>

City of Maricopa, Arizona
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental
Funds To the Statement of Activities
For The Period October 15, 2003 - June 30, 2004

Net change in fund balances - total governmental funds \$ 784,706

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.
This is the amount by which capital outlays exceeded depreciation
in the current period.

14,000

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds.

(3,075)

Change in net assets of governmental activities

\$ 795,631

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

The City of Maricopa (the 'City') was incorporated on October 15, 2003. The government of the City is organized under the authority of Title 9 of the Arizona State Statutes and is operated under a Common Council – Manager form of government. The City is governed by a seven-member council.

The following notes to the financial statements are an integral part of the City's financial statements.

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and procedures of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. 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 City's accounting policies are described below.

A. Reporting Entity

As required by GAAP, these financial statements present the City and its component units, i.e. entities for which the City is considered to be financially accountable and/or exercise significant influence over operations. Blended component units, although separately legal entities are in substance part of the City's operations, and therefore data from these units are combined with the data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements, to emphasize that they are legally separate from the City. As of June 30, 2004 the City had no blended or discretely presented component units, nor was the City a component unit of any other reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the City as a whole. The reported information includes all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these financial statements. These financial statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state shared revenues, system development fees, investment income and other items not included among program revenues are reported as general revenues.

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 1 Summary of Significant Accounting Policies, continued

Separate financial statements are provided for governmental funds with major individual governmental funds reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. The exception is any interfund activity between governmental and business type activities, such as transfers.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The focus of governmental 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 City reports the following major governmental funds:

General Fund – This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 1 Summary of Significant Accounting Policies, continued

Highway Users Revenue Fund – This fund is used to account for the maintenance and operations of the City's street system. The fund's major funding source is a state shared revenue derived from the sales taxes on gasoline sales and other transportation fees and charges.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Budgeting and Budgetary Control

The City Council formally adopts an annual operating budget for the General and Special Revenue Funds. The statutory level of control at which expenditures may not exceed budget is at the total expenditure level. However the City's internal policy is that expenditures may not exceed budget by department within each fund, except for bond and grants-in-aid funds, which are exempted by statute. Upon written request from the City Manager, the Council has the authority to transfer part or all of any unencumbered appropriation balance from one department or fund to another. The City Manager, upon request from Department Heads, may approve transfers of appropriations between divisions and expenditure categories within departments. Appropriations totaling \$ 308,730 were transferred between departments in the General Fund during the current fiscal year.

All appropriations expire at the end of the fiscal year except for encumbered appropriations which lapse 60 days after the end of the fiscal year. Encumbrance accounting, under which purchase orders, contracts and other commitments for the future expenditure of funds are recorded in order to reserve that portion of the related fund balance, is employed in the governmental fund types.

The budgets are adopted on a basis differing from GAAP in that for budgetary purposes current year encumbrances are treated as expenditures.

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all governments. This limitation restricts the growth of expenditures to a percentage determined by population and inflation, with certain expenditures excluded from the limitation. Through a vote of the qualified electors, a government may permanently adjust its base limitation to increase its annual expenditure limitation. At the general election held November 2, 2004, the City of Maricopa voters approved a permanent adjustment of \$ 9,750,000 to the City's base limitation.

E. Pooled Cash and Investments

State statutes generally authorize the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, obligations of the State of Arizona or its political subdivisions, certificates of deposit, repurchase agreements, and the State of Arizona's Local Government Investment Pool (LGIP).

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 1 Summary of Significant Accounting Policies, continued

The State Board of Deposit provides oversight for the State Treasurer's pool, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

Cash resources of the City are combined to form a pool of cash and investments. Interest earned on the pooled cash and investments is distributed monthly on the basis of average monthly equity in the pool.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$ 10,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2004. The City qualifies as a Phase 3 implementer of GASB 34, and has elected under that standard to not report infrastructure assets in existence prior to that date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Estimated useful lives for capital assets were determined based upon lives commonly used by other Arizona governmental agencies and various industry standards. Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Building improvements	20
Infrastructure	12-50
Vehicles	5-7
Machinery and equipment	5-15

G. Compensated Absences

Vacation leave vests with the employee as it is earned. All employees may carry forward only the amount of vacation benefits equal to the maximum allowable earned credits for the preceding calendar year. Accordingly, at fiscal year end, the liability for accumulated vacation is reported on the government-wide financial statements as a current liability. Fund financial statements include an accrual of vacation pay and

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 1 Summary of Significant Accounting Policies, continued

related benefits, which would normally be liquidated with expendable available financial resources. As such, the vacation accrual of \$ 88 at June 30, 2004 will be paid in full from current available financial resources. Upon termination or retirement, an employee will be compensated for accumulated vacation leave. Payment will be based upon the individual's rate of pay at termination or retirement. Upon death, the same benefits shall be paid to the employee's beneficiary.

Sick leave benefits provided for ordinary sick pay are not vested with the employee.

H. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as Equity in Pooled Cash and Investments. Pooled cash and investments are stated at fair value with any accrued interest shown separately.

Deposits

At year-end, the carrying amount of the City's deposits was \$ 503,884 and the bank balance was \$ 521,623. Of the bank balance, \$ 100,000 was covered by federal depository insurance and the remaining balance of \$ 421,623 was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the City's name.

NOTE 3 Capital Assets

The City was incorporated on October 15, 2003 and, until July 1, 2004, Pinal County, Arizona had the primary management responsibility for all public infrastructure within the City's boundaries. As a result, the City has not reported any public infrastructure assets in its financial statements for the current fiscal year. Subsequent to the balance sheet date, the City assumed primary management responsibility for the public infrastructure systems within its boundaries and will be reporting those assets in its financial statements in subsequent fiscal years.

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 3 Capital Assets, continued

A summary of changes in capital assets for governmental activities is as follows:

	Balance 10/15/03	Additions and Transfers In	Deletions and Transfers Out	Balance 6/30/2004
Capital assets being depreciated:				
Machinery and equipment	\$ -	\$ 14,000	\$ -	\$ 14,000
	-	14,000	-	14,000
Less accumulated depreciation for:				
Machinery and equipment	-	-	-	-
	-	-	-	-
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 14,000</u>	<u>\$ -</u>	<u>\$ 14,000</u>

NOTE 4 Due to Other Governments

The City's Development Services Department collects, at the time of building permit issuance, a development fee imposed on new residential and commercial construction by the Maricopa Fire District. The fee is collected by the City under an intergovernmental agreement which calls for the City to remit the funds to the District monthly. At June 30, 2004 the City had collected, but not remitted \$ 150,400 on behalf of the District.

NOTE 5 Operating Leases

The City leases approximately 4,400 square feet of office space under cancelable operating leases expiring through 2005. Total costs for such leases were \$ 14,835 for the year ended June 30, 2004. The future minimum lease payments for these leases are as follows:

Fiscal year ending	
June 30,	Amount
2005	\$ 22,692
2006	1,630
Total	<u>\$ 24,322</u>

NOTE 6 Short Term Borrowings

The City maintains a line of credit with its financial institution giving the City access to a maximum short term borrowing of \$ 250,000. At June 30, 2004, there was no outstanding balance.

City of Maricopa, Arizona
Notes to the Financial Statements
June 30, 2004

NOTE 7 Risk Management

The City is exposed to various risks of loss related to litigation, claims and torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City mitigates the potential financial effects of these risks through its participation in the Arizona Municipal Risk Retention Pool (AMRRP), which is a common risk management and insurance program open to all Arizona municipalities. The City pays an annual premium to AMRRP for its general and automobile insurance coverage. The AMRRP membership agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial insurance companies for claims in excess of \$ 500,000 for general liability claims and \$ 250,000 for property claims. The City also is a member of the Arizona Municipal Workers' Compensation Pool (AMWCP) for workers' compensation insurance. AMWCP is a public entity workers' compensation pool currently operating for member cities and town. The City pays quarterly premiums to AMWCP for its workers' compensation insurance. The agreement provides that AMWCP will be self-sustaining through member premiums and will reinsure through commercial insurance companies for claims in excess of \$ 500,000.

NOTE 8 Subsequent Events

Subsequent to the financial statement date, and effective with the first day of the new fiscal year, the City became a member of the Arizona State Retirement System, which provides retirement and long-term disability coverage for substantially all of the City's employees.

City of Maricopa, Arizona
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual (Budgetary Basis)
 For The Period October 15, 2003 - June 30, 2004

REVENUES	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget- Positive (Negative)
City sales taxes	\$ 437,071	\$ 437,071	\$ 859,799	\$ 422,728
Licenses and permits	-	-	18,239	18,239
Intergovernmental revenues	80,891	80,891	168,714	87,823
Charges for services	-	-	70,184	70,184
Miscellaneous	-	-	264	264
Total revenues	517,962	517,962	1,117,200	599,238
EXPENDITURES				
Current:				
General government				
Mayor and council	532,421	223,691	183,113	40,578
City manager/clerk	-	164,420	149,305	15,115
Finance	-	21,450	17,036	4,414
Planning and zoning	-	16,000	13,972	2,028
Development services	-	75,200	60,857	14,343
Public works	-	12,000	11,507	493
Culture and recreation	-	5,060	4,785	275
Capital outlay	42,076	55,576	19,505	36,071
Debt service	1,400	2,500	2,055	445
Total expenditures	575,897	575,897	462,135	113,762
Excess of revenues over expenditures	(57,935)	(57,935)	655,065	485,476
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ (57,935)</u>	<u>\$ (57,935)</u>	<u>\$ 655,065</u>	<u>\$ 485,476</u>

City of Maricopa, Arizona
 Highway Users Revenue Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual (Budgetary Basis)
 For The Period October 15, 2003 - June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues	<u>\$ 57,935</u>	<u>\$ 57,935</u>	<u>\$ 129,641</u>	<u>\$ 71,706</u>
Total revenues	<u>57,935</u>	<u>57,935</u>	<u>129,641</u>	<u>71,706</u>
EXPENDITURES				
Public works	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	57,935	57,935	129,641	71,706
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 57,935</u></u>	<u><u>\$ 57,935</u></u>	<u><u>\$ 129,641</u></u>	<u><u>\$ 71,706</u></u>