

CITY OF MARICOPA

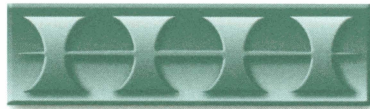
FINANCIAL STATEMENTS

Year Ended June 30, 2005

CITY OF MARICOPA

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON AUDIT OF FINANCIAL STATEMENTS	
Independent Auditors' Report	3
Management's Discussion and Analysis	4
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Notes to Financial Statements	17
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) - General Fund	25
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) - Highway Users Revenue Fund	26



HENRY & HORNE, LLP  
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, and the aggregate remaining fund information of the City of Maricopa (the City), Arizona, as of and for the year ended June 30, 2005, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Maricopa, Arizona, as of June 30, 2005, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages four through ten and twenty-five through twenty-six are 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.

September 30, 2005

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**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

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 fiscal year ended June 30, 2005. 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. The discussion that follows primarily emphasizes the City's financial activity from the current fiscal year, with only minor comparatives to the prior fiscal year. Because the City was incorporated in October 2003, the fiscal year ended June 30, 2005 was its first full fiscal year of operations. Thus comparisons to the results and amounts from the prior year have only limited comparative value.

**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, and 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 fiscal year. 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 safety, highways and streets, public works, and culture and recreation. Sales taxes, state shared revenues, and charges for services finance most of these activities.

**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**OVERVIEW OF FINANCIAL STATEMENTS, continued**

The government-wide financial statements can be found on pages 11 through 12 of this report.

**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 fiscal year. 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 14 and 16, respectively.

During the fiscal year ended June 30, 2005, the City maintained the following governmental funds: (1) General Fund, (2) Highway Users Revenue Fund ('HURF'), (3) LTAF Fund, (4) Road Maintenance Fund, (5) Grants Fund, (6) County Road Tax Fund, and (7) Voluntary Regional Transportation Fund. Of these seven funds, only the General and the Highway Users Revenue Fund were considered to be major funds.

The governmental funds financial statements can be found on pages 13 through 15 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 17 through 24 of this report.

**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**OVERVIEW OF FINANCIAL STATEMENTS, continued**

**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 25 through 26 of this report.

**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 \$ 31,193,962 as of June 30, 2005. At the end of the current fiscal year, the City maintained unrestricted net assets of \$14,134,563, which represents approximately 1,123 days of operating expenses.

	Governmental Activities		Total	
	2005	2004	2005	2004
Current assets	\$ 17,757,177	\$ 1,036,437	\$ 17,757,177	\$ 1,036,437
Capital assets, net	14,309,850	14,000	14,309,850	14,000
Total assets	<u>32,067,027</u>	<u>1,050,437</u>	<u>32,067,027</u>	<u>1,050,437</u>
Current liabilities	873,065	254,806	873,065	254,806
Total liabilities	<u>873,065</u>	<u>254,806</u>	<u>873,065</u>	<u>254,806</u>
Net assets:				
Invested in capital assets, net of related debt	14,309,850	14,000	14,309,850	14,000
Restricted	2,749,549	-	2,749,549	-
Unrestricted	14,134,563	781,631	14,134,563	781,631
Total net assets	<u>\$ 31,193,962</u>	<u>\$ 795,631</u>	<u>\$ 31,193,962</u>	<u>\$ 795,631</u>

**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

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

- The City became responsible for building safety within its incorporated boundaries. As a result, the City collected revenues of approximately \$ 8.4 million from that function.
- The City became responsible for providing police services within its incorporated boundaries as of July 1, 2004. As a result, the City expended \$ 810,924 to provide those services during the current fiscal year.
- The City received a donation of a building and land from a local non-profit agency that houses the City's first municipal library. That donation was valued at the time of the gift at \$ 104,000.
- The opening of the City's first shopping center resulted in a significant increase in the collection of retail sales taxes.
- The City accepted residential and collector streets valued at \$ 14,435,441 into its street maintenance program during the fiscal year. These infrastructure type assets were constructed and donated by certain developers as part of the residential development process.

**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

**Changes in net assets.** The City's total revenues for the fiscal year ended June 30, 2005 were \$ 34,992,157. The total cost of all programs and services was \$4,593,826. The following table presents a comparative summary of the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Total	
	2005	2004	2005	2004
Revenues:				
Program revenues				
Charges for services	\$ 8,522,207	\$ 88,423	\$ 8,522,207	\$ 88,423
Operating grants and contributions	1,030,950	-	1,030,950	-
Capital grants and contributions	15,827,680	-	15,827,680	-
General revenues			-	-
Sales taxes	7,439,799	859,799	7,439,799	859,799
Franchise taxes	97,362	-	97,362	-
State shared revenues	1,912,697	298,355	1,912,697	298,355
Investment earnings	127,403	-	127,403	-
Contributions	34,059	264	34,059	264
Total revenues	<u>34,992,157</u>	<u>1,246,841</u>	<u>34,992,157</u>	<u>1,246,841</u>
Expenses:				
General government	2,808,741	432,863	2,808,741	432,863
Public safety	810,924	-	810,924	-
Highways and streets	672,895	-	672,895	-
Public works	171,735	11,507	171,735	11,507
Culture and recreation	129,531	4,785	129,531	4,785
Interest and fiscal charges	-	2,055	-	2,055
Total expenses	<u>4,593,826</u>	<u>451,210</u>	<u>4,593,826</u>	<u>451,210</u>
Change in net assets	30,398,331	795,631	30,398,331	795,631
Net assets-beginning of year	795,631	-	795,631	-
Net assets-end of year	<u>\$ 31,193,962</u>	<u>\$ 795,631</u>	<u>\$ 31,193,962</u>	<u>\$ 795,631</u>

**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.



**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued**

**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. At June 30, 2005 the total unreserved fund balance in the City's governmental funds was \$ 16,898,261.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund reported an unreserved fund balance of \$ 14,148,712. 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 372.8% of total fund expenditures.

The City became the responsible party for street and highway maintenance within its incorporated limits as of July 1, 2004. The City expended \$ 432,961 from its HURF Fund in support of those activities during the current fiscal year.

**BUDGETARY HIGHLIGHTS**

The City adopted the operating budget for the fiscal year ended June 30, 2005 in July 2004 in accordance with State Statutes. The budget was amended several times during the year to reallocate expenditure authority across the City's departments and funds. 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, 2005, the City had invested \$ 14,633,865 in capital assets of which \$14,435,441 consisted of donated infrastructure type assets. In addition, the City received a donation of land and building for a City library valued at \$ 104,000. Total depreciation expense for the year was \$ 324,016. Additional information on the City's capital assets can be found in Notes 1 and 3 on pages 20 and 22 of this report.

**City of Maricopa, Arizona  
Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2005**

**CAPITAL ASSETS AND DEBT ADMINISTRATION, continued**

**Debt Administration.** As of June 30, 2005, 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 2005-2006. The most significant factors affecting the subsequent year's budget are:

- 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 twenty new full-time employees and an equal number of contract employees during the next fiscal year.
- As a result of the continuing growth, the City will be expanding its contract with the Pinal County Sheriff's Office for police services within the incorporated city limits. The costs of police services are projected to increase to \$ 2.5 million in FY 06 from the \$ 810,924 expended in FY 05.
- The City adopted its first CIP in October of 2005 which provides a twenty year outlook on the infrastructure needs of the City. That program has programmed expenditures of \$199,481,837 over the first five years of its life.
- The City adopted and implemented a development impact fee program which requires residential and commercial developments to help pay for the effects growth has on the City's capital infrastructure needs. The fees generated by this program are expected to fund a significant portion of the CIP.

**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, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Equity in pooled cash and investments	\$ 15,296,211
Receivables (net of allowance for uncollectibles)	2,460,966
Capital assets:	
Land	54,000
Other capital assets (net of accumulated depreciation)	<u>14,255,850</u>
Total assets	<u>32,067,027</u>
 <b>LIABILITIES</b>	
Accounts payable	841,291
Accrued wages	13,307
Court bonds	2,725
Due to other governments	1,593
Compensated absences	<u>14,149</u>
Total liabilities	<u>873,065</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	14,309,850
Restricted for:	
Highways and street maintenance	1,451,420
Grants	9,890
Capital projects	1,288,239
Unrestricted	<u>14,134,563</u>
Total net assets	<u><u>\$ 31,193,962</u></u>

City of Maricopa, Arizona  
Statement of Activities  
For The Year Ended June 30, 2005

<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	\$ 2,808,741	\$ 7,476,840	\$ 10,000	\$ -
Public safety	810,924	-	-	-
Highways and streets	672,895	-	909,706	15,723,680
Public works	171,735	1,030,436	95,744	-
Culture and recreation	129,531	14,931	15,500	104,000
Total governmental activities	<u>\$ 4,593,826</u>	<u>\$ 8,522,207</u>	<u>\$ 1,030,950</u>	<u>\$ 15,827,680</u>

General revenues:

Sales taxes

Franchise taxes

Shared revenues:

  State sales taxes

  Urban revenue sharing

  Auto-in-lieu

  Motor vehicle fuel taxes

  Other

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets-beginning

Net assets-ending

See accompanying notes.

Net (Expense)  
Revenue and  
Changes in Net Assets

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Total  
Governmental  
Activities

---

\$ 4,678,099  
(810,924)  
15,960,491  
954,445  
4,900

---

20,787,011

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7,439,799  
97,362

463,016  
788,698  
160,504  
480,984  
19,495  
127,403  
34,059

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9,611,320

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30,398,331

795,631

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\$ 31,193,962

City of Maricopa, Arizona  
 Balance Sheet  
 Governmental Funds  
 June 30, 2005

ASSETS	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Non-Major Governmental Funds</u>
Equity in pooled cash and investments	\$ 12,601,591	\$ 174,565	\$ 2,520,055
Taxes receivables	2,265,250	-	-
Interest receivable	15,423	177	5,130
Due from other governments	<u>77,556</u>	<u>49,005</u>	<u>48,425</u>
 Total assets	 <u><u>\$ 14,959,820</u></u>	 <u><u>\$ 223,747</u></u>	 <u><u>\$ 2,573,610</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 794,733	\$ 32,809	\$ 13,749
Accrued wages	12,057	1,250	-
Court bonds	2,725	-	-
Due to other governments	<u>1,593</u>	<u>-</u>	<u>-</u>
 Total liabilities	 <u>811,108</u>	 <u>34,059</u>	 <u>13,749</u>
 Fund balances:			
Unreserved, reported in:			
General fund	14,148,712	-	-
Special revenue fund	-	189,688	1,271,622
Capital projects	<u>-</u>	<u>-</u>	<u>1,288,239</u>
 Total fund balances	 <u>14,148,712</u>	 <u>189,688</u>	 <u>2,559,861</u>
 Total liabilities and fund balances	 <u><u>\$ 14,959,820</u></u>	 <u><u>\$ 223,747</u></u>	 <u><u>\$ 2,573,610</u></u>

See accompanying notes.

Total  
Governmental  
Funds

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\$ 15,296,211  
2,265,250  
20,730  

---

174,986

\$ 17,757,177

\$ 841,291  
13,307  
2,725  

---

1,593

---

858,916

14,148,712  
1,461,310  

---

1,288,239

---

16,898,261

\$ 17,757,177

City of Maricopa, Arizona  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2005

Fund balances - total governmental funds balance sheet \$ 16,898,261

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	\$ 14,633,866	
Less accumulated depreciation	<u>(324,016)</u>	14,309,850

Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(14,149)</u>
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Net assets of governmental activities - statement of net assets \$ 31,193,962



City of Maricopa, Arizona  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Year Ended June 30, 2005

REVENUES	General	Highway Users Revenue Fund	Non-Major Governmental Funds
Sales taxes	\$ 7,537,161	\$ -	\$ -
Licenses and permits	6,580,727	-	-
Intergovernmental revenues	1,082,974	480,984	469,983
Charges for services	1,896,731	-	2,152,101
Fines	44,749	-	-
Investment earnings	121,767	2,349	49,131
Miscellaneous	24,384	9,675	-
<b>Total revenues</b>	<b>17,288,493</b>	<b>493,008</b>	<b>2,671,215</b>
EXPENDITURES			
Current:			
General government	2,756,528	-	10,000
Public safety	810,924	-	-
Highways and streets	-	352,536	95,744
Public works	75,991	-	-
Culture and recreation	120,739	-	5,610
Capital outlay	30,664	80,425	-
<b>Total expenditures</b>	<b>3,794,846</b>	<b>432,961</b>	<b>111,354</b>
Excess of revenues over expenditures	13,493,647	60,047	2,559,861
Fund balances - beginning of year	655,065	129,641	-
Fund balances - end of year	<u>\$ 14,148,712</u>	<u>\$ 189,688</u>	<u>\$ 2,559,861</u>

See accompanying notes.

Total  
Governmental  
Funds

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\$ 7,537,161  
6,580,727  
2,033,941  
4,048,832  
44,749  
173,247  
34,059

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20,452,716

---

2,766,528  
810,924  
448,280  
75,991  
126,349  
111,089

---

4,339,161

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16,113,555

784,706

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\$ 16,898,261

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 Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 16,113,555

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. Also, assets contributed to the City are not reported in the fund statements and are reported in the statement of activities.

Contributions	\$ 14,539,441	
Expenditures for capitalized assets	80,425	
Less current year depreciation	<u>(324,016)</u>	14,295,850

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. (11,074)

Change in net assets of governmental activities \$ 30,398,331

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

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 elected 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 exercises 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, 2005 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.

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 1 Summary of Significant Accounting Policies, continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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, investment income and other items not included among program revenues are reported as general revenues.

**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.

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 1 Summary of Significant Accounting Policies, continued**

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.

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 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 budget for all operating 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 \$ 260,912 were transferred between departments and/or funds 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. Encumbrances outstanding at year-end are reported as reservations of fund balances. At June 30, 2005 the City had \$ 0 in outstanding encumbrances.

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

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 1 Summary of Significant Accounting Policies, continued**

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. Cash and Investments**

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

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 LGIP approximates the value of that participant's pool shares. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act.

**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 qualified 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. As part of the new residential development process, the developers and home builders are required to construct much of the infrastructure in and around their developments. At completion, these infrastructure assets are donated to the City and capitalized.

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.

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 1 Summary of Significant Accounting Policies, continued**

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
Computers/Software	3-5

**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. 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. Interest earned on the pooled cash and investments is distributed monthly on the basis of average monthly equity in the pool.



**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 2 Cash and Investments, continued**

**A. Cash Deposits**

At year-end, the carrying amount of the City's deposits was \$ 1,755,650 and the bank balance was \$ 2,633,836. Of the bank balance, \$ 150,433 was covered by federal depository insurance and \$ 2,000,000 of the remaining balance was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the City's name. At June 30, 2005 \$ 483,403 of the City's deposits with its financial institution were uninsured and uncollateralized. This situation was reversed in July 2005 when the counter parties to a significant transaction initiated in June 2005 negotiated the financial instruments delivered to them in June.

**B. Investments**

The City currently invests one hundred percent (100%) of its idle operating funds in the LGIP operated by the Arizona State Treasurer's Office. The fair value of that investment was \$ 13,540,561 at year end. As of June 30, 2005 the LGIP's weighted average maturity was .23 years.

**NOTE 3 Capital Assets**

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

	Balance 7/1/2004	Additions and Transfers In	Deletions and Transfers Out	Balance 6/30/2005
Capital assets not being depreciated:				
Land	\$ -	\$ 54,000	\$ -	\$ 54,000
Capital assets being depreciated:				
Buildings	-	50,000	-	50,000
Infrastructure	-	14,435,441	-	14,435,441
Vehicles	-	30,831	-	30,831
Machinery and equipment	-	49,594	-	49,594
Computers/Software	14,000	-	-	14,000
	<u>14,000</u>	<u>14,565,866</u>	<u>-</u>	<u>14,579,866</u>
Less accumulated depreciation for:				
Buildings	-	2,034	-	2,034
Infrastructure	-	314,920	-	314,920
Vehicles	-	3,483	-	3,483
Machinery and equipment	-	779	-	779
Computers/Software	-	2,800	-	2,800
	<u>-</u>	<u>324,016</u>	<u>-</u>	<u>324,016</u>
Governmental activities - capital assets net of depreciation	<u>\$ 14,000</u>	<u>\$ 14,295,850</u>	<u>\$ -</u>	<u>\$ 14,309,850</u>

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3 Capital Assets, continued**

The City recorded donations of infrastructure type assets totaling \$ 14,435,441 during the year ended June 30, 2005. These assets were required to be constructed by developers and home builders as part of the new residential development process.

**NOTE 4 Accounts Payable**

Included in the \$ 841,291 balance for accounts payable reported in the Statement of Net Assets is \$ 385,065 due the Maricopa Fire District ('District'). 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 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. The remaining portion of the accounts payable balance is related to trade payables incurred in the normal course of the City's business.

**NOTE 5 Operating Leases**

The City leases approximately 5,200 square feet of office space and land under cancelable operating leases expiring through 2007. Total costs for such leases were \$ 38,221 for the year ended June 30, 2005.

**NOTE 6 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 towns. 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.

**City of Maricopa, Arizona**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 7 Legal and Budgetary Compliance**

During the fiscal year ended June 30, 2005, the City of Maricopa expended funds in excess of the limits set by the Arizona Economic Estimates Commission (EEC) by approximately \$ 1.6 million. Maricopa, which incorporated on October 15, 2003, is experiencing a period of exponential growth which is projected to take the City's population from 4,998 to over 100,000 within five years. The City is required by constitutional and statutory provisions to provide certain minimum services to its citizens, which could not be provided under the expenditure limits calculated by the EEC. The potential penalty for this violation is a loss of up to one third of the City's allocation of the state's income tax for the 2006-2007 fiscal year. The City intends to vigorously appeal any penalty imposed by the State due to the uniqueness of the City's situation.

**NOTE 8 Retirement and Pension Plans**

For years beginning on or after July 1, 2004, all full-time regular employees became covered by a contributory public employee retirement and pension plan maintained by the State of Arizona.

**A. Arizona State Retirement Plan**

**Plan Description** - The Arizona State Retirement System (ASRS) administers a cost sharing multiple-employer defined benefit plan that covers all employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes audited financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 N. Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602)240-2200.

**Funding Policy** - The Arizona State Legislature has the authority to establish and amend benefit provisions and contributions for active members. For the year ended June 30, 2005 active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and .5 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS, including both employer and employee obligations, for the year ended June 30, 2005 were \$ 51,795 which were equal to the required contributions for the year.

City of Maricopa, Arizona  
 General Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget and Actual (Budgetary Basis)  
 For The Year Ended June 30, 2005

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Sales taxes	\$ 2,733,000	\$ 2,733,000	\$ 7,537,161	\$ 4,804,161
Licenses and permits	2,350,000	2,350,000	6,580,727	4,230,727
Intergovernmental revenues	1,091,133	1,091,133	1,082,974	(8,159)
Charges for services	114,500	114,500	1,896,731	1,782,231
Fines	92,000	92,000	44,749	(47,251)
Investment earnings	5,000	5,000	121,767	116,767
Miscellaneous	400,000	400,000	24,384	(375,616)
<b>Total revenues</b>	<b>6,785,633</b>	<b>6,785,633</b>	<b>17,288,493</b>	<b>10,502,860</b>
<b>EXPENDITURES</b>				
Current:				
General government				
Mayor and council	127,200	177,200	176,803	397
City manager	1,458,105	1,067,778	484,645	583,133
City clerk	56,566	62,295	51,958	10,337
Finance	139,370	139,370	109,608	29,762
Magistrate	45,500	45,500	32,371	13,129
Planning and zoning	100,100	170,760	163,514	7,246
Development services	1,531,900	1,736,500	1,737,629	(1,129)
Public safety	813,500	813,500	810,924	2,576
Public works	45,000	78,727	75,991	2,736
Culture and recreation	221,023	221,023	120,739	100,284
Capital outlay	485,500	485,500	30,664	454,836
<b>Total expenditures</b>	<b>5,023,764</b>	<b>4,998,153</b>	<b>3,794,846</b>	<b>1,203,307</b>
Excess of revenues over expenditures	1,761,869	1,787,480	13,493,647	9,299,553
Fund balance - beginning of year	-	-	655,065	655,065
Fund balance - end of year	<u>\$ 1,761,869</u>	<u>\$ 1,787,480</u>	<u>\$14,148,712</u>	<u>\$ 9,954,618</u>

See accompanying notes.

City of Maricopa, Arizona  
 Highway Users Revenue Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget and Actual (Budgetary Basis)  
 For The Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget- Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 446,504	\$ 446,504	\$ 480,984	\$ 34,480
Investment earnings	-	-	2,349	2,349
Miscellaneous	-	-	9,675	9,675
Total revenues	<u>446,504</u>	<u>446,504</u>	<u>493,008</u>	<u>46,504</u>
EXPENDITURES				
Highways and streets	433,538	387,938	352,536	35,402
Capital outlay	<u>35,000</u>	<u>84,600</u>	<u>80,425</u>	<u>4,175</u>
Total expenditures	<u>468,538</u>	<u>472,538</u>	<u>432,961</u>	<u>39,577</u>
Excess of revenues over expenditures	(22,034)	(26,034)	60,047	6,927
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>129,641</u>	<u>129,641</u>
Fund balance - end of year	<u>\$ (22,034)</u>	<u>\$ (26,034)</u>	<u>\$ 189,688</u>	<u>\$ 136,568</u>