

CITY OF EL MIRAGE, ARIZONA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

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ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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CITY OF EL MIRAGE, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the City Council of the
City of El Mirage, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Mirage, Arizona (City), of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Mirage, Arizona, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 11 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

February 17, 2007

Management's Discussion and Analysis

We (the City of El Mirage, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2006. The intended purpose of the Management 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 operations. When referring to prior year data in this analysis, we will be drawing upon information from last years' audited financial reports.

Financial Highlights

- ◆ The assets of the City of El Mirage, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$45,781,849 (net assets). Of this amount \$9,912,165 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the City of El Mirage, Arizona's governmental funds reported combined ending fund balances of \$12,904,243, an increase of \$360,520 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8,670,805 or 99 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) exceeded budgeted revenues by \$1,992,746 for fiscal year 2006. Additionally, budgetary basis expenditures were less than the final budget by \$6,086,568 in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$2,406,171; a variance of \$8,079,314 from the original budget.
- ◆ The City deposited \$9.2 million into irrevocable escrow accounts to defease \$9.1 million in outstanding debt.

Overview of the Financial Statements

The financial section of the Annual Financial Report (AFR) for the City of El Mirage, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes to the basic financial statements.

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

The statement of net assets presents information on all of the City of El Mirage, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of El Mirage, Arizona is improving or deteriorating.

The statement of activities presents information showing how the government'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 vacation leave).

Both of the government-wide financial statements distinguish functions of the City of El Mirage, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of El Mirage, Arizona include general government, public safety, highways and streets, culture and recreation, redevelopment and housing, and health and welfare. The business-type activities include water and sewer utilities and sanitation.

The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City, rather than on fund type. 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 of El Mirage, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of El Mirage, Arizona can be divided into two categories: governmental funds and proprietary 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 and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 16 - 20 of this report.

Proprietary funds. The City of El Mirage, Arizona maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of El Mirage, Arizona uses enterprise funds to account for its water and sewer utility funds and the sanitation fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utility Fund and the Sanitation Fund, each of which are considered to be major funds of the City of El Mirage, Arizona.

The basic proprietary fund financial statements can be found on pages 21 - 24 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 25 - 44) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information on page 46.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City at June 30, 2006 showing that assets exceeded liabilities by \$45,781,849.

City of El Mirage, Arizona
Condensed Statement of Net Assets
June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$ 14,380,738	\$ 13,996,673	\$ 3,570,081	\$ 11,969,484	\$ 17,950,819	\$ 25,966,157
Capital assets						
Non-depreciable	3,578,622	3,476,798	2,691,745	1,703,976	6,270,367	5,180,774
Depreciable (net)	<u>5,598,260</u>	<u>5,874,752</u>	<u>28,876,921</u>	<u>26,495,653</u>	<u>34,475,181</u>	<u>32,370,405</u>
Total assets	<u>23,557,620</u>	<u>23,348,223</u>	<u>35,138,747</u>	<u>40,169,113</u>	<u>58,696,367</u>	<u>63,517,336</u>
LIABILITIES						
Other liabilities	1,404,605	1,376,831	3,067,417	4,037,663	4,472,022	5,414,494
Non-current liabilities						
Due within one year	348,240	465,449	764,270	186,445	1,112,510	651,894
Due in more than one year	<u>4,826,935</u>	<u>6,702,207</u>	<u>2,503,051</u>	<u>8,999,575</u>	<u>7,329,986</u>	<u>15,701,782</u>
Total liabilities	<u>6,579,780</u>	<u>8,544,487</u>	<u>6,334,738</u>	<u>13,223,683</u>	<u>12,914,518</u>	<u>21,768,170</u>
NET ASSETS						
Invested in capital assets, net of related debt	4,317,496	2,756,165	27,322,369	18,559,061	31,639,865	21,315,226
Restricted	4,229,819	4,547,652	-	-	4,229,819	4,547,652
Unrestricted	<u>8,430,525</u>	<u>7,499,919</u>	<u>1,481,640</u>	<u>8,386,369</u>	<u>9,912,165</u>	<u>15,886,288</u>
Total net assets	<u>\$ 16,977,840</u>	<u>\$ 14,803,736</u>	<u>\$ 28,804,009</u>	<u>\$ 26,945,430</u>	<u>\$ 45,781,849</u>	<u>\$ 41,749,166</u>

The net assets of the City at June 30, 2006 were \$16,977,840 in the governmental activities and \$28,804,009 in the business-type activities.

Net assets consists of three components. The largest portion of the City of El Mirage, Arizona's net assets (69%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of El Mirage, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of El Mirage, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets invested in capital assets, net of related debt increased significantly during the current fiscal year in both the governmental activities and the business-type activities largely due to the defeasance of \$9.1 in outstanding bonds and certificates of participation.

An additional portion of the City of El Mirage, Arizona's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,912,165) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of El Mirage, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

City of El Mirage, Arizona
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,719,353	\$ 1,675,318	\$ 8,427,885	\$ 6,921,885	\$ 10,147,238	\$ 8,597,203
Operating grants and contributions	1,502,690	1,848,069	-	-	1,502,690	1,848,069
Capital grants and contributions	247,210	558,990	-	-	247,210	558,990
General revenues						
Local taxes	7,190,861	6,266,279	-	-	7,190,861	6,266,279
Impact fees	47,995	-	1,734,800	1,842,788	1,782,795	1,842,788
State shared revenues	2,260,241	1,730,594	-	-	2,260,241	1,730,594
Interest	399,638	190,831	228,702	153,724	628,340	344,555
Other	65,580	70,401	-	-	65,580	70,401
Total revenues	<u>13,433,568</u>	<u>12,340,482</u>	<u>10,391,387</u>	<u>8,918,397</u>	<u>23,824,955</u>	<u>21,258,879</u>
Expenses						
General government	2,740,575	2,377,274	-	-	2,740,575	2,377,274
Public safety	6,015,430	5,593,205	-	-	6,015,430	5,593,205
Highways and streets	1,097,115	593,309	-	-	1,097,115	593,309
Culture and recreation	489,768	613,944	-	-	489,768	613,944
Redevelopment and housing	319,126	245,938	-	-	319,126	245,938
Health and welfare	417,346	432,157	-	-	417,346	432,157
Interest on long-term debt	251,268	346,535	-	-	251,268	346,535
Water and Sewer Utility	-	-	7,622,235	6,599,002	7,622,235	6,599,002
Sanitation	-	-	839,409	948,732	839,409	948,732
Total expenses	<u>11,330,628</u>	<u>10,202,362</u>	<u>8,461,644</u>	<u>7,547,734</u>	<u>19,792,272</u>	<u>17,750,096</u>
Transfers	<u>71,164</u>	<u>-</u>	<u>(71,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	2,174,104	2,138,120	1,858,579	1,370,663	4,032,683	3,508,783
Net assets, beginning of year	<u>14,803,736</u>	<u>12,665,616</u>	<u>26,945,430</u>	<u>25,574,767</u>	<u>41,749,166</u>	<u>38,240,383</u>
Total net assets	<u>\$ 16,977,840</u>	<u>\$ 14,803,736</u>	<u>\$ 28,804,009</u>	<u>\$ 26,945,430</u>	<u>\$ 45,781,849</u>	<u>\$ 41,749,166</u>

Governmental Activities. Governmental activities increased the City's net assets by \$2,174,104. Net assets increased by approximately the same amount as the prior fiscal year. Key factors to the increase include an increase in state shared revenues of approximately \$529,647 and a \$633,000 increase in city sales tax revenues.

Business-type Activities. The Water and Sewer Utility Fund reported an increase in net assets of \$1,858,579 due in large part to water and sewer rate increases implemented in December 2005.

The Sanitation Fund's net assets did not significantly change during the fiscal year.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$12,904,243, an increase of \$360,520 in comparison with the prior year. Approximately 67% of this total amount (\$8,674,424) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2005-2006 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2004-05
General Fund	\$ 8,674,424	\$ 678,353
Debt Service Fund	905	(335,108)
GADA Fund	2,585,415	72,379
Nonmajor Governmental Funds	1,643,499	(55,104)

The fund balance of the City of El Mirage, Arizona's General Fund increased by \$678,353 during the current fiscal year. Revenues increased most significantly for sales taxes and intergovernmental revenues. The increase in sales tax and the intergovernmental revenues is largely due to increased consumer spending. Included in the intergovernmental revenues are state shared revenues. State shared revenues are allocated to cities and towns based on the most recent census. In the upcoming fiscal year, the City's share of those revenues will significantly increase as a result of the recent census. Expenditures increased over the prior year due to salary increases and increased program funding. However, the expenditures decreased proportionately less than revenues in current year resulting in the increase in fund balance.

The Greater Arizona Development Authority (GADA) Fund was created to account for the proceeds of the GADA loan. The City only utilized \$28,394 of the GADA loan funds in the current year, while earning \$100,773 of interest on the invested proceeds.

The Debt Service Fund decreased due to the use of property tax revenues and transfers from the General Fund to make the required principal and interest payments on outstanding debt as well as to defease a Certificate of Participation.

The Nonmajor Governmental Funds fund balance did not significantly change from the prior year.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund may be found on page 20. This statement compares the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The City did not have any significant budget amendments during the fiscal year.

General Fund revenues of \$11,147,300, on a budgetary basis, exceeded budgeted revenues of \$9,154,554 by \$1,992,746 while budgetary basis expenditures of \$8,741,129 were \$6,086,568 less than the budget. The excess revenues over the budget were due to an increased emphasis on the collection of sales tax revenues. Additionally, the economy rebounded much quicker than the City anticipated, creating a revenue budget surplus. General Fund expenditures were less than the budget largely due to unspent contingencies.

Capital Asset and Debt Administration

The City's capital assets as of June 30, 2006 amount to \$40,745,548 (net of accumulated depreciation), an increase of 8.5%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 3.A.3. in the notes to the basic financial statements for further information regarding capital assets.

Capital assets include land and improvements, buildings and improvements, furniture and equipment, infrastructure, vehicles, and construction in progress. During fiscal year 2005-2006 the annual depreciation expense was \$490,953 in the governmental funds and \$1,131,494 in the business-type funds. Additions to capital assets during the fiscal year totaled \$385,926 for governmental assets and \$4,500,531 for business-type assets.

Major capital asset events during the current fiscal year included the following:

- ◆ The acquisition of 7 police vehicles for a total cost of \$186,338 recorded in the governmental activities.
- ◆ Improvements to sidewalks totaling \$58,905 recorded in the governmental activities.
- ◆ \$2.4 million added to construction in progress for Phase I and II of the Canterbury well site.
- ◆ Completion of Phase I of the Canterbury well site totaling \$1.9 million.
- ◆ \$1.1 million in improvements to the water reservoir tanks.

The following table provides a breakdown of the capital assets of the City at June 30, 2006 and 2005.

**City of El Mirage, Arizona
Capital Assets (Net)
June 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land and land improvements	\$ 3,544,256	\$ 3,491,644	\$ 4,681,631	\$ 3,608,483	\$ 8,225,887	\$ 7,100,127
Buildings and improvements	1,743,323	1,838,993	70,654	73,226	1,813,977	1,912,219
Infrastructure	2,374,170	2,509,028	-	-	2,374,170	2,509,028
Sewer plant	-	-	11,178,374	11,503,998	11,178,374	11,503,998
Water mains and lines	-	-	9,977,210	8,137,269	9,977,210	8,137,269
Sewer collection system	-	-	3,695,572	3,951,590	3,695,572	3,951,590
Furniture, equipment and vehicles	1,413,309	1,511,885	129,667	77,274	1,542,976	1,589,159
Construction in progress	<u>101,824</u>	<u>-</u>	<u>1,835,558</u>	<u>847,789</u>	<u>1,937,382</u>	<u>847,789</u>
	<u>\$ 9,176,882</u>	<u>\$ 9,351,550</u>	<u>\$31,568,666</u>	<u>\$28,199,629</u>	<u>\$40,745,548</u>	<u>\$37,551,179</u>

Long-term Debt

At the end of the current fiscal year, the City of El Mirage, Arizona had total long-term obligations outstanding of \$5,175,175 in the governmental activities and \$3,267,321 in the business-type activities. The outstanding debt in the governmental activities includes the GADA loan and the WIFA is the only outstanding debt reported in the business-type activities.

The State imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation. The City's available debt margin at June 30, 2006 is \$6,946,786 in the 6% capacity and \$23,155,953 in the 20% capacity.

During the current fiscal year, the City defeased outstanding certificates of participation and sewer and water revenue bonds using the proceeds of the WIFA loan as well as funds deposited in debt service reserves.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2006 and 2005. Further detail on the City's outstanding debt may be found in Note 3.D. on pages 39 - 41.

**City of El Mirage, Arizona
Outstanding Debt
June 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Certificates of participation	\$ -	\$ 1,815,000	\$ -	\$ 8,075,000	\$ -	\$ 9,890,000
Revenue bonds	-	-	-	1,064,432	-	1,064,432
Loan payable	4,694,386	4,864,350	3,219,864	-	7,914,250	4,864,350
Capital leases	-	14,735	-	-	-	14,735
Compensated absences	<u>480,789</u>	<u>473,571</u>	<u>47,457</u>	<u>46,588</u>	<u>528,246</u>	<u>520,159</u>
	<u>\$ 5,175,175</u>	<u>\$ 7,167,656</u>	<u>\$ 3,267,321</u>	<u>\$ 9,186,020</u>	<u>\$ 8,442,496</u>	<u>\$16,353,676</u>

Economic Factors and Next Year's Budgets and Rates

- ◆ The City is reaching residential build-out and future sales taxes are expected to decrease as a result.
- ◆ In December 2005 the City increased water and sewer rates.
- ◆ The City is planning for a future \$10.8 million bond issue. No amount has been authorized to-date.
- ◆ Based on the recent census, state revenue sharing is expected to significantly increase.

All these factors were considered in preparing the budget for future years.

Financial contact

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government'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:

City of El Mirage, Arizona
Accounting Department
12145 Northwest Grand Avenue, Suite 5
El Mirage, AZ 85335
(623) 876-2955

Or visit our website at:

www.cityofelmirage.org

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Basic Financial Statements

CITY OF EL MIRAGE, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type activities	Totals
Assets			
Cash and cash equivalents	\$ 12,739,169	\$ 20,680	\$ 12,759,849
Receivables, net			
Accounts receivable	251,823	1,000,507	1,252,330
Taxes receivable	84,876	-	84,876
Intergovernmental receivable	1,229,361	-	1,229,361
Prepaid items	3,619	-	3,619
Deferred charges	71,890	-	71,890
Restricted assets	-	2,548,894	2,548,894
Capital assets			
Non-depreciable	3,578,622	2,691,745	6,270,367
Depreciable (net)	<u>5,598,260</u>	<u>28,876,921</u>	<u>34,475,181</u>
Total assets	<u>23,557,620</u>	<u>35,138,747</u>	<u>58,696,367</u>
Liabilities			
Accounts payable	772,217	580,139	1,352,356
Contracts payable	-	118,797	118,797
Retainage payable	-	410,845	410,845
Accrued wages and benefits	297,662	-	297,662
Interest payable	106,150	44,048	150,198
Intergovernmental payable	22,103	20,224	42,327
Unearned revenue	41,473	-	41,473
Customer deposits payable	-	866,931	866,931
Matured debt principal payable	165,000	1,026,433	1,191,433
Noncurrent liabilities			
Due within one year	348,240	764,270	1,112,510
Due in more than one year	<u>4,826,935</u>	<u>2,503,051</u>	<u>7,329,986</u>
Total liabilities	<u>6,579,780</u>	<u>6,334,738</u>	<u>12,914,518</u>
Net assets			
Invested in capital assets, net of related debt	4,317,496	27,322,369	31,639,865
Restricted for			
Highways and streets	208,710	-	208,710
Debt service	905	-	905
Capital outlay	3,966,102	-	3,966,102
Other	54,102	-	54,102
Unrestricted	<u>8,430,525</u>	<u>1,481,640</u>	<u>9,912,165</u>
Total net assets	<u>\$ 16,977,840</u>	<u>\$ 28,804,009</u>	<u>\$ 45,781,849</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
Current							
General government	\$ 2,740,575	\$ 1,551,904	\$ 9,744	\$ -	\$ (1,178,927)		\$ (1,178,927)
Public safety	6,015,430	95,209	222,833	-	(5,697,388)		(5,697,388)
Highways and streets	1,097,115	-	958,003	-	(139,112)		(139,112)
Culture and recreation	489,768	72,240	9,175	2,213	(406,140)		(406,140)
Redevelopment and housing	319,126	-	39,473	244,997	(34,656)		(34,656)
Health and welfare	417,346	-	263,462	-	(153,884)		(153,884)
Interest on long-term debt	251,268	-	-	-	(251,268)		(251,268)
Total governmental activities	<u>11,330,628</u>	<u>1,719,353</u>	<u>1,502,690</u>	<u>247,210</u>	<u>(7,861,375)</u>		<u>(7,861,375)</u>
Business-type activities							
Water and Sewer Utility	7,622,235	7,447,621	-	-		\$ (174,614)	(174,614)
Sanitation	839,409	980,264	-	-		140,855	140,855
Total business-type activities	<u>8,461,644</u>	<u>8,427,885</u>	<u>-</u>	<u>-</u>		<u>(33,759)</u>	<u>(33,759)</u>
Totals	<u>\$ 19,792,272</u>	<u>\$ 10,147,238</u>	<u>\$ 1,502,690</u>	<u>\$ 247,210</u>	<u>(7,861,375)</u>	<u>(33,759)</u>	<u>(7,895,134)</u>
General revenues							
Taxes							
Sales taxes					4,945,375		4,945,375
Property taxes					1,684,032		1,684,032
Franchise taxes					561,454		561,454
Impact fees					47,995	1,734,800	1,782,795
State revenue sharing					796,658		796,658
State sales tax revenue sharing					997,352		997,352
Auto lieu tax revenue sharing					466,231		466,231
Investment earnings					399,638	228,702	628,340
Other					65,580		65,580
Transfers					71,164	(71,164)	-
Total general revenues and transfers					<u>10,035,479</u>	<u>1,892,338</u>	<u>11,927,817</u>
Change in net assets					2,174,104	1,858,579	4,032,683
Net assets, beginning of year					14,803,736	26,945,430	41,749,166
Net assets, end of year					<u>\$ 16,977,840</u>	<u>\$ 28,804,009</u>	<u>\$ 45,781,849</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	GADA	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 8,627,662	\$ 247,312	\$ 2,585,415	\$ 1,278,780	\$ 12,739,169
Receivables, net					
Accounts receivable	201,450	24,743	-	25,630	251,823
Taxes receivable	84,876	-	-	-	84,876
Intergovernmental receivable	835,034	-	-	394,327	1,229,361
Prepaid items	3,619	-	-	-	3,619
Total assets	<u>\$ 9,752,641</u>	<u>\$ 272,055</u>	<u>\$ 2,585,415</u>	<u>\$ 1,698,737</u>	<u>\$ 14,308,848</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 716,979	\$ -	\$ -	\$ 55,238	\$ 772,217
Accrued wages and benefits	297,662	-	-	-	297,662
Interest payable	-	106,150	-	-	106,150
Intergovernmental payable	22,103	-	-	-	22,103
Unearned revenue	41,473	-	-	-	41,473
Matured debt principal payable	-	165,000	-	-	165,000
Total liabilities	<u>1,078,217</u>	<u>271,150</u>	<u>-</u>	<u>55,238</u>	<u>1,404,605</u>
Fund balances					
Reserved for prepaid items	3,619	-	-	-	3,619
Unreserved	8,670,805	905	2,585,415	-	11,257,125
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	262,812	262,812
Capital projects funds	-	-	-	1,380,687	1,380,687
Total fund balances	<u>8,674,424</u>	<u>905</u>	<u>2,585,415</u>	<u>1,643,499</u>	<u>12,904,243</u>
Total liabilities and fund balances	<u>\$ 9,752,641</u>	<u>\$ 272,055</u>	<u>\$ 2,585,415</u>	<u>\$ 1,698,737</u>	<u>\$ 14,308,848</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Fund balances - total governmental funds \$ 12,904,243

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	11,848,070
Less accumulated depreciation	<u>(2,671,188)</u>
Capital assets used in governmental activities	<u>9,176,882</u>

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Loan payable	(4,610,000)
Premium on loan payable	(84,386)
Compensated absences	(480,789)
Deferred charges	<u>71,890</u>

Net assets of governmental activities \$ 16,977,840

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	Debt Service	GADA	Nonmajor Governmental Funds	Totals
Revenues					
Taxes					
Sales taxes	\$ 4,945,375	\$ -	\$ -	\$ -	\$ 4,945,375
Property taxes	1,306,184	377,848	-	-	1,684,032
Franchise taxes	561,454	-	-	-	561,454
Intergovernmental	2,260,241	-	-	1,740,375	4,000,616
Fines and forfeitures	215,058	-	-	-	215,058
Licenses and permits	1,162,150	-	-	-	1,162,150
Charges for services	290,388	-	-	5,270	295,658
Rents and royalties	46,487	-	-	-	46,487
Contributions and donations	-	-	-	9,525	9,525
Impact fees	-	-	-	47,995	47,995
Investment earnings	294,383	4,482	100,773	-	399,638
Other	65,580	-	-	-	65,580
Total Revenues	<u>11,147,300</u>	<u>382,330</u>	<u>100,773</u>	<u>1,803,165</u>	<u>13,433,568</u>
Expenditures					
Current					
General government	2,575,495	-	-	110,203	2,685,698
Public safety	5,747,443	-	-	247,470	5,994,913
Highways and streets	-	-	28,394	1,027,979	1,056,373
Culture and recreation	418,191	-	-	25,252	443,443
Redevelopment and housing	-	-	-	319,126	319,126
Health and welfare	-	-	-	412,656	412,656
Debt Service					
Principal retirement	-	1,980,000	-	-	1,980,000
Interest on long-term debt	-	252,003	-	-	252,003
Total Expenditures	<u>8,741,129</u>	<u>2,232,003</u>	<u>28,394</u>	<u>2,142,686</u>	<u>13,144,212</u>
Excess (deficiency) of revenues over expenditures	<u>2,406,171</u>	<u>(1,849,673)</u>	<u>72,379</u>	<u>(339,521)</u>	<u>289,356</u>
Other financing sources (uses)					
Transfers in	-	1,514,565	-	284,417	1,798,982
Transfers out	(1,727,818)	-	-	-	(1,727,818)
Total other financing sources (uses)	<u>(1,727,818)</u>	<u>1,514,565</u>	<u>-</u>	<u>284,417</u>	<u>71,164</u>
Net change in fund balances	678,353	(335,108)	72,379	(55,104)	360,520
Fund balances, beginning of year	<u>7,996,071</u>	<u>336,013</u>	<u>2,513,036</u>	<u>1,698,603</u>	<u>12,543,723</u>
Fund balances, end of year	<u>\$ 8,674,424</u>	<u>\$ 905</u>	<u>\$ 2,585,415</u>	<u>\$ 1,643,499</u>	<u>\$ 12,904,243</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ 360,520

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.

Expenditures for capital assets	385,926
Less current year depreciation	<u>(490,953)</u>
Excess capital expenditures over depreciation	<u>(105,027)</u>

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (69,641)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on long-term debt	1,980,000
Principal payments on capital leases	14,735
Amortization of issuance costs	(4,229)
Amortization of premium	4,964

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 the governmental funds.

Net increase in compensated absences	<u>(7,218)</u>
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Change in net assets of governmental activities \$ 2,174,104

The notes to the basic financial statements are an integral part of this statement.

CITY OF EL MIRAGE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	\$ 4,030,960	\$ 4,030,960	\$ 4,945,375	\$ 914,415
Property taxes	1,306,184	1,306,184	1,306,184	-
Franchise taxes	530,000	530,000	561,454	31,454
Intergovernmental	1,891,693	1,891,693	2,260,241	368,548
Fines and forfeitures	344,662	344,662	215,058	(129,604)
Licenses and permits	597,246	597,246	1,162,150	564,904
Charges for services	264,900	264,900	290,388	25,488
Rents and royalties	47,309	47,309	46,487	(822)
Investment earnings	134,000	134,000	294,383	160,383
Other	7,600	7,600	65,580	57,980
Total Revenues	<u>9,154,554</u>	<u>9,154,554</u>	<u>11,147,300</u>	<u>1,992,746</u>
Expenditures				
Current				
General government				
City council	36,364	36,364	31,134	5,230
City attorney	369,930	369,930	593,456	(223,526)
City clerk	88,052	88,052	92,478	(4,426)
General administration	317,385	317,385	306,537	10,848
Financial services	236,596	236,596	225,100	11,496
Human resources	98,661	98,661	137,324	(38,663)
Municipal court	487,068	489,068	447,818	41,250
Information technology	107,796	107,796	97,966	9,830
Safety and loss control	169,000	169,000	176,648	(7,648)
Planning and building	233,802	233,802	269,860	(36,058)
Fleet management	33,942	33,942	34,123	(181)
City engineer	187,455	187,455	163,051	24,404
Contingencies	6,326,139	6,323,139	-	6,323,139
Total general government	<u>8,692,190</u>	<u>8,691,190</u>	<u>2,575,495</u>	<u>6,115,695</u>
Public safety				
Police	4,026,357	4,026,357	4,211,828	(185,471)
Fire and emergency services	1,742,681	1,742,681	1,535,615	207,066
Total public safety	<u>5,769,038</u>	<u>5,769,038</u>	<u>5,747,443</u>	<u>21,595</u>
Culture and recreation				
Park and facilities maintenance	316,469	317,469	368,191	(50,722)
Recreation center	50,000	50,000	50,000	-
Total culture and recreation	<u>366,469</u>	<u>367,469</u>	<u>418,191</u>	<u>(50,722)</u>
Total Expenditures	<u>14,827,697</u>	<u>14,827,697</u>	<u>8,741,129</u>	<u>6,086,568</u>
Excess (deficiency) of revenues over expenditures	<u>(5,673,143)</u>	<u>(5,673,143)</u>	<u>2,406,171</u>	<u>8,079,314</u>
Other financing sources (uses)				
Transfers out	(630,529)	(630,529)	(1,727,818)	(1,097,289)
Total other financing sources (uses)	<u>(630,529)</u>	<u>(630,529)</u>	<u>(1,727,818)</u>	<u>(1,097,289)</u>
Net change in fund balances	(6,303,672)	(6,303,672)	678,353	6,982,025
Fund balances, beginning of year	<u>6,303,672</u>	<u>6,303,672</u>	<u>7,996,071</u>	<u>1,692,399</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,674,424</u>	<u>\$ 8,674,424</u>

The notes to the basic financial statements are an integral part of this statement.

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

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Utility</u>	<u>Sanitation</u>	<u>Totals</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 20,119	\$ 561	\$ 20,680
Receivables, net			
Accounts receivable	912,343	88,164	1,000,507
Due from other funds	-	340,885	340,885
Restricted assets	2,548,894	-	2,548,894
Noncurrent assets			
Capital assets			
Non-depreciable	2,691,745	-	2,691,745
Depreciable (net)	<u>28,876,921</u>	<u>-</u>	<u>28,876,921</u>
Total assets	<u>35,050,022</u>	<u>429,610</u>	<u>35,479,632</u>
Liabilities			
Current liabilities			
Accounts payable	513,903	66,236	580,139
Contracts payable	118,797	-	118,797
Retainage payable	406,009	4,836	410,845
Due to other funds	340,885	-	340,885
Interest payable	44,048	-	44,048
Intergovernmental payable	20,224	-	20,224
Customer deposits payable	866,931	-	866,931
Matured debt principal payable	1,026,433	-	1,026,433
Compensated absences	16,610	-	16,610
Bonds, notes and loans payable	747,660	-	747,660
Noncurrent liabilities			
Compensated absences	30,847	-	30,847
Bonds, notes and loans payable	<u>2,472,204</u>	<u>-</u>	<u>2,472,204</u>
Total liabilities	<u>6,604,551</u>	<u>71,072</u>	<u>6,675,623</u>
Net assets			
Invested in capital assets, net of related debt	27,322,369	-	27,322,369
Unrestricted	<u>1,123,102</u>	<u>358,538</u>	<u>1,481,640</u>
Total net assets	<u>\$ 28,445,471</u>	<u>\$ 358,538</u>	<u>\$ 28,804,009</u>

The notes to the basic financial statements are an integral part of this statement

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

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Utility</u>	<u>Sanitation</u>	<u>Totals</u>
Operating revenues			
Charges for services	\$ <u>7,419,776</u>	\$ <u>980,264</u>	\$ <u>8,400,040</u>
Total operating revenues	<u>7,419,776</u>	<u>980,264</u>	<u>8,400,040</u>
Operating expenses			
Costs of sales and services	6,090,702	839,409	6,930,111
Depreciation	<u>1,131,494</u>	<u>-</u>	<u>1,131,494</u>
Total operating expenses	<u>7,222,196</u>	<u>839,409</u>	<u>8,061,605</u>
Operating income	<u>197,580</u>	<u>140,855</u>	<u>338,435</u>
Nonoperating revenues (expenses)			
Impact fees	1,734,800	-	1,734,800
Investment earnings	228,702	-	228,702
Interest expense	(400,039)	-	(400,039)
Miscellaneous nonoperating revenues	<u>27,845</u>	<u>-</u>	<u>27,845</u>
Total nonoperating revenues (expenses)	<u>1,591,308</u>	<u>-</u>	<u>1,591,308</u>
Income (loss) before contributions	1,788,888	140,855	1,929,743
Transfers out	<u>(71,164)</u>	<u>-</u>	<u>(71,164)</u>
Change in net assets	1,717,724	140,855	1,858,579
Total net assets, beginning of year	<u>26,727,747</u>	<u>217,683</u>	<u>26,945,430</u>
Total net assets, end of year	<u>\$ 28,445,471</u>	<u>\$ 358,538</u>	<u>\$ 28,804,009</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF EL MIRAGE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Utility</u>	<u>Sanitation</u>	<u>Totals</u>
Cash flows from operating activities			
Receipts from customers	\$ 7,790,272	\$ 970,777	\$ 8,761,049
Payments to suppliers	(5,612,461)	(901,788)	(6,514,249)
Payments to employees	(926,779)	-	(926,779)
Other receipts payable	27,845	-	27,845
Customer deposits	<u>21,350</u>	<u>-</u>	<u>21,350</u>
Net cash flows from operating activities	<u>1,300,227</u>	<u>68,989</u>	<u>1,369,216</u>
Cash flows from noncapital financing activities			
Cash received from (paid to) other funds for interfund borrowing	340,885	(340,885)	-
Transfers out	<u>(71,164)</u>	<u>-</u>	<u>(71,164)</u>
Net cash flows from noncapital financing activities	<u>269,721</u>	<u>(340,885)</u>	<u>(71,164)</u>
Cash flows from capital and related financing activities			
Proceeds from capital debt	4,510,000	-	4,510,000
Payment to escrow agent	(7,389,172)	-	(7,389,172)
Purchases of capital assets	(4,500,531)	-	(4,500,531)
Principal paid on capital debt	(2,280,000)	-	(2,280,000)
Interest paid on capital debt	(572,387)	-	(572,387)
Impact fees	<u>1,734,800</u>	<u>-</u>	<u>1,734,800</u>
Net cash flows from capital and financing activities	<u>(8,497,290)</u>	<u>-</u>	<u>(8,497,290)</u>
Cash flows from investing activities			
Investment earnings	<u>228,702</u>	<u>-</u>	<u>228,702</u>
Net cash flows from investing activities	<u>228,702</u>	<u>-</u>	<u>228,702</u>
Net change in cash and cash equivalents	(6,698,640)	(271,896)	(6,970,536)
Cash and cash equivalents, beginning of year	<u>9,267,653</u>	<u>272,457</u>	<u>9,540,110</u>
Cash and cash equivalents, end of year	<u>\$ 2,569,013</u>	<u>\$ 561</u>	<u>\$ 2,569,574</u>
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents	\$ 20,119	\$ 561	\$ 20,680
Restricted assets	<u>2,548,894</u>	<u>-</u>	<u>2,548,894</u>
Total cash and cash equivalents	<u>\$ 2,569,013</u>	<u>\$ 561</u>	<u>\$ 2,569,574</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF EL MIRAGE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Water and Sewer Utility	Sanitation	Totals
(Concluded)			
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income	\$ 197,580	\$ 140,855	\$ 338,435
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	1,131,494	-	1,131,494
Prior issuance costs expensed as a result of the defeasance	1,074,940	-	1,074,940
Nonoperating receipts (payments)	27,845	-	27,845
Receivables, net	355,504	(9,487)	346,017
Accounts payable	(1,524,347)	(62,379)	(1,586,726)
Intergovernmental payable	14,992	-	14,992
Compensated absences	869	-	869
Customer deposits payable	<u>21,350</u>	<u>-</u>	<u>21,350</u>
Net cash provided by operating activities	<u>\$ 1,300,227</u>	<u>\$ 68,989</u>	<u>\$ 1,369,216</u>

Noncash Investing, Capital and Financing Activities:

The City amortized \$79,086 in issuance costs and \$14,861 in discounts during the fiscal year.

The notes to the basic financial statements are an integral part of this statement

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of El Mirage, Arizona (City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues 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 and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements and the proprietary fund 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 both 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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes, intergovernmental grants and aid, and interest 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the required principal and interest payments due on outstanding bonds, certificates of participation and the Loan due to the Greater Arizona Development Authority (GADA).

The *Greater Arizona Development Authority (GADA) Fund* is a capital projects fund used to account for the proceeds of the GADA loan incurred by the City for various street and infrastructure projects and improvements.

The City reports the following major proprietary funds:

The *Water and Sewer Utility Fund* accounts for the operations, maintenance and construction of the City's water and sewer system and facilities.

The *Sanitation Fund* accounts for the operations of the City's solid waste collections and disposals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Proprietary funds distinguish operating revenues and expenses from nonoperating 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

Maricopa 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 of 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. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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3. Inventories

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Because the amounts on-hand at June 30, 2006 were not material, inventory is not included on the balance sheet.

4. Restricted assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

5. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements and are not required to be presented in future periods.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	10-50 years
Improvements other than buildings	10 years
Furniture, equipment and vehicles.	5-20 years

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

6. Compensated absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department. The adopted budget cannot be amended in any way without City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for all funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
City attorney	\$ 223,526
City clerk	4,426
Human resources	38,663
Safety and loss control	7,648
Planning and building	36,058
Fleet management	181
Police	185,471
Park and facilities maintenance	50,722

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits		
Cash on hand	\$	3,500
Cash in bank		7,989,447
Investments		
State Treasurer's investment pool		5,646,732
Cash on deposit with trustee		<u>1,669,064</u>
Total deposits and investments		15,308,743
Restricted assets		<u>(2,548,894)</u>
Total cash and equivalents	\$	<u><u>12,759,849</u></u>

Deposits - The City's deposits at June 30, 2006, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name. The deposits are not subject to any custodial credit risk.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool 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. The shares are not identified with specific investments and are not subject to custodial credit risk. All other investments of the City are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the City's name.

The City invests funds pending clearance of outstanding checks in a Corporate Cash Management Account. Under the terms of the Corporate Cash Management Account agreement, excess funds in the City's checking account are invested in overnight securities. At June 30, 2006, the overnight repurchase agreement which was fully collateralized at June 30, 2006 did not have a balance and all cash was included in cash in the bank.

Interest rate risk. In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting its investments to U.S. government securities with maturities of six months or less.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Credit risk. The City limits its investments to the State Treasurer's Investment Pool and U.S. Government Securities. The cash on deposit with the trustee is invested in U.S. Government Money Market Funds and, therefore, has no credit risk.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City current does not have a policy in regards to custodial credit risk. However, because each of the City's investments are secured by the federal government, depository insurance or are collateralized, the City is not exposed to custodial credit risk.

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2006 consisted of the following:

Settlement escrow	\$ 1,668,452
Customer deposits	<u>880,442</u>
	<u>\$ 2,548,894</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

3. Capital assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,476,798	\$ -	\$ -	\$ 3,476,798
Construction in progress	<u>-</u>	<u>101,824</u>	<u>-</u>	<u>101,824</u>
Total capital assets, not being depreciated	<u>3,476,798</u>	<u>101,824</u>	<u>-</u>	<u>3,578,622</u>
Capital assets being depreciated:				
Land improvements	285,953	58,905	-	344,858
Buildings and improvements	2,278,803	-	-	2,278,803
Infrastructure	2,522,482	28,881	-	2,551,363
Furniture, equipment, and vehicles	<u>3,097,627</u>	<u>196,316</u>	<u>(199,519)</u>	<u>3,094,424</u>
Total capital assets being depreciated	<u>8,184,865</u>	<u>284,102</u>	<u>(199,519)</u>	<u>8,269,448</u>
Less accumulated depreciation for:				
Land improvements	(271,107)	(6,293)	-	(277,400)
Buildings and improvements	(439,810)	(95,670)	-	(535,480)
Infrastructure	(13,454)	(163,739)	-	(177,193)
Furniture, equipment, and vehicles	<u>(1,585,742)</u>	<u>(225,251)</u>	<u>129,878</u>	<u>(1,681,115)</u>
Total accumulated depreciation	<u>(2,310,113)</u>	<u>(490,953)</u>	<u>129,878</u>	<u>(2,671,188)</u>
Total capital assets, being depreciated, net	<u>5,874,752</u>	<u>(206,851)</u>	<u>(69,641)</u>	<u>5,598,260</u>
Governmental activities capital assets, net	<u>\$ 9,351,550</u>	<u>\$ (105,027)</u>	<u>\$ (69,641)</u>	<u>\$ 9,176,882</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 856,187	\$ -	\$ -	\$ 856,187
Construction in progress	<u>847,789</u>	<u>2,923,425</u>	<u>(1,935,656)</u>	<u>1,835,558</u>
Total capital assets, not being depreciated	<u>1,703,976</u>	<u>2,923,425</u>	<u>(1,935,656)</u>	<u>2,691,745</u>
Capital assets being depreciated:				
Sewer plant	16,281,209	-	-	16,281,209
Water mains and lines	10,944,829	2,325,643	-	13,270,472
Sewer collection system	6,392,004	-	-	6,392,004
Land improvements	3,540,746	1,127,209	-	4,667,955
Buildings and improvements	153,407	-	-	153,407
Machinery, equipment and vehicles	<u>359,826</u>	<u>59,910</u>	<u>-</u>	<u>419,736</u>
Total capital assets being depreciated	<u>37,672,021</u>	<u>3,512,762</u>	<u>-</u>	<u>41,184,783</u>
Less accumulated depreciation for:				
Sewer plant	(4,777,211)	(325,624)	-	(5,102,835)
Water mains and lines	(2,807,560)	(485,702)	-	(3,293,262)
Sewer collection system	(2,440,414)	(256,018)	-	(2,696,432)
Land improvements	(788,450)	(54,061)	-	(842,511)
Buildings and improvements	(80,181)	(2,572)	-	(82,753)
Machinery, equipment and vehicles	<u>(282,552)</u>	<u>(7,517)</u>	<u>-</u>	<u>(290,069)</u>
Total accumulated depreciation	<u>(11,176,368)</u>	<u>(1,131,494)</u>	<u>-</u>	<u>(12,307,862)</u>
Total capital assets, being depreciated, net	<u>26,495,653</u>	<u>2,381,268</u>	<u>-</u>	<u>28,876,921</u>
Business-type activities capital assets, net	<u>\$ 28,199,629</u>	<u>\$ 5,304,693</u>	<u>\$ (1,935,656)</u>	<u>\$ 31,568,666</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 47,659
Public safety	161,927
Highways and streets	230,352
Culture and recreation	46,325
Health and welfare	<u>4,690</u>
Total depreciation expense-governmental activities	\$ <u>490,953</u>
Business-type activities:	
Water and Sewer Utility Fund	\$ <u>1,131,494</u>

4. Construction commitments

The City has active construction projects at June 30, 2006. The projects includes the water master plan and wastewater master plan. At fiscal year end the City's commitments with contractors were as follows:

Governmental Activities		
Project	Spent-to-date	Remaining Commitment
Dysart signal	\$ <u>101.824</u>	\$ <u>75.176</u>
Business-type Activities		
Project	Spent-to-date	Remaining Commitment
Canterbury well site phase II	\$ <u>1,835.558</u>	\$ <u>2,762.212</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Interfund receivables/payables and transfers

As of June 30, 2006 interfund receivable and payables were as follows:

	Due From
Due To	Water and Sewer Utility Fund
Sanitation Fund	\$ <u>340,885</u>

The above interfund receivables and payables are due to short-term borrowings at the end of the fiscal year to cover deficit cash balances. All deficits were recovered shortly after year end.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	Transfers Out		
Transfers In	General Fund	Water and Sewer Utility Fund	Total
Debt Service Fund	\$ 1,514,565	\$ -	\$ 1,514,565
Nonmajor Governmental Funds	<u>213,253</u>	<u>71,164</u>	<u>284,417</u>
	<u>\$ 1,727,818</u>	<u>\$ 71,164</u>	<u>\$ 1,798,982</u>

Transfers were recorded to subsidize other funds, record the City's matching portion of various federal and state grants and to transfer funds for the required principal and interest payments due on outstanding bonds.

C. Obligations under capital leases

The City has entered into a lease agreement as lessee for financing the acquisition of computer equipment, vehicles and police cars. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 51,268
Less: accumulated depreciation	(17,944)
Total	\$ 33,324

The lease agreement was paid off during the fiscal year.

D. Long-term obligations

The City has long-term bonds, certificates of participation and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by the governmental type activities and business-type activities depending on the uses of the debt. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Description	Maturity	Interest rate (%)	Amount Outstanding
Governmental Activities:			
GADA loan payable; original issue \$4,855,000	7/1/2006-24	4.50-4.80	\$ 4,610,000
Business-type Activities:			
Water Infrastructure Authority of Arizona (WIFA) note, Series 2000; original issue \$16,550,000 for drinking water and \$1,108,911 for clean water; amount drawn to date \$4,510,000	8/1/2016-20	2.93 - 2.96	\$ 3,483,567

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	July 1, 2005	Increases	Decreases	June 30, 2006	Due Within One Year
Governmental Activities:					
Bonds and loans payable:					
Certificates of Participation	\$ 1,815,000	\$ -	\$ (1,815,000)	\$ -	\$ -
Loan payable	<u>4,775,000</u>	<u>-</u>	<u>(165,000)</u>	<u>4,610,000</u>	<u>175,000</u>
	6,590,000	-	(1,980,000)	4,610,000	175,000
Less: deferred amount on premium	<u>89,350</u>	<u>-</u>	<u>(4,964)</u>	<u>84,386</u>	<u>4,964</u>
Total loans payable	<u>6,679,350</u>	<u>-</u>	<u>(1,984,964)</u>	<u>4,694,386</u>	<u>179,964</u>
Other liabilities:					
Capital leases	14,735	-	(14,735)	-	-
Compensated absences	<u>473,571</u>	<u>478,624</u>	<u>(471,406)</u>	<u>480,789</u>	<u>168,276</u>
Governmental activities long-term liabilities	<u>\$ 7,167,656</u>	<u>\$ 478,624</u>	<u>\$ (2,471,105)</u>	<u>\$ 5,175,175</u>	<u>\$ 348,240</u>
Business-type Activities:					
Bonds and notes payable:					
Revenue bonds	\$ 1,225,000	\$ -	\$ (1,225,000)	\$ -	\$ -
Certificates of Participation	8,075,000	-	(8,075,000)	-	-
Water Infrastructure Finance Authority Loan	<u>-</u>	<u>4,510,000</u>	<u>(1,026,433)</u>	<u>3,483,567</u>	<u>747,660</u>
	9,300,000	4,510,000	(10,326,433)	3,483,567	747,660
Less deferred amount on:					
Discount	(160,568)	-	160,568	-	-
Refunding	<u>-</u>	<u>(263,703)</u>	<u>-</u>	<u>(263,703)</u>	<u>-</u>
Total bonds and notes payable	<u>9,139,432</u>	<u>4,246,297</u>	<u>(10,165,865)</u>	<u>3,219,864</u>	<u>747,660</u>
Other liabilities:					
Compensated absences	<u>46,588</u>	<u>43,258</u>	<u>(42,389)</u>	<u>47,457</u>	<u>16,610</u>
Business-type activities long-term liabilities	<u>\$ 9,186,020</u>	<u>\$ 4,289,555</u>	<u>\$ (10,208,254)</u>	<u>\$ 3,267,321</u>	<u>\$ 764,270</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Debt service requirements on long-term debt at June 30, 2006 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 175,000	\$ 204,876	\$ 747,660	\$ 103,148
2008	180,000	197,000	798,923	81,010
2009	190,000	188,900	785,223	57,354
2010	195,000	180,826	811,562	34,104
2011	205,000	172,538	340,199	578,633
2012-16	1,175,000	723,714	-	-
2017-21	1,445,000	451,456	-	-
2022-24	<u>1,045,000</u>	<u>101,322</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,610,000</u>	<u>\$ 2,220,632</u>	<u>\$ 3,483,567</u>	<u>\$ 854,249</u>

During the fiscal year, the City transferred \$1,852,861 to an escrow agent to defease \$1,815,000 of outstanding Certificates of Participation in the governmental activities. The City transferred an additional \$6,208,371 and \$1,180,801 using debt service reserves, investments and the proceeds from the Water Infrastructure Authority Note to an escrow agent to refund \$6,075,000 in outstanding certificates of participation and \$1,175,000 in revenue refunding bonds in the Sewer and Water Utility Enterprise Funds. The funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded certificates of participation and revenue refunding bonds.

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of El Mirage, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance.

The City is insured by Arizona State Workers Compensation Insurance Fund for potential worker related accidents.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of City employees at June 30, 2006, totaled \$551,672.

Lawsuits - The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney the resolution of these matters will not have a material effect on the financial condition of the City.

During the fiscal year ended June 30, 2006, the City resolved, through arbitration, an on-going dispute between the City and the construction company contracted to construct the wastewater treatment facility. As part of the arbitration agreement, the City was required to deposit \$1,741,600 into an escrow account. The funds deposited in the escrow account will be paid to the contractor upon the construction company providing the necessary improvements to the wastewater treatment facility and third party determination that the wastewater treatment facility meets the performance specifications outlined in the settlement agreement. In prior years, the retainage due on the project (\$406,009) was recognized as a liability. The amount deposited in escrow will not be recognized as a liability until performance by the construction company and third party verification is complete.

C. Retirement plans

Arizona State Retirement System

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2006, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$223,391, \$197,193, and \$100,198, respectively, which were equal to the required contributions for the year.

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 9.76 percent of annual covered payroll for police and 6.67 percent of annual covered payroll for fire.

Annual Pension Cost - During the year ended June 30, 2006, the City of El Mirage, Arizona's annual pension cost of \$160,281 for police and \$71,190 for fire was equal to the City of El Mirage, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2006 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6-9% (including inflation at 5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

CITY OF EL MIRAGE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

The actuarial value of the City of El Mirage, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of El Mirage, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 206,121	100.0 %	\$ -
2005	172,277	100.0	-
2006	160,281	100.0	-

Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 117,180	100.0 %	\$ -
2005	119,855	100.0	-
2006	71,190	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 46.

Required Supplementary Information

CITY OF EL MIRAGE, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

**Schedule of Funding Progress
 Police**

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (under) funded AAL	Annual Covered Payroll	Over funded AAL as a Percentage of Covered Payroll
1996	\$ 462,126	\$ 428,779	107.8 %	\$ 33,347	\$ 339,551	9.8 %
1997	423,884	331,614	127.8 %	92,270	304,234	30.3 %
1998	517,441	399,571	129.5 %	117,870	397,445	29.7 %
1999	668,111	594,835	112.3 %	73,276	592,148	12.4 %
2000	878,829	727,243	120.8 %	151,586	946,553	16.0 %
2001	1,266,254	797,938	158.7 %	468,316	1,360,408	34.4 %
2002	1,589,024	1,288,282	123.3 %	300,742	1,639,299	18.3 %
2003	2,067,511	1,855,975	111.4 %	211,536	2,178,912	9.7 %
2004	2,502,631	2,344,873	106.7 %	157,758	2,268,525	7.0 %
2005	2,873,746	3,155,507	91.1 %	(281,761)	2,141,760	(13.2)%
2006	2,818,023	3,483,853	80.9 %	(665,830)	1,431,422	(46.5)%

**Schedule of Funding Progress
 Fire**

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over funded AAL	Annual Covered Payroll	Over funded AAL as a Percentage of Covered Payroll
1996	\$ 70,135	\$ 54,047	129.8 %	\$ 16,088	\$ 50,070	32.1 %
1997	97,532	69,817	139.7 %	27,715	126,621	21.9 %
1998	156,946	104,946	149.5 %	52,000	159,609	32.6 %
1999	222,111	190,811	116.4 %	31,300	222,641	14.1 %
2000	302,887	265,536	114.1 %	37,351	291,990	12.8 %
2001	477,275	336,508	141.8 %	140,767	511,747	27.5 %
2002	777,400	585,083	132.9 %	192,317	507,113	37.9 %
2003	959,648	761,990	125.9 %	197,658	822,574	24.0 %
2004	1,192,472	997,704	119.5 %	194,768	947,989	20.5 %
2005	1,444,784	1,348,999	107.1 %	95,785	965,687	9.9 %
2006	1,609,228	1,449,510	111.0 %	159,718	890,422	17.9 %

SINGLE AUDIT REPORTS SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Directors
City of El Mirage, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of El Mirage, Arizona, (City) as of and for the year ended June 30, 2006, and have issued our report thereon dated February 17, 2007. 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.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 17, 2007.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

February 17, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors
City of El Mirage, Arizona

We have audited the compliance of City of El Mirage, Arizona (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated February 17, 2007.

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated February 17, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch & Company, P.C.
Cronstrom, Osuch & Company, P.C.

February 17, 2007

CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FISCAL YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
 Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified not considered to be material weakness? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	County Home Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no findings in the prior audit year.

CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2006

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Passed through Area Agency on Aging, Region I, Inc.			
Title III - B	93.044	2004-14-ELM	\$ 22,815
Title III - C	93.045	2004-14-ELM	93,421
Passed through Maricopa County Social Services Department			
Community Services Block Grant	93.569	C22-05-038	24,153
Social Services Block Grant	93.667	C22-05-038	26,997
Temporary Assistance to Needy Families	93.558	C22-05-038	<u>25,392</u>
Total U.S. Department of Health and Human Services			<u>192,778</u>
U.S. Department of Housing and Urban Development			
Passed through Maricopa County Community Development			
Program Income	14.239	N/A	36,564
County Home Program	14.239	UC0305	244,997
County Home Program	14.239	UC0505	2,909
Community Development Block Grant	14.218	DG-0304	<u>2,213</u>
Total U.S. Department of Housing and Urban Development			<u>286,683</u>
U.S. Department of Justice - Bureau of Justice Assistance			
Local Law Enforcement Block Grant	16.592	N/A	6,508
Bulletproof Vest Partnership Program	16.607	N/A	2,776
Passed through Maricopa County			
Edward Byrne Memorial State and Local Law Enforcement Program	16.579	C50045073	<u>75,000</u>
Total U.S. Department of Justice			<u>84,284</u>
U.S. Department of Transportation			
Passed through Arizona Office of Homeland Security			
Hazard Mitigation Grant	97.039	N/A	<u>25,317</u>
TOTAL FEDERAL AWARDS			<u>\$ 589,062</u>

Note: This schedule was prepared on the modified accrual basis of accounting.

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