

**CITY OF EL MIRAGE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FISCAL YEAR ENDED JUNE 30, 2007**

CITY OF EL MIRAGE, ARIZONA

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CITY OF EL MIRAGE, ARIZONA

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**CITY OF EL MIRAGE, ARIZONA
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund (General, Streets (HURF), and Water and Sewer Funds), and the aggregate remaining fund information of the City of El Mirage, Arizona (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, business-type activities, each major fund as listed above, and the aggregate remaining fund information of the City of El Mirage, Arizona, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the City of El Mirage, Arizona's internal control over financial reporting and on 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.

The management's discussion and analysis on pages 5 through 14 and budgetary comparison information on pages 52 through 54 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

December 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

As management of the City of El Mirage, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2006-07 as follows.

- The City's total net assets of governmental activities increased \$9.7 million to \$26.7 million and business-type activities increased \$3.6 million to \$32.1 million representing 46 percent and 54 percent, respectively, of the total net assets of \$58.8 million.
- General revenues from governmental activities accounted for \$16.9 million in revenue, or 70 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7.1 million or 30 percent of total governmental activities revenues. The City had \$11.0 million of program revenues and \$561,727 in general revenues related to business-type activities.
- The City had \$14.6 million in expenses related to governmental activities, an increase of 29 percent from the prior fiscal year. The City had \$7.6 million in expenses related to business-type activities a decrease of 13 percent from the prior fiscal year.
- Among major funds, the General Fund had \$17.7 million in revenues, which primarily consisted of taxes and intergovernmental revenues. The total expenditures of the General Fund were \$13.2 million. The General Fund's fund balance increased from \$8.7 million to \$14.0 million, due primarily to increased intergovernmental revenues due to population growth.
- The Streets (HURF) Fund had \$2.3 million in revenues which primarily consisted of intergovernmental revenues. The total expenditures of the Streets (HURF) Fund were \$1.9 million. The Streets (HURF) Fund reported a fund balance increase of \$447,353 due to increased intergovernmental revenues due to population growth.
- The Water and Sewer Fund net assets increased \$3.5 million. Operating expenses of \$6.5 million were exceeded by operating revenues of \$8.8 million.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

- **Governmental activities** – Most of the City's basic services are included here, such as general government, public safety, highways and streets, culture and recreation, redevelopment and housing, and health and welfare. General revenues finance most of these activities.
- **Business-type activities** – The services provided by the City included here are water, sewer and solid waste services. The services are primarily financed through user fees and charges.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Streets (HURF) Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and solid waste operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer and Non-Major Enterprise Fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and the major Special Revenue Fund as required supplementary information.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$58.8 million as of June 30, 2007.

The largest portion of the City's net assets (62 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, sewer plant, water mains and lines, sewer collection system, infrastructure, vehicles, machinery and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City'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.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	2007	2006	2007	2006	2007	2006
	Governmental	Governmental	Business-type	Business-type	2007	2006
	Activities	Activities	Activities	Activities	Total	Total
				(As Restated)		(As Restated)
Current assets	\$ 19,663,734	\$ 14,308,848	\$ 7,436,524	\$ 1,021,187	\$ 27,100,258	\$ 15,330,035
Capital assets, net	14,561,834	9,176,882	40,686,480	31,237,941	55,248,314	40,414,823
Other non-current assets	67,661	71,890	1,993,760	2,548,894	2,061,421	2,620,784
Total assets, net	<u>34,293,229</u>	<u>23,557,620</u>	<u>50,116,764</u>	<u>34,808,022</u>	<u>84,409,993</u>	<u>58,365,642</u>
Current and other liabilities	2,959,465	1,752,845	2,821,202	3,831,687	5,780,667	5,584,532
Long-term liabilities	4,620,091	4,826,935	15,241,448	2,503,051	19,861,539	7,329,986
Total liabilities	<u>7,579,556</u>	<u>6,579,780</u>	<u>18,062,650</u>	<u>6,334,738</u>	<u>25,642,206</u>	<u>12,914,518</u>
Invested in capital assets, net of related debt	11,712,399	4,317,496	24,736,784	26,991,644	36,449,183	31,309,140
Unrestricted	15,001,274	12,660,344	7,317,330	1,481,640	22,318,604	14,141,984
Total net assets	<u>\$ 26,713,673</u>	<u>\$ 16,977,840</u>	<u>\$ 32,054,114</u>	<u>\$ 28,473,284</u>	<u>58,767,787</u>	<u>\$ 45,451,124</u>

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

- The addition of \$6.1 million in governmental activities capital assets, including \$1.8 million for vehicles and equipment, and \$3.5 million for infrastructure.
- The addition of \$10.7 million in business-type activities capital assets.
- The issuance of \$12.5 million in new loans for capital improvements in business-type activities.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The City's total revenues for the fiscal year ended June 30, 2007, were \$35.6 million. The total cost of all programs and services was \$22.2 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	2007 Governmental Activities	2006 Governmental Activities	2007 Business-type Activities	2006 Business-type Activities (As Restated)	2007 Total	2006 Total (As Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 1,397,588	\$ 1,719,353	\$ 9,789,642	\$ 8,427,885	\$ 11,187,230	\$ 10,147,238
Operating grants and contributions	2,298,062	1,502,690			2,298,062	1,502,690
Capital grants and contributions	3,403,725	247,210	1,237,978		4,641,703	247,210
General revenues:						
Property taxes	1,812,217	1,684,032			1,812,217	1,684,032
City sales taxes	5,819,145	4,945,375			5,819,145	4,945,375
Franchise taxes	617,759	561,454			617,759	561,454
State shared revenues	8,016,571	2,260,241			8,016,571	2,260,241
Investment income	534,942	399,638	215,125	228,702	750,067	628,340
Development impact fees	66,257	47,995	331,939	1,734,800	398,196	1,782,795
Miscellaneous		65,580	14,663		14,663	65,580
Total revenues	<u>23,966,266</u>	<u>13,433,568</u>	<u>11,589,347</u>	<u>10,391,387</u>	<u>35,555,613</u>	<u>23,824,955</u>
Expenses:						
General government	5,031,078	2,740,575			5,031,078	2,740,575
Public safety	6,360,485	6,015,430			6,360,485	6,015,430
Highways and streets	1,436,644	1,097,115			1,436,644	1,097,115
Culture and recreation	880,332	489,768			880,332	489,768
Redevelopment and housing	292,338	319,126			292,338	319,126
Health and welfare	402,143	417,346			402,143	417,346
Interest on long-term debt	205,057	251,268			205,057	251,268
Water and sewer			6,731,838	7,952,960	6,731,838	7,952,960
Solid waste			899,035	839,409	899,035	839,409
Total expenses	<u>14,608,077</u>	<u>11,330,628</u>	<u>7,630,873</u>	<u>8,792,369</u>	<u>22,238,950</u>	<u>20,122,997</u>
Transfers	<u>377,644</u>	<u>71,164</u>	<u>(377,644)</u>	<u>(71,164)</u>		
Increase in net assets	<u>\$ 9,735,833</u>	<u>\$ 2,174,104</u>	<u>3,580,830</u>	<u>\$ 1,527,854</u>	<u>\$ 13,316,663</u>	<u>\$ 3,701,958</u>

- Total governmental activities revenues increased \$10.5 million, or 78 percent, primarily as a result of increased state shared revenues due to population growth in the City.
- Total governmental activities expenditures increased \$3.3 million, or 22 percent, primarily as a result of the City's increased expenses to meet population growth.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

Governmental and Business-type activities. The following table presents the cost of the 9 major City functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	2007		2006 (As Restated)	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 5,031,078	\$ (4,090,350)	\$ 2,740,575	\$ (1,178,927)
Public safety	6,360,485	(5,955,055)	6,015,430	(5,697,388)
Highways and streets	1,436,644	2,566,374	1,097,115	(139,112)
Culture and recreation	880,332	(821,480)	489,768	(406,140)
Redevelopment and housing	292,338	1,200,968	319,126	(34,656)
Health and welfare	402,143	(204,102)	417,346	(153,884)
Interest on long-term debt	205,057	(205,057)	251,268	(251,268)
Total	<u>\$ 14,608,077</u>	<u>\$ (7,508,702)</u>	<u>\$ 11,330,628</u>	<u>\$ (7,861,375)</u>
Business-type Activities				
Water and sewer	\$ 6,731,838	\$ 3,319,023	\$ 7,952,960	\$ (505,339)
Solid waste	899,035	77,724	839,409	140,855
Total	<u>\$ 7,630,873</u>	<u>\$ 3,396,747</u>	<u>\$ 8,792,369</u>	<u>\$ (364,484)</u>

- The cost of all governmental activities this year was \$14.6 million. The increase of \$3.3 million from the prior year was due primarily to increased expenses to meet the City's population growth.
- Federal and State governments and charges for services subsidized certain governmental programs and business-type programs with revenues of \$18.1 million.
- Net cost of governmental activities of \$7.5 million was financed by general revenues, which are made up of primarily sales taxes and state shared revenues of \$13.8 million.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$17.0 million, an increase of \$4.1 million due primarily to increased intergovernmental revenues due to population growth.

The increases in fund balances of \$5.3 million and \$447,353 in the General and Streets (HURF) Funds were due primarily to increased intergovernmental revenues due to population growth.

Proprietary funds. Net assets of the Enterprise Funds at the end of the year amounted to \$32.1 million, an increase of \$3.6 million from fiscal year 2005-06.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

BUDGETARY HIGHLIGHTS

The City did not revise the annual operating budget during the year. A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances between budget and actual in the General Fund are as follows:

- The favorable variance of \$1.4 million in city sales tax was due to population growth and commercial development.
- The favorable variance of \$1.6 million in intergovernmental revenues was due to increased state shared revenues driven by the population growth.
- The favorable variance of \$1.3 million in general government expenditures was due to excess budgeted expenditures in anticipation of the City's population growth.
- A favorable contingency variance of \$6.0 million existed as there were no major unexpected expenditures incurred during the year.
- The favorable variance of \$1.2 million in transfers out was due to slower than expected construction progress.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the City had invested \$71.9 million in capital assets. This amount represents a net increase prior to depreciation of \$16.5 million from last year, primarily due to an increase in construction projects undertaken. Total depreciation expense for the year was \$1.8 million. Equipment originally costing \$274,318 was disposed of during the year.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

The following schedule presents capital asset balances for the fiscal years ended June 30, 2007 and June 30, 2006.

	2007	2006	2007	2006
	Governmental	Governmental	Business-type	Business-type
	Activities	Activities	Activities	Activities
				(As Restated)
Land	\$ 3,629,310	\$ 3,476,798	\$ 856,187	\$ 856,187
Construction in progress	110,482	101,824	9,963,639	1,516,588
Sewer plant			16,281,209	16,281,209
Water mains and lines			14,486,821	13,258,717
Sewer collection system			6,962,960	6,392,004
Land improvements	397,166	344,858	4,667,955	4,667,955
Buildings and improvements	2,927,726	2,278,803	153,407	153,407
Infrastructure	6,001,751	2,551,363		
Machinery equipment, and vehicles	4,604,433	3,094,424	837,694	419,736
Less: Accumulated depreciation	(3,109,034)	(2,671,188)	(13,523,392)	(12,307,862)
Total	\$ 14,561,834	\$ 9,176,882	\$ 40,686,480	\$ 31,237,941

Additional information on the City's capital assets can be found in Note 5.

Debt Administration. At year-end, the City had \$20.4 million in long-term debt outstanding, \$927,660 due within one year. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2007 and June 30, 2006.

	As of June 30, 2007	As of June 30, 2006
GADA loan	\$ 4,435,000	\$ 4,775,000
WIFA loans	15,949,696	4,510,000
Total	\$ 20,384,696	\$ 9,285,000

State statutes currently limit the amount of general obligation debt a City may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves, parks, playgrounds and recreational facilities. The current debt limitation for the City is \$37.0 million. The City has 4.4 million in outstanding general obligation debt for these purposes. State statutes also currently limit the amount of general obligation debt a City may issue to 6 percent of its total assessed valuation for all other purposes. The current debt limitation for the City is \$11.1 million. The City has no outstanding general obligation debt for this purpose.

Additional information on the City's long-term debt can be found in Notes 6 and 7.

**CITY OF EL MIRAGE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted combined operating and capital expenditure budget for fiscal year 2007-08 totals \$81.8 million, an increase of \$3.9 million or 5% more than fiscal year 2006-07.

Although there is an increase of 5% between this year's and last year's budget, \$44.5 million of the \$81.8 million is in projects that will not be done if resources are not found to fund these projects. The State of Arizona requires funds must be appropriated before they can be spent.

General Fund

The budget for the General Fund increased from \$20.7 million to \$23.1 million. The main reason for this increase is the rising cost of personnel services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, 12145 NW Grande Avenue, El Mirage, Arizona 85335.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF EL MIRAGE, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 17,988,609	\$ 5,258,988	\$ 23,247,597
Accounts receivable	284,656	1,347,158	1,631,814
Property taxes receivable	154,891		154,891
Due from governmental entities	1,141,442		1,141,442
Loans receivable		830,378	830,378
Prepaid items	94,136		94,136
Total current assets	19,663,734	7,436,524	27,100,258
Noncurrent assets:			
Cash and investments - restricted		1,747,637	1,747,637
Deferred charges	67,661	246,123	313,784
Capital assets, non-depreciable	3,739,792	10,819,826	14,559,618
Capital assets, depreciable (net)	10,822,042	29,866,654	40,688,696
Total noncurrent assets	14,629,495	42,680,240	57,309,735
Total assets	34,293,229	50,116,764	84,409,993
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	2,184,209	929,354	3,113,563
Accrued payroll and employee benefits	330,420	49,142	379,562
Accrued interest		187,782	187,782
Compensated absences payable	153,821	21,222	175,043
Customer deposits	13,797	886,042	899,839
Unearned revenue	97,218		97,218
Loans payable	180,000	747,660	927,660
Total current liabilities	2,959,465	2,821,202	5,780,667
Noncurrent liabilities:			
Compensated absences	285,669	39,412	325,081
Loans payable	4,255,000	15,202,036	19,457,036
Deferred premium	79,422		79,422
Total non-current liabilities	4,620,091	15,241,448	19,861,539
Total liabilities	7,579,556	18,062,650	25,642,206
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,712,399	24,736,784	36,449,183
Unrestricted	15,001,274	7,317,330	22,318,604
Total net assets	\$ 26,713,673	\$ 32,054,114	\$ 58,767,787

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

**CITY OF EL MIRAGE, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 5,031,078	\$ 940,728	\$	\$	\$ (4,090,350)
Public safety	6,360,485	106,417	189,013	110,000	(5,955,055)
Highways and streets	1,436,644	3,704	1,655,589	2,343,725	2,566,374
Culture and recreation	880,332	51,623	7,229		(821,480)
Redevelopment and housing	292,338	294,766	248,540	950,000	1,200,968
Health and welfare	402,143	350	197,691		(204,102)
Interest on long-term debt	205,057				(205,057)
Total governmental activities	<u>14,608,077</u>	<u>1,397,588</u>	<u>2,298,062</u>	<u>3,403,725</u>	<u>(7,508,702)</u>
Business-type activities:					
Water and sewer	6,731,838	8,828,318		1,222,543	
Solid waste	899,035	961,324		15,435	
Total business-type activities	<u>7,630,873</u>	<u>9,789,642</u>		<u>1,237,978</u>	
Total primary government	<u>\$ 22,238,950</u>	<u>\$ 11,187,230</u>	<u>\$ 2,298,062</u>	<u>\$ 4,641,703</u>	<u>(7,508,702)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	1,432,342
Property taxes, levied for debt purposes	379,875
City sales taxes	5,819,145
Franchise taxes	617,759
State shared revenues	8,016,571
Investment income	534,942
Development impact fees	66,257
Miscellaneous	

Transfers	<u>377,644</u>
Total general revenues and transfers	<u>17,244,535</u>

Changes in net assets 9,735,833

Net assets, beginning of year, as restated 16,977,840

Net assets, end of year \$ 26,713,673

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

Net (Expense) Revenue
and Changes in Net Assets

Business-type Activities	Totals
\$	\$ (4,090,350)
	(5,955,055)
	2,566,374
	(821,480)
	1,200,968
	(204,102)
	(205,057)
	(7,508,702)
3,319,023	3,319,023
77,724	77,724
3,396,747	3,396,747
3,396,747	(4,111,955)
	1,432,342
	379,875
	5,819,145
	617,759
	8,016,571
215,125	750,067
331,939	398,196
14,663	14,663
(377,644)	
184,083	17,428,618
3,580,830	13,316,663
28,473,284	45,451,124
\$ 32,054,114	\$ 58,767,787

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FUND FINANCIAL STATEMENTS

**CITY OF EL MIRAGE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Streets (HURF)</u>	<u>Non-Major Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 13,728,862	\$ 772,976	\$ 3,486,771
Accounts receivable	183,688		100,968
Property taxes receivable	128,230		26,661
Due from governmental entities	877,254	206,398	57,790
Prepaid items	94,136		
Total assets	<u>\$ 15,012,170</u>	<u>\$ 979,374</u>	<u>\$ 3,672,190</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 738,476	\$ 317,649	\$ 1,128,084
Accrued payroll and employee benefits	293,336	15,568	21,516
Customer deposits			13,797
Deferred revenue			97,218
Total liabilities	<u>1,031,812</u>	<u>333,217</u>	<u>1,260,615</u>
Fund balances:			
Unreserved:			
Undesignated	13,980,358	646,157	
Unreserved reported in:			
Special revenue funds			124,839
Debt service funds			1,701
Capital projects funds			2,285,035
Total fund balances	<u>13,980,358</u>	<u>646,157</u>	<u>2,411,575</u>
Total liabilities and fund balances	<u>\$ 15,012,170</u>	<u>\$ 979,374</u>	<u>\$ 3,672,190</u>

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

Total
Governmental
Funds

\$ 17,988,609
284,656
154,891
1,141,442
94,136

\$ 19,663,734

\$ 2,184,209
330,420
13,797
97,218

2,625,644

14,626,515

124,839
1,701
2,285,035

17,038,090

\$ 19,663,734

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**CITY OF EL MIRAGE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total governmental fund balances		\$ 17,038,090
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:</p>		
Governmental capital assets	\$ 17,670,868	
Less accumulated depreciation	<u>(3,109,034)</u>	14,561,834
<p>Deferred items related to the issuance of debt are amortized over the life of the associated debt in the government-wide statements.</p>		
		(11,761)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Compensated absences	(439,490)	
Loans payable	<u>(4,435,000)</u>	<u>(4,874,490)</u>
Net assets of governmental activities		<u><u>\$ 26,713,673</u></u>

The notes to the 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
YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Streets (HURF)</u>	<u>Non-Major Governmental Funds</u>
Revenues:			
Property taxes	\$ 1,432,342	\$	\$ 379,875
City sales taxes	5,819,145		
Franchise taxes	617,759		
Licenses and permits	439,521		
Intergovernmental	8,145,709	2,285,980	1,802,890
Charges for services	449,464		3,704
Fines and forfeits	251,067		35,631
Investment income	359,559	27,517	147,866
Rents	24,542		
Development impact fees		15,000	51,257
Miscellaneous	200,888		
Total revenues	<u>17,739,996</u>	<u>2,328,497</u>	<u>2,421,223</u>
Expenditures:			
Current -			
General government	5,228,687		902,125
Public safety	7,160,863		192,152
Highways and streets		1,881,144	1,467,973
Culture and recreation	835,658		
Redevelopment and housing	3,394		1,238,944
Health and welfare	312		391,469
Debt service -			
Principal retirement			175,000
Interest and fiscal charges			205,792
Total expenditures	<u>13,228,914</u>	<u>1,881,144</u>	<u>4,573,455</u>
Excess (deficiency) of revenues over expenditures	<u>4,511,082</u>	<u>447,353</u>	<u>(2,152,232)</u>
Other financing sources (uses):			
Transfer in	1,336,868		541,816
Transfer out	(542,016)		(9,024)
Total other financing sources (uses)	<u>794,852</u>		<u>532,792</u>
Changes in fund balances	<u>5,305,934</u>	<u>447,353</u>	<u>(1,619,440)</u>
Fund balances, beginning of year	8,674,424	198,804	4,031,015
Fund balances, end of year	<u>\$ 13,980,358</u>	<u>\$ 646,157</u>	<u>\$ 2,411,575</u>

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

Total
Governmental
Funds

\$ 1,812,217
5,819,145
617,759
439,521
12,234,579
453,168
286,698
534,942
24,542
66,257
200,888
22,489,716

6,130,812
7,353,015
3,349,117
835,658
1,242,338
391,781

175,000
205,792

19,683,513

2,806,203

1,878,684
(551,040)
1,327,644

4,133,847

12,904,243

\$ 17,038,090

CITY OF EL MIRAGE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net changes in fund balances - total governmental funds **\$ 4,133,847**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 4,620,566	
Less current year depreciation	<u>(558,957)</u>	4,061,609

Capital assets contributed by developers to the City are not recorded in the governmental funds as they do not provide current financial resources but are recognized in the Statement of Activities as program revenues. 1,476,550

Repayment of loan principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 175,000

Some revenues and expenses reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported in governmental funds.

Loss on disposal of capital assets	(153,207)	
Amortization of deferred charges	(4,229)	
Amortization of deferred premium	4,964	
Compensated absences	<u>41,299</u>	<u>(111,173)</u>

Change in net assets in governmental activities **\$ 9,735,833**

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

**CITY OF EL MIRAGE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

Enterprise Funds

	Water and Sewer	Non-Major Enterprise Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,854,818	\$ 404,170	\$ 5,258,988
Accounts receivable	1,217,588	129,570	1,347,158
Loans receivable	830,378		830,378
Total current assets	<u>6,902,784</u>	<u>533,740</u>	<u>7,436,524</u>
Noncurrent assets:			
Cash and investments - restricted	1,747,637		1,747,637
Deferred charges	246,123		246,123
Capital assets, non-depreciable	10,819,826		10,819,826
Capital assets, depreciable (net)	29,866,654		29,866,654
Total noncurrent assets	<u>42,680,240</u>		<u>42,680,240</u>
Total assets	<u>49,583,024</u>	<u>533,740</u>	<u>50,116,764</u>
LIABILITIES			
Current liabilities:			
Accounts payable	857,282	72,072	929,354
Accrued payroll and employee benefits	49,142		49,142
Accrued interest	187,782		187,782
Compensated absences payable	21,222		21,222
Customer deposits	886,042		886,042
Loans payable	747,660		747,660
Total current liabilities	<u>2,749,130</u>	<u>72,072</u>	<u>2,821,202</u>
Noncurrent liabilities:			
Compensated absences	39,412		39,412
Loans payable	15,202,036		15,202,036
Total non-current liabilities	<u>15,241,448</u>		<u>15,241,448</u>
Total liabilities	<u>17,990,578</u>	<u>72,072</u>	<u>18,062,650</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,736,784		24,736,784
Unrestricted	6,855,662	461,668	7,317,330
Total net assets	<u>\$ 31,592,446</u>	<u>\$ 461,668</u>	<u>\$ 32,054,114</u>

The notes to the 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 YEAR ENDED JUNE 30, 2007

	Enterprise Funds		
	Water and Sewer	Non-Major Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 8,828,318	\$ 961,324	\$ 9,789,642
Total operating revenues	<u>8,828,318</u>	<u>961,324</u>	<u>9,789,642</u>
Operating expenses:			
Cost of sales and services	5,283,094	899,035	6,182,129
Depreciation	1,215,530		1,215,530
Total operating expenses	<u>6,498,624</u>	<u>899,035</u>	<u>7,397,659</u>
Operating income	<u>2,329,694</u>	<u>62,289</u>	<u>2,391,983</u>
Nonoperating revenues (expenses):			
Intergovernmental		15,435	15,435
Investment income	197,219	17,906	215,125
Development impact fees	324,439	7,500	331,939
Miscellaneous	14,663		14,663
Interest expense	(233,214)		(233,214)
Total nonoperating revenues (expenses)	<u>303,107</u>	<u>40,841</u>	<u>343,948</u>
Income before capital contributions and transfers	<u>2,632,801</u>	<u>103,130</u>	<u>2,735,931</u>
Transfer out	(1,327,644)		(1,327,644)
Capital contributions	<u>2,172,543</u>		<u>2,172,543</u>
Changes in net assets	<u>3,477,700</u>	<u>103,130</u>	<u>3,580,830</u>
Total net assets, beginning of year, as restated	28,114,746	358,538	28,473,284
Total net assets, end of year	<u>\$ 31,592,446</u>	<u>\$ 461,668</u>	<u>\$ 32,054,114</u>

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

**CITY OF EL MIRAGE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007**

	Enterprise Funds		
	Water and Sewer	Non-major Enterprise	Totals
<u>Increase In Cash and Cash Equivalents</u>			
Cash flows from operating activities:			
Cash received from customers	\$ 8,542,184	\$ 919,918	\$ 9,462,102
Cash payments to suppliers for goods and services	(4,201,251)	(898,035)	(5,099,286)
Cash payments to employees for services	(1,221,175)		(1,221,175)
Net cash provided by operating activities	3,119,758	21,883	3,141,641
Cash flows from noncapital and related financing activities:			
Miscellaneous revenues	14,663		14,663
Interfund borrowing	(340,885)	340,885	
Transfers out	(1,327,644)		(1,327,644)
Net cash provided by (used for) noncapital financing activities	(1,653,866)	340,885	(1,312,981)
Cash flows from capital and related financing activities:			
Development impact fees	324,439	7,500	331,939
Proceeds from loans	11,635,751		11,635,751
Principal paid on loans	(1,026,433)		(1,026,433)
Interest paid on loans	(71,900)		(71,900)
Acquisition and construction of capital assets	(8,491,526)		(8,491,526)
Proceeds from capital grants		15,435	15,435
Net cash provided by capital and related financing activities	2,370,331	22,935	2,393,266
Cash flows from investing activities:			
Interest on investments	197,219	17,906	215,125
Net cash provided by investing activities	197,219	17,906	215,125
Net increase in cash and cash equivalents	4,033,442	403,609	4,437,051
Cash and cash equivalents, July 1, 2006	2,569,013	561	2,569,574
Cash and cash equivalents, June 30, 2007	\$ 6,602,455	\$ 404,170	\$ 7,006,625
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>			
Operating income	\$ 2,329,694	\$ 62,289	\$ 2,391,983
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,215,530		1,215,530
Changes in assets and liabilities:			
(Increase) in accounts receivable	(305,245)	(41,406)	(346,651)
Increase (decrease) in accounts payable	(201,651)	1,000	(200,651)
Increase in accrued payroll and employee benefits	49,142		49,142
Increase in compensated absences payable	13,177		13,177
Increase in deposits held for others	19,111		19,111
Total adjustments	790,064	(40,406)	749,658
Net cash provided by operating activities	\$ 3,119,758	\$ 21,883	\$ 3,141,641

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of El Mirage, Arizona have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City is a municipal entity governed by an elected mayor and council. As required by accounting principles generally accepted in the United States of America, these 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 and so data from these units are combined with data of the City, the primary government.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the City for financial statement presentation purposes, and the City, are not included in any other governmental reporting entity. Consequently, the City's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable.

B. Government-Wide and Fund Financial Statements

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

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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, investment income and other items not included among program revenues are reported instead as general revenues.

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

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effect of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenue also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The City reports the following major governmental funds.

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

Streets (HURF) Fund – This fund accounts for the City's share of the State's motor fuel tax revenues, which are used to fund various street and transportation projects.

The City reports the following major proprietary funds.

Water and Sewer Fund – This fund is used to account for all water and wastewater operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary 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 their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. The principal operating revenues of the City's enterprise fund are charges to customers for water, sewer and solid waste. Operating expenses for these funds include the cost of sales and services and depreciation expense. 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, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

D. Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Investment Income

Investment income is composed of interest and net changes in the fair value of applicable investments.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables, are shown net of an allowance for uncollectibles.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property tax levies are obtained by applying tax rates against either the primary assessed valuation or the secondary assessed valuation. Primary and secondary valuation categories are composed of the exact same properties. However, the primary category limits the increase in property values to 10% from the previous year, while there is no limit to the increase in property values for secondary valuation. Override and debt service tax rates are applied to the secondary assessed valuation and all other tax rates are applied to the primary assessed valuation.

Property taxes are levied by the City and collected by the County Treasurer. Real property taxes are levied on or before the third Monday in August, which 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. The billings are considered past due after these dates, at which time the applicable property is subject to penalties and interest.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in both the government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, sewer plant, water mains and lines, sewer collection system, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure capital assets include only those assets acquired or constructed since July 1, 2003.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements other than buildings	10-50
Vehicles, machinery and equipment	5-20

I. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation benefits vest immediately at the employee's current rate of pay. Sick leave benefits vest at one-fourth (25%) the hours accumulated at the employee's current rate of pay, after ten years of service, up to 480 hours of service. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Debt premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the debt using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt 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.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. At June 30, 2007 the City had no reservations of fund balance in the governmental funds.

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at June 30, 2007 were cash on hand, cash in bank and investments.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balances – At June 30, 2007, the Home Rehabilitation Fund, a non-major governmental fund, reported a deficit of \$200 in fund balance.

The deficit arose because of operations during the year. Additional revenues received in fiscal year 2007-08 are expected to eliminate the deficit.

Excess Expenditures Over Budget – At June 30, 2007, the City had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 – CASH AND INVESTMENTS

A.R.S. authorize the City to invest public monies in the State Treasurer’s local government investment pools, the County Treasurer’s investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City’s investments.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool - Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At June 30, 2007, the carrying amount of the City’s deposits was \$279,779 and the bank balance was \$361,112. At June 30, 2007, the City’s deposits were entirely covered by Federal depository insurance or by collateral held by the pledging financial institution.

At June 30, 2007, the City’s investments consisted of the following.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasuries	Less than 1 year	\$ 1,747,637
Repurchase agreements	Less than 1 month	1,669,123
State Treasurer’s investment pool 5	84 days average	18,890,170
State Treasurer’s investment pool 7	50 days average	2,403,797
Total		<u>\$24,710,727</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City has no investment policy that would further limit its investment choices. As of June 30, 2007, the City's investment in the State's investment pool did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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. The City's \$1.6 million investment in repurchase agreements was collateralized with securities held by the counterparty. The City's investment in the State Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the City's portion is not identified with specific investments and is not subject to custodial credit risk.

NOTE 4 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the City's individual major funds and non-major governmental funds in the aggregate, are as follows.

	General Fund	Streets (HURF) Fund	Non-Major Governmental Funds
Due from State government	\$ 877,254	\$206,398	\$
Due from County government			52,586
Due from other governments			5,204
Net due from governmental entities	<u>\$ 877,254</u>	<u>\$206,398</u>	<u>\$ 57,790</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be earned in the current period. At the end of the current fiscal year, the component of deferred revenue reported in the governmental funds consisted of \$97,218 of court fines and fees.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2007 follows.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$3,476,798	\$ 152,512	\$	\$ 3,629,310
Construction in progress	101,824	8,658		110,482
Total capital assets, not being depreciated	<u>3,578,622</u>	<u>161,170</u>		<u>3,739,792</u>
Capital assets, being depreciated:				
Land improvements	344,858	52,308		397,166
Buildings and improvements	2,278,803	648,923		2,927,726
Infrastructure	2,551,363	3,450,388		6,001,751
Machinery, equipment and vehicles	3,094,424	1,784,327	274,318	4,604,433
Total capital assets being depreciated	<u>8,269,448</u>	<u>5,935,946</u>	<u>274,318</u>	<u>13,931,076</u>
Less accumulated depreciation for:				
Land improvements	(277,400)	(11,963)		(289,363)
Buildings and improvements	(535,480)	(102,076)		(637,556)
Infrastructure	(177,193)	(197,093)		(374,286)
Machinery, equipment and vehicles	(1,681,115)	(247,825)	(121,111)	(1,807,829)
Total accumulated depreciation	<u>(2,671,188)</u>	<u>(558,957)</u>	<u>(121,111)</u>	<u>(3,109,034)</u>
Total capital assets, being depreciated, net	<u>5,598,260</u>	<u>5,376,989</u>	<u>153,207</u>	<u>10,822,042</u>
Governmental activities capital assets, net	<u>\$ 9,176,882</u>	<u>\$5,538,159</u>	<u>\$153,207</u>	<u>\$14,561,834</u>

Governmental activities:	
General government	\$ 72,149
Public safety	165,474
Highways and streets	249,853
Culture and recreation	53,785
Health and welfare	17,696
Total depreciation expense – governmental activities	<u>\$ 558,957</u>

Construction Commitments - As of June 30, 2007, the City was involved in several construction projects. The estimated cost to complete the construction projects is \$400,000.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS (Concl'd)

<u>Business-Type Activities</u>	Beginning Balance (As Restated)	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 856,187	\$	\$	\$ 856,187
Construction in progress	<u>1,516,588</u>	<u>8,447,051</u>		<u>9,963,639</u>
Total	<u>2,372,775</u>	<u>8,447,051</u>		<u>10,819,826</u>
Capital assets, being depreciated:				
Sewer plant	16,281,209			16,281,209
Water mains and lines	13,258,717	1,228,104		14,486,821
Sewer collection system	6,392,004	570,956		6,962,960
Land improvements	4,667,955			4,667,955
Buildings and improvements	153,407			153,407
Machinery, equipment and vehicles	<u>419,736</u>	<u>417,958</u>		<u>837,694</u>
Total capital assets being depreciated	<u>41,173,028</u>	<u>2,217,018</u>		<u>43,390,046</u>
Less accumulated depreciation for:				
Sewer plant	(5,102,835)	(325,624)		(5,428,459)
Water mains and lines	(3,351,699)	(524,021)		(3,875,720)
Sewer collection system	(2,696,432)	(247,540)		(2,943,972)
Land improvements	(784,074)	(81,991)		(866,065)
Buildings and improvements	(82,753)	(2,575)		(85,328)
Machinery, equipment and vehicles	<u>(290,069)</u>	<u>(33,779)</u>		<u>(323,848)</u>
Total accumulated depreciation	<u>(12,307,862)</u>	<u>(1,215,530)</u>		<u>(13,523,392)</u>
Total capital assets, being depreciated, net	<u>28,865,166</u>	<u>1,001,488</u>		<u>29,866,654</u>
Business-type activities capital assets, net	<u>\$ 31,237,941</u>	<u>\$ 9,448,539</u>	<u>\$</u>	<u>\$40,686,480</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities:

Water and Sewer	<u>\$1,215,530</u>
Total depreciation expense – business-type activities	<u>\$1,215,530</u>

Construction Commitments - As of June 30, 2007, the City was involved in several construction projects. The estimated cost to complete the construction projects is \$2.1 million.

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – LOANS PAYABLE

In a prior year, the City entered into a Greater Arizona Development Authority (GADA) loan agreement to refund a prior year loan issuance.

	Original Amount Issued	Interest Rate	Maturity	Outstanding Principal June 30, 2007
<u>Governmental activities:</u>				
GADA Loan, Series 2004 A	\$ 4,855,000	3.95-4.80%	7/1/07-24	\$ 4,435,000
Total				<u>\$ 4,435,000</u>

Principal and interest payments on the governmental activities loans payable at June 30, 2007 are summarized as follows.

Year ending June 30:	Governmental Activities	
	Principal	Interest
2008	\$ 180,000	\$ 98,500
2009	190,000	94,450
2010	195,000	90,413
2011	205,000	86,269
2012	215,000	81,913
2013-17	1,225,000	337,268
2018-22	1,510,000	193,232
2023-24	715,000	25,833
Total	<u>\$ 4,435,000</u>	<u>\$ 1,007,878</u>

In a prior year, the City entered into two separate Water Infrastructure Finance Authority (WIFA) loan agreements to refund a prior year issuance and to finance water facilities and infrastructure upgrades. The funding is drawn-down from the lender as the upgrade costs are incurred, as such not all proceeds have been received as of year-end.

	Original Amount Issued	Interest Rate (Including Fees)	Maturity	Outstanding Principal June 30, 2007
<u>Business-type activities:</u>				
WIFA Loan, DW 050-2005	\$ 16,550,000	2.93%	7/1/07-25	\$ 14,882,218
WIFA Loan, CW 030-2005	1,108,911	2.96%	7/1/07-25	1,067,478
Total				<u>\$ 15,949,696</u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – LOANS PAYABLE (Concl'd)

Principal and interest payments on business-type activities loans payable at June 30, 2007 are summarized as follows.

Year ending June 30:	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 747,660	\$ 187,782
2009	737,120	223,328
2010	752,762	212,523
2011	778,004	201,487
2012	803,286	190,082
2013-17	4,373,233	767,038
2018-22	4,696,425	427,233
2023-26	3,061,205	161,070
Total	<u>\$ 15,949,695</u>	<u>\$2,370,543</u>

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 480,789	\$ 465,475	\$ 506,774	\$ 439,490	\$ 153,821
Loan payable	<u>4,775,000</u>		<u>340,000</u>	<u>4,435,000</u>	<u>180,000</u>
Governmental activity long-term liabilities	<u>\$ 5,255,789</u>	<u>\$ 465,475</u>	<u>\$ 846,774</u>	<u>\$ 4,874,490</u>	<u>\$ 333,821</u>
Business-type activities:					
Compensated absences	\$ 47,457	\$ 56,305	\$ 43,128	\$ 60,634	\$ 21,222
Loans payable	<u>4,510,000</u>	<u>12,466,129</u>	<u>1,026,433</u>	<u>15,949,696</u>	<u>747,660</u>
Business-type activities long-term liabilities	<u>\$ 4,557,457</u>	<u>\$12,522,434</u>	<u>\$ 1,069,561</u>	<u>\$ 16,010,330</u>	<u>\$ 768,882</u>

**CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers:

Transfers out	Transfers in		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ 9,224	\$ 532,792	\$ 542,016
Non-Major Governmental Funds		9,024	9,024
Water and Sewer Fund	1,327,644		1,327,644
Total	\$ 1,336,868	\$ 541,816	\$ 1,878,684

Interfund transfers were made by the City during the fiscal year to ensure that sufficient resources were available to cover expenditures in the applicable funds.

NOTE 9 – CONTINGENT LIABILITIES

Lawsuits – The City is a defendant in a number of lawsuits as of June 30, 2007. It is the opinion of management and City counsel that the amount of losses resulting from these litigations at June 30, 2007, would not be material to the financial position of the City.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The July 1, 2006, government-wide net assets for business-type activities and the Water and Sewer Fund do not agree to the prior year financial statements for capital assets not properly recorded in the prior year.

	Statement of Activities	Water and Sewer Fund
Net Assets, June 30, 2006, as previously reported	\$ 28,804,009	\$ 28,445,471
Capital asset restatement	(330,725)	(330,725)
Net Assets, July 1, 2006, as restated	\$ 28,473,284	\$ 28,114,746

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is \$2.0 million per occurrence on a claims made basis. Excess coverage is for an additional \$8.0 million per occurrence on a follow form, claims made basis. The aggregate limit is also \$2.0 million. The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City is insured by Arizona Municipal Workers Compensation Pool for potential worker related accidents.

NOTE 12 – RETIREMENT PLAN

Plan Descriptions – The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

**CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 12 – RETIREMENT PLAN (Cont’d)

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
Phoenix, AZ 85012-0250
(602) 240-2200 or (800) 621-3778

PSPRS

3010 E. Camelback Road Suite 200
Phoenix, AZ 85016
(602) 255-5575

Funding policy – The Arizona State Legislature establishes and may amend active plan members’ and the City’s contribution rates.

Cost-sharing plans – For the year ended June 30, 2007, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 percent retirement and 0.50 percent long-term disability) of the members’ annual covered payroll. The City’s contributions to ASRS for the years ended June 30, 2007, 2006, and 2005 were \$392,455, \$223,391, and \$197,193, respectively, which were equal to the required contributions for the year.

Agent plan – For the year ended June 30, 2007, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rates of 6.81 percent and 5.32 percent for police and fire, respectively. Additional information related to both the police and fire PSPRS agent plans follows.

	PSPRS (Police and Fire)
Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50-8.50%
Includes inflation at	5.00%
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization	29 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value

CITY OF EL MIRAGE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 12 – RETIREMENT PLAN (Concl'd)

Trend Information – Information for the agent plans as of most recent actuarial valuations follows.

Police:

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2005	\$172,277	100%	-0-
2006	160,281	100%	-0-
2007	108,916	100%	-0-

Fire:

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2005	\$119,855	100%	-0-
2006	71,190	100%	-0-
2007	58,793	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of June 30, 2007 follows.

Police:

Valuation Date <u>June 30,</u>	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability <u>(b)</u>	Overfunded (Underfunded) Liability <u>(a-b)</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	Unfunded Liability as Percentage of Covered Payroll <u>([a-b]/c)</u>
2005	\$2,873,746	\$3,155,507	\$(281,761)	91.1%	\$2,141,760	(13.2)%
2006	2,818,023	3,483,853	(665,830)	80.9%	1,431,422	(46.5)%
2007	2,391,771	4,026,539	(1,634,768)	59.4%	1,395,876	(117.1)%

Fire:

Valuation Date <u>June 30,</u>	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability <u>(b)</u>	Overfunded (Underfunded) Liability <u>(a-b)</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	Unfunded Liability as Percentage of Covered Payroll <u>([a-b]/c)</u>
2005	\$1,444,784	\$1,348,999	\$ 95,785	107.1%	\$965,687	9.9%
2006	1,609,228	1,449,510	159,718	111.0%	890,422	17.9%
2007	1,648,201	1,953,860	(305,659)	84.4%	1,005,445	(30.4)%

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(REQUIRED SUPPLEMENTARY INFORMATION)**

CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL
YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Property taxes	\$ 1,432,342	\$ 1,432,342	\$
City sales taxes	4,389,823	5,819,145	1,429,322
Franchise taxes	600,000	617,759	17,759
Licenses and permits	390,000	439,521	49,521
Intergovernmental	6,520,771	8,145,709	1,624,938
Charges for services	362,800	449,464	86,664
Fines and forfeits	214,220	251,067	36,847
Investment income	143,000	359,559	216,559
Rents	24,500	24,542	42
Miscellaneous	55,250	200,888	145,638
Total revenues	<u>14,132,706</u>	<u>17,739,996</u>	<u>3,607,290</u>
Expenditures:			
Current -			
General government	6,550,281	5,228,687	1,321,594
Public safety	7,160,172	7,160,863	(691)
Culture and recreation	954,961	835,658	119,303
Redevelopment and housing	5,300	3,394	1,906
Health and welfare		312	(312)
Contingency	6,012,139		6,012,139
Total expenditures	<u>20,682,853</u>	<u>13,228,914</u>	<u>7,453,939</u>
Excess (deficiency) of revenues over expenditures	<u>(6,550,147)</u>	<u>4,511,082</u>	<u>11,061,229</u>
Other financing sources (uses):			
Transfer in	1,327,644	1,336,868	9,224
Transfer out	(1,718,677)	(542,016)	1,176,661
Total other financing sources (uses)	<u>(391,033)</u>	<u>794,852</u>	<u>1,185,885</u>
Change in fund balances	<u>(6,941,180)</u>	<u>5,305,934</u>	<u>12,247,114</u>
Fund balances, July 1, 2006	6,949,098	8,674,424	1,725,326
Fund balances, June 30, 2007	<u>\$ 7,918</u>	<u>\$ 13,980,358</u>	<u>\$ 13,972,440</u>

See accompanying notes to this schedule.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - STREETS (HURF)
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 2,070,900	\$ 2,285,980	\$ 215,080
Investment income		27,517	27,517
Development impact fees		15,000	15,000
Total revenues	<u>2,070,900</u>	<u>2,328,497</u>	<u>257,597</u>
Expenditures:			
Current -			
Highways and streets	2,954,940	1,881,144	1,073,796
Total expenditures	<u>2,954,940</u>	<u>1,881,144</u>	<u>1,073,796</u>
Excess (deficiency) of revenues over expenditures	<u>(884,040)</u>	<u>447,353</u>	<u>1,331,393</u>
Other financing sources (uses):			
Transfer in	825,318		(825,318)
Total other financing sources (uses)	<u>825,318</u>		<u>(825,318)</u>
Change in fund balances	<u>(58,722)</u>	<u>447,353</u>	<u>506,075</u>
Fund balances, July 1, 2006	58,722	198,804	140,082
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 646,157</u>	<u>\$ 646,157</u>

See accompanying notes to this schedule.

CITY OF EL MIRAGE, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

**CITY OF EL MIRAGE, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007**

	Municipal Court		
	Budget*	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$	\$	\$
Charges for services			
Fines and forfeits		35,631	35,631
Investment income			
Total revenues		35,631	35,631
Expenditures:			
Current -			
General government		35,631	(35,631)
Public safety			
Highways and streets			
Redevelopment and housing			
Health and welfare			
Total expenditures		35,631	(35,631)
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses)			
Change in fund balances			
Fund balances, July 1, 2006			
Fund balances (deficits), June 30, 2007	\$	\$	\$

*The Municipal Court Fund was included in the City's budget, however, the budget was -0-.

Senior Center			Community Action Program		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 157,855	\$ 197,691	\$ 39,836	\$ 112,745	\$ 112,670	\$ (75)
<u>157,855</u>	<u>197,691</u>	<u>39,836</u>	<u>112,745</u>	<u>112,670</u>	<u>(75)</u>
			112,745	117,329	(4,584)
<u>362,446</u>	<u>391,469</u>	<u>(29,023)</u>	<u>112,745</u>	<u>117,329</u>	<u>(4,584)</u>
<u>362,446</u>	<u>391,469</u>	<u>(29,023)</u>			
<u>(204,591)</u>	<u>(193,778)</u>	<u>10,813</u>		<u>(4,659)</u>	<u>(4,659)</u>
				4,659	4,659
<u>203,726</u>	<u>193,778</u>	<u>(9,948)</u>		<u>4,659</u>	<u>4,659</u>
<u>203,726</u>	<u>193,778</u>	<u>(9,948)</u>			
<u>(865)</u>		<u>865</u>			
865		(865)			
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

(Continued)

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007
(Continued)

	Dial-A-Ride (LTAF)		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 167,072	\$ 236,784	\$ 69,712
Charges for services	1,600	3,704	2,104
Fines and forfeits			
Investment income		4,295	4,295
Total revenues	<u>168,672</u>	<u>244,783</u>	<u>76,111</u>
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets	238,664	174,184	64,480
Redevelopment and housing			
Health and welfare			
Total expenditures	<u>238,664</u>	<u>174,184</u>	<u>64,480</u>
Excess (deficiency) of revenues over expenditures	<u>(69,992)</u>	<u>70,599</u>	<u>140,591</u>
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses)			
Change in fund balances	<u>(69,992)</u>	<u>70,599</u>	<u>140,591</u>
Fund balances, July 1, 2006	69,992	9,906	(60,086)
Fund balances (deficits), June 30, 2007	<u>\$</u>	<u>\$ 80,505</u>	<u>\$ 80,505</u>

Police Grants			Fire Grants		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 176,655	\$ 169,875	\$ (6,780)	\$ 500,000	\$	\$ (500,000)
<u>176,655</u>	<u>169,875</u>	<u>(6,780)</u>	<u>500,000</u>		<u>(500,000)</u>
176,655	192,152	(15,497)	500,000		500,000
<u>176,655</u>	<u>192,152</u>	<u>(15,497)</u>	<u>500,000</u>		<u>500,000</u>
	<u>(22,277)</u>	<u>(22,277)</u>			
	21,732	21,732			
	<u>21,732</u>	<u>21,732</u>			
	<u>(545)</u>	<u>(545)</u>			
49,353	45,079	(4,274)			
<u>\$ 49,353</u>	<u>\$ 44,534</u>	<u>\$ (4,819)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

(Continued)

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007
(Continued)

	Home Rehabilitation		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 887,000	\$ 135,870	\$ (751,130)
Charges for services			
Fines and forfeits			
Investment income			
Total revenues	887,000	135,870	(751,130)
Expenditures:			
Current -			
General government			
Public safety			
Highways and streets			
Redevelopment and housing	968,000	171,615	796,385
Health and welfare			
Total expenditures	968,000	171,615	796,385
Excess (deficiency) of revenues over expenditures	(81,000)	(35,745)	45,255
Other financing sources (uses):			
Transfer in	81,000	35,545	(45,455)
Transfer out			
Total other financing sources (uses)	81,000	35,545	(45,455)
Change in fund balances		(200)	(200)
Fund balances, July 1, 2006			
Fund balances (deficits), June 30, 2007	\$	\$ (200)	\$ (200)

*The Special Projects Fund was included in the City's budget, however, the budget was -0-.

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Totals		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 3,093,257	\$ 1,802,890	\$ (1,290,367)
Charges for services	1,600	3,704	2,104
Fines and forfeits		35,631	35,631
Investment income		4,295	4,295
Total revenues	<u>3,094,857</u>	<u>1,846,520</u>	<u>(1,248,337)</u>
Expenditures:			
Current -			
General government		35,631	(35,631)
Public safety	676,655	192,152	484,503
Highways and streets	238,664	174,184	64,480
Redevelopment and housing	2,172,675	1,238,944	933,731
Health and welfare	362,446	391,469	(29,023)
Total expenditures	<u>3,450,440</u>	<u>2,032,380</u>	<u>1,418,060</u>
Excess (deficiency) of revenues over expenditures	<u>(355,583)</u>	<u>(185,860)</u>	<u>169,723</u>
Other financing sources (uses):			
Transfer in	284,726	255,714	(29,012)
Transfer out		(9,024)	(9,024)
Total other financing sources (uses)	<u>284,726</u>	<u>246,690</u>	<u>(38,036)</u>
Change in fund balances	<u>(70,857)</u>	<u>60,830</u>	<u>131,687</u>
Fund balances, July 1, 2006	124,414	64,009	(60,405)
Fund balances (deficits), June 30, 2007	<u>\$ 53,557</u>	<u>\$ 124,839</u>	<u>\$ 71,282</u>

CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2007

	Debt Service - GADA		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Property taxes	\$ 379,875	\$ 379,875	\$
Investment income		1,713	1,713
Total revenues	379,875	381,588	1,713
Expenditures:			
Debt service -			
Principal retirement	175,000	175,000	
Interest and fiscal charges	287,825	205,792	82,033
Total expenditures	462,825	380,792	82,033
Change in fund balances	(82,950)	796	83,746
Fund balances, July 1, 2006	82,950	905	(82,045)
Fund balances, June 30, 2007	\$	\$ 1,701	\$ 1,701

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007

	CIP - Street Projects (GADA)		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Investment income	\$ 50,000	\$ 128,939	\$ 78,939
Development impact fees			
Total revenues	50,000	128,939	78,939
Expenditures:			
Current -			
General government			
Highways and streets	23,214,431	1,293,789	21,920,642
Total expenditures	23,214,431	1,293,789	21,920,642
Excess (deficiency) of revenues over expenditures	(23,164,431)	(1,164,850)	21,999,581
Other financing sources (uses):			
Loan proceeds	1,145,000		(1,145,000)
Transfer in	608,633		(608,633)
Total other financing sources (uses)	1,753,633		(1,753,633)
Change in fund balances	(21,410,798)	(1,164,850)	20,245,948
Fund balances, July 1, 2006		2,585,414	2,585,414
Fund balances (deficits), June 30, 2007	\$ (21,410,798)	\$ 1,420,564	\$ 22,831,362

*The CIP - City Hall Fund was included in the City's budget, however, the budget was -0-.

**The CIP - Park Improvements Fund was included in the City's budget, however, the budget was -0-.

CIP - City Hall		
Budget*	Actual	Variance - Positive (Negative)
\$	\$	\$
	866,494	(866,494)
	866,494	(866,494)
	(866,494)	(866,494)
	286,102	286,102
	286,102	286,102
	(580,392)	(580,392)
	580,392	580,392
\$	\$	\$

CIP - Park Improvements		
Budget**	Actual	Variance - Positive (Negative)
\$	\$	\$
	7,349	7,349
	7,349	7,349
	7,349	7,349
	7,349	7,349
	752,300	752,300
\$	\$	\$
	759,649	759,649

(Continued)

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007
(Continued)

	Parks and Recreation Impact Fees		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Investment income	\$	\$ 1,267	\$ 1,267
Development impact fees	3,700	10,225	6,525
Total revenues	3,700	11,492	7,792
Expenditures:			
Current -			
General government			
Highways and streets			
Total expenditures			
Excess (deficiency) of revenues over expenditures	3,700	11,492	7,792
Other financing sources (uses):			
Loan proceeds			
Transfer in			
Total other financing sources (uses)			
Change in fund balances	3,700	11,492	7,792
Fund balances, July 1, 2006		12,350	12,350
Fund balances (deficits), June 30, 2007	\$ 3,700	\$ 23,842	\$ 20,142

*The Municipal Facilities and Equipment Impact Fees Fund was included in the City's budget, however, the budget was -0-.

Municipal Facilities and Equipment Impact Fees

Fire Impact Fees

Budget*	Actual	Variance - Positive (Negative)
\$	\$ 2,461	\$ 2,461
	20,567	20,567
	23,028	23,028
	23,028	23,028
	23,028	23,028
	23,284	23,284
\$	\$ 46,312	\$ 46,312

Budget	Actual	Variance - Positive (Negative)
\$	\$ 1,070	\$ 1,070
4,500	11,460	6,960
4,500	12,530	8,030
4,500	12,530	8,030
4,500	12,530	8,030
	7,603	7,603
\$ 4,500	\$ 20,133	\$ 15,633

(Continued)

CITY OF EL MIRAGE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Police Impact Fees		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Investment income	\$	\$ 772	\$ 772
Development impact fees	3,000	9,005	6,005
Total revenues	3,000	9,777	6,777
Expenditures:			
Current -			
General government			
Highways and streets			
Total expenditures			
Excess (deficiency) of revenues over expenditures	3,000	9,777	6,777
Other financing sources (uses):			
Loan proceeds			
Transfer in			
Total other financing sources (uses)			
Change in fund balances	3,000	9,777	6,777
Fund balances, July 1, 2006		4,758	4,758
Fund balances (deficits), June 30, 2007	\$ 3,000	\$ 14,535	\$ 11,535

Totals		
Budget	Actual	Variance - Positive (Negative)
\$ 50,000	\$ 141,858	\$ 91,858
11,200	51,257	40,057
<u>61,200</u>	<u>193,115</u>	<u>131,915</u>
	866,494	(866,494)
23,214,431	1,293,789	21,920,642
<u>23,214,431</u>	<u>2,160,283</u>	<u>21,054,148</u>
<u>(23,153,231)</u>	<u>(1,967,168)</u>	<u>21,186,063</u>
1,145,000		(1,145,000)
608,633	286,102	(322,531)
<u>1,753,633</u>	<u>286,102</u>	<u>(1,467,531)</u>
<u>(21,399,598)</u>	<u>(1,681,066)</u>	<u>19,718,532</u>
	3,966,101	3,966,101
<u>\$ (21,399,598)</u>	<u>\$ 2,285,035</u>	<u>\$ 23,684,633</u>

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SINGLE AUDIT 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**

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

Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of El Mirage, Arizona as of and for the year ended June 30, 2007, which collectively comprise City of El Mirage, Arizona's basic financial statements and have issued our report thereon dated December 14, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of El Mirage, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of El Mirage, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of El Mirage, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of El Mirage, Arizona'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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters which are described in the accompanying schedule of findings and questioned costs and findings 07-3 and 07-4.

City of El Mirage, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of El Mirage, Arizona's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, City Council, others within the entity, and 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

December 14, 2007



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

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

Compliance

We have audited the compliance of City of El Mirage, Arizona 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 its major federal program for the year ended June 30, 2007. City of El Mirage, Arizona's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City of El Mirage, Arizona's management. Our responsibility is to express an opinion on City of El Mirage, Arizona'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 City of El Mirage, Arizona'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 of City of El Mirage, Arizona's compliance with those requirements.

In our opinion, City of El Mirage, Arizona complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of City of El Mirage, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of El Mirage, Arizona's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of El Mirage, Arizona's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of El Mirage, Arizona as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of El Mirage, Arizona'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 management, City Council, others within the entity and 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

December 14, 2007

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Maricopa County Community Development -			
Community Development Block Grants	14.218	DG0504	\$ 500,000
Community Development Block Grants	14.218	DG0603	450,000
Home Investment Partnerships Program (HOME)	14.239	UC0305	3
Home Investment Partnerships Program (HOME)	14.239	UC0505	<u>135,867</u>
Total U.S. Department of Housing and Urban Development			<u>1,085,870</u>
<u>U.S. Department of Justice</u>			
Direct programs -			
Bulletproof Vest Partnership Program	16.607	N/A	424
Passed through Maricopa County Sheriff's Office -			
Edward Byrne Memorial Formula Grant Program	16.579	C-50-07-505-2-00	71,831
Edward Byrne Memorial State and Local Law Enforcement			
Assistance Discretionary Grants Program	16.580	C-50-06-500-2-01	121
Edward Byrne Memorial Justice Assistance Grant Program	16.738	C-50-07-524-2-00	<u>8,851</u>
Total U.S. Department of Justice			<u>81,227</u>
<u>Office of National Drug Control Policy</u>			
Passed through Maricopa County Sheriff's Office -			
High Intensity Drug Trafficking Area (HIDTA) Grant	95.001	C-50-07-528-2-00	10,107
<u>U.S. Department of Transportation</u>			
Passed through Arizona Governor's Office of Highway Safety -			
State and Community Highway Safety	20.600	2005-163-004	7,427
Alcohol Traffic Safety and Drunk Driving Prevention			
Incentive Grants	20.601	2007-K8HV-026	<u>10,772</u>
Total U.S. Department of Transportation			<u>18,199</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through Area Agency on Aging, Region I, Inc. -			
Special Programs for the Aging - Title III, Part B	93.044	2007-14-ELM	13,595
Special Programs for the Aging - Title III, Part C	93.045	2007-14-ELM	44,286
Nutrition Services Incentive Program	93.053	2007-14-ELM	11,992
Social Services Block Grant	93.667	2007-14-ELM	3,066
Passed through Maricopa County Social Services Department -			
Temporary Assistance for Needy Families	93.558	C22-05-038	25,392
Community Services Block Grant	93.569	C22-05-038	25,578
Social Services Block Grant	93.667	C22-05-038	<u>26,997</u>
Total U.S. Department of Health and Human Services			<u>150,906</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Arizona Department of Emergency Management -			
Homeland Security Grant Program	97.067	2005-GE-T5-0030	<u>110,000</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,456,309</u></u>

CITY OF EL MIRAGE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of El Mirage, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2007 *Catalog of Federal Domestic Assistance*.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? X yes _____ 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
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? _____yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants

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
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS

07-1 CONDITION/CONTEXT

During our review of capital assets we noted the following.

- a. Formal written procedures for capital assets were not in place
- b. Assets were not tagged on a consistent basis
- c. Developer contributions were monitored but were not valued for reporting purposes
- d. A complete physical inventory has not been performed in over four years
- e. Several assets that are less than the \$5,000 threshold were included on the listing
- f. Two separate payments made for a single asset were each given a different tag number
- g. One payment for the purchase of several assets received only one tag number

CRITERIA

A properly designed internal control structure requires specific procedures and policies with respect to capital assets in order to meet the financial reporting objectives of the City.

EFFECT

The incomplete procedures and systems for capital assets could potentially result in misstatements of capital assets for financial reporting and/or compliance reporting purposes.

CAUSE

The City has experienced significant growth in the past several years. The City does not appear to have allocated adequate resources to the area of capital assets in consideration of this significant growth.

RECOMMENDATION

The City should allocate the necessary resources in order to implement controls and procedures for capital assets to reduce the risks of misstatement of capital assets.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Although there were no misstatements of capital assets, the City will review and implement policies and procedures to ensure that capital assets are not misstated.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

07-2 CONDITION/CONTEXT

Several audit adjustments were required to properly state the City's capital assets, debt activity, accounts payable, accrued payroll, and compensated absences in accordance with generally accepted accounting principles.

CRITERIA

The City's management is responsible for the design and implementation of internal controls over financial reporting to ensure the financial statements and related notes are prepared accurately. This internal control structure is established to ensure misstatements in the financial statements are prevented and/or detected.

EFFECT

The City's accounting records contained misstatements that were not detected through the City's internal control processes over financial reporting. Audit adjustments were required to ensure the financial statements of the City were properly presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

CAUSE

The City has experienced significant growth in the past several years. The City does not appear to have allocated adequate resources to ensure year-end adjustments are prepared to present the trial balance on a GAAP basis.

RECOMMENDATION

Due to additional attention placed on the review and assessment of internal controls over financial reporting by the audit profession in recent years the City should allocate the necessary resources to this process in order to minimize the number and nature of audit adjustments required during the preparation of the financial statements.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The City is reviewing its year-end closing procedures to ensure that all year-end closing adjustments are made to the trial balance prior to closing.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

07-3 CONDITION/CONTEXT

The accounting system software has the capability of deleting journal entries without proper authorization.

CRITERIA

A properly designed internal control structure would limit or eliminate the ability to delete transactions from the organization's general ledger.

EFFECT

The ability to delete transactions erases any "audit trail" and increases the opportunity for unauthorized and/or fraudulent financial transactions.

CAUSE

The City's current general ledger software allows any transaction to be deleted without any prior authorization.

RECOMMENDATION

The City should work with the software vendor to implement controls that would prohibit the ability to delete general ledger transactions.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The Accounting Software (Caselle) currently has the capability to delete journal entries. In July 2007, Caselle introduced an update to their software that will generate an audit trail report for management to monitor and review any transactions deleted. The City has purchased the software update and is implementing the software beginning January 2008.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)

07-4 CONDITION/CONTEXT

Information technology personnel were not prohibited from initiating or authorizing transactions.

CRITERIA

A properly designed internal control structure would restrict access to the general ledger software to only those individuals responsible for day-to-day operations.

EFFECT

The ability to access and post transactions to the general ledger software by individuals other than those who are responsible for day-to-day operations increases the opportunity for unauthorized and/or fraudulent financial transactions.

CAUSE

The City's current general ledger software does not restrict access to only operational employees.

RECOMMENDATION

The City should work with the software vendor to implement controls that would prohibit information technology personnel from initiating or authorizing transactions.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Currently, Information Technology department staff are the software administrator; who are the only personnel authorized to maintain the City's accounting software (Caselle). Information Technology personnel are authorized access, only for maintaining the accounting software, and are prohibited from initiating or authorizing transactions without prior written approval. In July 2007, Caselle introduced an update to their software that will generate an audit trail report for management to monitor and review any transactions (deleted and/or amended). The City has purchased the software update and is implementing the software beginning January 2008.

**CITY OF EL MIRAGE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We noted no significant deficiencies, material weaknesses or instances of noncompliance related to the audit of major federal programs as required to be reported by OMB Circular A-133.

**CITY OF EL MIRAGE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

Status of Federal Award Findings and Questioned Costs

The City had no findings or questioned costs related to federal awards noted in prior audits that require a status.