The City of Peoria (City) was incorporated in 1954 under the Arizona Revised Statutes. The current City charter provides for the Council - Manager form of government and provides such services as authorized by the charter as limited by the constitution of the State of Arizona.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement #20 requires that governments' enterprise activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The following is a summary of other significant accounting policies:

A. Financial Reporting Entity

The City's major operations include police and fire protection, parks and recreation, development services, public works, certain social services and general administrative services. In addition, the City owns and operates enterprise funds, which include water, wastewater and solid waste operations, a baseball stadium complex, and the public housing operations.

The financial reporting entity presented in these financial statements consists of the City and two blended component units. In accordance with GASB Statement #14, these component units, discussed below, are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These component units are governed by boards, substantially or wholly, comprised of the government's elected council.

Individual Component Units - Blended

City of Peoria Municipal Development Authority, Inc.

City of Peoria Municipal Development Authority, Inc. (Authority), an Arizona not-for-profit corporation, was organized for the purpose of financing the construction of municipal facilities within the City through the issuance of bonds. Concurrent with these bond issues, the City entered into contracts with the Authority whereby the City will pay, to the Authority, amounts sufficient to retire the Authority's bonds and related interest. The outstanding Municipal Development Authority, Inc. bonds are reported as a debt service fund in the City's financial statements. No separate financial statements are prepared for the Municipal Development Authority, Inc.

Vistancia Community Facilities District

The Vistancia Community Facilities District (the District) was formed by petition to the City Council in 2002. The district's purpose is to acquire or construct public infrastructure in a specified area of the City. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owned in the designated areas is assessed for the District's property taxes, and thus for the costs of operating the District. The City Council serves as the Board of Directors of the District. The City has no liability for the District's debt. For reporting purposes, the transactions of the District are included as governmental type funds as if they were part of the City's operations.

Stand-alone financial statements are prepared for the Vistancia Community Facilities District. The accounting records of the District are maintained by the City and the financial statements for the District are available from the City of Peoria, Finance Department at 8401 West Monroe Street, Peoria, AZ 85345.

B. Basic Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The “doubling up” effect of internal service fund activity has been removed from the government-wide statements with the expenses shown in the various functions and segments on the Statement of Activities. Quasi-external transactions, like the sale of utility services from the Enterprise Funds to the other funds, are not eliminated for the financial statements. Elimination of these charges would distort the direct costs and program revenue reported for the various functions.

The City does not currently employ an indirect cost allocation system. The General Fund and certain other funds charge administrative service fees to other operating funds to support general services used by the other operating funds (like purchasing, accounting and administration). These administrative fees are eliminated from the financial statements at both the government-wide and fund level like a reimbursement, by reducing revenues and expenditures/expenses in the allocating fund.

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Invested in capital assets, net of related debt, is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative action of the reporting government, are not shown on the government-wide financial statements. Note 11 discusses the internal reservations and designations of net assets in the various funds to demonstrate the government’s intended use of those net assets.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular 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 revenues not identifiable with particular functions or segments are included as general revenues. State shared revenues, such as sales taxes, urban revenue sharing and auto-in-lieu taxes, that are not restricted for use in any function, are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds. Although GASB Statement #34 sets forth minimum criteria for the determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of the fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add some funds as major funds because of outstanding debt or community focus. Other non-major funds, as well as the internal service funds, are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

The internal service funds, which provide services to the other funds of the government, are presented in a single combined column in the proprietary fund financial statements. Because the principal users of the internal service funds are the City's governmental activities, the assets and liabilities of the internal service funds are consolidated into the governmental activities column of the government-wide Statement of Net Assets. The costs of the internal service fund services are spread to the appropriate function or segment on the government-wide Statement of Activities and the revenues and expenses within the internal service funds are eliminated from the government-wide financial statements to avoid any doubling up effect of these revenues and expenses.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliations are also provided in Note 2.

The proprietary fund and fiduciary fund financial statements, except for the Agency Funds which have no measurement focus, are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements. The net costs/income of the internal service funds are also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

C. Basis of Presentation

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following fund categories (further divided by fund type) are used by the City:

Governmental Funds

Governmental funds are used to account for the City's general government activities. The focus of Governmental Fund measurement, in the fund financial statements, is upon determination of financial position and changes in financial position rather than upon net income. The following are the Governmental Funds of the City:

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

Special Revenue Funds account for revenue sources that are restricted to expenditures for specific purposes (not including major capital projects). The restrictions may be imposed by outside parties or by the governing body. The special revenue funds presented as major funds in the basic financial statements are as follows: Half-Cent Sales Tax Fund accounts for the revenues generated from a sales tax increase designated for specific uses per Council policy; Highway User Revenue Fund is required by state statute to track receipts of specific state shared revenues and the expenditure of those funds; the Development Fee Fund accounts for the receipt and expenditure of development impact or expansion fees for all governmental activities; and the Transportation Sales Tax Fund accounts for the revenues generated from a sales tax increase designated by public vote for use in funding transportation needs throughout the City.

Debt Service Funds account for the resources accumulated and the servicing of long-term debt not being financed by proprietary funds. The debt service funds presented as major funds in the basic financial statements are as follows: GO Bond Debt Service Fund accounts for the principal and interest requirements of the City's general obligation bonds, with revenues generated from the general property tax levy sufficient to meet the debt service; and the Special Assessment Debt Service Fund accounts for the receipt of revenues from special assessment districts and the payment of the special assessment bonds.

Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds. One capital projects fund is presented as a major fund in the basic financial statements. The GO Bond Capital Projects Fund accounts for the bond proceeds from general obligation bonds and the expenditure of those monies.

Proprietary Funds

Proprietary funds account for activities of the City similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The focus of Proprietary Fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. The following are the Proprietary Funds of the City:

Enterprise Funds are used to account for those operations that provide services to the general public for a fee. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed *solely* by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. All of the enterprise funds of the City are presented discretely in the basic financial statements.

The enterprise funds of the City are as follows:

The Water Utility, Wastewater Utility and Solid Waste Utility Funds all account for the revenues from charges to the customers of these services and the costs of these services.

The Stadium Fund accounts for the revenues generated by and the costs of operation of a sports complex owned by the City. This facility is used for spring training by two major league baseball teams as well as multiple other uses throughout the year.

The Public Housing Fund accounts for the revenues and expenses of the low income housing program operated by the City. While this program does receive Federal subsidies through the Department of Housing and Urban Development, it also generates substantial user fees.

Internal Service Funds account for operations that provide services to other departments or agencies of the government or to other governments on a cost-reimbursement basis. The internal service funds are presented as one column on the proprietary fund financial statements. Combining financial statements are also presented for the internal service funds, but are not part of the basic financial statements. The internal service funds of the City are as follows:

Motor Pool Fund – accounts for the costs of operating the City garage. These costs are charged out to user departments based on direct charges for services used. This fund also accounts for the vehicle replacement fund for all of the City's general governmental vehicles.

Self-Insurance Fund – accounts for the Risk Management function of the City as well as maintaining the costs of the City's liability insurance and any claims paid under the City's self-insurance program. These costs are allocated to all operational activities of the City.

Facilities Maintenance Fund – allocates the costs of operations and maintenance of the City's facilities to the user departments.

Information Technology Fund – maintains the costs of operation and maintenance of the City's computer systems. The computer replacement fund for all governmental functions is also in this fund. Revenues are charges to user departments.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary Funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs. The City maintains the following types of fiduciary funds:

Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. The City has one Pension Trust Fund to account for the activities of the volunteer firemen's retirement plan.

Agency Funds account for assets the City holds as an agent for individuals, private organizations, other governments or other funds in a temporary custodial capacity. The City currently maintains five agency funds. One fund accounts for the monies collected from developers in one area of the City and held in trust by the City until reimbursed by the City to a developer that made certain infrastructure improvements in that area. Three funds account for monies held on behalf of separate not-for-profit agencies for which the City operates as an administrator. These are Neighborhood Pride, PLAY Peoria, and Peoria Citizens Corp Council. The fifth fund accounts for monies held on behalf of

Westside Fire Training IGA, a consortium of area fire departments that pool monies for training activities, for which the City acts as the administrator.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds are reported in the government-wide financial statements on the flow of economic resources measurement focus and accrual basis of accounting.

Governmental fund types are presented, in the fund financial statements, using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon thereafter to pay liabilities of the current period. The City considers revenues available under modified accrual, if they are earned by June 30 (all eligibility requirements have been met) and the revenue is expected to be collected within six months after year-end, except for property taxes. For property taxes, the City uses a 60 day collection 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.

When applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement #33 – *Recipient Reporting for Certain Shared Non-exchange,* receivables and revenues are recognized when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred revenue.

Property taxes and special assessments are susceptible to accrual when an enforceable legal claim has arisen. As noted above, the City recognizes property taxes received within 60 days of fiscal year-end to be revenues under modified accrual. The remaining taxes levied are considered deferred revenue on the governmental fund financial statements. State Shared Sales Taxes, Highway User revenues and State Shared Income taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. City levied transaction privilege taxes (sales taxes) are considered susceptible to accrual at the time of the underlying transaction (sale). In practice, taxes collected by local businesses in June and remitted to the City in July are recognized as revenue in the previous fiscal year. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

Interest and dividend income is recognized on the modified accrual basis. Changes in fair value of investments are recognized in investment income at the end of the year.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. For the governmental fund statements, grant revenue earned but not expected to be received within six months of year end is deferred.

Proprietary funds and pension trust funds are accounted for on the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income.

The accrual basis of accounting is used for proprietary fund types and pension trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus.

E. Budgets and Budgetary Accounting

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- According to the laws of the State of Arizona, all operating budgets must be approved by their governing board on or before the second Monday in August to allow sufficient time for legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August.

- In April, the proposed budget for the following fiscal year is presented by the City Manager to the City Council. The budget includes proposed expenditures and the means of financing them. Public meetings are held to obtain citizen comment.

- Prior to June 30, the City Council legally enacts the budget, through the passage of an ordinance. The ordinance sets the limit for expenditures for the year, within the voter mandated state expenditure limitation (see Note 1.F). Additional expenditures may be authorized if directly necessitated by a natural or man-made disaster as prescribed in the state constitution. There were no supplemental appropriations made during fiscal year 2009.

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Departmental appropriations may be amended during the year, within administrative guidelines and adopted Council policies.

- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.

- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.

- All unencumbered expenditure appropriations expire at the end of the fiscal year.

- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Office staff. Budgetary carry forwards are approved by the City Council.

- All funds of the City, except the agency funds, have legally adopted budgets. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

The City prepares its annual budget on a modified cash basis, which differs from GAAP. GASB Statement #34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis). The City has also shown this information as supplementary schedules for other governmental funds as well as enterprise funds and internal service funds.

F. Expenditure Limitation

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments. The limitation restricts the annual growth of expenditures to a percentage determined by population and inflation. Certain types of expenditures are excluded from the limitation. Article 9, Sections 20 and 21 of the Arizona Constitution require the Economic Estimate Commission to determine each year the expenditure limitation for the following fiscal year for all cities in Arizona. The limitation is calculated based on the amount of fiscal year 1979-1980 actual payments of local revenues, referred to as the “base limit”. Each year, the base limits for local jurisdictions are adjusted for population growth and inflation to calculate the new expenditure limitations for the cities. Local governments may carry forward revenues which were not subject to the expenditure limitation, and which were not expended in the year of receipt, to later years.

The State Constitution also gives local jurisdictions several methods of seeking approval from their citizens to override the state expenditure limitation. One of these is local approval of a permanent base adjustment. In March 2003, the voters of Peoria approved a $15 million permanent adjustment of the expenditure base. This permanent base adjustment was effective beginning in fiscal year 2005-2006. The City of Peoria’s state calculated expenditure limitation for fiscal year 2008-2009, including the permanent base adjustment, was $688,862,608.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed by the City. In the governmental funds, encumbrances are reported as designations of fund balances at June 30 in the fund financial statements, since they do not constitute expenditures or liabilities. No restrictions of net assets for encumbrances are shown in the government-wide financial statements. Encumbrance accounting is employed in the proprietary fund types for budget purposes only, but is not shown as a restriction or designation of net assets in the financial statements.

H. Deposits and Investments

The City generally reports investments at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred. It is generally the City’s policy to hold investments to maturity.

Investment Policy

The City’s funds are invested through the City’s Finance Department in accordance with the City’s investment policy and Arizona Revised Statutes. The City's policy is to invest in certificates of deposit, money market mutual funds, repurchase agreements, corporate securities, direct U.S. Treasury debt, securities guaranteed by the U.S. Government or any of its agencies and the State of Arizona local government investment pool. In addition, the function of the Finance Department is to review and monitor the City’s investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The investment balances are comprised of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuances of the Enterprise funds and the General Fund’s cash reserve requirements. In addition to these, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City.

Investment Valuation

Local Government Investment Pool - Investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants’ position in the pool approximates the value of the pool shares. The method used to determine the value of participants’ equity withdrawn is based on the book value of the participants’ percentage participation at the date of such withdrawal.

Other Investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value.

The City's investment policy permits the City to invest in fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of securities underlying fixed coupon dollar repurchase agreements must equal at least 102% the cash received. If the dealers default on their obligations to resell these securities to the City at the agreed upon buyback price, the City could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buyback price.

Other non-pooled investments are also generally carried at fair value. However, money market investments (such as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the funds' current share price.

Investment Income

Except for certain specific investments, generally those held in trust for a specific purpose, the City maintains pooled cash and investments. Income from pooled cash and investments is allocated to the individual funds based on the fund's month end cash balance in relation to the total pooled investments. City management has determined that the investment income related to certain Special Revenue Funds should be allocated to the General Fund. Each fund's equity in the pooled cash and investments is tracked on an ongoing basis. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund at year-end.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

I. Inventory and Prepaid items

Inventories are valued at cost and the City uses the first-in, first-out (FIFO) flow assumption in determining cost. Inventory in the governmental funds, which consists of expendable supplies held for consumption, is recorded as an expenditure at the time individual inventory items are consumed and is offset by a fund balance reserve in the governmental fund financial statements indicating it does not constitute available expendable resources. No reservation of net assets is shown in the proprietary fund statements or the government-wide financial statements for inventories.

Prepaid items are generally for payments made by the City in the current fiscal year for goods or services to be received in the subsequent fiscal year. Such items are recorded as prepaid at the time of the payment and recognized as expenditures/expenses when the related goods or services are received. Prepaid items are offset by a reservation of fund balance in governmental funds to indicate it does not constitute available expendable resources. No reservation of net assets is shown in the proprietary fund statements or the government-wide financial statements for prepaid items.

J. Capital Assets

All capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed. For the year ended June 30, 2009, the City did not capitalize any net interest costs in the business-type activities of the government-wide financial statements (also in the Enterprise Funds on the proprietary fund statements). Total interest incurred, not including agent fees or other costs, of the business-type activities (and the Enterprise Funds on the proprietary fund statements) before capitalization was $4,956,296.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful life (Years)
Water Rights	100
Buildings and improvements	40
Water and sewer systems	40
Storm drainage systems	40
Street system	40
Park facilities and streetscape	25
Streetlights and traffic control devices	10
Equipment	7
Furniture and fixtures	7
Vehicles	7
Computers/software	3

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation) or net realizable value, if lower, as of the date of the transfer.

K. Water Rights

The City entered into a lease agreement with Gila River Indian Community (GRIC) for the rights to 7,000 acre-feet of water each year through 2107. These rights, costing $6,095,443, are being amortized over the 100 year life of the agreement on a straight-line basis starting in fiscal year 2008. Fiscal year 2009 amortization was $121,909 (2 years amortization under GASB Statement 51 implemented in fiscal year 2009) and the net book value at June 30, 2009 was $5,973,534.

L. Transactions Between Funds

Transactions that would be treated as revenue, expenditures or expenses if they involved organizations external to the governmental unit, like the sale of water from the Water Utility to various functions of the General Fund, are accounted for as revenue and expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund, which are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Administrative service fees that are charged to other operating funds to support general services used by the other operating funds (like purchasing, accounting and administration) are treated as reimbursement transactions and the revenue and expenditures/expenses reduced in the allocating fund. Transfers between funds are included in the results of both governmental and proprietary funds (as other sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds).

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported in the fund financial statements as “due to/from other funds” for the current portion and “interfund receivables and payables” for the non-current portion (if applicable).

Certain transactions occurring between funds that are combined within the same fund type or displayed in the same financial statement column for presentation in these annual financial statements have been eliminated from the financial statements. These transactions include transfers between funds and interdepartmental service charges. In the government-wide financial statements, only the net interfund activity and balances between governmental activities and business-type activities are shown (reported as "internal balances"). Also see Note 8.

M. Receivables

All receivables are shown net of an allowance for uncollectible accounts. For trade accounts receivable (miscellaneous receivables and utility billing receivables), amounts outstanding in excess of 90 days are included in the allowance. Also see Notes 5 and 7.

N. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

O. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the period in which the bonds are issued. 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.

The long-term debt of the City is serviced by various funds, according to the type of debt and the funds benefiting from that debt. The General Obligation Bonds Debt Service Fund, Municipal Development Authority Bonds Debt Service Fund, Community Facilities District Bonds Debt Service Fund, and Special Assessment Debt Service Fund are all specifically established to service those specific types of debt obligations of the City. The Highway User Revenue Fund services the highway user revenue bonds, which are funded by state shared gas tax revenues. The Half-Cent Sales Tax Fund services debt obligations from development agreements. Each enterprise fund individually accounts for and services the applicable bonds and contracts payable that benefit that fund.

P. Compensated Absences

Annual leave, based on a graduated scale of years of employment, is credited to each employee as it accrues. The maximum annual leave accrual for permanent employees is 320 hours. Upon employment termination, payment is made to the employee for the unused leave.

City employees are granted one sick leave day per month. The maximum an employee may accumulate varies according to union status; however, the City makes no payment on the unused portion upon employment termination except on the condition of retirement. Any sick time accrued above the maximum allowed to be carried is paid out annually in May at a rate of 25% and the employees' sick leave is reduced to the allowable maximum.

For the governmental fund financial statements, compensated absences are accrued only when due. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the outstanding vacation, compensatory time and benefits, as well as an estimate of the retirement sick-time payout for eligible employees, are recorded as a liability. Compensated absences are liquidated when mature by the various operating funds accruing the liability.

Q. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City maintains a Self-Insurance Fund (accounted for in the Internal Service Funds) to account for and finance its uninsured risks of loss. Premiums are paid into the internal service fund by the other operating funds and are available to pay claims, claim reserves and administrative costs of the program. These interfund premiums are used to fund claim expenses reported in the internal service fund. As with any risk retention program, the City is contingently liable with respect to claims beyond those actuarially projected.

The claims liability of $1,500,000 reported in the Self-Insurance Fund at June 30, 2009 is based on the requirements of Governmental Accounting Standards Board Statement #10 which requires that liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The City is self-insured for property and public liability up to $500,000 and for damage to City vehicles valued up to $50,000. Vehicles with a value in excess of $50,000 have a $5,000 deductible. Excess coverage insurance policies purchased through commercial insurance carriers cover individual claims in excess of these amounts up to $40,000,000. For additional information on insurance amounts, see Table XXXIV on page 186. The claims liability includes an estimated amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. Non-incremental claims adjustment expenses are not included in the calculation. During the fiscal year ended June 30, 2009, there was no significant reduction in excess insurance coverage. Additionally, settlements for each of the last three fiscal years have not exceeded the City's insurance coverage. Changes in the Self-Insurance Fund's claims liability amount in fiscal years 2008 and 2009 were:

Years Ended, June 30	Beginning of Fiscal Year Liability	Changes in Estimates	Current Year Claims	Claim Payments	Balance at Fiscal Year-end
2008	$3,100,000	$ -	$727,954	$ (727,954)	$3,100,000
2009	3,100,000	(1,600,000)	587,490	$ (587,490)	1,500,000

R. Cash Equivalents

The City considers short-term investments (including restricted assets) in the State of Arizona investment pool, mutual fund-money market, U.S. Treasury bills and notes with maturities of three months or less at acquisition date to be cash equivalents.

S. New Accounting Standards

During fiscal year 2009, the City implemented the following new accounting standard issued by the Governmental Accounting Standards Board:

Statement No. 51 – "*Accounting and Financial Reporting for Intangible Assets".*

T. Use of Estimates

The preparation of 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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net assets/balance sheet and the reported amounts of revenues and expenses/expenditures during the reporting period. Specifically, the city has made certain estimates and assumptions relating to the collectibility of its receivables (including accounts receivable), valuation of capital assets and depreciation expense, and the ultimate outcome of claims payable. Actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE STATEMENTS

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliations briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement. Additional reconciliations are provided below.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Long-term Assets/ Liabilities (1)	Internal Service Funds (2)	Statement of Net Assets Totals
Assets				
Cash and cash equivalents	$ 86,289,313	-	12,526,902	98,816,215
Cash with fiscal agents	4,796,102	-	-	4,796,102
Investments	139,060,962	-	20,254,905	159,315,867
Accounts receivable, net	9,615,438	-	-	9,615,438
Interest receivable	1,609,367	-	137,188	1,746,555
Internal balances	-	-	(1,529,420)	(1,529,420)
Due from other governments	6,207,284	-	-	6,207,284
Prepaid items	173,261	-	842,291	1,015,552
Supply inventories	206,983	-	110,127	317,110
Deferred bond issuance costs, net	-	3,437,009	-	3,437,009
Other assets	-	4,392,000	-	4,392,000
Restricted cash/cash equivalents	37,711,880	-	-	37,711,880
Restricted investments	64,574,546	-	-	64,574,546
Special assessment receivables	9,886,921	-	-	9,886,921
Capital assets	-	951,019,753	31,473,519	982,493,272
Total assets	$ 360,132,057	958,848,762	63,815,512	1,382,796,331
Liabilities				
Accounts payable	$ 13,494,628	-	467,031	13,961,659
Accrued payroll	2,219,832	-	238,658	2,458,490
Interest payable	-	6,735,863	-	6,735,863
Due to other governments	3,288,148	-	-	3,288,148
Claims/deposits payable	3,317	-	1,500,000	1,503,317
Deferred revenue	16,263,419	(6,208,081)	-	10,055,338
Arbitrage liability	484,828	-	-	484,828
Other liabilities	4,935,825	-	-	4,935,825
Unamortized bond premium	-	3,546,915	-	3,546,915
Compensated absences-current	-	3,885,670	413,080	4,298,750
Current bonds/contracts payable	-	44,826,503	-	44,826,503
Long-term liabilities (net of deferred loss)	-	332,966,880	121,020	333,087,900
Total liabilities	$ 40,689,997	385,753,750	2,739,789	429,183,536
Fund Balance/Net Assets				
Total fund balance/net assets	$ 319,442,060	573,095,012	61,075,723	953,612,795
Total liabilities and fund balance/net assets	$ 360,132,057	958,848,762	63,815,512	1,382,796,331

(1) When capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	$ 1,142,011,324
Accumulated depreciation	(190,991,571)
	$ 951,019,753

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when paid. Interest payable $ 6,735,863

Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets. Deferred bond issuance costs $ 3,437,009

Bond premiums are recognized at the time of issuance in the governmental funds, but are deferred and amortized over the life of the bonds on the statement of net assets		$ 3,546,915
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.		
	Contracts payable	$ 56,858,711
	Bonds payable	320,513,205
	Compensated absences	5,335,990
	Subtotal	382,707,906
	Less: current compensated absences	3,885,670
	current portion of bonds/contracts	44,826,503
		$ 333,995,733
Loss on refunding bonds is expensed at the time of issuance in the governmental funds, but is deferred and expensed over the life of the bonds on the statement of net assets.		$ (1,028,853)
Certain long-term debt obligations that are booked for the government-wide statements are offset by goodwill.		$ 4,392,000
Deferred revenue for the long-term special assessment receivables shown on the governmental fund statements is not deferred on the statement of net assets. Also, certain property tax revenues deferred under modified accrual for the governmental fund statements, is recognized as revenue in the year received under accrual accounting for the government-wide statements.		
	Deferred special assessment revenue	$ (4,921,062)
	Deferred property tax revenue	(1,287,019)
		$ (6,208,081)
(2) Internal service funds are used by management to charge the costs of certain activities, such as insurance, motor pool, information technology and facilities maintenance, to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.		
	ISF Net Assets	$ 61,075,723

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Long-term Revenues/ Expenses(1)	Capital-related Items(2)	Internal Service Funds(3)	Long-term Debt Transactions(4)	Eliminations and Adjustments(5)	Statement of Activities
Revenues and Other Sources							
Taxes:							
Sales and use taxes	$ 59,004,816	-	-	-	-	-	59,004,816
Property taxes	30,872,015	821,475	-	-	-	98,142	31,791,632
Franchise taxes	4,019,182	-	-	-	-	-	4,019,182
Intergovernmental:							
State shared sales taxes	10,991,095	-	-	-	-	-	10,991,095
County shared sales taxes	12,837,089	-	-	-	-	-	12,837,089
Urban revenue sharing	20,395,663	-	-	-	-	-	20,395,663
Auto-in-lieu taxes	5,018,384	-	-	-	-	-	5,018,384
Highway user revenue	8,287,891	-	-	-	-	-	8,287,891
Local transportation aid	640,826	-	-	-	-	-	640,826
From federal government	2,970,534	-	-	-	-	-	2,970,534
Other governmental	1,576,741	-	-	-	-	-	1,576,741
Charges for services	18,479,664	-	-	-	-	3,148,597	21,628,261
Licenses and permits	1,802,759	-	-	-	-	100	1,802,859
Fines and forfeitures	3,733,047	-	-	-	-	2,850	3,735,897
Rents	395,834	-	-	-	-	-	395,834
Investment earnings	7,174,109	-	-	721,991	-	-	7,896,100
Special assessments	2,200,782	(1,605,303)	-	-	-	-	595,479
Miscellaneous	7,488,740	-	2,106	-	-	(3,962,803)	3,528,043
Other sources:							
Gain on sale of capital assets	-	-	115,412	-	-	-	115,412
Capital contributions	-	-	29,600,596	-	-	-	29,600,596
Capital-related debt issued	68,440,000	-	-	-	(68,440,000)	-	-
Premium on bonds issued	808,192	-	-	-	(808,192)	-	-
Transfers in	18,855,279	-	4,191,700	612,120	69,469,867	(91,642,744)	1,486,222
Total revenues and other sources	285,992,642	(783,828)	33,909,814	1,334,111	221,675	(92,355,858)	228,318,556

	Total Governmental Funds	Long-term Revenues/ Expenses(1)	Capital-related Items(2)	Internal Service Funds(3)	Long-term Debt Transactions(4)	Eliminations and Adjustments(5)	Statement of Activities
Expenditures/Expenses							
Current:							
General government	17,798,947	738,900	5,189,671	(600,811)	-	99,556	23,226,263
Culture and recreation	22,303,852	41,640	2,327,641	(719,746)	-	(767,722)	23,185,665
Police	36,458,108	475,880	1,680,280	(1,536,221)	-	6,624	37,084,671
Fire	20,516,345	393,070	1,735,046	(998,555)	-	(27,902)	21,618,004
Development services	6,489,199	(10,510)	52,813	(176,733)	-	-	6,354,769
Highways and streets	15,469,695	22,250	9,384,911	(825,608)	-	(4,816)	24,046,432
Public works	6,187,633	7,100	1,465,388	46,795	-	(18,854)	7,688,062
Human services	2,343,847	470	68,813	(30,526)	-	-	2,382,604
Debt service:							
Principal payments	25,988,554	-	-	-	(25,988,554)	-	-
Interest and other charges	11,917,582	642,921	-	-	50,485	-	12,610,988
Capital outlay	77,515,142	-	(77,515,142)	-	-	-	-
Unallocated depreciation	-	-	574,550	-	-	-	574,550
Total expenditures/ expenses	242,988,904	2,311,721	(55,036,029)	(4,841,405)	(25,938,069)	(713,114)	158,772,008
Other financing uses/changes in net assets							
Transfers out	30,928,896	-	4,191,700	-	69,469,867	(100,037,744)	4,552,719
Total expenditures/expenses & other financing uses	273,917,800	2,311,721	(50,844,329)	(4,841,405)	43,531,798	(100,750,858)	163,324,727
Net change for the year	$ 12,074,842	(3,095,549)	84,754,143	6,175,516	(43,310,123)	8,395,000	64,993,829

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

Accrual of long-term compensated absences	$ 960,800

Interest expense on long-term debt is accrued for the statement of activities but is not accrued for the governmental fund statements. Amortization of bond premiums and deferred loss on refunding is also included in the statement of activities, but not the governmental fund statements.

Accrued interest	$ 854,581
Amortization of loss on refunding	155,220
Amortization of bond premium	(366,880)
	$ 642,921

Property taxes revenues not received within 60 days of year-end are deferred for governmental fund reporting, but are not deferred for government-wide reporting. When these revenues are subsequently received, they are recognized in the governmental operating statement and reversed in the statement of activities. $ 821,475

Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Also, the sale of additional special assessment bonds is reported as a receivable and deferred revenue in the governmental funds, but on the government-wide financial statements, it is reported as an increase in outstanding debt and the revenue is recognized.

Current year principal payments received	$ (1,605,303)

Certain long-term debt obligations are offset by a goodwill asset that is amortized over the life of the debt. Goodwill amortization is included in the statement of activities, but not the governmental fund statements. $ 708,000

(2) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	$ (77,515,142)
Other capital	(102,195)
Depreciation expense	22,604,569
	$ (55,012,768)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a “gain on sale of capital assets” in the statement of activities. Thus, more revenue is reported in the governmental funds than gain in the statement of activities.

Cost of capital assets disposed of:	$ 2,106

Donations of capital assets are not shown on the governmental funds, but are included in the assets of the City. On the statement of activities, these donations are shown as capital contributions.

Capital contributions	$ 29,600,596

Certain development agreement transactions are reported as charges for service and operating expenditures in the governmental funds, but are reclassified to capital assets and donated assets on the government-wide statements.

Expenditures	$ (111,747)

Gains and losses on sales of fixed assets are not shown on the governmental fund statements, but are included in the statement of activities.

Gains	$ 115,412
Losses	(88,486)
	$ 26,926

The donation of governmental capital assets from Proprietary Funds is not shown in the governmental fund statements but is a transfer in on the statement of activities.

Transfers out	$ (4,191,700)
Transfers in	4,191,700
	$ -

(3) Internal service funds are used by management to charge the costs of certain activities, such as insurance, motor pool, information technology and facilities maintenance, to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue and other sources	$ 1,334,111
Expenditures and other uses	4,841,405
Change in net assets	$ 6,175,516

(4) Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payments made	$ (25,988,554)

The issuance of additional debt is reported as a revenue in the governmental funds, but is an increase in outstanding debt, not a revenue, for government-wide reporting.

Bonds issued	$ (68,440,000)

Certain bond transactions, like issuance costs, bond premiums and loss on refunding, are reported as revenues or expenditures in the governmental funds because they provide, or use, current financial resources. However, for the City as a whole, these costs are deferred and recognized or amortized (expensed) over the life of the bonds.

Issuance costs for new debt	$ 221,537
Amortization of bond issuance costs	(272,022)
Bond premium	(808,192)
	$ (858,677)

(5) Certain other transactions are treated differently under modified accrual accounting used in the governmental funds and full accrual accounting used for the statement of activities. Also interfund transactions between governmental funds or between business-type activities are eliminated in the statement of activities and only net transactions between governmental and business-type activities remain.

The allowance for uncollectible accounts receivable reduces revenues in the governmental funds statement of revenues, expenditures and changes in fund balances, but under full accrual accounting used in the statement of activities, the offset is bad debt expense.

Bad debt expense	$ 54,663
Allowance for uncollectible accounts receivable	(54,663)
	$ -

Interfund charges for service between governmental activities are eliminated in the consolidation of these activities for the statement of activities. The elimination is reflected as a reduction of revenues and expenditures in the charging fund so that the expenses remain in the charged activity.

Interfund charges for services revenue	$ 767,777
Interfund service charges	(767,777)
	$ -

Interfund transfers between governmental activities, other than Internal Service Funds, are eliminated in the consolidation of these activities for the statement of activities. The elimination is reflected as a reduction of transfers in and transfers out to eliminate the doubling up effect of these transactions within the governmental activities. Elimination of transfers to/from the Internal Service Funds is netted into the results of the Internal Service Funds in (3) above.

Transfers out	$ 100,037,744
Transfers in	(91,642,744)
	$ 8,395,000

3. BUDGET BASIS OF ACCOUNTING

The City prepares the annual budget on a modified cash basis, which differs from GAAP, as discussed in Note 1.E. Budgetary comparison statements for the General Fund and major Special Revenue Funds are included with the basic financial statements. Budgetary comparison schedules for all other governmental funds as well as schedules of operation – budget and actual for the proprietary funds are presented as supplementary information. In all cases, the budgetary statements or schedules include a reconciliation of the adjustments required to convert the budgetary revenues and expenditures or change in net assets on a budgetary basis, to revenues and expenditures/expenses or change in net assets on a GAAP basis.

4. DEPOSITS AND INVESTMENTS

A. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets, and on the fund financial statements, as "Cash and cash equivalents" and "Investments".

At June 30, 2009, the carrying amount of the City's deposits was $70,092,697 and the bank balance was $74,687,460. Of the bank balance, $20,735,751 was swept into the bank's money market fund, which is backed by government-only securities. An additional $44,459,032 of that balance was already committed in the Fedwire system for 7/1/09 debt service payments and was not collateralized. The remaining bank balance of $9,492,677 was covered by federal depository insurance or by collateral held by the City's agent in the City's name, in the Municipal Development Authority, Inc.'s trust name, or in the name of the Peoria Housing Authority. The difference between the City's carrying amount and the bank balance of $4,594,763 represents deposits in transit, outstanding checks and other reconciling items.

B. Investments

City charter, ordinance, and trust agreements authorize the City to invest in obligations of the U.S. Treasury or its agencies and instrumentalities. In addition, the City may invest in certificates of deposit, mutual fund money market, repurchase agreements, corporate securities and the State of Arizona local government investment pool. The State Treasurer's Investment Pool is overseen according to Arizona State Statute by the State Board of Deposit.

Governmental Accounting Standards Board Statement No. 40 – Deposit and Investment Risk Disclosures (Statement 40) requires the City to disclose its deposit and investment policies regarding certain types of investment risks. The City's adopted investment policy is in compliance with Statement 40.

Interest rate risk: In order to limit interest and market rate risk, State law and the City's investment policy sets a maximum maturity on any investment of five years with a minimum of 35% invested for a period of one year or less and no more than 20% of the City's portfolio be invested for a period greater than three years. At June 30, 2009, 67.1% of the City's investments have a maturity of less than one year and none have maturities greater than three years. The City's investment policy also sets a maximum weighted average maturity (WAM) not to exceed one year. The WAM at June 30, 2009 was 255 days.

Credit risk: State law and the City's investment policy limits the purchase of Commercial Paper to those securities rated A-1/P-1 or the equivalent by two nationally recognized statistical rating agencies. The City's investment policy also limits the purchase of Banker's Acceptances to those securities rated Aa or better by two nationally recognized rating agencies and with a maximum maturity of 180 days. At June 30, 2009, the City's investments include $11.0 million in Commercial Paper and no Banker's Acceptance securities. State law and the City's investment policy also restricts investments in certificates of deposit (CD) to fully collateralized or insured from eligible Arizona depositories limited on a statewide basis by their capital structure on a quarterly basis. Such

CDs are further collateralized to 110% with pledged securities held by an independent custodian approved by the City. City policy requires that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement. The market values of securities underlying repurchase agreements were at or above the required level during the fiscal year.

Investment Type	Moody's Rating	S&P Rating	% of Investments
Federal Farm Credit Bank - Agency Note	Aaa	AAA	11.9
Federal Farm Credit Bank - Callable Agency Note	Aaa	AAA	2.2
Federal Farm Credit Bank - Discount Note	Aaa	AAA	2.7
Federal Home Loan Bank - Agency Note	Aaa	AAA	13.4
Federal Home Loan Bank - Callable Agency Note	Aaa	AAA	2.2
Federal Home Loan Bank - Step-up Agency Note	Aaa	AAA	1.4
Federal Home Loan Bank - Discount Note	Aaa	AAA	.8
Federal Home Loan Mortgage Corp - Agency Note	Aaa	AAA	12.1
Federal Home Loan Mortgage Corp - Callable Agency Note	Aaa	AAA	3.3
Federal Home Loan Mortgage Corp - Discount Note	Aaa	AAA	1.9
Federal National Mortgage Assoc-Agency Note	Aaa	AAA	7.6
Federal National Mortgage Assoc-Callable Agency Note	Aaa	AAA	9.0
Federal National Mortgage Assoc-Discount Note	Aaa	AAA	2.7

The City's investment in the State of Arizona local government investment pool is limited to a pool that invests only in government securities. At June 30, 2009, all investments of that pool were U.S. Government Obligations and Agencies, and it therefore does not carry a credit rating.

Concentration of credit risk: The City's investment policy sets diversification limits on both security types and length of maturity. As of June 30, 2009, the City's investments include 61.6% invested in U.S. Agency Coupon securities, 8.1% in U.S. Agency Discount Notes, 1.4% in U.S. Agency Step-up securities, 9.6% in U.S. Treasury Notes, 3.0% in Commercial Paper, and 16.3% in City of Peoria Improvement District Bonds, money market funds, cash with fiscal agent, and the Arizona State Investment Pool.

Custodial credit risk: To control custodial credit risk, State law and the City's investment policy requires all securities and collateral to be held by an independent third party custodian in the City's name. The custodian provides the City with monthly market values along with original safekeeping receipts.

The City's investment in the State of Arizona's local government investment pool is stated at fair value, which also approximates the value of the investment upon withdrawal.
At June 30, 2009, the City's investments included the following:

	Investment Maturities in Years				
	Less than 1	**1-2**	**2-3**	**Over 3**	**Fair Value**
Unrestricted Investments:					
City of Peoria Bonds	$ 280,492	297,321	-	-	$ 577,813
U.S. Treasury notes and strips	25,366,291	10,206,250	-	-	35,572,541
Agency coupon securities	86,021,662	79,553,689	5,093,750	-	170,669,101
Agency discount notes	15,907,417	-	-	-	15,907,417
Commercial Paper	5,998,833	-	-	-	5,998,833
					228,725,705
State of Arizona local government investment pool	1,034,834	-	-	-	1,034,834
Mutual fund-money market	30,167,980	-	-	-	30,167,980
Total unrestricted investments	164,777,509	90,057,260	5,093,750	-	259,928,519

	Investment Maturities in Years				
	Less than 1	1-2	2-3	Over 3	Fair Value
Unrestricted Investments (cont):					
Less: amount included in cash and cash equivalents					56,497,373
Plus: amount included in restricted investments					1,092,746
Unrestricted investments, net					$ 204,523,892
Total investments per statement of net assets					$ 204,101,677
Plus: Investments in Fiduciary Funds					422,215
Net unrestricted investments					$ 204,523,892
Restricted Investments:					
Agency coupon securities	55,569,122	6,175,313	-	-	$ 61,744,435
Agency Discount Notes	13,946,915	-	-	-	13,946,915
Commercial paper	4,998,872	-	-	-	4,998,872
Mutual fund-money market	28,334,001	-	-	-	28,334,001
Total Restricted Investments	102,848,910	6,175,313	-	-	$ 109,024,223
Less: amount included in cash with fiscal agents					4,571,986
Less: amount included in restricted cash and cash equivalents					37,711,880
Less: amount included in restricted cash with fiscal agents					397,243
Less: amount included in unrestricted investments					1,092,746
Less: amount included in unrestricted cash and cash equivalents					675,822
Net restricted investments					$ 64,574,546

Restricted cash, cash equivalents, and cash with fiscal agents at June 30, 2009 consisted of the following:

Restricted investments included in restricted cash and cash equivalents	$ 37,711,880
Restricted investments included in cash with fiscal agents	397,243
Restricted Cash with Fiscal Agents	11,693
Total cash and cash equivalents per statement of net assets	$ 38,120,816

Cash with Fiscal Agents:

Restricted investments included in cash with fiscal agents	4,571,986
Cash with Fiscal Agents	224,116
Total cash with fiscal agents	$ 4,796,102

Unrestricted Cash and cash equivalents at June 30, 2009 consisted of the following:

Investments included in cash and cash equivalents	$ 56,497,373
Carrying amount of City deposits	70,092,697
Amounts due from restricted cash	675,822
Petty cash on hand	13,880
Total cash and cash equivalents	127,279,772
Less: Cash and cash equivalents of Fiduciary funds	261,122
Total cash and cash equivalents per statement of net assets	$ 127,018,650

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the City from having to sell investments below original cost.

Investment income comprises the following for the year ended June 30, 2009:

Net interest and dividends	$ 8,443,460
Net increase in the fair value of investments	1,428,767
Total net investment income	9,872,227
Less: net investment income of Fiduciary funds	5,653
Total net investment income per statement of activities	$ 9,866,574

The net increase in the fair value of investments during fiscal year 2008-2009 was approximately $1,428,767. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2009 was approximately $1,194,730.

5. PROPERTY TAXES

Arizona law provides for a two tiered tax system: (1) a primary system for taxes levied to pay for current operation and maintenance expenses, and (2) a secondary system for taxes levied to pay principal and interest on bonded indebtedness as well as for the determination of maximum permissible bonded indebtedness.

Specific provisions are made under each system for determining full cash values of property, the basis of assessment, and the maximum annual tax levies on certain types of property and by certain taxing authorities. Under the primary system, the full cash value of locally assessed real property (consisting of residential, commercial, industrial, agricultural and unimproved property) may increase by more than 10% annually only under certain circumstances. Under the secondary system, there is no limitation on annual increases in full cash value of any property. Primary levies on residential property are limited to one percent of the primary full cash value of such property. Additionally, primary taxes on all types of property are limited to a maximum increase of two percent over the prior year's levy, adjusted for new construction and annexations. Secondary property taxes levied to pay principal and interest on bonded indebtedness are not limited. The City’s primary and secondary assessed valuation for fiscal year 2009 are $1,499,682,407 and $1,994,591,924 respectively.

The Arizona tax year has been defined as a calendar year, notwithstanding the fact that tax procedures begin prior to January 1 of the tax year and continue through May of the succeeding calendar year. The definition of the tax year is a function of the fact that the tax lien for the year attaches to the real property as of January 1 of the year in question.

The City Council adopts the annual tax levy each year on or before the third Monday in August. The basis of this levy is the full cash value as determined by the Maricopa County Assessor. For locally assessed property, the value is determined as of January 1 of the preceding year, known as the valuation year. For utilities and other centrally valued properties, the full cash value is determined as of January 1 of the tax year. The City has an enforceable claim on the property when the property tax is levied. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. Delinquent amounts bear interest at the rate of 16 percent. A lien is placed on the property at the time the tax bill is sold. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions for sale of delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent. The purchaser is given a Certificate of Purchase issued by the County Treasurer. Five years from the date of sale, the holder of a Certificate of Purchase that has not been redeemed may demand a County Treasurer's Deed from the County Treasurer.

Property taxes are recognized as revenue in the government-wide financial statements when an enforceable legal claim has arisen. Therefore, the City recognizes revenue and a receivable, less any allowance for doubtful accounts deemed appropriate, for the entire tax levy in the year it is levied. For the governmental fund financial statements, property tax revenues not collected within 60 days of year end are deferred. Unsecured taxes on personal property, which are assessed on a monthly basis using different procedures than those mentioned above, are recognized as revenue on a cash basis for both the governmental fund statements and the government-wide statements.

6. DUE FROM OTHER GOVERNMENTS

The following amounts are due from other governments at June 30, 2009:

Governmental activities:		
General Fund:		
Due from Federal for:		
COBRA Subsidy – ARRA	$	4,931
Due from Maricopa County for:		
Property tax		43,443
Due from State of Arizona for:		
State shared sales tax		895,166
State revenue sharing		1,486,265
Auto lieu tax		478,385
Miscellaneous other		94,322
Due from Peoria Unified School District		102,925
Subtotal		3,105,437
Highway User Revenue Fund:		
Due from State of Arizona (Highway user revenue)		748,853
Due from Maricopa County – Property tax (SLIDS)		5,717
Subtotal		754,570
GO Bond Debt Service Fund:		
Due from Maricopa County (Property tax)		340,914
Subtotal		340,914
Non-major Governmental Fund:		
Due from US Department of Housing & Urban Development		151,188
Due from US Department of Transportation		48,961
Due from US Department of Homeland Security		890,062
Due from other Federal agencies		169,732
Due from Maricopa County:		
Home grant		12,155
Property tax		58,552
Other		559,047
Due from State of Arizona		116,264
Subtotal		2,006,363
Total governmental activities	$	6,207,284
Proprietary activities		
Public Housing Fund:		
Due from US Department of Housing & Urban Development		27,221
Subtotal		27,221
Total proprietary activities	$	27,221

7. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are recorded in the various funds and displayed in the financial statements net of an allowance for uncollectible accounts as follows at June 30, 2009.

Fund		Receivables	Allowance	Net
Governmental funds:				
General Fund	$	4,606,273	144,703	4,461,570
Half-Cent Sales Tax Fund		1,243,947	-	1,243,947
Highway User Revenue Fund		279,127	15,500	263,627
Transportation Sales Tax Fund		746,046	-	746,046
GO Bond Debt Service Fund		1,340,413	382,028	958,385
Other Governmental Funds		2,001,426	59,563	1,941,863
Total governmental funds	$	10,217,232	601,794	9,615,438
Enterprise funds:				
Water Utility Fund	$	5,662,790	1,890,034	3,772,756
Wastewater Utility Fund		2,158,326	375,484	1,782,842
Solid Waste Utility Fund		1,580,321	271,197	1,309,124
Stadium Fund		19,121	-	19,121
Public Housing Fund		15,028	-	15,028
Total enterprise funds		9,435,586	2,536,715	6,898,871
Grand totals	$	19,652,818	3,138,509	16,514,309

8. INTERFUND TRANSACTIONS, RECEIVABLE AND PAYABLE BALANCES

Net interfund receivables and payables between governmental activities and business-type activities of $1,529,420 are included in the government-wide financial statements at June 30, 2009. These internal balances are between the proprietary funds (business-type activities) and the internal service funds (governmental activities). Other interfund payables and receivables, if any, shown on the financial statements are primarily represent short-term cash loans at year end. All such balances are expected to be repaid in the next fiscal year.

The net transfers of $3,066,497 from business-type activities to governmental activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund and Half-Cent Sales Tax Fund to the Stadium Fund. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2009:

Fund		Transfers out	Transfers in
Governmental funds:			
General Fund	$	2,944,135	6,575,900
Half-Cent Sales Tax Fund		13,773,560	-
Highway User Revenue Fund		354,248	2,118,394
Development Fee Fund		1,115,724	760,500
Transportation Sales Tax Fund		5,824,023	-
Special Assessment Debt Service Fund		68,251	-
GO Bond Capital Projects Fund		5,128,351	43,465
Non-Major Governmental Funds		1,720,604	9,357,020
Total governmental funds		30,928,896	18,855,279
Enterprise funds:			
Water Utility Fund		2,322,602	628,593
Wastewater Utility Fund		681,539	2,885,249
Solid Waste Utility Fund		17,984	-
Stadium Fund		281,720	2,848,601
Public Housing Fund		-	7,899
Total enterprise funds		3,303,845	6,370,342
Internal Service funds		158,098	9,165,218
Grand totals	$	34,390,839	34,390,839

The interfund transfers generally fall within one of the following categories: 1) debt service payments made from a debt service fund but funded from an operating fund; 2) subsidy transfers; 3) transfers to fund internal service equipment replacement funds; or 4) capital assets purchased or constructed in one fund, but capitalized in another. There were no significant transfers during fiscal year 2009 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. For further detail on interfund transfers, refer to Exhibit 6 on pages 143-146.

9. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Both the Water Utility Fund and the Wastewater Utility Fund have revenue streams pledged in support of outstanding revenue bonds but since both segments are discretely presented in the proprietary fund financial statements, all required segment information is disclosed on the face of those statements.

10. DEFICITS IN FUND EQUITY/EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2009, no funds were in a deficit position.

For the year ended June 30, 2009, expenditures, including capital outlay and transfers, did not exceed budget at the department level (i.e. the level of budgetary control) in any funds.

11. FUND BALANCE/NET ASSETS RESERVATIONS AND DESIGNATIONS

Only restrictions imposed by external sources are shown as Restricted Net Assets on the government-wide financial statements. Additionally, reserves for encumbrances, inventories and pre-paid items are shown on the governmental fund financial statements. Reservations or designations of fund balances imposed by the reporting government, whether by administrative policy or legislative action of the reporting government, are shown in aggregate on the governmental fund financial statements, but not on the proprietary fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government's intended use of those net assets. Reservations are created by legislative action of the City Council while designations are created by administrative policy. The following are the reservations or designations of fund balance/net assets included in unreserved fund balance/net assets at June 30, 2009:

General Fund:	
Designated for economic stabilization reserve	$ 34,200,000
Designated for encumbrances	3,413,508
Designated for economic development	447,964
Designated for municipal office complex reserve	4,696,964
	42,758,436
Half-Cent Sales Tax Fund:	
Designated for economic stabilization reserve	$ 5,800,000
Designated for encumbrances	288,293
Designated for debt service retirement	1,000,000
	7,088,293
Highway User Revenue Fund:	
Designated for encumbrances	$ 209,966
Development Fee Fund:	
Designated for encumbrances	$ 2,992,484
Transportation Sales Tax Fund:	
Designated for encumbrances	$ 1,862,300
GO Bond Capital Projects Fund:	
Designated for encumbrances	$ 15,805,494

Non-major Funds:	
Housing Fund:	
Designated for encumbrances	$ 22,027
Other Grants Fund:	
Designated for encumbrances	735,774
Designated for arts capital	2,911,661
sub-total	3,647,435
Storm Drain Fund:	
Designated for encumbrances	16,169
MDA Bonds Capital Projects Fund:	
Designated for encumbrances	13,592,725
Non-Bond Capital Projects Fund:	
Designated for encumbrances	30,458
Non-major funds total	17,308,814
Total governmental funds	$ 88,025,787
Water Utility Fund:	
Designated for working capital policy reserve	$ 16,000,000
Designated for capital equipment replacement	2,452,286
Designated for capital construction	2,044,739
	20,497,025
Wastewater Utility Fund:	
Designated for working capital policy reserve	3,077,322
Designated for capital equipment replacement	1,322,041
	4,399,363
Solid Waste Utility Fund:	
Designated for working capital policy reserve	2,100,000
Designated for capital equipment replacement	5,889,421
	7,989,421
Stadium Fund:	
Designated for capital equipment replacement	577,231
Total proprietary funds	$ 33,463,042
Internal Service Funds:	
Designated for capital equipment replacement	$ 17,134,785

12. CAPITAL ASSETS

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2009 follows:

	Balances June 30, 2008	Additions/ Transfers in	Disposals/ Transfers out	Balances June 30, 2009
Governmental activities:				
Non-depreciable assets:				
Work in Progress – Parks	$ 26,883,192	4,417,121	(2,031,353)	29,268,960
Work in Progress – Buildings	3,309,456	10,472,850	(383,041)	13,399,265
Work in Progress - Equipment	-	76,752	-	76,752
Work in Progress – Furniture	-	31,036	-	31,036
Work in Progress – Storm drains	15,147,703	6,811,240	-	21,958,943
Work in Progress – Streets	63,566,351	49,618,625	(769,917)	112,415,059
Work in Progress – Technology	4,028,391	1,361,624	(2,883,495)	2,506,520
Work in Progress – Vehicles	366,114	-	(366,114)	-
Work in Progress – CFD	1,853,271	308,318	-	2,161,589
Land	298,584,323	27,694,304	-	326,278,627
Total non-depreciable assets	413,738,801	100,791,870	(6,433,920)	508,096,751

	Balances June 30, 2008	Additions/ Transfers in	Disposals/ Transfers out	Balances June 30, 2009
Depreciable assets:				
Buildings & Improvements	139,088,909	1,263,607	-	140,352,516
Furniture	3,286,872	19,744	(1,316,939)	1,989,677
Equipment	51,184,083	9,794,182	(184,140)	60,794,125
Vehicles	19,715,132	3,207,180	(642,945)	22,279,367
Storm drain system	57,405,904	-	-	57,405,904
Street system	361,172,232	27,299,237	-	388,471,469
Park system	25,574,771	2,304,661	-	27,879,432
Total depreciable assets at historical cost	657,427,903	43,888,611	(2,144,024)	699,172,490
Less accumulated depreciation for:				
Buildings & Improvements	(22,352,686)	(3,450,653)	-	(25,803,339)
Furniture	(2,040,616)	(206,850)	1,316,939	(930,527)
Equipment	(29,748,994)	(5,263,201)	184,140	(34,828,055)
Vehicles	(10,497,901)	(2,453,126)	511,666	(12,439,361)
Storm drain system	(13,436,958)	(1,263,129)	-	(14,700,087)
Street system	(119,840,564)	(9,125,841)	-	(128,966,405)
Park system	(6,266,426)	(841,769)	-	(7,108,195)
Total accum. depreciation	(204,184,145)	(22,604,569)	2,012,745	(224,775,969)
assets, net	453,243,758	21,284,042	(131,279)	474,396,521
Governmental activities capital assets, net	$ 866,982,559	122,075,912	(6,565,199)	982,493,272
Business-type activities:				
Non-depreciable assets:				
Work in Progress - Water	$ 21,882,982	5,834,184	(1,054,698)	26,662,468
Work in Progress - Wastewater	30,015,462	4,487,654	(33,108,682)	1,394,434
Work in Progress – Stadium	-	17,369	-	17,369
Land	25,278,729	268,342	(8,529,685)	17,017,386
Total non-depreciable assets	77,177,173	10,607,549	(42,693,065)	45,091,657
Depreciable assets:				
Buildings & improvements	38,371,478	-	-	38,371,478
Furniture	173,233	67,165	(15,723)	224,675
Equipment	3,693,178	262,239	(71,326)	3,884,091
Vehicles	10,304,643	1,642,394	(107,368)	11,839,669
Water Rights	-	6,095,443	-	6,095,443
Water system	244,287,111	7,730,704	-	252,017,815
Wastewater system	292,830,380	38,448,377	-	331,278,757
Total depreciable assets at historical cost	589,660,023	54,246,322	(194,417)	643,711,928
Less accumulated depreciation for:				
Buildings & improvements	(10,973,035)	(969,785)	-	(11,942,820)
Furniture	(82,990)	(24,894)	15,723	(92,161)
Equipment	(2,066,502)	(317,522)	71,326	(2,312,698)
Vehicles	(5,203,967)	(1,238,779)	98,758	(6,343,988)
Water Rights	-	(121,909)	-	(121,909)
Water system	(41,404,867)	(5,260,119)	-	(46,664,986)
Wastewater system	(42,474,193)	(7,025,230)	-	(49,499,423)
Total accum. depreciation	(102,205,554)	(14,958,238)	185,807	(116,977,985)
Total depreciable assets, net	487,454,469	39,288,084	(8,610)	526,733,943
Business-type activities capital assets, net	$ 564,631,642	49,895,633	(42,701,675)	571,825,600

Depreciation expense was charged to governmental functions in the government-wide financial statements as follows:

General government	$ 5,236,477
Culture and recreation	2,368,022
Police	1,591,793
Fire	1,735,046
Development services	52,813
Highways and streets	9,511,667
Public works	1,465,388
Human services	68,813
Unallocated	574,550
Total depreciation expense	$ 22,604,569

13. COMMUNITY FACILITIES DISTRICT DEBT

Community Facilities Districts (CFD's), special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the City, are authorized under state law to issue general obligation (GO) or revenue bonds to be repaid by property (ad valorem) taxes levied on property within the district (for GO debt), or by specified revenues generated within the districts (revenue bonds). CFD's are created by petition to the City Council by property owners within the area to be covered by the district, and debt may be issued only after approval of the voters within the district.

On October 15, 2002 the City Council formed the Vistancia Community Facilities District (VCFD) pursuant to Title 48, Chapter 4, Article 6, Arizona Revised Statutes. VCFD was subsequently authorized, by the voters of the district on November 12, 2002, to issue up to $100,000,000 in general obligation bonds to construct public infrastructure within VCFD. VCFD issued $21,250,000 in fiscal year 2003 and $23,550,000 in fiscal year 2005 and $22,760,000 in fiscal year 2007 of general obligation bonds against this authorization. These bonds will be repaid by the property owners within VCFD. The bonds are obligations of the district only. The City has no obligation for VCFD debt other than the administration of the collection of the property taxes and payment of the debt service on behalf of VCFD.

14. LONG-TERM DEBT

A. General Obligation bonds

General: General obligation (GO) bonds are issued, after approval of the City of Peoria voters at an authorized bond election, to finance the purchase or construction of major capital facilities. While GO bonds may be issued for both governmental and business-type activities, at June 30, 2009, there are no outstanding GO bonds in the business-type activities.

GO bonds are backed by the "full faith and credit" of the City and are repaid through the City's levying of property (ad valorem) taxes. There is no legal limit on the secondary property tax used for debt service on GO bonds.

Statutory Debt Limitation: Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, light, (after January 1, 1974) parks and open space, and (after December 7, 2006) public safety and transportation purposes may not exceed 20 percent of a City's net secondary assessed valuation. Also outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a City's net secondary assessed valuation. The City's computation of legal debt margins available for creation of additional debt at June 30, 2009 was $112,390,515 and $222,603,385 for the 6 percent and 20 percent debt limits, respectively. Also see Table XXIII in the Statistical Section.

B. Revenue bonds

Highway User Revenue Bonds: Highway User Revenue Bonds are used to construct street and highway projects. The debt service is repaid through the Highway User Revenue Fund, a special revenue fund, from the City's share of the gasoline taxes that are collected by the State of Arizona and distributed to cities and towns based on a formula of population and gasoline sales within the county.

Water and Sewer Revenue Bonds: Water and Wastewater Revenue Bonds are issued, pursuant to voter authorization, for the construction, acquisition, and equipping of water and wastewater facilities and related systems and infrastructure. The bonds are backed by the revenues of the water and wastewater utilities. Also see Table XXV in the Statistical Section of this report.

C. Municipal Development Authority bonds

Municipal Development Authority (MDA) Bonds are issued by a non-profit corporation created by the City for the purpose of financing certain capital construction projects. The MDA issues its own bonds, which are repaid through a lease purchase agreement with the City equal to the debt service requirements. The City utilizes the City's excise tax and other unrestricted revenues to pay the lease payments. Also see Table XXIV in the Statistical Section of this report.

D. Special assessment bonds with Governmental Commitment

Special Assessment Bonds are used to construct projects within special assessment districts created by the City after property owners within these districts agree to be assessed for the costs of debt service on these bonds. Payments made by the assessed property owners within the districts are pledged to pay the debt service on the bonds. In the event of default by a property owner, the lien created by the assessment is sold at public action, and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property, and pay off the assessment, with funds appropriated from the General Fund.

As trustee for improvement districts, the City is responsible for collection of assessments levied against the owners of property within the improvement districts and for disbursement of these amounts for retirement of the respective bonds issued to finance the improvements. The City is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds.

At June 30, 2009, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, are adequate to meet the scheduled maturities of the bonds payable and related interest. Special assessment receivables that were delinquent at June 30, 2009 totaled $15,860. Also see Tables XXVI and XXVII in the Statistical Section of this report.

E. Community Facilities District bonds

Community Facilities District (CFD) bonds are issued by separate legal entities formed for the purposes of financing public infrastructure improvement within a specific area of the City. The repayment of these bonds is the responsibility of the district, not the City. As the administrator for the district, the City collects the property taxes and makes the debt payments on behalf of the district. See further discussion of CFD bonds outstanding in Note 13.

F. Authorized and issued debt

The voters of the City authorized $22,080,000 of general obligation bonds at a special bond election in March 1990, and $75,150,000 in September 1994 of which $592,560 and $12,000,657, respectively, was unissued at June 30, 2009. In September 1996, the voters authorized $75,550,000 in either general obligation bonds or utility revenue bonds. To date, the City has not issued general obligation bonds against this authorization; however, $58,292,154 in utility revenue bonds has been issued against the 1996 authorization, leaving $17,257,846 unissued against the authorization. In September 2000, the voters authorized $282,000,000 in bonds as follows: $164,000,000 in general obligation, utility revenue bonds or Water Infrastructure Finance Authority of Arizona Revolving Fund Loan for the acquisition and construction of water and wastewater facilities; $22,300,000 in general obligation or utility revenue bonds for storm drainage projects; $47,150,000 in general obligation or highway user revenue bonds for street, bridges and traffic control projects; and $48,550,000 in general obligation bonds for parks, open space, public safety and public service projects. General obligation bonds in the amount of $21,681,456 in 2003, $59,472,631 in 2007, $19,555,776 in 2009 and water infrastructure debt of $13,965,546 in 2008 and $8,575,248 in 2009 have been issued against the 2000 authorization, leaving $158,749,243 unissued. In May 2005, the voters authorized $196,000,000 in general obligation bonds as follows: $52,000,000 for public safety and municipal operations, $109,000,000 for streets, bridges and traffic control projects, and $35,000,000 for parks, recreation and library projects. Also in May

2005 the voters authorized $160,000,000 in revenue or general obligation bonds for water treatment, water system, wastewater and storm drainage projects. General obligation bonds in the amount of $24,087,416 in 2007 and $38,511,231 in 2009 were issued against the 2005 authorization leaving $133,401,353 unissued. Water infrastructure debt of $24,631,066 in 2007 and $28,775,995 in 2008, and $10,372,993 in general obligation bonds for drainage projects were issued in 2009 against the 2005 water, wastewater and storm drainage authorization leaving $96,219,946 unissued at June 30, 2009.

In November 2008, the voters authorized $378,000,000 in bonds as follows: $276,700,000 in general obligation or utility revenue bonds for transportation and drainage projects, $60,300,000 for public safety and municipal operations projects, and $41,000,000 for parks, recreation and trails projects. As of June 30, 2009, no bonds have been issued against the 2008 authorizations.

Additionally, in 1996 the citizens of Peoria approved $42,480,000 in Water Infrastructure Finance Authority of Arizona revolving fund loan for the acquisition and construction of water and wastewater facilities. These projects are financed by utility rates for water and wastewater. $28,150,000 remains available of this authorization at June 30, 2009. For further detail of authorized, issued and unissued bonds, see Table XXIX in the Statistical Section of this report.

G. Bond covenants and restrictions

There are various limitations and restrictions contained in debt covenants on some bonds requiring that the City maintain certain reserves or other restrictions. No violations of those covenants occurred during the fiscal year ending June 30, 2009.

H. Arbitrage

Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. In general the requirements stipulate that the earnings from investments of tax-exempt bond proceeds that exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and revenue bond issue subject to the arbitrage rebate requirement as of June 30, 2009. The City has an arbitrage liability of $484,828 at June 30, 2009.

Bonds and loans payable at June 30, 2009 are comprised of the following:

Delivery Date	Description	Purpose	Maturity Dates	Net Interest Rate	Ave. Life (Yrs)	Original Principal Balance	Principal Balance Outstanding
CLASSIFIED IN GOVERNMENTAL ACTIVITIES ON THE GOVERNMENT-WIDE FINANCIAL STATEMENTS:							
General Obligation Bonds							
03/30/93	Series 1993	Refunding portions of Series 1985, 1986, 1989, 1990A	7/1/93-11	5.84	10.5	$ 9,900,000	$ 1,865,000
07/01/98	Series A (1998)	Various improvements	7/1/99-18	4.82	12.2	5,930,000	3,710,000
07/01/98	Series B (1998)	Refunding portions of Series 1994, 1992A/B	7/1/99-14	4.64	9.8	4,030,000	1,590,000
04/02/03	Series A (2003)	Various improvements	7/1/04-22	4.04	9.5	27,570,000	17,745,000
03/01/07	Series A (2007)	Various improvements	7/1/07-26	4.27	20	94,380,000	73,005,000
03/01/07	Series B (2007)	Refunding portions of Series 1995, 1996, 2000	7/1/07-20	4.00	14	18,365,000	16,705,000
02/19/09	Series 2009	Various improvements	7/1/09-28	3.86	7.4	68,440,000	68,440,000
	Total General Obligation Bonds					228,615,000	183,060,000
Municipal Development Authority Bonds							
06/12/03	Series 2003	Refunding 1993 MDA & MSCA Series B	7/1/04-13	2.74	5.1	22,255,141	9,915,393
03/09/06	Series 2006	Revenue Bonds MDA Series 2006 – Community Theater	7/1/06-25	4.2	10.9	6,675,000	5,830,000
03/12/08	Series 2008	Revenue Bonds MDA Series 2008 - Transportation	7/1/08-26	4.6	10.5	47,000,000	45,240,000
						75,930,141	60,985,393
Highway User Revenue Bonds							
07/10/96	Series C (1996)	Street, bridge, traffic signal improvements	7/1/97-16	5.81	14.1	4,600,000	3,005,000

Delivery Date	Description	Purpose	Maturity Dates	Net Interest Rate	Ave. Life (Yrs)	Original Principal Balance	Principal Balance Outstanding
Special Assessment Bonds with governmental commitment (collateralized by the special assessments levied on the property benefiting from the improvements)							
06/30/91	ID# 8801	North Valley Power Center ID-Water & street improvements	1/1/94-13	7.30	13.4	5,015,000	1,650,000
12/30/92	ID# 8802	Bell Road ID-Street improvements	1/1/95-13	7.20	13.3	5,610,000	1,940,000
11/21/91	ID# 9002	Sunny Boy Water & Sewer ID-acquire private water company	1/1/93-11	6.35	12.4	2,575,000	205,000
09/17/97	ID# 9601	83rd Ave ID-Water, wastewater & street improvements	1/1/99-12	5.30	8.7	2,285,000	530,000
08/13/97	ID# 9603	Arrowhead Fountains ID-Water, wastewater & street improvements	1/1/99-12	5.20	8.7	3,800,000	810,000
08/28/01	ID# 9303	75th Ave & Paradise Ln ID-Street & bridge improvements	1/1/03-11	6.00	5.7	2,270,000	577,812
04/01/07	ID# 0601	99th Ave & Northern ID-Street improvements	7/1/07-22	4.25	15	4,950,000	4,690,000
	Total Improvement District Bonds					26,505,000	10,402,812
Community Facility District Bonds (collateralized by ad valorem property taxes levied on the property benefiting from the improvements)							
12/17/02	Series 2002	Vistancia Community Facilities District infrastructure	7/15/05-22	6.69	12.7	21,250,000	18,175,000
04/27/05	Series 2005	Vistancia Community Facilities District infrastructure	7/15/07-24	5.47	13.2	23,550,000	22,125,000
12/28/06	Series 2006	Vistancia Community Facilities District Infrastructure	7/15/09-26	4.26	20	22,760,000	22,760,000
	Total Community Facilities District Bonds					67,560,000	63,060,000
Total bonds payable recorded in governmental activities							320,513,205
Less current portion							(39,847,547)
Long-term portion of bonds payable recorded in governmental activities							$280,665,658
CLASSIFIED IN BUSINESS-TYPE ACTIVITIES ON THE GOVERNMENT-WIDE FINANCIAL STATEMENTS:							
Municipal Development Authority Bonds							
06/12/03	Series 2003	Refunding 1993 MDA & MSCA Series B	7/1/04-13	2.74	5.1	$ 2,759,859	$ 1,229,607
Revenue Bonds							
08/24/95	WIFA Series 1995	Wastewater treatment facilities	7/1/96-15	3.15	11.5	11,405,081	4,815,884
08/06/97	WIFA Series 1997	Beardsley wastewater treatment plant & assoc. improvements	7/1/98-17	2.95	11.5	14,330,000	7,492,909
09/10/98	Series A (1998)	Water system improvements	7/1/01-18	4.73	12.7	16,730,000	11,085,000
07/06/00	Series 2000	Water & wastewater system improvements	7/1/02-20	5.33	12.6	16,590,000	6,915,000
07/07/00	WIFA Series 2000 (ph 1)	Greenway water treatment plant construction	7/1/02-20	3.94	11.8	20,150,000	14,375,229
07/26/01	WIFA Series 2000 (ph 2)	Greenway water treatment plant expansion & water improvements	7/1/02-21	3.94	11.7	14,500,000	10,637,078
07/26/02	WIFA Series 2000 (ph 3)	Water system improvements	7/1/03-22	3.94	11.8	1,964,789	1,525,071
12/07/06	WIFA Series 2006 CW 1	Butler Water Treatment Plant	7/1/07-26	3.06	20	27,183,342	27,183,342
02/15/08	WIFA Series 2006 CW 2	Butler Water Treatment Plant	1/1/08-27	3.06	20	42,741,541	42,741,541
07/14/08	WIFA Series 2006 CW 3	Butler Water Treatment Plant	7/1/10-28	1.98	19	8,575,248	8,575,248
	Total Revenue Bonds					174,170,001	135,346,302
Loans Payable							
02/29/08	Suntrust Leasing	Recycle containers	1/15/08-14	3.91	7	1,235,000	1,064,632
Total bonds and loans payable recorded in business-type activities							137,640,541
Less current portion							(8,043,873)
Long-term portion of bonds and loans payable recorded in business-type activities							129,596,668
Total long-term portion of bonds and loans payable							$410,262,326
Reconciliation to total bonded debt principal:							
Total long-term portion of bonds and loans payable							$410,262,326
Add:							
Current portion of bonds and loans payable							47,891,420
Total bonded debt principal as of June 30, 2009							$458,153,746

Contracts Payable

Other debt at June 30, 2009 consists of the following:

Agreement Date	Type	Nature of Improvements	Expiration Date	Interest Rate	Interest Cap	Original Amount	Principal Balance Outstanding
CLASSIFIED IN GOVERNMENTAL ACTIVITIES ON THE GOVERNMENT-WIDE FINANCIAL STATEMENTS:							
05/22/90	Planned area retail project	Offsite improvements-Bell Rd-IDs 8801 and 8802 – Westcor	08/28/18	Prime	10.5	$ 13,137,805	$ 3,203,216
02/20/92	Planned area retail project	Offsite improvements-Bell Rd-ID 8802 – Bell 77	01/20/11	Prime	9.0	2,947,454	663,466
06/01/94	Planned area retail project	Offsite improvements-Bell Rd & Paradise Ln-IDs 8802 and 9303 – DMB Circle Road	06/20/17	Prime	7.0	4,538,187	1,015,371
03/16/99	Master-planned community	Street & infrastructure improvements-West Wing Pkwy; Park land; Trail improvements; Open space land – West Wing	03/16/14	-	-	4,316,327	3,940,961

Agreement Date	Type	Nature of Improvements	Expiration Date	Interest Rate	Interest Cap	Original Amount	Principal Balance Outstanding
10/22/01	Master-planned community	Fire station building, equipment & land; Street & infrastructure improvements-parts of El Mirage Road, Ridgeline Rd, Vistancia Blvd, Jomax Rd, Ln Mtn Rd, Westland Rd; Park land & improvements - Vistancia	10/22/26	-	-	29,203,276	11,655,161
07/01/03	Planned area retail project	Offsite improvements-91st Ave & Bell Rd – DIB Investment Group	05/20/20	-	-	1.800,000	1,387,442
11/18/03	Planned area retail project	Offsite improvements-91st Ave & Bell Rd- BCC Development (Acura)	04/30/14	-	-	1,800,000	1,437,167
02/17/04	Residential development	Neighborhood park land & improvements; Right of way land on 67th Ave – Sonoran Mtn Ranch	02/17/14	-	-	1,382,257	443,003
03/16/04	Residential development	Street & infrastructure improvements; Right of way land; Park land; Library land – Camino A Lago	08/31/14	-	-	14,512,075	12,872,380
10/19/04	Residential development	Street & infrastructure improvements; Right of way land; Trail land; Fire station land – Rock Springs	-	-	-	3,901,317	3,641,155
10/24/04	Capital lease	Pay Printers & Copiers	07/15/11	-	-	47,550	9,906
12/14/04	Planned area retail project	Offsite improvements-92nd Ave & Bell Rd – Phoenix Motor Co.	07/29/18	-	-	1,800,000	1,708,130
01/21/05	Capital lease	Modular building at Beardsley Treatment Plant	01/21/10	4.00	-	259,728	33,041
2/11/05	Master-planned community	Offsite improvements; Right of way land; Trail land; Open space land – Tierra del Rio	2/11/15	-	-	7,056,354	6,743,603
07/19/05	Planned area retail project	Offsite improvements – 91st Ave & Bell Rd – BCC Development (Infiniti)	1/1/10	-	-	600,000	515,311
09/14/05	Residential development	Offsite improvements-Lake Pleasant Pkwy, Deer Valley to Williams – Casa Del Ray	09/14/10	-	-	588,659	79,875
10/12/06	Planned area retail project	Offsite improvements & Right of way land-Peoria east of 83rd Ave - Walmart	10/01/13	-	-	6,926,205	6,420,372
12/22/06	Residential development	Right of way land – Griffith Commerce	12/22/11	-	-	748,209	748,209
04/19/07	Residential development	Street & infrastructure improvements; Right of way land – Colina del Sur	-	-	-	72,613	72,613
11/24/07	Planned area retail project	Street & infrastructure improvements; Right of way land – Mountainside Crossing	-	-	-	441,543	15,137
03/05/09	Planned area retail project	Right of way land; Intersection improvements – Empire Center	-	-	-	253,192	253,192
Total contracts payable recorded in governmental activities							56,858,711
Less estimated current portion							(4,978,956)
Long-term portion of contracts payable in governmental activities							51,879,755

CLASSIFIED IN BUSINESS-TYPE ACTIVITIES ON THE GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Agreement Date	Type	Nature of Improvements	Expiration Date	Interest Rate	Interest Cap	Original Amount	Principal Balance Outstanding
12/14/00	Master-planned community	Water and wastewater treatment plant facilities and lift stations - Quintero	-	-	-	661,005	626,568
10/22/01	Master-planned community	Water rights-4,200 acre feet of assured water supply - Vistancia	10/22/26	-	-	4,841,000	2,761,842
02/17/04	Residential development	Wastewater infrastructure improvements –Sonoran Mtn Ranch	02/17/14	-	-	2,376,931	405,753
03/16/04	Residential development	Water rights-947 acre feet water allocation – Camino A Lago	08/31/14	-	-	426,208	351,140
02/11/05	Master-planned community	Offsite improvements; Right of way land; Trail land; Open space land – Tierra del Rio	02/11/15	-	-	308,801	275,739
Total contracts payable recorded in business-type activities							4,421,042
Less estimated current portion							(147,226)
Long-term portion of contracts payable							4,273,816
Total long-term contracts payable as of June 30, 2009							$ 56,153,571

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 126,195,000	68,440,000	11,575,000	183,060,000	27,270,000
MDA Bonds	65,795,653	-	4,810,260	60,985,393	5,042,055
Highway user revenue bonds	3,295,000	-	290,000	3,005,000	3,005,000
Special assessment bonds	12,027,427	-	1,624,615	10,402,812	2,360,492
CFD bonds	64,610,000	-	1,550,000	63,060,000	2,170,000
Total bonds payable	271,923,080	68,440,000	19,849,875	320,513,205	39,847,547
Contracts payable	42,539,431	20,901,705	6,582,425	56,858,711	4,978,956
Compensated absences	4,905,650	7,115,408	6,150,968	5,870,090	4,298,750
Governmental activities totals	$ 319,368,161	96,457,113	32,583,268	383,242,006	49,125,253

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
MDA bonds	$ 1,579,347	-	349,740	1,229,607	367,945
Revenue bonds	147,472,495	8,575,248	20,701,441	135,346,302	7,498,833
Total bonds payable	149,051,842	8,575,248	21,051,181	136,575,909	7,866,778
Loans payable	1,235,000	-	170,368	1,064,632	177,095
Contracts payable	4,363,165	259,688	201,811	4,421,042	147,226
Compensated absences	621,770	773,977	749,677	646,070	517,780
Business-type activities totals	$ 155,271,777	9,608,913	22,173,037	142,707,653	8,708,879

The following is a summary of bond debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2009:

Fiscal Year	General Obligation Bonds	Municipal Development Authority Bonds	Highway User Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Community Facilities District Bonds	Long Term Loans	Total
2010	$33,643,669	8,110,219	3,090,917	2,798,206	12,231,870	5,499,455	217,007	65,589,343
2011	23,260,962	8,359,319	-	2,457,877	11,766,491	5,497,392	217,007	51,559,048
2012	12,786,828	5,832,469	-	1,811,720	11,759,571	5,493,336	217,007	37,900,931
2013	12,826,943	5,850,269	-	1,162,820	11,749,348	5,490,974	217,007	37,297,361
2014	12,824,558	5,833,944	-	474,600	11,740,604	5,484,633	217,007	36,575,346
2015	12,834,574	4,417,381	-	475,788	11,731,395	5,476,311	108,504	35,043,953
2016	12,846,584	4,409,306	-	476,338	11,722,677	5,475,713	-	34,930,618
2017	12,442,919	4,402,831	-	476,250	12,016,770	5,468,074	-	34,806,844
2018	11,880,044	4,402,681	-	480,525	12,004,978	5,462,674	-	34,230,902
2019	11,863,278	4,388,981	-	478,950	11,073,969	5,455,359	-	33,260,537
2020	11,830,361	4,378,931	-	481,738	9,689,517	5,445,671	-	31,826,218
2021	11,840,965	4,383,141	-	483,675	9,708,098	5,443,926	-	31,859,805
2022	10,660,204	4,382,486	-	484,763	6,782,715	5,432,718	-	27,742,886
2023	10,645,803	4,386,453	-	-	5,739,060	5,425,388	-	26,196,704
2024	8,925,853	4,374,193	-	-	5,595,511	5,427,431	-	24,322,988
2025	8,923,913	4,370,288	-	-	5,592,962	5,419,936	-	24,307,099
2026	8,934,961	4,349,237	-	-	5,590,330	5,437,175	-	24,311,703
2027	8,957,256	-	-	-	5,587,612	5,430,802	-	19,975,670
2028	3,230,600	-	-	-	3,628,076	-	-	6,858,676
2029	3,241,325	-	-	-	613,898	-	-	3,855,223
Less Interest	(61,341,600)	(24,417,129)	(85,917)	(2,138,438)	(40,979,150)	(35,206,968)	(128,907)	(164,298,109)
	$183,060,000	62,215,000	3,005,000	10,402,812	135,346,302	63,060,000	1,064,632	458,153,746

A portion of the Municipal Development Authority bonds debt service balance includes amounts that are recorded in and paid by the business-type activities.

The following table discloses the bond debt service requirements as of June 30, 2009, segregating principal and interest, for the next five years and in five-year increments thereafter.

Fiscal year	Principal	Interest	Total
2010	$ 47,761,419	17,827,924	65,589,343
2011	35,079,031	16,480,017	51,559,048
2012	22,514,898	15,386,033	37,900,931
2013	23,025,762	14,271,599	37,297,361
2014	23,049,571	13,525,775	36,575,346
2015-2019	118,814,952	53,457,902	172,272,854
2020-2024	114,194,108	27,754,493	141,948,601
2025-2029	73,714,005	5,594,366	79,308,371
Totals	$ 458,153,746	164,298,109	622,451,855

The City had no outstanding variable rate bonds at June 30, 2009. The City had $4,882,053 in variable rate outstanding contracts payable at June 30, 2009. Interest on this debt is tied to the prime rate with an interest rate cap that varies per agreement. The City had no short-term debt activity during the year ended June 30, 2009.

Long-term compensated absences of governmental activities are expected to be liquidated by the operating funds (primarily the General Fund, Highway User Revenue Fund and Transit Fund) as they come due.

15. ADVANCE REFUNDINGS

In prior years, the City refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded.

Prior Years Refundings (amounts not yet callable)

2000	Water/Sewer Revenue Bonds (partially defeased)	$ 5,475,000

16. PLEDGED REVENUES

The City has pledged certain future revenues to repay specific bonded debt as follows:

The City has pledged future water utility and wastewater utility revenues, net of specific operating expenses, to repay $2,759,859 in Municipal Development Refunding Bonds issued in 2003, as well as $33,320,000 in Revenue Bonds issued in 1998 and 2000 and $140,850,001 in Water Infrastructure Financing Authority Bonds issued in 1995-2009. The various bonds were issued for the purchase or construction of various water or wastewater infrastructure including wells, treatment plants, pumping stations and water and wastewater distribution or collection lines. At June 30, 2009, $136,575,909 in bonds remain outstanding to be repaid by future water and wastewater revenues. For the fiscal year ended June 30, 2009, the net revenues available for service of this debt were $15,046,440. The debt principal and interest paid on this debt in fiscal year 2009 was $9,617,423 (63.9% of available net pledged revenues). For further information on long-term debt, refer to Note 14. For additional information on pledged revenues for revenue bonds, refer to Table XXV (page 177).

The City has pledged certain revenues for the repayment of $28,930,141 in Municipal Development Authority (MDA) Bonds issued in 2003 and 2006. Pledged revenues for these bonds include excise taxes and state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2009, $15,745,393 in bonds remained outstanding to be repaid by these future revenues. The bonds were issued to construct various City operational facilities. For the fiscal year ended June 30, 2009, the net revenues available to service this debt were $105,935,592. The debt principal and interest paid on this debt in fiscal year 2009 was $3,849,983 (3.6% of available pledged revenues). For further information on long-term debt, refer to Note 14. For additional information on pledged revenues for MDA bonds, refer to Table XXIV (page 176).

The City has pledged certain revenues for the repayment of $47,000,000 in Municipal Development Authority Bonds issued in 2008. The bonds were issued to construct transportation infrastructure. The bonds have a senior lien on the .03% transportation sales tax and a secondary lien on the excise taxes and state shared revenues not specifically reserved by law or other regulation to be expended for other purposes (secondary after the MDA Bonds discussed above). At June 30, 2009, $45,240,000 of the bonds remained outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2009, the net revenues available to service this debt were $111,442,284. The debt principal and interest paid on this debt in fiscal year 2009 was $3,419,171 (3.1% of available pledged revenues). For further information on long-term debt, refer to Note 14. For additional information on pledged revenues for revenue bonds, refer to Table XXIV (page 176).

17. RETIREMENT AND PENSION PLANS

All full-time employees of the City are covered by one of three pension plans. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retiree's average compensation. Long-term disability benefits vary by circumstances, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The Arizona State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except sworn fire and police personnel, are included in the Arizona State Retirement System plan, which is a cost sharing multiple-employer defined benefit plan. Sworn police and fire personnel participate in the Public Safety Retirement System, which is an agent multiple-employer defined benefit plan. In addition, the Mayor and City Council members are covered by the State's Elected Officials Plan, which is also a multiple-employer defined benefit cost sharing pension plan.

Arizona State Retirement System:

a. **Plan Description**

All of the City's full-time employees, other than those covered by one of the other retirement plans, participate in the Arizona State Retirement System (System), a cost sharing multiple-employer defined benefit pension plan; health insurance premium plan; and long-term disability plan. The System was established by the State of Arizona to provide benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5, Article 2 of the Arizona Revised Statutes. The System provides for retirement, disability, and death and survivor benefits. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., Suite 1300, Phoenix, Arizona, 85012 or by calling 1-800-621-3778 or 602-240-2000.

b. **Funding Policy**

Covered employees were required by state statute to contribute 9.45 percent (8.95 percent for retirement and 0.5 percent for long-term disability) of their salaries to the System during fiscal year 2008-2009 and the City was required to match it (7.99 percent for retirement, .96 percent for health insurance premium, and 0.5 percent for long-term disability). The Arizona Revised Statutes (A.R.S.) provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to impose a contribution rate other than the actuarially determined rate

The City's contributions for the current year and two preceding years, all of which were equal to the required contributions, were as follows:

Fiscal Year Ended	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2007	$ 3,384,935	$ 470,799	$ 223,976
2008	4,153,934	541,968	258,104
2009	4,410,683	531,674	275,934

Elected Officials Retirement Plan:

a. **Plan Description**

The City's Mayor and Council members participate in the Elected Officials Retirement System (EORP), a cost sharing multiple-employer defined benefit pension plan and insurance premium plan. The Fund Manager of the Public Safety Personnel Retirement System (PSPRS) is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona

Revised Statutes to provide pension benefits for state and county elected officials, judges and certain elected city officials. EORP provides retirement benefits as well as death and disability benefits as well as insurance premium benefits. Because the health insurance premium plan benefit of the EORP is not established as a formal trust, it is reported in accordance with GASB Statement 45 as an agent multiple-employer plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer plan. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 3010 E. Camelback Rd., Ste 200, Phoenix, Arizona, 85016, by calling 602-255-5575, or on the internet at www.psprs.com.

b. **Funding Policy**

The EORP's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7.0 percent of their annual covered salary. The employer rate for fiscal year 2008-2009 was 28.0 percent. The health insurance premium portion of the contribution rate was actuarially set at 3.06 percent of covered payroll. The City's employees contributed $10,314, $10,093, and $9,479, for the fiscal years ended June 30, 2009, 2008, and 2007 respectively.

Public Safety Personnel Retirement System:

a. **Plan Description**

The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and insurance premium plan, which acts as a common investment and administrative agent for the various fire and police agencies within the state. Sworn police and fire personnel are eligible to participate in the plan. The plan provides retirement and disability benefits, and death benefits, as well as insurance premium benefits, to plan members and beneficiaries. The PSPRS is jointly administered by the Fund Manager and 209 Local Boards and was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Safety Personnel Retirement System 3010 East Camelback Rd., Ste 200, Phoenix, Arizona, 85016, by calling 602-255-5575, or on the internet at www.psprs.com.

b. **Funding Policy**

PSPRS police personnel are required to contribute 7.65 percent of their annual covered salary and fire personnel are required to contribute 7.65 percent while the City is required to contribute an actuarially determined rate. Police personnel contributed $1,046,855 and fire personnel $797,066 during fiscal year 2008-2009. The City rate for fiscal year 2009 was 16.86 percent for police personnel and 15.84 percent for fire members. The health insurance premium portion of the contribution rate was actuarially set at 1.06 percent of covered payroll for police and .99 percent for fire for fiscal year 2009. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

Actuarial Methods and Assumptions:

The required contribution was determined as part of the June 30, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from .5 percent to 3.5 percent per year, depending on age, attributable to seniority/merit.

The actuarial value of PSPRS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. PSPRS's assets in excess of actuarial accrued liabilities are amortized as level percents of payroll over an open period of 20 years, while unfunded actuarial liabilities are amortized as level percents of payroll over a closed period of 28 years.

Annual Pension/OPEB Cost - Agent Plans:

The City's pension/OPEB costs for the agent plans for the year ended June 30, 2009 follows:

	PSPRS - Police		PSPRS - Fire		EORP	
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual pension/OPEB cost	$2,219,580	$138,933	$1,505,080	$93,615	$36,427	$4,397
Contributions made	2,137,432	141,900	1,530,364	101,147	36,427	4,397

Three Year Trend Information for Agent Plans: (Latest Available Information)

Annual pension cost information for the current and two preceding years follows for each of the agent plans. The pension systems implemented GASB Statement 45 in fiscal year 2008. Annual OPEB cost information is not available for years before fiscal year 2008.

Fiscal Year Ended	Annual Pension/ OPEB Cost	Percentage of Annual Costs Contributed	Net Pension/OPEB Obligation
PSPRP - Police - Pension			
2007	$1,358,007	100%	$ 0
2008	1,303,677	100	0
2009	2,219,580	100	0
PSPRP - Police – Health Insurance			
2008	$ 102,234	100%	$ 0
2009	138,933	100	0
PSPRP - Fire - Pension			
2007	$ 645,244	100%	$ 0
2008	907,893	100	0
2009	1,505,080	100	0
PSPRP - Fire – Health Insurance			
2008	$ 73,758	100%	$ 0
2009	93,615	100	0
EORP – Pension			
2007	$ 25,118	100%	$ 0
2008	27,537	100	0
2009	36,427	100	0
EORP – Health Insurance			
2008	$ 1,510	100%	$ 0
2009	4,397	100	0

Required Supplementary Information (unaudited):

The funded status of the plans as of the most recent valuation date, June 30, 2008 follow. For prior valuations, which were prior to the implementation of GASB Statement Nos. 43 and 45, the pension and health insurance benefit amounts were aggregated. In future years when GASB statements Nos. 43 and 45 measurements are made and reported, these benefits will be disaggregated and reported separately. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and therefore, actuarial information for the City, as a participating government, is not available.

Schedule of Funding Progress (Latest Available Information) – Includes pension and health insurance

Police – Retirement (includes Health Insurance Subsidy for years 2006 & 2007)

Valuation Date June 30,	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2006	$26,520,019	$32,127,887	82.5%	$5,607,868	$10,276,601	54.6%
2007	28,125,150	41,246,496	68.2	13,121,346	11,417,698	114.9
2008	31,757,979	44,194,554	71.9	12,436,575	13,106,869	94.9

Police – Health Insurance Subsidy

Valuation Date June 30,	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2008	$0	$1,032,969	0.0%	$1,032,969	$13,106,869	7.88%

Fire – Retirement (includes Health Insurance Subsidy for years 2006 & 2007)

Valuation Date June 30,	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL or (Funded Excess)	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2006	$21,755,244	$22,910,255	95.0%	1,155,011	$7,134,565	16.2%
2007	22,779,501	29,484,683	77.3	6,705,182	8,627,756	77.7
2008	25,584,820	31,148,375	82.1	5,563,555	9,456,091	58.8

Fire – Health Insurance Subsidy

Valuation Date June 30,	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL or (Funded Excess)	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2008	$0	$845,345	0.0%	845,345	$9,456,091	8.94%

Volunteer Firemen's Pension Trust Fund

The Volunteer Firemen's Pension Trust plan covers participants in a volunteer firemen program formerly sponsored by the City. There are currently five individuals receiving monthly benefits of $425 each. There are no potential additional demands upon the fund since the volunteer program has been discontinued. An actuarial valuation of this pension plan has not been performed. The City believes the unfunded liability, if any, is not material.

18. OPERATING LEASES

The City leases copiers, books, vehicles and land under certain non-cancelable operating leases. Operating leases do not give rise to property rights or lease obligations (long-term debt), and therefore the results of the lease agreements are not reflected in the City's Statement of Net Assets. Lease costs for the fiscal year ended June 30, 2009 were $108,715.

The following is a schedule of the future minimum lease payments on the operating leases.

Year Ending June 30,	Amount
2010	$ 104,415
2011	98,000
2012	70,506
2013	58,438
2014	24,900
Total	$ 356,259

The City is the lessor on several operating leases of land. The cost of the real property associated with these leases is $2,218,519. Operating lease revenues for fiscal year 2009 were $172,384.

The following is a schedule of minimum future rental revenues on these leases:

Year Ending June 30,	Amount
2010	$ 241,822
2011	268,409
2012	273,180
2013	289,922
2014	306,735

19. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Additionally, the City offers its management employees an additional deferred compensation plan created in accordance with Internal Revenue Code Section 401a. The deferred compensation is not available to employees, under either plan, until termination, retirement, death or unforeseeable emergency. The City's fiduciary responsibility is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that Section 457 and 401a plan assets be held in trust for employees. This means that employee assets held in Section 457 and 401a plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the deferred compensation assets are not included in the City's Basic Financial Statements.

20. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation arising in the ordinary course of its operations. The City believes that it's ultimate liability, if any, in connection with these matters will not have a material adverse effect on the City's financial position, changes in financial position, or liquidity. The City is self-insured for the first $500,000 of any occurrence and then has additional coverage up to $40.0 million.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The following table presents the City's commitments as of June 30, 2009:

Fund/Description	Remaining Construction Commitment
General Fund:	
Municipal facilities construction/remodeling	$ 3,138,510
Streets/Traffic infrastructure	65,953
Parks and recreation facilities	132,591
	3,337,054
Half-Cent Sales Tax Fund:	
Municipal facilities construction/remodeling	288,293
Highway User Revenue Fund:	
Streets/Traffic infrastructure	156,387
Development Fee Fund:	
Parks and recreation facilities	110,612
Municipal facilities construction/remodeling	2,255,720
Streets/Traffic infrastructure	626,152
	2,992,484
Transportation Sales Tax Fund:	
Streets/Traffic infrastructure	1,800,392
GO Bond Capital Projects Fund:	
Parks and recreation facilities	113,688
Drainage infrastructure	8,198,305
Streets/Traffic infrastructure	1,168,555
Municipal facilities construction/remodeling	6,324,946
	15,805,494
Non-Major Governmental Funds:	
Other Grants – Public Safety equipment	5,686
MDA Bonds Capital Projects - Streets/Traffic infrastructure	13,592,725
Non-Bond Capital Projects – Streets/Traffic infrastructure	30,458
	13,628,869
Water Utility Fund:	
Water facilities	74,121
Water lines	5,090,830
Wells and reservoirs	1,194,639
	6,359,590
Wastewater Utility Fund:	
Wastewater facilities and infrastructure	4,758,194
Total construction commitments	$ 49,126,757

At June 30, 2009, there is a claims liability of $4,500,000 in the Wastewater Utility for the future payments due on a settlement involving the City discontinuing use of a regional wastewater reclamation facility. Payments of $3,000,000 (classified as a current liability) and $1,500,000 (classified as a long-term liability) are due in fiscal years 2010 and 2011 respectively.

21. OTHER MATTERS

The City signed a development agreement with DJN Eagle Mountain, LLC on July 5, 2005, and amended on April 15, 2008, with provisions that reimbursement will be made by the City to the developer for certain public infrastructure improvements related to the retail component of a mixed use project called Park West in the southwest area of the City. The developer is required by the agreement to complete construction of 150,000 square feet of retail business space by July 31, 2008, and an additional 360,000 square feet of retail business space by March 31, 2010, and to have a capital investment of at least forty-five million dollars in the project within 36 months of the construction commencement date. Reimbursements will begin once certain construction obligations are met by the developer. The agreement caps the reimbursement amount at no more than $9,000,000. Payments will be made quarterly, consisting of fifty percent of one percent of sales tax revenues generated by the project. No liability will be recorded by the City until such time as the developer has met all obligations of the agreement. The developer is in default of the terms of the Agreement related to the improvement district. Developer has requested an amendment to the agreement and provided the City with proposed changes. City is in discussions with the developer regarding possible amendment. Because of the default, the $9,000,000 has not yet been recorded as a liability.

On June 19, 2007, a development agreement was signed with Arizona Motors, LLC, for the development of a Volkswagen automotive dealership and service center, on the northwest corner of 84th Avenue and Bell Road. The City agreed to reimburse the dealer an amount not to exceed $500,000. Payments will be made quarterly and will equal fifty percent of one percent of sales tax revenues from the project. Reimbursements will cease when the reimbursement amount has been paid in full, or on November 30, 2010, whichever is sooner.

The reimbursement amounts specified in the foregoing agreements will not be recorded as a liability of the City until such time as the developments open for business.

The City approved a development agreement with Shea Sunbelt Pleasant Point LLC on October 22, 2001, for development of a master-planned community north of Happy Valley Road and west of the Agua Fria River. Included in the agreement are certain infrastructure improvements, right-of-way and land dedications, water rights acquisition, fire station building and equipment, and park and trail development. In return the City agreed to certain impact fee reimbursements. Individual liabilities will not be recorded until the developer has met City requirements associated with each agreed-upon item. As of June 30, 2009, there are currently estimated potential impact fee reimbursements of the following that are not yet recorded as liabilities: Two neighborhood park sites currently estimated at $1,500,000; two community park sites currently estimated at $4,500,000; one library site currently estimated at $750,000; and street and intersection improvements and associated ROW land dedications currently estimated at $45,670,000. Developer is in the process of amending their PCD (Planned Community Development) and once finalized, future required dedications may be adjusted.

The City approved a development agreement with Diamond Ventures Inc. on December 24, 2002 for a master-planned community located on the southwest corner of 163rd Avenue and State Highway 74. Included in the agreement are certain infrastructure improvements, right-of-way and land dedications, and provision of certain equipment. Associated with some of these requirements, the City has agreed to credit the developer from impact fees and other sources. As of June 30, 2009, no building activities have commenced and the credits could not be reliably estimated. The agreement is in force for 25 years from the signing of the agreement.

The City approved a development agreement with TDR LLC on February 11, 2005, for a residential and commercial development between Happy Valley Road and 107th Avenue east of the Agua Fria River. Included in the agreement are certain infrastructure improvements, right-of-way and land dedications. Individual liabilities will not be recorded until the developer has met City requirements associated with each agreed-upon item. As of June 30, 2009, there are currently estimated impact fee credits of the following: Wastewater improvement credits currently estimated at $2,992,188, but could potentially increase up to $4,792,065; and credits for future street infrastructure improvements and right-of-way land dedications estimated at $2,415,415.

On December 19, 2005, the City approved a development agreement with Group Three Properties, Noranda Properties Inc., and Pleasant Views LLC, which terminated an existing development agreement and enabled the developer to rely on existing City ordinances related to infrastructure improvements, right-of-way and land dedications. The development is a master-planned community east of Vistancia North and south of State Route 74. As the developer moves forward with the project, there may be infrastructure and land dedications resulting in impact fee credits due them from the City. As of June 30, 2009, those potential credits could not be reliably estimated.

The City approved a development agreement with WalMart Stores, Inc. on October 12, 2006, for a commercial development located on Peoria east of 83rd Avenue. Included in the agreement are certain infrastructure improvements, right-of-way and land dedications. As of June 30, 2009, the total reimbursement is capped at $7,270,000. Of that $228,934 is related to future infrastructure dedications and has not yet been recorded as a liability. A repayment of $3,000,000 will occur upon the completion of Phase II infrastructure (Cotton Crossing), followed by quarterly installments on the remaining balance based on fifty percent of one percent of sales tax revenues from the project.

The City approved a development agreement with Peoria place 100, LLC on December 22, 2006, for a mixed-use development located at the Southeast corner of 83rd Avenue and Monroe Street. The developer is required to construct and dedicate Cotton Crossing from Mountain View to Grand Avenue. Developer is required to dedicate all ROW and begin construction by July 1, 2008. The City agreed to reimburse the developer up to $6,443,000 on August 1, 2011, through cash reimbursement for roadway and intersection improvements. Construction on Cotton Crossing has begun.

22. SUBSEQUENT EVENTS

On July 1, 2009, the City called $9,190,000 in bonds as follows: $1,140,000 in Series 1993 General Obligation Bonds, $$3,415,000 in Series A 1998 General Obligation Bonds, $1,355,000 in Series B 1998 General Obligation Bonds, $2,700,000 in Series 1996 Streets and Highway User Revenue Bonds, $175,000 in North Valley Power Center #8801 Improvement District Bonds, $100,000 in 83rd Avenue #9601 Improvement District Bonds, $100,000 in Arrowhead Fountain Center #9603 Improvement District Bonds, and $205,000 in Sunny Boy Water & Sewer #9002 Improvement District Bonds. There was a 1% call premium on the North Valley Power Center Improvement District Bonds. All other bonds were callable without premium.

On July 17, 2009, the City closed on four loans with the Water Infrastructure Financing Authority (WIFA) totaling $18,828,805 for various water and wastewater infrastructure projects. Approximately $10,004,662 of these loans are funded by American Recovery & Reinvestment Act (ARRA) monies through subsidized interest rates or principal forgiveness.

On July 1, 2009 the City established a workers' compensation fund for work-related injuries to employees. Previously, the City participated in the State Compensation Fund for workers' compensation claims. The workers compensation self-insurance program is accounted for in an internal service fund. The City created the City of Peoria Workers' Compensation Trust to oversee the program. The City is self-insured up to $750,000 for public safety employees and $600,000 for all other employees up to an aggregate loss of $2,577,017. The fund purchases $1,000,000 in excess coverage insurance through a commercial insurance carrier cover individual claims, or cumulative claims, over these amounts. For fiscal year 2010, the program is funded by a one time transfer from the Risk Management Fund. In future years, it will be funded by service charges to the operating departments. Claims are administered and medical claims are paid by a third party administrator from the accounts of the fund. Salaries of employees off work for workers' compensation claims are paid by the employee's regular department.