



# City of Peoria

8401 West Monroe Street, Peoria, Arizona 85345

October 15, 2009

Honorable Mayor, City Council, City Manager and Citizens of Peoria, Arizona:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Peoria, Arizona (the City) for the fiscal year ended June 30, 2009. The report was prepared by the Financial Services Division of the Finance Department.

This report represents management's report to its governing body, constituents, legislative and oversight bodies, and investors and creditors. Copies of this report will be sent to elected officials, management personnel, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies which have expressed interest in the City's financial matters. Copies of this financial report will also be placed in the City libraries, as well as on the City's website, for use by the general public.

Managements Discussion and Analysis presented on pages 3-18 has a different focus and purpose than this transmittal letter and should be read in conjunction with this transmittal.

## **THE FINANCIAL REPORTING ENTITY**

The City of Peoria, chartered in 1954, has a Council-Manager form of government with the City Council consisting of the Mayor and six Council Members. Pursuant to an amendment to the City Charter approved by the voters in 1997, the Mayor is elected at-large for a four-year term. Council members are elected, by district, for four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of City Manager, City Attorney, and Judge. The City Manager is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the day-to-day operations of the City.

The City encompasses approximately 179 square miles in the northwestern portion of Maricopa County, and is one of several major cities comprising the greater Phoenix metropolitan area. Between the 1990 census and the 2000 census the City's population increased by over 100 percent, from approximately 50,600 to approximately 108,300. The estimated current population is approximately 159,263. The City's tremendous growth is attributable to the comparatively affordable housing, an excellent school district, and the expansion of the metropolitan freeway systems, allowing Peoria residents to commute effectively to other cities in the metropolitan area. Based on current projections, population growth trends are expected to continue, although at a slower pace. While having a positive impact, this growth will continue to present challenges to the City in providing its current high level of services.

The City provides a full range of municipal services, including police and fire protection, solid waste services, water and sewer services, construction and maintenance of streets, recreational and cultural events, library services, public transportation, planning and zoning services, and general administrative services. Peoria offers a wide range of community facilities including two community centers, three swimming pools, two libraries and 28 parks encompassing 314 acres. In addition, the Peoria Sports Complex operated by the City is the nation's first two-team baseball spring training facility - home to the San Diego Padres and Seattle Mariners. Lake Pleasant, in northern Peoria, is the second largest lake in

Arizona. The City opened its first large community park, Rio Vista Community Park, in the southern part of the City in fiscal year 2004. This 50 plus acre facility has athletic fields, playgrounds, ramadas and other amenities for the citizens' enjoyment. Phase two of Rio Vista Park, including a recreation center and additional fields were completed in 2007. The City will begin construction of another large community park in fiscal year 2010. The City also opened a performing arts center with a 250 seat main auditorium, 80 seat black box theater, classroom and administrative space, in the downtown area of the City in 2007 as part of the downtown revitalization plan.

This report includes financial statements on both a government-wide and fund basis for the primary government as well as its component units. Component units are separate legal entities included in the reporting entity due to the significance of their financial or operational relationship with the City. Criteria used by the City for inclusion of activities in preparing its financial statements are in conformity with GASB Statement No.14, *The Financial Reporting Entity*. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the financial reporting entity consists of the City and two blended component units, the City of Peoria Municipal Development Authority, Inc. and the Vistancia Community Facilities District as discussed further in Note 1.A of the notes to the financial statements.

## **MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS**

### **For The Year**

In fiscal year 2009 the City continued to invest in programs and amenities that keep Peoria a very livable community. Emphasis was placed on public safety, parks and open space, neighborhood preservation, and human services. The following are some of the service efforts and accomplishments of the City during the fiscal year:

Peoria's commitment to sustainability and the environment put on its public face:

- News and information to help residents "go green" is available in a new section of the city web site – [www.peoriaaz.gov/sustainability](http://www.peoriaaz.gov/sustainability).
- A Building Community speakers series invites regional experts on sustainable development to share ideas on how Peoria might move forward in an environmentally and financially sustainable fashion.
- Hundreds of people attended Peoria's first "Green Your ride" auto show, where they could put their hands on hybrid and other fuel efficient vehicles offered by the City's Bell Road auto dealers; climb on the City's alt-fuel work vehicles; and learn about other sustainable practices.
- Peoria earned a rebate of almost \$55,000 from Arizona Public Service (APS) for the energy-efficient lighting, heating and air conditioning, and other systems built into the Development & Community Services Building, which opened in 2007.

### **Budget & Management**

- Received the Certificate of Distinction from the International City/County Management Association (ICMA) for the Performance Management Program.
- Received the 16<sup>th</sup> consecutive Distinguished Budget Award from the Government Finance Officers Association for the fiscal year 2009 budget documents.

### **Communications**

- Peoria's government Channel 11 began streaming live at [www.peoriaaz.gov/channel11](http://www.peoriaaz.gov/channel11), opening city government to an even wider audience.
- Channel 11 launched two new shows: *The REC Show*, a roughly 20 minute program that highlights recreational, educational and cultural opportunities in Peoria; and *Peoria Pulse*, a five-minute community update. The new programs join *Focus TV*, an award winning 30 minute newsmagazine that debuted in November 2008.

### **Community Development**

- Set the future direction in sustainability by drafting a new Energy Element of the General Plan which was adopted by Council.

- Developed a process to recognize locally historically significant structures in the City. The Central School, jail, Women’s Club and Presbyterian Church were all recognized under this program.
- Developed new levels of customer service, Fast Track and Expedited Review, to give customers additional options in the development process.
- Awarded the City’s first Community Housing Development Authority Grant to purchase, rehab and lease multi-family housing units.
- Developed a strategy through the Foreclosure Task Force to reduce the negative effects of the foreclosure crisis on City neighborhoods. The strategy combines aggressive code compliance efforts with increased down payment assistance for purchasers of foreclosed homes.

#### Community Services

- Received official designation of “Tree City USA” by the Arbor Day Foundation.
- Dedicated and opened new Sunrise Mountain Branch Library in the northern part of the City.
- Completed two miles of trails as part of the New River Trail between Grand and Olive Avenues.
- Made significant right-of-way improvements to several areas throughout the City.
- Completed overall renovations at Hayes Park.
- Installed shade canopies over playground structures at Country Meadows Park, Terramar Park, and Hayes Park.
- Organized Veterans Day Run and recognition event.

#### City Clerk

- Conducted open meeting law training for Department Directors, Boards & Commissions Staff Liaisons and Staff Assistants.
- Conducted three elections, including serving as an early voting location.

#### City Manager

- Organized and led Fleet Solutions Group, a cross-functional team that analyzed the city’s fleet operations and identified approximately \$1 million in ongoing budget savings, primarily through the elimination of low-uses vehicles and a review of the useful lives of existing vehicles.
- The City collaborated with residents and neighboring communities to successfully back a State Route 74 alignment for a major electric power line through Peoria. The alternate route would have dissected some of the city’s most beautiful terrain and near existing neighborhoods.

#### Engineering

- Constructed a new segment of Happy Valley road from 83<sup>rd</sup> Avenue to 67<sup>th</sup> Avenue, including a new bridge over New River, as part of a \$54 million project.
- Completed the \$19.2 million widening of Thunderbird Road from SR 101L to 94<sup>th</sup> Avenue, including aesthetic enhancements to the bridge over New River.
- Completed two major drainage projects in partnership with the Flood Control District of Maricopa County – the Rose Garden Lane Channel (\$11.8 million) and the 83<sup>rd</sup> Avenue & Pinnacle Peak Road Drainage (\$16 million). These projects provide an increased level of flood protection for residents and businesses in these areas.
- Installed traffic signals at seven additional intersections throughout the City to enhance traffic flow and safety.
- Received \$4.9 million in federal funds for the 84<sup>th</sup> Avenue streetscape (\$2.4 million) and 91<sup>st</sup> Avenue & Olive Avenue intersection improvements (\$2.5 million) projects.
- Secured \$3.98 million in transportation funding through the American Recovery and Reinvestment Act of 2009 (ARRA) to assist in construction of the Beardsley road Extension to the Loop 101 freeway (\$2.85 million) and the resurfacing and re-striping of Beardsley Road from Lake Pleasant Road to 83<sup>rd</sup> Avenue (\$1.13 million).

#### Finance

- Issued \$68.4 million in General Obligation bonds to fund various street, storm drainage, municipal facilities, and parks and trails projects.
- Received another incremental bond rating upgrade for its General Obligation Bonds from Standard & Poor’s rating agency.

- The Revenue Division successfully completed a project to restructure the City's meter reading and utility billing processes to more evenly distribute internal staff workloads and provide enhanced customer service.
- Implemented electronic (e-billing) for the utility billing system allowing customers to sign up to receive their city utility bill by e-mail.
- The Meter Services Section completed the final phase of a nine year project to convert all of the City's water meters to an automated meter reading system.

#### Fire

- The Emergency Management Division trained every City employee in Continuous Chest Compression (CCC) Cardio Pulmonary Resuscitation (CPR) and Automatic Defibrillator (AED) operations. New AED heart monitors were installed throughout city facilities.
- Received a grant from the Federal Emergency Management Agency (FEMA) to purchase new Self-Contained Breathing Apparatus (SCBAs) for improved safety of personnel.
- Fire Community Services received grants for programs including car seat installations, smoke detectors replacement, CPR in schools and senior programs. These grants allowed them to: train 200 5<sup>th</sup> & 6<sup>th</sup> grade students through the CPR in schools program; install 300 smoke detectors in senior communities; teach the proper installation of child car seats to over 400 participants; and donate 25 car seats to low income families.
- Peoria paramedics received 4 recognition awards from John C. Lincoln Hospital – North Mountain for paramedic of the year and medals of valor.
- Lead a multi-department effort to relocate and expand the City's Emergency Operations Center to allow the City to enhance response to disasters or other emergency situations.

#### Human Resources

- Completed first on-line open benefits enrollment for all City staff.
- Implementation of the Classification and Compensation study covering all AFSCME represented staff of the City.

#### Information Technology

- Completion of a \$14 million Citywide radio system for Police and general government operations, with integration into the regional radio system to enhance regional disaster response.
- Completion of the City of Peoria/Peoria Unified School District fiber optic sharing project, with connectivity to all major City facilities.
- Redesign of the City's public website to make it more citizen-centric, with implementation of a content management system for ease of updates.
- Implementation of e-Citation for the Courts and Police motorcycle units for electronic traffic violation ticketing and processing.

#### Police

- Implemented the Nixel emergency notification system. This system allows residents to sign up to receive emergency or community alert information from the Police and Fire Departments. This system allows notification by e-mail, text message or through the Nixel web site.
- Also implemented a new Community Emergency Notification System (CENS) to notify the community of emergency situations by phone (land lines only).
- Participated on the team to review the Federal Emergency Management Agency (FEMA) Basic Public Information Officers' Course and created two new courses.
- Established a School Resource Officer Program and assigned officers to two local high schools.
- Participated with Information Technology in the installation and implementation of a new radio system.
- Upgraded the 9-1-1 phone system.

#### Public Works

- Became the 54<sup>th</sup> agency in the country to be accredited by the American Public Works Association.
- Led the initiative to reduce electrical consumption at the Municipal Office Complex. This led to a savings of 799,360 kilowatt hours from the same period a year earlier.

- The Transit Division's Trip Reduction Program (TRP) received the 2008 Clean Air Award of Outstanding TRP (Governmental Employer category).
- Fleet Division earned a Blue Seal of Excellence from the National Institute for Automotive Safety Excellence.
- Executed \$2.6 million in pavement management projects.
- Conducted three Household Hazardous Waste Drop-Off Events. Over 1,500 residents utilized the service and 184,338 pounds of hazardous waste was diverted from the landfill.
- Peoria celebrated one year of residential curbside recycling by treating residents to "Recycling Night at the Ballpark". Residents diverted nearly 25% of solid waste to recycling - 16,076 tons – which earned nearly \$350,000 to help pay for the service.

#### Public Works Utilities

- The Utilities Division received nine safety awards from AzWater (formerly Arizona Water & Pollution Control Association), the preeminent water association in the state. This was the largest number of awards to a single entity.
- The Butler Water Reclamation Facility was named a Public Works Project of the Year by the American Public Works Association. The plant was the largest membrane bio-reactor in the United States when it opened. This treatment system minimizes impact to the surrounding area while treating effluent to the highest quality.
- Began recharging Class A+ reclaimed water from the Butler Water Reclamation Facility at the New River Agua Fria Underground Storage Project operated by Salt River Project (SRP).
- Enhanced the water conservation program through expansion of the rebate program and additional educational class for residents.
- The water conservation program helped the community reduce its residential water use by 634 million gallons from the previous year – enough to fill nearly 1,000 Olympic swimming pools.
- Significantly reduced the City's reliance on groundwater pumping through recovery of recharged surface water.
- Cleaned 123 miles of sewer line.
- Inspected and performed maintenance of all 7,600 fire hydrants throughout the City.
- Converted to radio cluster communications, improving Supervisory Control and Data Acquisition (SCADA) communications system wide.

#### For The Future

The Council utilizes a process to assist in the identification, prioritization, and management of emerging strategic issues that, by virtue of their scope, complexity, and/or potential impact, require a coordinated multi-departmental action plan and budget. The City Council works closely with City management to implement specific objectives and tasks designed to meet these goals.

The following summarizes the goals identified by the City Council in the 12-Month Business Plan:

- Community Building – Preserve and expand our quality of life:
  - Arts/Culture.
  - Parks and recreation opportunities.
  - Quality neighborhoods / revitalization of older neighborhoods / Old town / Arrowhead Entertainment District.
  - Community oriented services, including Fire and Police.
  - Expand civic and not-for-profit partnerships.
- Enhance Current Services:
  - Our City organization and culture.
  - Cost effective service delivery.
  - Peoria is the employer of choice.
  - Use technology to enhance and streamline services.
  - A business model for the future / strategic planning.
  - Seek out grants.
- Preserve our Natural Environment:
  - Land banking for parks and open space.

- Incorporate open space into our built environment.
- Total Planning:
  - Employment / Jobs / Corridor.
  - Mix of living environments.
  - Infrastructure.
  - University / Higher Education strategy.
  - Health Care strategy.
  - Prudent fiscal stewardship.
  - Broad internet access.
  - Cost-effective green development.
- Economic Development:
  - Seek economic opportunities state, national, Pacific Rim, international.
  - Partner with economic development groups like Greater Phoenix Economic Council (GPEC).
  - Assess new models for economic development.
  - Partner with State Land Department in seeking economic development opportunities.
  - Seek multi-modal transportation infrastructure.
  - Strengthen Sister Cities relationships. Add an Asian city.
- Leadership and Image:
  - Locally and regionally.
  - Within the State.
  - Community relations.
  - Become a major player.
  - Peoria as a destination.

## **LOCAL ECONOMIC CONDITION AND OUTLOOK**

Peoria continues to face many important growth issues, and its citizens and municipal government are committed to finding solutions for the future. This commitment has helped to make 2009 another successful year and continues to provide a foundation for success in the years to come. The City maintains a strong commitment to continue to refocus itself to the new economic reality and to be a leader in areas like sustainability and cost-effective service delivery to maintain and enhance the quality of life in Peoria.

The American League Seattle Mariners and the National League San Diego Padres, professional major league baseball teams, continue their Cactus League Spring Training and minor league activities in Peoria. The City owns and operates a ten thousand-seat stadium and sports complex used by both teams. The teams have five years remaining on a twenty-year joint use contract to share the facilities. Each team has the option of extending their contract for an additional ten years. This agreement contributes significantly to the economic impact of the Spring Training Cactus League of Maricopa County. Numerous restaurants and entertainment facilities have been developed in the area surrounding the Sports Complex, making this area an important part of the City's economy. The City is currently undertaking a study to reevaluate the overall economic factors of this area to ensure that the area remain a thriving part of the City's economy.

In fiscal year 2009 the City has continued to experience a downturn in the overall economy. However, four major retail centers at Happy Valley Road and Lake Pleasant Road have reached a virtual completion, offering approximately 1.5 million square feet of new retail space for northern Peoria. The majority of the space has been occupied and current tenancy continues to reflect profitability. There is quite a bit of opportunity and business potential still available for this area. Numerous commercial and retail developments are in various stages of planning. The Peoria Regional Medical Center is anticipated to start construction in the next year, consisting of a 70,000 square foot hospital and an adjacent 350,000 square foot medical support facilities. Also, a 500,000 square foot commercial/office site north of Jomax Road on Lake Pleasant Road is moving forward and construction is projected in the next year.

Two major commercial activity studies are currently underway; both are designed to enhance the overall concept of the Downtown and Peoria Sports Complex areas. Both of these areas will attract major new commercial and office developments enhancing the economic outlook for the City.

Presently, we have two new commercial developments moving forward in southern Peoria; one is a new retail building just north of Thunderbird Road and 83<sup>rd</sup> Ave consisting of 40,000 square feet offering approximately 50 employment opportunities and the other is a 30,000 square foot manufacturing building at Olive Rd and 75<sup>th</sup> Ave bringing an additional 40 new jobs to the City. Construction on both these commercial developments is planned to begin shortly.

The overall trend has been that commercial development is dependent on, and follows, residential development activity. Since residential construction has declined significantly over the last year, commercial activity has slowed dramatically. When the residential market turns, the City of Peoria will become a major commercial market for new construction within the Maricopa County area.

## **Economic Outlook**

The regional economy has remained subdued during fiscal year 2009 with continued declines in housing construction and home prices. Because construction employment accounts for a larger share of Arizona's economy than for the nation as a whole, job growth has been in decline with only moderate gains in the healthcare sectors. Employment growth in Arizona declined at a rate of 7.6%. In June 2009, the unemployment rate in the metropolitan Phoenix region was 8.3%, which remains below the state (8.9%) and national (9.5%) unemployment rates. Locally, Peoria has maintained a slow level of commercial construction, continuing to provide services and facilities to the new neighborhoods developed over the last several years. New housing construction in Peoria has continued at a much slower pace than in previous years as the state's housing market continues to adjust home values down. Specific revenues are described in further detail in the following paragraphs.

Retail Sales: The City of Peoria, like all Arizona cities, places significant reliance on City-collected sales tax. Overall, sales tax revenues comprise 34% of General Fund revenues in fiscal year 2009. The City's sales tax rate (including the .03% transportation sales tax discussed below) is currently at 1.8%, with a 5.6% charge on hotel/motel service, 3.3% on utilities and 2.8% for restaurant/bar and amusement activities. Over 45% of sales tax collection is derived through retail sales. In the past, strong automobile sales along with commercial development along the Bell Road corridor and several new power centers in northern Peoria have generated significant revenues for the City. Retail store and restaurant activity near the Peoria Sports Complex area, as well as the 91<sup>st</sup> Avenue and Northern area and the Jomax and Lake Pleasant area, have helped the City support its current service standards. Looking forward, new commercial activity has slowed significantly with the credit crunch and lower consumer confidence is having an impact on sales tax revenues, especially in the sale of automobiles. Fiscal year 2009 sales taxes decreased 13.8% from the prior fiscal year. Fiscal year 2010 sales tax revenues are anticipated to decline an additional 3% from fiscal 2009 levels.

Dedicated City Sales Tax for Transportation: During fiscal year 2005, a Citizens' Bond Committee recommended to City Council that voters be asked to consider an increase to the sales tax rate of .03% (three-tenths of one percent) to be dedicated to transportation needs of the City. This includes construction and maintenance of streets as well as expansion of the City's transit program. On September 13, 2005, the citizens approved the sales tax increase by an affirmative vote of 68%. The dedicated transportation sales tax, which became effective January 1, 2006, generated \$8.8 million in revenue in fiscal year 2009, down from \$10.3 million in fiscal year 2008. As with other sales tax revenues, a small decline is expected in fiscal year 2010 collections.

State Shared Revenues: The City of Peoria receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, gas tax and motor vehicle in-lieu taxes. Much of this revenue is placed in the City's General Fund, where it helps support the City's day-to-day activities. The City projects an overall decrease of 7.5% in these revenues in fiscal year 2010, reflective of a sluggish statewide economy. As the State continues to deal with budget shortages, changes to the formulas used to allocate revenues to the cities are part of the budget balancing conversations. To date, the state legislature has not looked to these revenues to balance the state budget at the expense of the cities.

Property Tax: The City's property tax rate was \$1.44 per \$100 of assessed valuation for fiscal year 2009. Of this, \$.19, or about 15% of the total, was levied as the City's primary property tax. The primary tax can be used for any general government purpose, but is limited in size by State statute. The primary tax generated \$2.9 million in revenue for the General Fund in fiscal year 2009.

After a reduction in the total tax rate of \$.11 in fiscal year 2007 (\$.01 primary and \$.10 secondary), the City maintained the \$1.49 tax rate for fiscal year 2008. However, City Council approved adjusting five cents from the primary property tax rate to the secondary property tax rate for fiscal year 2008. The primary rate was decreased an additional \$.05 for fiscal year 2009, making the overall tax rate \$1.44. The property tax rate is unchanged for fiscal year 2010. With a 12% rise in assessed value, primary property tax revenue projections for fiscal year 2010 are \$3.2 million. Based on current development patterns, as well as expected decreases in the assessed value of existing properties, primary property tax revenue will likely decrease over the next several years.

Labor Force: Peoria has a well-educated and available labor force. This economic resource is at the forefront of our economic development efforts. The City is a member of the Greater Phoenix Economic Council (GPEC) which has been successful introducing new businesses to the City. In addition, the City has an Economic Development Department that is aggressively pursuing economic development in a tough market.

## **FINANCIAL CONTROLS**

### **Internal Controls**

The management of the City of Peoria is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition, and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **Budgetary Controls**

The City of Peoria, like all cities in the State of Arizona, is subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity. At a general election held in March 2003 the citizens of Peoria approved a permanent adjustment of the expenditure base from the original 1979-80 base of \$3,247,857 to a new base of \$18,247,857. The permanent adjustment eliminated the need for voter approval every four years. After adjustment for inflation and population growth, the city's expenditure limitation for fiscal year 2009 was \$688.9 million. The City may utilize the additional expenditure authority for any local budgetary purposes.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated operating budget approved by the Mayor and Council. Activities of the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, and internal service funds are included in the annual appropriated budget. The legal level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the total budget, as adopted by the City Council. The City additionally exercises management control and oversight of the budget at the department level within each fund. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations

upon the issuance of a purchase order. Encumbered appropriations lapse at fiscal year-end and are re-budgeted as needed in the next fiscal year.

**OTHER MATTERS**

**Employee Pension Plans**

The City maintains two employee pension plans and a pension plan for elected officials. The general employee plan is administered through the Arizona State Retirement System. The Public Safety Pension Plan and the Elected Officials Retirement Plan are administered by the Arizona Public Safety Personnel Retirement System. Both the employee and the employer make contributions directly to these organizations. Financial information about these plans can be found in Note 17 of the notes to the financial statements included in the Financial Section of this report. The City also administers a small pension fund that provides retirement income for volunteer firemen. The City no longer utilizes volunteer firemen, and only five former members currently receive payments under the plan. The plan for volunteer firemen is sufficiently funded with assets of \$204,962 at June 30, 2009. For fiscal year 2009, investment income and other revenues were \$5,653 while expenditures for retirement payments and administrative expenses were \$30,600.

**Debt Administration**

Under current State Statutes, cities can issue general obligation bonds for purposes of water, sewer, artificial lighting, open space, parks, playground and recreational facilities, public safety and transportation up to an amount not exceeding 20 percent of the secondary assessed valuation. Cities can also issue general obligation bonds for all other purposes up to an amount not exceeding 6 percent of the secondary assessed valuation. As of June 30, 2009, the City's general obligation debt of \$183,060,000 was below the combined legal limit of \$518,593,900. A detailed computation of this legal debt margin is included in Table XXIII in the statistical section of this report.

Two standard indicators of a City's debt position and debt burden include: 1) the ratio of general obligation bonded debt, supported by the City's general tax revenues, to secondary assessed valuation, and 2) the amount of bonded debt per capita. The following is a summary of these two indicators at June 30, 2009.

Percent of General Obligation Debt to Secondary Assessed Value:

General Obligation Debt	\$	183,060,000
Secondary Assessed Value	\$	1,994,591,924
G.O. debt to secondary assessed value		9.2%

Bonded Debt Per Capita:

General Obligation Debt	\$	183,060,000
Less: Debt Service Reserves		44,978,714
Net GO Debt		138,081,286
Estimated Population		159,263
G.O. debt per capita	\$	867

In September 2006, the City received an upgrade to its Municipal Development Authority bond rating from Standard & Poor's from AA to AA+. In February 2007, the City received an upgrade to its General Obligation bond rating from Standard & Poor's from AA- to AA as well as its Utility Revenue Bonds from A+ to AA-. In March 2007, the City received ratings for its Improvement District bond ratings from each of the rating agencies. Moody's rated them at A1, Standard & Poor's upgraded the rating from A- to A, and Fitch upgraded the rating from A+ to AA-. In September 2007, Fitch upgraded the Water and Wastewater bond rating for the City from A+ to AA-. In February 2008, the City issued Municipal Development Authority Transportation Sales Tax Revenue Bonds and received initial ratings of AA from Standard & Poor's, A+ from Fitch Ratings and Aa3 from Moody's Investors Service. Also in February 2008, the City received an upgrade from A1 to Aa3 for its existing Municipal Development Authority debt and an

upgrade from Aa3 to Aa2 for its existing General Obligation debt from Moody's Investors Service. In January 2009, all of the rating agencies reviewed their ratings for the City's General Obligation Bonds and Utility Revenue Bonds. The previous ratings were confirmed except for an upgrade from Standard & Poor's from AA to AA+ on the General Obligation rating and from AA- to AA for the Utility Revenue rating. All of the City's bonds are rated in the "A" or better category. The City is diligent in its efforts to maintain or improve its bond ratings. General obligation debt is serviced by secondary property taxes. Revenue supported debt is serviced with the user fees associated with the particular fund activity. The City's bond ratings are indicated in the table below.

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
<b>General Obligation Bonds</b>			
Current rating	Aa2	AA+	AA
Prior rating	Aa2	AA	AA
Date of current rating	1/2009	1/2009	1/2009
<b>Water &amp; Wastewater Bonds</b>			
Current rating	A2	AA	AA-
Prior rating	A2	AA-	AA-
Date of current rating	1/2009	1/2009	1/2009
<b>Municipal Development Authority Bonds (Other than Transportation)</b>			
Current rating	Aa3	AA+	AA-
Prior rating	A1	AA+	AA-
Date of current rating	2/2008	2/2006	2/2006
<b>Municipal Development Authority (Transportation) Bonds</b>			
Current rating	Aa3	AA	A+
Prior rating	Not rated	Not rated	Not rated
Date of current rating	2/2008	2/2008	2/2008
<b>Highway User Revenue Bonds</b>			
Current rating	A	A	A+
Prior rating	not rated	not rated	A-
Date of current rating	6/1988	2/1988	3/2000
<b>Improvement District Bonds</b>			
Current rating	A1	A	AA-
Prior rating	Not rated	A-	A+
Date of current rating	3/2007	3/2007	3/2007

## Cash Management

The Finance Department manages the City's investment portfolio with the assistance of an external investment advisory firm and ensures compliance with the City's Investment and Portfolio Policies. The City's investment policy is to invest public funds with maximum security in a manner which will provide a reasonable return while meeting the daily cash flow demands of the City and conform with all applicable state and local statutes. The primary objectives, in priority order, are safety of principal, liquidity, and attaining a market rate of return.

The City is permitted to invest in certificates of deposit, money market mutual funds, repurchase agreements, commercial paper, direct U.S. Treasury debt, securities guaranteed by the U.S. Government or any of its agencies and instrumentalities, and the State of Arizona's Local Government Investment Pool.

Temporary idle cash during the year was invested in the State Treasurer's Investment Pool and overnight repurchase agreements collateralized by U.S. Government securities. The average yield on unrestricted investments was 2.34% for the year ended June 30, 2009. The book value of the City's unrestricted investment portfolio at June 30, 2009 was \$204,523,892. For further information on the City's investments please refer to Note 4 of the notes to the financial statements.

## **Risk Management**

The City is exposed to various risks of loss related to public and property liability and workers' compensation. Public liability includes public officials' errors and omissions, automobile and general liability. During fiscal year 2009 the City was self-insured for the first \$500,000 of each public liability claim. Coverage in excess of these amounts up to \$40,000,000 was provided through the purchase of commercial insurance.

During the fiscal year ended June 30, 2009 there was no significant reduction in excess insurance coverage. The Risk Management Division of the City Attorney's Office administers the City's liability insurance program. Workers' compensation claims are reviewed by the Human Resources Department and handled through the State Compensation Fund.

The City of Peoria has an aggressive safety program that promotes employee safety on the job and focuses on risk control techniques designed to minimize accident-related losses. For further information on risk management and insurance coverage, please refer to Note 1.Q of the notes to the financial statements and Tables XXXIV and XXXV in the statistical section of this report.

## **OTHER INFORMATION**

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the management of the City. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to allow the compilation of sufficient reliable information for the preparation of financial statements. We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity and financial stability have been included.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The basic financial statements and related notes have been audited by an independent firm of certified public accountants, Heinfeld, Meech & Co., P.C., whose report is included herein. The audit satisfies Article VI, Section 7, of the City Charter, which requires an annual audit of all accounts of the City by an independent certified public accountant. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Peoria, Arizona for the fiscal year ended June 30, 2009, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements of the City of Peoria, Arizona for the fiscal year ended June 30, 2009, are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Additionally, the City is required to have an independent audit ("Single Audit") of federal financial assistance received by the City directly from federal agencies, or passed through to the City by the State of Arizona or other governmental entities during the fiscal year. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements involving the administration of major federal awards. The results of the City's single audit for the fiscal year ended June 30, 2009 found no instances of material weakness in the

internal control. However, there were significant deficiencies found in one of the major programs tested. The reports from Heinfeld, Meech & Co., P.C. are available in the City of Peoria, Arizona's separately issued Single Audit Report.

### **Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Peoria, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This is the 24th consecutive year the City of Peoria has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements. As such, we are submitting this report to the GFOA to determine its eligibility for a certificate.

### **Acknowledgments**

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department, especially the Financial Services Division. We want to give special recognition to the City's accounting team for their diligent efforts and superior contributions to this report. We also wish to thank the members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brent Mattingly", with a long horizontal flourish extending to the right.

Brent Mattingly  
Chief Financial Officer