



City of Peoria

8401 West Monroe Street, Peoria, Arizona 85345

October 15, 2010

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, 2010. 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 3-17 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 160,254. 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 322 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, armadas, an urban lake, skate park 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 2011. 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 2010 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 section of the city web site – www.peoriaaz.gov/sustainability.
- The City has won several awards for its sustainability efforts as well as recognizing budget savings and demonstrating good stewardship of resources.

Budget & Management

- Received the Certificate of Excellence from the International City/County Management Association (ICMA) for the Performance Management Program. This is the highest level of award.
- Received the 17th consecutive Distinguished Budget Award from the Government Finance Officers Association for the fiscal year 2010 budget documents.
- Led a strategic approach in the budget preparation process where all departments were required to cost out and prioritize all service activities.

Communications

- Peoria's government Channel 11 completed 10 business profile videos. These videos are part of a continuing effort to improve relationships with the city's business partners and assist them in surviving in this tight economic climate.
- Launched social media accounts on Twitter, Facebook and YouTube.
- Redesigned the Focus resident newsletter.
- Created email contact page on the City's website to allow one-stop email contact to a variety of city departments, divisions and services. Resulted in over 2,000 emails from residents to various city recipients.
- Added new technologies to website allowing interactive maps to locate Council Districts and all city parks and other facilities.

Planning & Community Development

- The City received a "Preserve America" designation from the U.S. National Advisory Council on Historic Preservation.

- City Council adopted “General Plan 2010”, the Growing Smarter mandated 10-year update. The plan was ratified by voters on August 24, 2010.
- Completed the Peoria Sports Complex Urban Design Plan and the Old Town Revitalization Plan.
- The Neighborhood Pride program coordinated 658 volunteers completing various home and landscape improvement projects on 56 homes.
- Completed the engineering due diligence for the State Land at Lake Pleasant Parkway and Loop 303. This will open this area to become an economic development hub for Peoria.

Community Services

- Organized the first annual Earth Day celebration which included a river/trail clean-up, planting in Rio Vista Park and educational sessions for attendees. This event was honored as the Outstanding Community/Neighborhood Special Event by the Arizona Parks and Recreation Association.
- Grand opening of WestWing neighborhood Park and the Skunk Creek Trail connection from the trail system to Rio Vista Park. Student artwork along the trail underneath Thunderbird Road Bridge was also dedicated.
- Expanded Library Fest event to include arts, entertainment, antiques and local authors. The event held at Sunrise Mountain Library drew 3,000 attendees.
- Friday Night Teen Dodge-ball was selected as the Outstanding Sports Program of the year by the Arizona Parks and Recreation Association.
- Sixth consecutive Spring Training year with over 200,000 fans in attendance at the Peoria Sports Complex.
- The Luke West Valley Recreation Committee won a prestigious Arizona Talent in Event Concepts (AzTEC) award for Outstanding Partnership of the Year. The West Valley Recreation Committee consists of west valley cities including Avondale, El Mirage, Glendale, Goodyear, Litchfield Park, Luke Air Force Base, Maricopa County Parks, Peoria, Surprise and Tolleson.
- Constructed on-site nursery for turf and plant materials at Rio Vista Park.

City Clerk

- Developed and implemented a citywide electronic agenda management system for submitting and approving Council agenda items.
- Completed a conversion of the electronic document management system used throughout the city.
- Created searchable database for campaign finance documents on the City website.
- Designed and implemented a comprehensive internal professional development program.

Engineering

- Completed Phase I of the \$11 million Municipal Court expansion project and the \$3.8 million Municipal Complex central plant upgrade project.
- Completed the Pilot Wind Energy Project at Lake Pleasant funded with an Energy Efficiency and Conservation Block Grant, as well as local funds.
- Completed several projects around local schools to increase the access and safety of students, parents and faculty to these sites.
- Contracted for excavation material to construct Rose Garden Lane Basin at no cost to the City, saving \$2.1 million in local funding.
- Received several awards for the construction of Happy Valley Road between 75th Avenue and Lake Pleasant Parkway, including the American Road and Transportation Builders of America 2010 Globe Award for Environmental Construction, the Arizona Chapter of the American Public Works Association Street Project of the Year 2010, and the Association of General Contractors Build Arizona 2010 award.
- Constructed the \$1.05 million Traffic Management Center. This center allows staff to actively manage traffic within the city, share traveler information with other jurisdictions and the public, and detect issues in the field related to the traffic signal system.
- Completed the hybrid fiber to wireless project consisting of software, fiber and wireless equipment to allow an additional 31 traffic signals to be monitored and controlled from the Traffic Management Center.

Finance

- Issued \$29.1 million in General Obligation bonds to fund various street, storm drainage, municipal facilities, and parks and trails projects.
- Issued \$15.7 million in Revenue Refunding bonds to generate \$1.2 million in savings for the City's utility operations.
- Received another incremental bond rating upgrade for the City's General Obligation Bonds from Moody's (Aa2 to Aa1) and Fitch (AA to AA+) rating agencies as well as incremental rating upgrades for the City's Revenue Bonds from Moody's (A2 to Aa3) and Fitch (AA- to AA).
- Implemented Accounts Payable ACH payments to vendors.
- The Revenue Division developed and implemented new administrative procedure designed to detect and prevent identity theft. The new procedures comply with the requirements of the Federal Trade Commission's "Ref Flags Rules"
- 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. Now all water meters in the City are read electronically. This significantly reduces the staff time necessary to read meters.

Fire

- The Fire Department completed a multi year project to become an Accredited Agency from the Commission on Fire Accreditation International (CFAI).
- Began the implementation of a new Records Management Systems (RMS) to provide an integrated data system for fire operations, prevention, emergency medical services, support services, training and administration.
- Fire Prevention conducted 150 community services events with over 69,700 attendees, spoke to over 13,000 students at 163 school events and trained 200 5th and 6th graders and hundred of adults in CPR.
- Two new fire engines were purchased in fiscal year 2010 to be put into service in fiscal year 2011.
- The training division implemented NEFSIS, a new teleconferencing system that allows crews to participate in meetings and training from each fire station, rather than having to go to a training site.

Information Technology

- Implementation of Microsoft Exchange 2007 e-mail server giving the City greater capabilities in electronic correspondence.
- As of June 30, 2010, approximately 60 file servers have been converted from traditional hardware-based systems to virtual machines, allowing approximately eight servers to share each single hardware platform. This allows much greater utilization of expensive hardware while conserving the environment through lower power consumption and reduced carbon emissions.
- Began testing for the city-wide implementation of Microsoft Windows 7 operating system.

Police

- Implemented Geographical Policing by breaking the City into six areas, each commanded by a Lieutenant.
- Implemented two neighborhood policing projects to address specific areas of the City.
- The Property and Evidence unit destroyed 5,000 pounds of weapons and drugs and disposed of 20,000 impounded items.
- The Youth and Support Services Section conducted a Youth Citizen's Police Academy for 180 participants.
- The Department was awarded 15 grants for a total of \$681,503.
- Nearly half of the Department's employees participated in workshops and meetings to develop the functional and technical requirements for the upcoming estimated \$3 million project to replace the Computer Aided Dispatch (CAD) and Records Management System (RMS) software programs.

Public Works

- Energy use was reduced by 12% at the City Hall Complex, resulting in over \$100,000 in savings.
- The City received energy rebates totaling \$162,000 for the installation of energy efficient cooling systems and peak demand reduction.

- The City received a grant for the conversion of site lighting associated with office buildings, parks, parking lots, and Park-and-Ride lots to Light Emitting Diode (LED) lighting.
- Installed a pilot solar voltaic system which provides over 30% of the electrical power for the Beardsley Water Reclamation Facility administrative building.

Public Works Utilities

- Won the Charles Nichols Award for Environmental Excellence from the Arizona Chapter of the American Public Works Association for Peoria's role in implementing curbside recycling, supporting sustainable building, and fostering a solar-power project to offset a portion of the power used by the Beardsley Water Reclamation Facility administrative building.
- Conducted four Household Hazardous Waste Drop-Off Events and collected over 115,000 pounds of hazardous waste that was diverted from the landfill.
- Peoria purchased Arizona's first hybrid solid waste vehicle. The Hydraulic Launch Automated Side Loader Solid Water Vehicle runs on biodiesel E-85 and achieves a 16% fuel savings over traditional solid waste vehicles.
- Partnered with Arizona grocers to recycle plastic bags at over 12 city locations as well as local grocery stores.
- The Butler Water Reclamation Facility was named Large Wastewater Plant of the Year by AZWater for outstanding work in the past year to optimize the process, labor, and costs of the facility. Optimizations resulted in \$90,000 in energy savings.
- Received nine safety awards from AZWater.
- Completed the upgrade of the City's Supervisory Control and Data Acquisition (SCADA) network. The upgrade enhanced radio communications for over 50 utility sites throughout the city, enhancing the capability to efficiently manage the City's water and wastewater systems.

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 24-Month Business Plan adopted in February 2009:

- 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.

Significant progress has been made on these goals during fiscal year 2010. The City has strategically placed itself in a better position to take advantage of opportunities as the economy recovers and development increases. The Council will readdress the 24 month business plan in February 2011.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Peoria continues to face many important growth issues, and its leadership is committed to implementing an economic development strategy that will best meet the needs of our community. This commitment has helped to make 2010 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 at the city's own two-team stadium. The teams have four years remaining on a twenty-year joint use contract to share the facilities with an option of extending their contracts for an additional ten years. This agreement contributes significantly to the economic impact of the Spring Training Cactus League of Maricopa County and to the city. The area surrounding the Sports Complex is an entertainment district that is a primary focus of economic development. The city recently adopted a master plan for an urban redesign of the district that will allow for greater density and improve the use of certain underutilized parcels. A capital improvement budget has been allocated to this effort and will be applied in fiscal year 2011 to create an identity for the district as well as develop the first phase of street treatments to improve connectivity and create a sense of place.

In fiscal year 2010 the City has continued to experience a downturn in the overall economy in terms of new development. However, space absorption has been on the rise. Peoria has a lower percentage of vacant space available than it did two years ago at the start of the downturn. In the coming year, new developments are expected to be dominated by economic development efforts in two areas: Health care and higher education. The city's health care initiative has resulted in progressive efforts as hospital systems plan their next strategic move. Furthermore, the city's aggressive pursuit of university expansions of private not-for-profit universities has netted a handful of strong candidates to enter the market over the next three years.

Additionally, the city's adoption of the Old Town Peoria Revitalization Plan in November 2009 has created the foundation for a series of redevelopment projects in Old Town. The most prominent is the transformation of Peoria Place into a residential university campus. The city entered into an exclusive negotiating agreement with Ottawa University to explore the possibility. Another project of importance is the Commercial Rehabilitation Program that the city is planning for the commercial developments in Old

Town. The purpose of the program is to enable the city to attract a university to Peoria Place as well as give a much needed facelift to the area to attract future commercial development.

Other initiatives that the Economic Development Implementation Strategy focuses on include the creation of investment zones, a targeted marketing plan, improved business assistance programs, and a bioscience incubator. All of these incentives are already underway and the city expects to make a great deal of progress on their implementation in the coming year.

Another item of note is the city's aggressive pursuit of private investment to move development projects forward. An investment conference targeting bankers, REITS, investors, developers, and site consultants has been scheduled for November 2010. It is the first of its kind in Maricopa County and a premier opportunity for the city to showcase itself, its implementation plan, and its economic development initiatives to provide investment and development opportunities for those looking for viable projects to invest in.

Economic Outlook

The regional economy continued to lag behind other areas of the country during fiscal year 2010 with ongoing job losses and a large supply of vacant homes. Job growth has been in decline with only moderate job gains in the healthcare, professional and business services, leisure and hospitality services, and natural resources and mining sectors. Overall employment growth in Arizona declined at a rate of 0.3% for the year. In June 2010, the unemployment rate in the metropolitan Phoenix region was 8.8%, which remains below the state (9.6%) and national (9.5%) unemployment rates. Locally, Peoria's commercial construction has continued at a slow pace with some in-fill activity taking place in previously developed neighborhoods. New housing construction in Peoria remains consistent with 2009 levels as the oversupply of vacant homes continues to be absorbed back into the real estate market. 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 35.7% of General Fund revenues in fiscal year 2010. 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 47.7% of sales tax collection was derived through retail sales in fiscal year 2010. 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, but auto sales have slowed significantly during the economic downturn. Retail store and restaurant activity near the Peoria Sports Complex area, as well as the 91st Avenue and Northern area and the Jomax Road and Lake Pleasant Parkway 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 which is having an impact on sales tax revenues, especially in the sale of automobiles. Fiscal year 2010 sales taxes decreased 4.6% from the prior fiscal year. Fiscal year 2011 sales tax revenues are anticipated to increase less than 1%. The very modest increase reflects a slightly improving outlook for consumer spending and modest population growth.

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 \$8.3 million in revenue in fiscal year 2010, down from \$8.8 million in fiscal year 2009. As with other sales tax revenues, a very small increase is expected in fiscal year 2011 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 9.2% in these revenues in fiscal year 2011, 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 2010. Of this, \$.19, or about 13% 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 \$3.5 million in revenue for the General Fund in fiscal year 2010.

After a reduction in the total tax rate of \$.11 in fiscal year 2007 (\$.01 primary and \$.10 secondary), a movement of five cents from the primary property tax rate to the secondary property tax rate for fiscal year 2008 and an additional five cent reduction to the primary rate in fiscal year 2009, the overall tax rate of \$1.44 remains unchanged for fiscal year 2010 and fiscal year 2011. With a 5% reduction in assessed value for fiscal year 2010 and an expected additional 10% decline in assessed value for fiscal year 2011, primary property tax revenue projections for fiscal year 2011 are \$2.9 million. Given the lag in assessor rolls and with statutory formulas, the primary valuation has likely stabilized, but is likely to grow slowly in the near future.

Labor Force: Peoria has a well-educated and technically skilled 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 in introducing new businesses to the City. In addition, the City has created a new Economic Development Department that is a one-stop shop for all development, featuring aggressive business retention efforts, comprehensive engineering and site development, and building safety and inspection.

FINANCIAL CONTROLS

Internal Controls

The management of the City of Peoria is responsible for establishing and maintaining a system of internal controls. 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 2010 was \$723.2 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.

Financial Policies

The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The City needs to ensure that it is capable of adequately funding and providing those government services desired by the community. Ultimately, the City's reputation and success depends on the public's awareness and acceptability of the management and delivery of these services.

The City operates under a comprehensive set of financial policies adopted by Council. The *Principals of Sound Financial Management* establish guidelines for the City's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of the City of Peoria as reflected in its financial goals. The City's financial goals are broad, fairly timeless statements of the financial position the City seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the City of Peoria.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the City's residents.
- To maintain a high bond credit rating to ensure the City's access to the bond markets and to provide assurance to the City's taxpayers that the City government is well managed and financially sound.

These policies establish minimum and recommended fund balance/net asset reserves, as well as establishing policies on the use of one-time revenues (to be used for on-time expenditures), fiscal planning and budgeting, expenditure control, capital improvement program, cash management, debt management, and economic development.

Strategic Planning

The City annually updates a five-year long-range forecast, incorporating both projected revenues and expenditures for the City's major operating funds. The five-year revenue forecast only includes revenues that are anticipated to be sustainable over the five-year period. Expenditure projections include anticipated operating impacts of the adopted capital improvement program.

Additionally, the City maintains a 10 year Capital Improvement Program which the City Manager submits annually for review by the City Council, pursuant to the timeline established in the budget preparation schedule. The program is updated annually and includes the cost of construction and operating expenditures. No capital improvement projects will be authorized or awarded until the funding sources have been established to finance the project. When current revenues or resources are available for Capital Improvement Projects, consideration will be given first to those capital assets with the shortest useful life, and for assets whose nature make them comparatively more difficult to finance with bonds or lease financing.

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, 2010, 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, 2010, 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, 2010 found no instances of material weakness in the internal control. However, there was a significant deficiency 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, 2009. This is the 25th 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 black ink, appearing to read "Brent D. Mattingly". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Brent D. Mattingly
Chief Financial Officer