



City of Peoria

8401 West Monroe Street, Peoria, Arizona 85345

October 30, 2012

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, 2012. 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, 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's 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 the 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 2000 census and the 2010 census the City's population increased by over 42 percent, from approximately 108,300 to approximately 154,065. This follows over 100 percent growth in the preceding 10 years. The estimated current population is 156,780. 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 32 parks encompassing 338 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 II of Rio Vista Park, including a recreation center and additional fields were completed in 2007. The City began construction of another large community park in fiscal year 2012. 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*, as amended by GASB Statement No.61. 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, SERVICE EFFORTS, AND ACCOMPLISHMENTS

For The Year

In fiscal year 2012 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:

Management & Budget

- For the third straight year, received the Certificate of Excellence from the International City/County Management Association (ICMA) Performance Management Program. This is the highest level of award.
- Received the 19th consecutive Distinguished Budget Award from the Government Finance Officers Association for fiscal year 2012 budget documents.
- Continued to oversee a strategic, priority-based budget process to best target resources toward stated goals.

Communications

- Worked with the Community Services department to redesign the City's FOCUS newsletter saving the City \$40,000 in production and distribution costs.
- Refocused Peoria Ch. 11 to develop programming featuring City departments and services.
- Redesigned the City of Peoria public website and all of the content pages, which improved usability for the citizens.
- Hired a graphic designer to produce printed and online materials for the City, as well as provide oversight of printing projects. This could potentially save the City more than \$80,000 annually compared to hiring external designers.
- Hosted another successful seven-week Peoria Leadership Institute, a program to give citizens insight into the operations of the City.

Planning & Community Development

- Completed and adopted the Historic Preservation Master Plan.
- Successful in placing the Palo Verde Park and cultural resource site on the National Register of Historic Places.
- Coordinated and gained approval for the update and streamlining of the Temporary Use Permit and Special Event process.
- Achieved adoption of the Old Town Entertainment District.

- Coordinated the completion of the 2012 Sustainability Action Plan.
- Achieved EnergyStar certification for the Development and Community Services Building.
- Worked with the U.S. Department of Housing and Urban Development (HUD) to purchase nine (9) foreclosed properties of which five (5) were rehabilitated to City Code and have since been sold to income eligible families.
- Assisted 25 households in the Emergency Home Repair Program funded with Community Development Block Grant (CDBG) funds.
- Chosen by Habitat for Humanity Central Arizona to receive assistance through a large cash donation from Wells Fargo Bank for the purpose of rehabilitating foreclosed homes. The donation was part of Wells Fargo's nationwide effort to increase the availability of affordable housing while stabilizing and rebuilding distressed neighborhoods.

Economic Development Services

- Maxwell Technologies, a global leader in developing, manufacturing and marketing energy storage and power delivery solutions, announced it would locate a manufacturing facility in the City and create 150 new jobs over three years. The project's capital investment is \$26 million.
- Approved a management agreement with BioAccel for the creation of the Bioinspire medical device incubator. The incubator will offer 7,000 SF of space for start-up companies.
- Completed Phase 1 of a Commercial Rehabilitation Program at Wagoner Plaza consisting of the rehabilitation of a strip center with 8 suites.
- Held the City's second annual Investment Conference. The event drew about 100 people and was designed to present economic development opportunities in Peoria to the development community.
- City Council approved a new identity for the Peoria Sports Complex area, the Peoria Eighty Three Entertainment District (P83), designed to increase pedestrian connectivity, vitality, and safety.

Community Services

- Began construction of Peoria's second Community Park "Pioneer Park" an 85 acre park featuring baseball/softball diamonds, soccer fields, splash pad, playgrounds, and a five acre urban fishing lake.
- The Parks Division opened new park facilities, including Palo Verde Park in the Terramar subdivision, Westland Park in the Vistancia subdivision, expanded Johnny E. Osuna Park in Old Town, and dedicated Centennial Plaza on the City Hall campus.
- Successfully negotiated a new twenty year contract with two team tenants, the Seattle Mariners and San Diego Padres. The Spring Training 2012 season demonstrated a trend up in attendance and a 3% increase in revenues.
- Before and After School Program (Am/Pm) generated a 5% increase in enrollment for the first time since FY2008. Youth Sports participation was up 12%, Adult Sports gained a 6% increase in registrations and Pass holders at the Rio Vista Recreation Center increased 3% with a total revenue increase of 6%.
- Library circulation increased 5% with a total of 1,860,210 items checked out by our patrons. Library visits increased 4% with a total of 651,166 people experiencing the benefits of Library services and programs. The digital library experienced the largest circulation increase in its history. Digital downloads nearly doubled from 25,449 to 49,559 (a 95% increase).

City Clerk

- District boundaries were redrawn to ensure equal population in all districts.
- Coordinated the 2012 Primary Election in which three (3) Council District seats and (9) charter amendments were on the ballot.
- Three City Clerk employees became certified as State Election Officials.
- Two City Clerk employees fulfilled all the requirements of the Certified Municipal Clerk (CMC) Program and earned their CMC designation.

Engineering

- Completed Centennial Plaza on the City Hall campus in commemoration of the 100th anniversary of Arizona's statehood. This \$3.7 million project included a decades walk, a shade canopy over the amphitheater, and a large turf area for community gatherings.
- Completed the Olive Avenue trail underpass.

- Widened and reconstructed the intersection of Beardsley Road and Lake Pleasant Road. This \$3.7 million project also included drainage improvements and converted the rural roadway section along the south side of Beardsley Road to an urban section by adding curb, gutter, sidewalk, landscaping, and street lights.
- In cooperation with the Flood Control District of Maricopa County, completed one of the remaining regional drainage projects in Peoria. The project included construction of drainage channels, culverts, and a 15-acre basin along Pinnacle Peak Road between 104th Avenue and Lake Pleasant Parkway.
- Began rehabilitation of aging trunk sewer mains in the southern half of Peoria to address the City Council's goal of maintaining existing infrastructure.

Finance

- Issued \$14.7 million in General Obligation bonds to fund various parks, trails and municipal operations projects.
- Issued \$13.7 million in General Obligation refunding bonds to refinance outstanding debt, saving the City approximately \$1.5 million in interest costs.
- Issued \$23.3 million in Water and Sewer Revenue refunding bonds to prepay several outstanding loans with the Water Infrastructure Finance Authority, saving the City approximately \$2.0 million in interest costs.
- Received affirmation of the City's bond ratings for the General Obligation bonds and Utility Revenue bonds.
- Received the 27th consecutive Certificate for Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association for the fiscal year 2011 CAFR.
- Completed a major PeopleSoft Human Capital Management system upgrade.
- Developed a structured program for the replacement of 37,000 aging water meters over the next six years, a Capital Improvement Project with funding of \$1.5 million per year.

Fire

- Signed a contract with Target Solutions to host Fire Department specific training, most notably training to accomplish federally mandated OSHA requirements.
- Put in-service a Polaris 6x6 UTV for off-road rescues in the northern part of Peoria. The UTV was purchased with grant money from the State of Arizona.
- Put in-service a Fire/Rescue boat at Lake Pleasant. The boat was purchased with grant money from the Tohono O'odham Tribe of Arizona.
- Trained approximately 360 people in CPR.

Human Resources

- Completed City-wide Ethics Training.
- Completed an Administrative Support Compensation/Classification Study.
- Held the 2nd annual PACE Civic Engagement Conference, received national recognition from CNN and other media outlets. Keynote speakers included the Honorable Kevin Johnson, Mayor of Sacramento CA - and Dr. Michael Crow, President of Arizona State University.
- Launched newly designed Advancing Leadership Training Program.
- Implemented a new apprenticeship program.

Information Technology

- Installed a 50 Terabyte Storage Area Network (SAN) for City-wide data storage of major systems.
- Replaced Network Infrastructure at the Public Safety Administration Building (PSAB).
- Developed PeoriaAZ Civic Reporter citizen engagement smart phone application.
- Developed RSA Secure Authentication Token System for the Police Department.
- Implemented Solid Waste Division electronic truck routing and management system.
- Implemented Electronic Patient Care Reporting system (EPCR) for Fire Department Paramedics.

Intergovernmental Affairs

- The City was awarded 14 grants totaling over \$1,180,000.
- Peoria took a lead role in securing the F35 Mission at Luke Air Force Base. This mission provides economic benefits to the region and the state. Many of Luke's Air Force personnel reside in Peoria.

- Led by Government Affairs, “Joey’s Law” (SB 1163) passed through the Arizona Legislature and signed by the Governor. This law strengthens the vehicle “hit and run” statute.
- Through active engagement, the Phoenix-Tucson passenger rail will have a terminus at the old Phoenix Union Station, key to future connectivity for commuter rail and other mass transit options.

Police

- 53 police department volunteers and interns donated 6,528 hours to the department performing critical tasks that saved the department approximately \$142,200.
- Launched a new web-based program *Smscrimetips.com*, which allows a fast, convenient and confidential way for citizens to provide tips on criminal activity. This program allows for logging, tracking and organizing tips for effective follow up by the appropriate investigative unit.
- Launched a new web-based program *Nixle.com*, which provides a free customizable tool for citizens to receive real time information and updates on police incidents that may impact their neighborhood.
- Department was awarded 9 grants totaling over \$235,242 to enhance services to the community.
- Conducted three Youth Citizen’s Academies at local elementary schools for 140 students who learned about a variety of crime and safety topics.

Public Works Utilities

- Transit was awarded the “New Freedom” grant in the amount of \$29,142.
- Reduced solid waste residential rates by 13 percent.
- Partnered with the City of Glendale to implement an intergovernmental agreement to use their landfill for waste disposal. This offers an additional disposal location for the southern area of City.
- Met or exceeded all ADEQ inspection goals for Storm Water Operations.
- Awarded the “City Manager’s Award for Excellence” in the category of Efficiency for coordinating and managing a program of bike lane implementations
- Despite increasing electrical power increases from APS and SRP, utilities treatment plant operations decreased power costs per 1,000 gallons of water treated.
- Participated in the EPA Energy Audit Program for Wastewater Treatment Facilities.
- Implemented Lab Enhancement Plan, and obtained certification for 16 additional in-house analyses. Cost savings will be realized beginning in FY 2013
- Passed all Maricopa County and Arizona Department of Environmental Quality compliance inspections.
- Obtained and are utilizing grant award funds from a water conservation grant from the Bureau of Reclamation. \$30,000 was awarded to complete a system optimization review to identify additional recharge options for Class A+ treated effluent produced at the Butler Water Reclamation Facility.

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:

- 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.

Progress has been made on these goals during fiscal year 2012. The City has strategically placed itself in a better position to take advantage of opportunities as the economy recovers and development increases.

LOCAL ECONOMIC CONDITION AND OUTLOOK

As the local economy starts to improve, Peoria continues to face many important growth issues. However, Peoria leadership is committed to implementing the City Council approved Economic Development Implementation Strategy (EDIS) to meet the development needs of our community. This commitment has helped to make 2012 another successful year and continues to provide a foundation for success in the years to come. The City maintains a strong commitment to continue its focus on the new economic reality and to be a leader in areas such as cost-effective service delivery, improved customer service, and strategic partnerships 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-owned, two-team stadium. This year both teams signed a new 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 already successful Peoria Eighty Three (P83) Entertainment District surrounding the Sports Complex remains a primary focus of continued economic development. The City has begun implementation of the 2010 adopted urban design plan, as a new identity has been established and a Design Concept Report is underway to improve pedestrian connectivity, safety, and vibrancy in the area. Another implementation aspect of that plan is the development of 400,000 SF of mixed use space outside the Sports Complex stadium. An exclusive negotiating agreement is in place with a developer for that project.

In fiscal year 2012, the City started to experience an uptick in the overall economy, especially in terms of new residential development. On the commercial side, space absorption continues to be the most active

sector while new builds are slowly on the rise. The City also announced its first industrial project in several years with the Maxwell Technologies project. This project is expected to have a capital investment of \$26 million and add 150 manufacturing and engineering jobs over three years.

In the coming year, new developments are expected to continue in three main focus areas of economic development: entertainment; health care; and higher education. The entertainment concept for the area surrounding the sports complex is already well underway and the City's health care initiative has resulted in progressive efforts as hospital systems plan their next strategic move into the West Valley. Furthermore, the City's aggressive pursuit of university expansions involving private not-for-profit universities has netted a handful of strong candidates to enter the market over the next three years.

There is also significant momentum in redevelopment of the City's older and historic downtown as interest in revitalization continues to rise. The City's implementation of the Old Town Peoria Revitalization Plan is well underway. The City has completed significant capital projects in the area, including two parks, the courthouse renovation and the Community Center remodel. Additionally, the first phase of the Commercial Rehabilitation Program has been completed and work has already begun on the second phase. Finally, the City has contracted with a development team to do two things: create a Building Re-Use Implementation Strategy for underutilized and vacant buildings in the Old Town area and actively recruit users to those buildings.

The northern part of the City also experienced a boost in prospecting activity resulting from the completion of the Loop 303 freeway and the addition of a secondary access point for the Vistancia Commercial Core. The City has a development agreement in place with the developer, Vistancia LLC that takes an aggressive approach to economic development for the area, primarily through the allocation of free land and funding for infrastructure development.

Finally, in 2012, Peoria approved the creation of a medical device incubator, Bioinspire. The facility, managed by BioAccel, a non-profit company that specializes in new technology development, will offer 7,000 SF to house 5-7 start-up companies.

Another item of note is the City's aggressive pursuit of private investment to move development projects forward. A third annual investment conference targeting bankers, REITS, investors, developers, site consultants, and entrepreneurs has been scheduled for February 2013. It is the only one 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 slowly improve during fiscal year 2012 with population growth remaining in the 1% range. Job growth increased moderately with a year-over-year increase of 2.4%, outpacing the national average of 1.3%. Growth within the education, healthcare, retail, transportation and utilities, and leisure and hospitality services sectors, as well as an uptick in construction activity, contributed to overall job gains. During this period, the Phoenix metropolitan area also continued to expand with year-over-year job growth of 2.4%. In June 2012, the unemployment rate in the Phoenix region was 7.5% which remained below the state (8.2%) and national (8.2%) unemployment rates. These rates reflect improvement from the state (9.3%) and national (9.2%) unemployment rates in June 2011.

The local housing market continued to improve during fiscal year 2012. Home prices in the Phoenix area rose with the median single family home price reaching \$150,000 in June, an increase of 29.3% from the \$116,000 in June 2011. Foreclosures on single family homes decreased significantly (56%) during the year and the supply of affordable homes declined (39%) to less than one month's inventory. With the reduced inventory, new home sales increased 39% from June 2011. According to Arizona State University's Center for Real Estate, the number of distressed single family sales in Peoria declined significantly from 384 in June 2011 to 204 in June 2012. The process of disposing distressed inventory allowed Peoria's traditional re-sale market to begin to return to more healthy conditions. The Center for Real Estate indicated June 2012's normal re-sale market for Peoria almost doubled (146) from the prior

year (76) with the average price per square foot increasing 15%. As existing inventories of affordable homes decreased, the demand for new homes increased. For Peoria, single family home permits reached 610 in fiscal year 2012, a significant increase over the 404 permits in fiscal year 2011.

Retail Sales: The City of Peoria, like all Arizona cities, places significant reliance on City-collected sales tax. Overall, sales tax revenues comprised 38% of General Fund revenues in fiscal year 2012. 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. Approximately 52% of sales tax collections were derived through retail sales in fiscal year 2012. Peoria has a concentration of almost 20 automobile dealerships, attracting customers from around the region. Prior to the economic downturn, sales tax revenues from automobile sales accounted for as much as 40% of the City's retail sales tax collections. Since then, the retail tax base has broadened with additional development along the Bell Road corridor and several new power centers in northern Peoria. Peoria began to see improvement in retail collections beginning in FY2011 and this trend continued through FY2012. Strengthening automobile sales were a significant factor in these gains as auto-related collections in FY2012 increased by almost 17% over the previous year, representing approximately 34% of all retail collections.

Retail store and restaurant activity near the Peoria Sports Complex, as well as the 91st Avenue and Northern and the Jomax Road and Lake Pleasant Parkway areas have helped the City support its current service standards. Fiscal year 2012 sales taxes collections (all funds) increased 4.5% over the prior fiscal year. Fiscal year 2013 sales tax revenues are anticipated to increase at a more moderate pace of approximately 1.5%. The modest increase reflects anticipated slowing in the rate of growth in automobile sales and a slowly 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 \$9.0 million in revenue in fiscal year 2012, up from \$8.5 million in fiscal year 2011. As with other sales tax revenues, a small increase is expected in fiscal year 2013 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. Revenues from these sources provided approximately 35% of the total revenue to the City's General Fund in fiscal year 2012, which helps support the City's day-to-day activities. The City projects an overall increase of 10.1% in these revenues in fiscal year 2013, reflecting continuing recovery of the statewide economy and improvements in the state's income tax collections from 2010. These revenues are generally distributed based on census population numbers and Peoria's population growth of 12.4% from the 2005 census to the 2010 census exceeded the overall state growth rate generating an approximate 8% increase in Peoria's share of the allocations of these revenues beginning in fiscal year 2012.

Property Tax: The City's property tax rate of \$1.44 per \$100 of assessed valuation for fiscal year 2012. The tax rate has not changed since FY2009. 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 \$2.5 million in revenue for the General Fund in fiscal year 2012.

With a 16.9% decline in the primary assessed value for fiscal year 2012 and an additional 11% decline anticipated in FY2013, primary property tax revenue projections for fiscal year 2013 are \$2.2 million. Given the time lag to update assessor rolls and with statutory formulas and moderate improvements in housing prices, the primary assessed valuation is anticipated to stabilize and begin slow growth in the next few years.

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's Economic Development Services Department continues to aggressively seek new development for the City.

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 2012 was \$733,909,330. 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* establishes 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. 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 government-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, 2012, 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, 2012, 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, 2012 found no instances of material weakness or significant deficiencies in the internal controls. 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, 2011. This is the 27th 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,


Brent D. Mattingly
Chief Financial Officer