



CITY OF SURPRISE
Audit Committee
16000 N. Civic Center Plaza
Surprise, AZ 85374
 Wednesday, March 11, 2026 @ 4:15 PM
 Lobby Conference Room, First Floor
 CH 1F N1-150

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. City Audit Committee Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|--|--------------|
| 1. | Citywide | Consideration and action pertaining to the October 20, 2025, meeting minutes. | City Auditor |
| 2. | Citywide | Presentation and discussion pertaining to the fiscal year 2024-2025 Annual Comprehensive Financial Report (ACFR) and associated reports. | City Auditor |
| 3. | Citywide | Presentation, discussion, and possible action pertaining to the Capital Improvement Plan Audit Report. | City Auditor |
| 4. | Citywide | Presentation, discussion, and possible action pertaining to the Fire-Medical Payroll Audit Report. | City Auditor |
| 5. | Citywide | Presentation and discussion pertaining to the summary of the Audit Recommendations Status Report as of February 3, 2026. | City Auditor |

G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins. You may also [fill out the Call to the Public form online](#) If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

H. Other Business and Future Agenda Items

I. Adjournment

KRISTI PASSARELLI, CITY CLERK

POSTED: Friday, March 6th, 2026 @ 3:00 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR CLERK@SURPRISEAZ.GOV, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.



**CITY OF SURPRISE
Audit Committee**

Council Meeting Date: March 11, 2026
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Consideration and action pertaining to the October 20, 2025, meeting minutes.

Motion:

I move to approve the minutes of the October 20, 2025, City Audit Committee meeting.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to the city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the city auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs, and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. 2025-10-20 Draft Minutes
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CITY OF SURPRISE
Audit Committee Meeting
16000 North Civic Center Plaza
Surprise, AZ 85374
Monday, October 20, 2025 – 4:15 p.m.

CALL TO ORDER

Vice Chair Connie Bowers called the Audit Committee Meeting to order at 4:15 p.m. on Monday, October 20, 2025, at Surprise City Hall, Lobby Conference Room N1-150, 16000 North Civic Center Plaza Surprise, Arizona 85374.

ROLL CALL

Chair Tatiana Young (absent), Vice Chair Connie Bowers, Councilmember Chris Judd, Councilmember Earle Greenberg, Finance Director Sandy Simmons, and Parks and Recreation Director Holly Osborn (absent).

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

City Auditor Carol Holley, Internal Auditor Sr. Melissa Moreno, and Assistant Director of Finance Erick Martin.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

1. Consideration and action pertaining to the Audit Committee meeting minutes of August 6, 2025.

Councilmember Judd moved to approve the August 6, 2025, Audit Committee meeting minutes. Councilmember Greenberg seconded. Motion approved 3-0.

2. Presentation, discussion, and possible action pertaining to Capital Improvement Plan Audit Report.

Carol Holley provided an overview of the Capital Improvement Plan Audit Report, which was then discussed by the committee members and the staff members present.

Councilmember Judd had some questions about the management response for the second observation in the audit report. Finance provided some additional clarification about what they plan to do, which was not included in the management response. The committee suggested that the management response be updated to include this and that the audit be tabled until the next audit committee meeting, allowing them to review the updates.

Councilmember Judd moved to table the Capital Improvement Plan Audit Report until the next audit committee meeting, Councilmember Greenberg seconded. Motion approved 3-0.

3. Presentation, discussion, and possible action pertaining to the Audit Recommendations Status Report.

Carol Holley provided an overview of the Audit Recommendation Status Report covering the period from July 1, 2025, through October 7, 2025, to the Audit Committee.

A brief discussion ensued related to the FY2025-2026 Annual Audit Plan.

Councilmember Judd moved to approve and distribute the Audit Recommendation Status Report, Councilmember Greenberg seconded. Motion approved 3-0.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

The next Audit Committee Meeting will be held on **February 11, 2025**, at 4:15 p.m.

EXECUTIVE SESSION

ADJOURNMENT

Vice Chair Bowers moved to adjourn the meeting. The meeting was adjourned at 4:47 p.m.

ATTEST:

Connie Bowers, Vice Chair

Carol Holley, Staff Liaison

CERTIFICATION:

I, Kristi Passarelli, City Clerk for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Audit Committee Meeting of **Monday, October 20, 2025**.

Kristi Passarelli, City Clerk, CERA



**CITY OF SURPRISE
Audit Committee**

Council Meeting Date: March 11, 2026
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to the fiscal year 2024-2025 Annual Comprehensive Financial Report (ACFR) and associated reports.

Motion:

N/A - Informational only

Background:

The city is subject to an annual audit performed by external auditors. Each year the finance department, in conjunction with the city's external auditors, produces the city of Surprise ACFR, Single Audit, Management Letter, Communication with Governance, Annual Expenditure Limitation (AELR) Report, and Highway User Revenue Fund (HURF) Report.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to the city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the city auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

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Financial Impact:

N/A - Informational only

Budget Impact:

N/A - Informational only

FTE Impact:

N/A - Informational only

ATTACHMENTS:

1. City of Surprise Communication to Governance 2
 2. City of Surprise HURF Accountant's Report 25
 3. City of Surprise SA 25
 4. COS FY25 Final ACFR
 5. City of Surprise AELR 25 Signed-AD
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December 16, 2025

To the Honorable Mayor and Members of the City Council
City of Surprise, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and remaining fund information of City of Surprise, Arizona (City) for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Surprise, Arizona are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

As described in Note 1 of the financial statements, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. GASB Statement No. 101 updates the recognition and measurement guidance for compensated absences. The City's analysis of compensated absences in effect at the beginning of the year resulted in no changes to beginning balances reported in the financial statements due to the implementation of this standard.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

- The assumptions used in the actuarial valuations of the pension are based on historical trends and industry standards.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. A misstatement is defined as a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. During the course of the audit we did not identify any uncorrected misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the City's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory

agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we will also issue the following documents related to this audit. These reports are typically issued within 60 days of the date of this letter.

- Single Audit Report
- Management Letter
- Examination report on the Annual Expenditure Limitation Report
- HURF Report
- Impact Fees Report

Other Important Communications Related to the Audit

Attached to this letter are a copy of the signed engagement letter provided to us at the initiation of the audit, and a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner identified in the attached engagement letter.

Restriction on Use

This information is intended solely for the use of the members of the City Council and management of City of Surprise, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona

Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?

- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**

- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations

- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**

- 8. Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check

- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**

- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**

- 11. Are anonymous surveys conducted to assess employee morale?**

May 8, 2025

Honorable Mayor, Members of the City Council, and Management
City of Surprise
16000 N. Civic Center Plaza
Surprise, AZ 85374

We are pleased to confirm our understanding of the services we are to provide for City of Surprise, Arizona (City) for the year ended June 30, 2025. We encourage you to read this letter carefully as it includes important information regarding the services we will be providing to the City. If there are any questions on the content of the letter, or the services we will be providing, we would welcome the opportunity to meet with you to discuss this information further.

Audit Scope and Objectives

We will audit the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, including the disclosures, which collectively comprise the basic financial statements of City of Surprise, Arizona as of and for the year ended June 30, 2025.

Accounting standards generally accepted in the United States of America (GAAP) provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), and GASB-required supplementary pension and other post-employment benefit information to supplement the City's basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America (GAAS). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The following RSI is required by GAAP and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. Budgetary comparison schedules
3. GASB-required pension and other post-employment benefits schedules

We have also been engaged to report on supplementary information other than RSI that accompanies the City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with GAAS, and we will provide an opinion on it in relation to the financial statements as a whole.

1. Schedule of expenditures of federal awards
2. Combining and individual fund financial statements and schedules

In connection with our audit of the basic financial statements, we will read the following other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

1. Other information included with the audited financial statements such as the transmittal letter and statistical data

In addition, we will perform the necessary procedures to issue the applicable report for the following.

1. Examination report on the Annual Expenditure Limitation Report
2. Examination report on compliance for highway user revenue fund monies in accordance with ARS §9-481(B)(2)

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinions about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP and report on the fairness of the supplementary information when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements. The objectives also include reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

An important aspect to our expression of opinions on the financial statements is understanding the concept of materiality. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. For purposes of determining materiality we may assume that reasonable users –

1. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
2. understand that financial statements are prepared, presented, and audited to levels of materiality;
3. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
4. make reasonable judgements based on the information in the financial statements.

Auditor’s Responsibilities for the Audit of the Financial Statements and Single Audit

We will conduct our audit in accordance with GAAS; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records for the City, a determination of major programs in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in the financial statements nor do they expect auditors to provide reasonable assurance of detecting waste or abuse. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contract and grant agreements.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs.

However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

In connection with this engagement, we may communicate with you or others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure of emails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure or communication of confidential or proprietary information.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts. Our procedures will also include, as deemed necessary, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request, if deemed necessary, written representations from the City's attorneys as part of the engagement, and they may bill you for responding to this inquiry.

We have identified the following significant risks of material misstatement as part of our audit planning:

1. Management override of controls
2. Improper revenue recognition

Audit Procedures – Internal Control

We will obtain an understanding of the City and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.

Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with federal statutes, regulations and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. For federal programs that are included in the *OMB Compliance Supplement*, our compliance and internal control procedures will relate to the compliance requirements that the *OMB Compliance Supplement* identifies being subject to audit. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Responsibilities of Management for the Financial Statements and Single Audit

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for (1) designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management is reliable and financial information is reliable and properly reported.

Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America with the oversight of those charged with governance; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making drafts of financial statements, schedule of expenditures of federal awards, all financial records, and related information available to us; for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers); and for the evaluation of whether there are any conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for the 12 months after the financial statement date or shortly thereafter (for example, within an additional three months if currently known). You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under Uniform Guidance; (3) additional information we may request for the purpose of the audit; and (4) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence. At the conclusion of our audit, we will require certain written representations from you about the financial statements; the schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and related matters.

Management's responsibilities also include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements of each opinion unit taken as a whole.

Management is responsible for the design and implementation of programs to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants. You are also responsible taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review prior to issuance of our reports.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received, and COVID-19 related concepts, such as lost revenues, if applicable) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with accounting principles generally accepted in the United States of America (GAAP). You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in a written representation letter that (1) you are responsible for presentation of supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or studies related to the objectives discussed in the Audit Scope and Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, management understands that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Planned Scope of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all transactions for the period.

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Our audit of the financial statements does not relieve you of your responsibilities outlined in the *Responsibilities of Management of the Financial Statements* section of this letter.

Timeliness of Financial Reporting and the Audit

One basic characteristic of financial reporting is timeliness, which indicates that if financial statements are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had.

To maintain a timely approach, we expect to begin our audit in May 2025 and conclude audit procedures and date our report in December 2025. In order to meet this expected timeline, we require that all requests for the following significant audit areas be provided by October 2025. If these requests are not provided by the date indicated, it will result in delayed report issuance.

Significant audit areas include

- Compensated absence schedules (that adhere to GASB 101) – September 2, 2025
- Capital asset schedules – October 31, 2025
- Lease and SBITA documentation – October 31, 2025

Engagement Administration, Fees, and Other

Brittney Williams is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

We will provide copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are made available for public inspection.

We understand that your employees will prepare all cash, accounts receivable or other confirmations we request and will locate any documents selected by us for testing.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

We may, from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we were unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. The following service providers may be utilized in the completion of our engagement:

- Capital Confirmation, Inc. – electronic bank and account balance confirmation service
- Citrix ShareFile – web-based application service to transfer files

You hereby consent and authorize us to use the above service providers, if deemed necessary, to complete the professional services outlined in this letter.

Heinfeld, Meech & Co., P.C. does not host any of the City's information. Sharefile is used solely to transmit data and is not intended to store the City's information. The City is solely responsible for downloading any deliverables and other records from Sharefile that the City wishes to retain for its own records at the completion of the engagement. If the engagement occurs over multiple years, the City should download such information at least annually. The data and deliverable and other records will either be removed from Sharefile or otherwise become unavailable to the City after the completion of the audit. If the engagement is multi-year, the completion of the engagement occurs each year when the deliverables for that year are delivered to the City.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Heinfeld, Meech & Co., P.C., and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to a cognizant or oversight agency or its designee, a federal agency providing direct or indirect funding, the U.S. Government Accountability Office, or other authorized governmental agency for the purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Heinfeld, Meech & Co., P.C., personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven (7) years after the report release date, or for any additional period requested by a regulator, cognizant agency, oversight agency for audit, or pass-through entity. Upon expiration of the seven year period, or any additional period, we will commence the process of destroying the contents of our engagement files. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

In the event we are required to respond to a subpoena, court order or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate us at our hourly rates, for the time we expend in connection with such response, and to reimburse us for all of our out-of-pocket costs incurred in that regard.

Any disagreement, controversy, or claim (“dispute”) that may arise from any aspect of our services, including this engagement or any prior engagement, will be submitted to mediation. The parties will engage in the mediation process in good faith once a written request to mediate has been given by any party. Any mediation initiated as a result of this engagement shall be administered by The American Arbitration Association, according to its mediation rules before resorting to litigation. The results of any such mediation shall be binding only upon agreement of each party to be bound. Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally.

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any dispute that may arise between us. The parties agree that, notwithstanding any statute or law of limitations that might otherwise apply to a dispute, including one arising out of this agreement or the services performed under this agreement, for breach of contract or fiduciary duty, tort, fraud, misrepresentation or any other cause of action or remedy, any action or legal proceeding by you against us must be commenced within twenty-four (24) months (“limitation period”) after the date when we deliver our final audit report under this agreement to you, regardless of whether we do other services for you relating to the audit report, or you shall be forever barred from commencing a lawsuit or obtaining any legal or equitable relief or recovery. The limitation period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of the existence or possible existence of a dispute.

Professional standards prohibit auditors from agreeing to indemnify attest clients for damages, losses or costs arising from lawsuits, claims or settlements that relate, directly or indirectly, to the client’s acts. As such, professional standards will prevail for indemnification clauses included in audit contracts. In addition, we are unable to obtain waivers on our professional liability insurance policy for certain provisions, including indemnification provisions, provisions requiring the firm to name the City as an additional insured party, and a waiver of subrogation rights.

Professional standards require us to be independent with respect to you in the performance of these services. Any discussion that you have with our personnel regarding potential employment with you could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Further, any employment offers to any staff members working on this engagement without our prior knowledge may require substantial additional procedures to ensure our independence. You will be responsible for any additional costs incurred to perform these procedures.

Our fee for these services will be at the amount outlined in our proposal. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Our fees are based on anticipated cooperation from your personnel, timely receipt of information, and the assumption that unexpected circumstances will not be encountered during the audit, including factors beyond our control, such as new accounting pronouncements or legal requirements, additional advisory services, and assistance in correcting errors in your financial records. We will plan the engagement based on the assumption that your personnel will prepare and provide us with the items listed in our request for audit information, including preparing requested schedules, retrieving supporting documents, and preparing confirmations. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially increase the work we have to do to complete the engagement resulting in additional costs for the additional services provided. If additional time is necessary, we will discuss it with you before we invoice the additional costs. Additional fees incurred will be billed at the following hourly rates: Partner - \$288.40; Manager - \$237.00; Senior - \$165.00; Staff - \$124.00.

If any term or provision of this agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

Reporting

We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the Honorable Mayor, Members of the City Council, and Management of the City. Circumstances may arise in which our reports may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. The Uniform Guidance report on internal control over compliance will state that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2024 peer review report accompanies this letter.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. Please feel free to contact us at any time if you have any questions or concerns. If you have any questions regarding this letter, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona

cc: Andrea Davis, CFO/Deputy City Manager
Erick Martin, Assistant Finance Director
Rebecca Chitwood, Accounting Manager

RESPONSE

This letter correctly sets forth the understanding of City of Surprise, Arizona, including our agreement to the audit documentation deadline(s) established in the *'Timeliness of Financial Reporting and the Audit'* section above, and the potential for delayed issuance of the audit report.

Andrea Davis

Printed Name: _____

CFO/Deputy City Manager

Title: _____

Andrea Davis

Signature: _____

05/08/2025

Date: _____



Report on the Firm's System of Quality Control

October 4, 2024

To Heinfeld, Meech & Co., P.C. and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P.C. (the firm) in effect for the year ended May 31, 2024. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P.C. in effect for the year ended May 31, 2024, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Heinfeld, Meech & Co., P.C. has received a peer review rating of *pass*.

Grant Bennett Associates

GRANT BENNETT ASSOCIATES
A PROFESSIONAL CORPORATION
Certified Public Accountants



www.gbacpa.com

10850 Gold Center Drive, Suite 260
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916/922-5109 FAX 916/641-5200

Princeville, HI
888/763-7323

Together as One. Grant Bennett Associates is a Member of the Alliott Global Alliance of independent professional firms.

SIGNATURE CERTIFICATE



REFERENCE NUMBER

9E5E22B5-9489-4B19-8AD0-0A788CB6120D

TRANSACTION DETAILS

Reference Number

9E5E22B5-9489-4B19-8AD0-0A788CB6120D

Transaction Type

Signature Request

Sent At

05/08/2025 08:02 MST

Executed At

05/08/2025 13:37 MST

Identity Method

email

Distribution Method

email

Signed Checksum

190caed0e3f591e5be76e9e4dffe04cde05c7d808ee67829c32ccc77012dc085

Signer Sequencing

Disabled

Document Passcode

Disabled

DOCUMENT DETAILS

Document Name

Engagement Ltr FY25 Surprise City

Filename

Engagement_Ltr_FY25_Surprise_City.pdf

Pages

14 pages

Content Type

application/pdf

File Size

433 KB

Original Checksum

f009a3ee9dbbce447c354b5c0e598a658290fdb52296d02c488794d3ca096e61

SIGNERS

SIGNER	E-SIGNATURE	EVENTS
<p>Name Andrea Davis</p> <p>Email andrea.davis@surpriseaz.gov</p> <p>Components 4</p>	<p>Status signed</p> <p>Multi-factor Digital Fingerprint Checksum 836a6aa7ae7277fb747592e2f6d3b30391f8c5f9756589d44fbf4edc2206419f</p> <p>IP Address 67.132.117.228</p> <p>Device Microsoft Edge via Windows</p> <p>Typed Signature </p> <p>Signature Reference ID 5B8453B1</p>	<p>Viewed At 05/08/2025 13:37 MST</p> <p>Identity Authenticated At 05/08/2025 13:37 MST</p> <p>Signed At 05/08/2025 13:37 MST</p>

AUDITS

TIMESTAMP	AUDIT
05/08/2025 08:02 MST	Carri Corbett (carri.corbett@hm.cpa) created document 'Engagement_Ltr_FY25_Surprise_City.pdf' on Chrome via Windows from 76.134.178.164.
05/08/2025 08:02 MST	Andrea Davis (andrea.davis@surpriseaz.gov) was emailed a link to sign.
05/08/2025 13:37 MST	Andrea Davis (andrea.davis@surpriseaz.gov) viewed the document on Microsoft Edge via Windows from 67.132.117.228.
05/08/2025 13:37 MST	Andrea Davis (andrea.davis@surpriseaz.gov) authenticated via email on Microsoft Edge via Windows from 67.132.117.228.
05/08/2025 13:37 MST	Andrea Davis (andrea.davis@surpriseaz.gov) signed the document on Microsoft Edge via Windows from 67.132.117.228.

Heinfeld, Meech & Co., P.C.
1365 N. Scottsdale Rd., Suite 300
Scottsdale, AZ 85257

This representation letter is provided in connection with your audit of the financial statements of City of Surprise, Arizona, which comprise the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the disclosures (collectively the “financial statements”), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in accordance with U.S. GAAP. In addition, we believe:
 - The significant judgments made in making accounting estimates have considered all relevant information of which management is aware
 - The appropriateness and consistency of the measurement processes used by management in determining accounting estimates
 - That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action
 - That the disclosures related to accounting estimates, including those describing estimation uncertainty are complete and appropriate under GAAP
 - That, when necessary, appropriate specialized skills or expertise have been applied
 - That no subsequent event requires adjustment to the accounting estimates and related disclosures included in the financial statements
 - That for any accounting estimates not recognized or disclosed in the financial statements, management has decided to exclude them after considering the appropriate recognition and disclosure criteria in GAAP.
6. There are no known related-party relationships or transactions that need to be accounted for or disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
8. We have identified no unrecorded misstatements in the financial statements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards (SEFA).
 13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 14. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
 15. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.
 16. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
 17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
 18. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions, including any side agreements.

Government-specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. If applicable, we have taken timely and appropriate steps to remedy identified and suspected fraud, or noncompliance with provisions of laws, regulations, contracts, and grant agreements that you have reported to us.
21. If applicable, we have a process to track the status of audit findings and recommendations.
22. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the objectives of the audit and whether related recommendations have been implemented.
23. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
24. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
25. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
26. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
27. We have appropriately identified, recorded, and disclosed all leases in accordance with GASB Statement (GASBS) No. 87.
28. We have appropriately identified, recorded and disclosed subscription-based information technology arrangements in accordance with GASBS No. 96.
29. We have appropriately measured, recorded, and disclosed compensated absences and other salary-related payments in accordance with GASBS No. 101.

30. With respect to your compliance examination of highway user revenue fund monies and other dedicated state transportation revenues, we represent the following:
 - we are responsible for compliance with A.R.S. Title 28, Chapter 18, Article 2; and for establishing and maintaining effective internal controls to ensure compliance.
 - we have disclosed to you all known noncompliance with the aforementioned statutes and related requirements.
 - we have disclosed to you all communications from regulatory agencies, internal auditors, other independent accountants or consultants, and others regarding possible noncompliance with the aforementioned statutes and related requirements.
31. We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements
32. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
33. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
34. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
36. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
37. The financial statements include all fiduciary activities required by GASBS No. 84, as amended.
38. The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.
39. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.
40. Components of net position (net investment in capital assets; restricted; and unrestricted) and classification of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
41. Investments are properly valued.

42. With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
43. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
44. Direct borrowings and direct placements of debt have been properly separated from other debt; and unused lines of credit, collateral pledged to secure debt, terms in debt agreements related to significant default or termination events with finance-related consequences, and significant subjective acceleration clauses have been properly disclosed.
45. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.
46. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
47. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
48. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
49. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
50. If applicable, special and extraordinary items (unusual items or infrequent items after implementing GASBS No. 103), are appropriately classified and reported.
51. Deposits and investment securities are properly classified as to risk and are properly disclosed.
52. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
53. If applicable, the government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
54. Asset retirement obligations associated with tangible capital assets have been properly recognized in accordance with GASBS No. 83.

55. Tax abatement agreements have been properly disclosed in the notes to the financial statements, including the names of all governments involved, the gross amount and specific taxes abated, and additional commitments.
56. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
57. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
58. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
59. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
60. With respect to the supplementary information on which in-relation-to opinions are issued, presented, such as the combining and individual fund financial statements and schedules, and the SEFA.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

61. We acknowledge our responsibility for the other information included in the financial statements, such as the transmittal letter and statistical data.
- a. If applicable, with regard to the other information that will be included in the annual report that has not been obtained by you prior to the auditor's report date, we intend to prepare and issue the other information, as well as communicate the expected timing of issuance, and provide you with the final version of the document(s) when available and prior to the issuance of the annual report.
62. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b. We acknowledge our responsibility for preparing and presenting the SEFA and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
 - d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
 - f. We are responsible for establishing, designing, implementing, and maintaining, and have established, designed, implemented, and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

- g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, or confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.

- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

We understand that at the conclusion of the audit Heinfeld, Meech & Co, P.C. will submit to the City Council a communication to those charged with governance that will include a copy of this representation letter and a copy of the engagement letter.

Sandy Simmons

12/16/2025

Sandy Simmons, Finance Director
City of Surprise, Arizona

Date


Erick Martin

12/16/2025

Erick Martin, Assistant Director-Accounting
City of Surprise, Arizona

Date



SIGNATURE CERTIFICATE



REFERENCE NUMBER
931E7537-419B-414B-A239-8BED55C311DB

TRANSACTION DETAILS	DOCUMENT DETAILS
<p>Reference Number 931E7537-419B-414B-A239-8BED55C311DB</p> <p>Transaction Type Signature Request</p> <p>Sent At 12/16/2025 02:25:56 PM EST</p> <p>Executed At 12/16/2025 02:53:46 PM EST</p> <p>Identity Method email</p> <p>Distribution Method email</p> <p>Signed Checksum 3519b22dc5dd407aa71aa49572ac1c5ff01937baa242aa81f4a25ee750627d35</p> <p>Signer Sequencing Disabled</p> <p>Document Passcode Disabled</p>	<p>Document Name General Rep Single Audit 25 Surprise City</p> <p>Filename General_Rep_Single_Audit_25_Surprise_City.pdf</p> <p>Pages 11 pages</p> <p>Content Type application/pdf</p> <p>File Size 298 KB</p> <p>Original Checksum 5d51c0ab6a7b052abf6e6d0cea992867d4218875360383337821fc4534cced66</p>

SIGNERS

SIGNER	E-SIGNATURE	EVENTS
<p>Name Sandy Simmons</p> <p>Email sandy.simmons@surpriseaz.gov</p> <p>Components 2</p>	<p>Status signed</p> <p>Multi-factor Digital Fingerprint Checksum 4f53cda18c2baa0c0354bb5f9a3ecbe5ed12ab4d8e11ba873c2f11161202b945</p> <p>IP Address 67.132.117.228</p> <p>Device Microsoft Edge via Windows</p> <p>Typed Signature </p> <p>Signature Reference ID D7891FC1</p>	<p>Viewed At 12/16/2025 02:30:07 PM EST</p> <p>Identity Authenticated At 12/16/2025 02:53:46 PM EST</p> <p>Signed At 12/16/2025 02:53:46 PM EST</p>
<p>Name Erick Martin</p> <p>Email erick.martin@surpriseaz.gov</p> <p>Components 2</p>	<p>Status signed</p> <p>Multi-factor Digital Fingerprint Checksum 4f53cda18c2baa0c0354bb5f9a3ecbe5ed12ab4d8e11ba873c2f11161202b945</p> <p>IP Address 67.132.117.228</p> <p>Device Microsoft Edge via Windows</p> <p>Typed Signature </p> <p>Signature Reference ID D8B0AA80</p>	<p>Viewed At 12/16/2025 02:28:26 PM EST</p> <p>Identity Authenticated At 12/16/2025 02:29:13 PM EST</p> <p>Signed At 12/16/2025 02:29:13 PM EST</p>

AUDITS

TIMESTAMP	AUDIT
12/16/2025 02:25:56 PM EST	Emily Zamora (emily.zamora@hm.cpa) created document 'General_Rep_Single_Audit_25_Surprise_City.pdf' on Chrome via Windows from 199.117.84.122.
12/16/2025 02:25:57 PM EST	Sandy Simmons (sandy.simmons@surpriseaz.gov) was emailed a link to sign.
12/16/2025 02:25:57 PM EST	Erick Martin (erick.martin@surpriseaz.gov) was emailed a link to sign.
12/16/2025 02:28:25 PM EST	Erick Martin (erick.martin@surpriseaz.gov) viewed the document on Microsoft Edge via Windows from 67.132.117.228.
12/16/2025 02:28:26 PM EST	Erick Martin (erick.martin@surpriseaz.gov) viewed the document on Microsoft Edge via Windows from 67.132.117.228.

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12/16/2025 02:53:46 PM EST	Sandy Simmons (sandy.simmons@surpriseaz.gov) authenticated via email on Microsoft Edge via Windows from 67.132.117.228.
12/16/2025 02:53:46 PM EST	Sandy Simmons (sandy.simmons@surpriseaz.gov) signed the document on Microsoft Edge via Windows from 67.132.117.228.

Independent Accountant's Report

Honorable Mayor and Members of the City Council
City of Surprise, Arizona

We have examined the City of Surprise, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City, were used solely for authorized transportation purposes during the fiscal year ended June 30, 2025. Management is responsible for the City's compliance with those specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Surprise, Arizona complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2025.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
December 16, 2025



City of Surprise, Arizona
Single Audit Report
Year Ended June 30, 2025

**City of Surprise, Arizona
Single Audit Report
For the Year Ended June 30, 2025**

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**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

Honorable Mayor and Members of the City Council
City of Surprise, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Surprise, Arizona, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise City of Surprise, Arizona’s basic financial statements, and have issued our report thereon dated December 16, 2025. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Surprise, Arizona’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Surprise, Arizona’s internal control. Accordingly, we do not express an opinion on the effectiveness of City of Surprise, Arizona’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Surprise, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
December 16, 2025

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Honorable Mayor and Members of the City Council
City of Surprise, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Surprise, Arizona’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Surprise, Arizona’s major federal programs for the year ended June 30, 2025. City of Surprise, Arizona’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Surprise, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Surprise, Arizona and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Surprise, Arizona’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City of Surprise, Arizona’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error and express an opinion on City of Surprise, Arizona's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate it would influence the judgment made by a reasonable user of the report on compliance about City of Surprise, Arizona's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Surprise, Arizona's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Surprise, Arizona's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Surprise, Arizona's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2025-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on City of Surprise, Arizona's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness. However, as discussed below, we did identify a certain deficiency in internal control over compliance, that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-001, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on City of Surprise, Arizona's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Surprise, Arizona as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise City of Surprise, Arizona's basic financial statements. We issued our report thereon dated December 16, 2025, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
December 16, 2025

CITY OF SURPRISE, ARIZONA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Federal agency/Pass-through grantor/Program Title	Assistance Listing Number	Other Award ID Number	Program expenditures	Amount provided to subrecipients
U.S. Department of Housing and Urban Development				
Direct Programs				
CDBG-Entitlement/Special Purpose Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-24-MC-04-0514	\$ 495,752	\$ 245,940
Community Development Block Grants/Entitlement Grants - Program Income	14.218	B-24-MC-04-0514	62,822	50,258
COVID-19 Community Development Block Grants/Entitlement Grants	14.218	B-20-MW-04-0514	54,553	54,553
Total CDBG-Entitlement/Special Purpose Grants Cluster			613,127	350,751
COVID-19 Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B-11-MN-04-0506	68,370	68,370
COVID-19 Neighborhood Stabilization Program (Recovery Act Funded) - Program Income	14.256	B-11-MN-04-0506	216,560	216,560
Passed through Maricopa County/the Maricopa HOME Consortium				
HOME Investment Partnerships Programs	14.239	C-22-21-092-X-03	86,265	82,530
HOME Investment Partnerships Programs	14.239	C-22-21-092-X-05	107,823	107,823
HOME Investment Partnerships Programs - Program Income	14.239	C-22-21-092-X-05	22,630	22,630
Total U.S. Department of Housing and Urban Development			1,114,775	848,664
U.S. Department of Justice				
Direct Programs				
Equitable Sharing Program	16.922	AZ0072700	22,664	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15PBJA-23-GG-03068	15,839	-
Passed through City of Phoenix				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	13429092	6,604	-
Passed through Arizona Department of Public Safety				
Crime Victim Assistance	16.575	VOCA-2024-SPD-00158	32,414	-
Total U.S. Department of Justice			77,521	-
U.S. Department of Transportation				
Passed through City of Phoenix				
Transit Services Programs Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AZ-2025-013-00	114,432	-
Total Transit Services Programs Cluster			114,432	-
Passed through Arizona Governor's Office of Highway Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	2024-AI-021	6,347	-
State and Community Highway Safety	20.600	2024-MC-003	7,836	-
State and Community Highway Safety	20.600	2024-PS-011	29,233	-
State and Community Highway Safety	20.600	2024-PTS-065	10,698	-
State and Community Highway Safety	20.600	2025-AI-017	13,739	-
State and Community Highway Safety	20.600	2025-MC-003	14,609	-
State and Community Highway Safety	20.600	2025-PTS-061	24,605	-
National Priority Safety Programs	20.616	2024-405b-009	19,565	-
National Priority Safety Programs	20.616	2024-405d-040	8,409	-
National Priority Safety Programs	20.616	2025-405b-011	18,391	-
National Priority Safety Programs	20.616	2025-405b-502	6,000	-
National Priority Safety Programs	20.616	2025-405d-040	48,955	-
National Priority Safety Programs	20.616	2025-405g-013	9,873	-
Total Highway Safety Cluster			218,260	-
Total U.S. Department of Transportation			332,692	-
U.S. Department of the Treasury				
Direct Programs				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	SLT-7753	1,477,350	-
Passed through Arizona Department of Public Safety				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	2025-SPD-00054	120,730	-
Passed through Maricopa County Human Services				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C-22-23-077-X-00	509,984	471,006
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C-22-24-024-X-00	256,746	208,882
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C-22-22-084-X-00	3,225,168	-
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C-22-22-110-X-05	169,396	-
Passed through Water Infrastructure Finance Authority of Arizona				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	WC1-050-2023	148,856	-
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	WC4-167-2024	88,547	-
Total U.S. Department of the Treasury			\$ 5,996,777	\$ 679,888

See accompanying notes to schedule.

Federal agency/Pass-through grantor/Program Title	Assistance Listing Number	Other Award ID Number	Program expenditures	Amount provided to subrecipients
U.S. Environmental Protection Agency				
Passed through Water Infrastructure Finance Authority of Arizona				
Clean Water State Revolving Fund	66.458	910210-23	\$ 12,621,080	-
Total U.S. Environmental Protection Agency			12,621,080	\$ -
U.S. Department of Energy				
Direct Programs				
Energy Efficiency and Conservation Block Grant Program	81.128	EECEQ-01092	178,140	
Total U.S. Department of Energy			178,140	
U.S. Department of Health and Human Services				
Direct Programs				
Congressional Directives	93.493	1 CE1HS52231-01-00	147,282	
Passed through Area Agency on Aging, Region One				
Aging Cluster				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	2025-36-SUR	9,049	-
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	2025-36-SUR	84,707	-
Total Aging Cluster			93,756	-
Passed through Maricopa County Human Services				
Low-Income Home Energy Assistance	93.568	C-22-22-110-X-05	210,533	-
Community Services Block Grant	93.569	C-22-22-110-X-05	8,000	
Community Services Block Grant	93.569	C-22-24-039-X-01	150,000	150,000
Total U.S. Department of Health and Human Services			609,571	150,000
U.S. Department of Homeland Security				
Passed through City of Glendale				
Assistance to Firefighters Grant	97.044	EMW-2023-FG-06309	22,823	
Passed through Arizona Department of Homeland Security				
Homeland Security Grant Program	97.067	220216-01	69,397	-
Homeland Security Grant Program	97.067	230822-01	6,468	-
Homeland Security Grant Program	97.067	230822-02	11,713	-
Homeland Security Grant Program	97.067	240821-01	12,376	-
Passed through Maricopa County Department of Emergency Management				
Securing the Cities Program	97.106	C-15-22-001-X-00	817	
Total U.S. Department of Homeland Security			123,594	-
Total Expenditures of Federal Awards			\$ 21,054,150	\$ 1,678,552

See accompanying notes to schedule.

City of Surprise, Arizona
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

Significant Accounting Policies Used in Preparing the SEFA

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Surprise, Arizona under programs of the federal government for the year ended June 30, 2025. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

15% De Minimis Indirect Cost Rate

The auditee did not use the de minimis indirect cost rate.

Assistance Listing Numbers

The program titles and Assistance Listing numbers were obtained from the federal or pass-through grantor or through sam.gov. If the three-digit Assistance Listing extension is unknown, there is a U followed by a two-digit number in the Assistance Listing extension to identify one or more Federal award lines from that program. The first Federal program with an unknown three-digit extension is indicated with U01 for all award lines associated with that program, the second is U02, etc.

Housing Rehabilitation Loan Program

The City has entered into several Housing Rehabilitation Agreements utilizing CDBG funds (Assistance Listing Number 14.218). These deferred loans are due upon the sale, transfer or foreclosure of the property. Loan repayments to the City in excess of \$25,000 per fiscal year are considered program income and are subject to the CDBG guidelines in perpetuity. Due to the contingent nature of the repayment of these loans, there is an allowance recorded at 100% of the outstanding balance.

Program Name	Assistance Listing Number	Outstanding Balance as of June 30, 2025
Community Development Block Grants/Entitlement Grants	14.218	\$484,491

**City of Surprise, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2025**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: No

Identification of major programs:

Assistance Listing Numbers

66.458

Name of Federal Programs or Clusters

Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: Yes

Summary Schedule of Prior Audit Findings required to be reported: No

City of Surprise, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2025-001

Repeat Finding: No

Program Name/Assistance Listing Title: Clean Water State Revolving Fund

Assistance Listing Number: 66.458

Federal Agency: U.S. Environmental Protection Agency

Federal Award Number: 910210-23

Pass-Through Agency: Water Infrastructure Finance Authority of Arizona

Questioned Costs: N/A

Type of Finding: Noncompliance, Significant Deficiency

Compliance Requirement: Procurement, Suspension and Debarment

Criteria

Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR §180.220.

Condition

For one vendor reviewed, with whom the City spent more than \$25,000, no documentation was retained for the verification of suspension and debarment.

Cause

There was no policy in place to ensure that verification of suspension and debarment was performed and documentation was retained.

Effect

The City was not in compliance with federal regulations and guidelines related to suspension and debarment or procurement. However, it was subsequently determined that the vendor utilized was not suspended or debarred.

Context

The City was unable to provide documentation verifying that one of two vendors utilized in the Clean Water State Revolving Fund program, was not suspended or debarred. The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

The City should update its procurement policies to ensure the internal controls over suspension and debarment are in place to ensure compliance with federal procurement requirements.

Views of Responsible Officials

See Corrective Action Plan.



FINANCE DEPARTMENT
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623-222-1800

December 16, 2025

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The names of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

Sincerely,

Sandy Simmons
Finance Director

**City of Surprise, Arizona
Corrective Action Plan
Year Ended June 30, 2025**

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2025-001

Program Name/Assistance Listing Title: Clean Water State Revolving Fund

Assistance Listing Number: 66.458

Contact Person: Sandy Simmons, Finance Director

Anticipated Completion Date: January 30, 2026

Planned Corrective Action: The City will update our policy to ensure internal controls over suspension and debarment are in place to ensure compliance with federal procurement requirements. The policy will identify who is responsible for performing suspension and debarment reviews, timelines for when they are to be performed, and how records should be maintained for audit purposes.



SURPRISE
ARIZONA

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2025





SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal year ended
June 30, 2025

Prepared by:
Finance Department



SURPRISE

ARIZONA

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S U R P R I S E

A R I Z O N A



INTRODUCTORY SECTION



S U R P R I S E

A R I Z O N A



INTRODUCTORY SECTION

The Introductory Section is the first of three essential components of the City's Annual Comprehensive Financial Report (ACFR). The second essential component is the Financial Section, and the third is the Statistical Section. The Introductory Section provides general information on the City's structure and personnel as well as information useful in assessing the City's economic condition, with the letter of transmittal as the key element to formally introduce the ACFR to the intended readers.



S U R P R I S E

A R I Z O N A

December 16, 2025

Members of the City Council and City Manager:

In accordance with the requirements of Arizona Revised Statutes (A.R.S.) § 41-1279.07, I am pleased to submit the Annual Comprehensive Financial Report (ACFR) of the City of Surprise, Arizona (the City), for the fiscal year ended June 30, 2025. These financial statements are prepared and presented in conformity with generally accepted accounting principles (GAAP) in the United States as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB). To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the various funds of the City. Disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Management assumes full responsibility for the completeness and reliability of the information presented in this report based on internal controls established for this purpose. To provide a reasonable basis for making these representations, the City has established a framework of internal control that is designed to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the basic financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Heinfeld, Meech and Co., P.C., a firm of licensed certified public accountants, has audited the City of Surprise's financial statements pursuant to A.R.S § 9-481. The audit is intended to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2025, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

An unmodified audit opinion denotes that the financial statements are presented fairly and in conformity with GAAP. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2025, are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Heinfeld, Meech and Co., P.C. was also contracted to perform the single audit of the City's major grant programs. This audit was designed to meet the requirements of the Uniform Grant Guidance.

The single audit report is issued separately from this ACFR. Copies are available online and upon request from the City's Finance Department.

Management's discussion and analysis (MD&A) immediately follows the Independent Auditor's Report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

City Profile

The City of Surprise, located just 45 minutes west of downtown Phoenix along U.S. Route 60/State Highway 93, was founded on May 17, 1938 by Flora Mae Statler who purchased and subdivided the original town site. The former small farming village now encompasses 110 square miles, including urban and commercial developments, ranches, industrial sites, and business parks. Surprise has grown from 500 residents to a city of over 165,000 people, evolving from a small-town government to a regional governmental entity.

The City operates under the Council/Manager form of government. Policymaking and legislative authority are vested in a governing council consisting of the Mayor and six Council Members. The Council is responsible for, among other things, passing ordinances, appointing committees, adopting the budget, and appointing the City Manager, the City Clerk, City Attorney, and the Presiding Judge. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for selecting department directors.

The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three elected alternately every two years. The Mayor is elected at large every four years, while the other Council members are elected by district.

The City provides a full range of services, including police and fire protection, ground ambulance services, roadway maintenance and construction, recreational and cultural activities, as well as general administrative services. Sanitation, water, stormwater, and sewer services are provided to many of the residents through the City's enterprise funds. The City provides street lighting for existing and new areas through legally formed street lighting districts. The City accounts for a community facilities district designed to provide funding for the construction and acquisition of certain public infrastructure improvements. These last two activities essentially function as departments within the City and have been included as an integral part of the City's financial statements. Additional information on the two legally separate entities can be found in Note 1 section A. (1.A) in the Notes to the Financial Statements.

The annual budget is adopted by resolution and serves as the foundation for the City of Surprise's financial planning and control. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The budget preparation and adoption process is described in greater detail in the Notes to the Financial Statements. The budget is prepared by fund and by department and may be amended during the fiscal year in accordance with our budget amendment policy which can be found in the City's budget book.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City operates.

Local Economy

The fiscal year 2025 budget was focused on City Council's commitment to maintain quality public services and ensure community priorities were met. This was done by devoting resources toward outcomes that make Surprise a sustainable, vibrant place for residents, businesses and visitors – today and into the future. The City continues to navigate the economic climate of inflation, rising interest rates, growth, ever-changing supply chain markets, and workforce shortages. The City remains focused on balancing financial stability while maintaining its current level of service.

The City's economic position continues to be strong due to financially sound policy decisions led by our City Council. The City focused on maintaining current levels of service amidst continued growth and a \$14.3 million annual revenue loss to the General Fund, which is the principal financial support for basic services such as the police and fire departments, parks and recreation, and general government operations. A portion of that revenue loss, \$6.6 million, is due to Senate Bill 1131 passing during the 2023 legislative session, which prohibits all Arizona cities from assessing and collecting residential rental tax beginning January 1, 2025. An additional estimated \$7.7 million of revenue loss comes from a state shared income tax shortfall due to the implementation of a 2.5% flat income tax rate.

Tax reform was adopted to address the estimated \$14.3 million in revenue loss. The tax reform included a 25% reduction to the City's primary property tax rate, and an increase to the rate of certain local transaction privilege tax categories, also referred to as sales tax, from 2.2% to 2.8%. These adjustments are expected to replace the lost revenue to the General Fund so the City will be able to maintain its current level of service to residents by addressing increased operational needs, such as staffing and inflation, and capital needs, such as roads and buildings.

The City's economic outlook remains strong and optimistic, fueled by continued population growth which adds demand to our service levels in areas such as public safety, transportation, parks and recreation, and community development. The City continues to strengthen its financial position to maintain its valuable assets moving into the future.

The City's population growth continues to exceed the statewide average and the trend is expected to continue based on the availability of land within the City's planning area. The greater number of consumers, along with the tax reform noted above, resulted in an increase in sales tax collections of 17.6% over the previous year. The continued population and commercial square footage growth has been a factor in the improved economic performance for the City.

Further information on the history of City revenues and expenses can be found in the MD&A, pages 4 through 18, and the Statistical Section that begins on page 158, of this financial report.

Long-Term Financial Planning

The City continues to plan for investment in maintaining facilities, infrastructure, and equipment that allow for the continued delivery of high quality services to the residents of Surprise.

During fiscal year 2025, the City continued to contribute additional funding to Public Safety Pension Reserve dedicated for the Public Safety Personnel Retirement System (PSPRS) unfunded liability.

Major Initiatives

On November 7, 2023, the voters of the City of Surprise approved two General Obligation Bond questions in the areas of public safety and transportation. In September 2024, the City issued the Series 2024 General Obligation Bonds in the amount of \$30.2 million. During this fiscal year these funds were used to finalize design of the police substation, purchase land for the new fire station and to design for transportation improvements, such as the expansion of roads.

In fiscal year 2025, the City began construction on a new multigenerational community resource center on city owned land in the original town site, funded mainly by grant funding from the American Rescue Plan Act. The center is expected to be around 35,000 square feet and would provide services such as recreation and congregate meals to seniors, resources such as utility and rental assistance to eligible residents, and an updated and more modernized library.

In fiscal year 2025, the City of Surprise and the City of El Mirage entered into a ten-year intergovernmental agreement for the Original Townsite, resulting in much more equitable water rates for those customers. As part of a public-private-partnership, the Water team will break ground on a \$30M expansion of the Desert Oasis Water Supply Facility, increasing water system reliability and redundancy.

This fiscal year the Water Resource Management Department processed more water rebates and hosted more water conservation educational courses than ever before, resulting in tangible water savings.

On May 15, 2018, the voters of the City of Surprise approved the acquisition of a local water company that operates in the City's northern planning area and future water service area. On October 1, 2025, the City assumed the ownership and operation of the Circle City Water Company. This water service area has 325 accounts, and the acquisition grew the city's water portfolio by 20%.

The Arts and Culture Division installed 22 new artworks in Surprise, including two new iconic sculptures, "Bounce & Swing" at the Surprise Stadium. This year the division doubled the number of free arts and culture programs available to the community including a pilot of LIVE at Asante and Public Art Sketching Tours. The City also implemented programs to support Surprise's creative community, providing grants to 14 organizations for programs to serve 30,000+ participants, and provided over 212 hours of organizational development training to help sustain and grow Surprise's non-profit arts organizations.

Rescue Oasis located at Perryville and Cactus roads opened during the Spring of 2025. The complex includes, the City's newest fire station, the Oasis Swim Center which offers 6 water slides, a heated Olympic-size pool, a

rope swing, and rock walls; Rescue Oasis Park includes a playground, basketball and volleyball courts, and a fire station-themed splash pad.

Relevant Financial Policies

The City of Surprise has adopted a comprehensive set of financial policies which are reviewed annually and updated as necessary. During fiscal year 2025, the City created or revised several policies and desk procedures. The following list includes the policies and procedures that were reviewed during the year: the Compensatory Time Policy, Mobile Devices Policy, Uniform Policy, Volunteer Policy, Procurement Card Policy, Travel Policy, Comprehensive Financial Management Policies, Inventory of Capital Assets, Inventory of Consumables, Suspicious Mail and Packages Procedure, and the Surplus Property Procedure.

Budgetary Controls

The adopted level of budget control is appropriated by department within each fund. The Capital Improvement Plan (CIP) is appropriated by project.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Surprise for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024, which represented the 21st consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized ACFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current ACFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

I want to thank and recognize the staff of the Finance Department for their efforts in preparing this report. I would also like to thank all City departments for their assistance throughout the past year and express my appreciation for the guidance and support from the City Manager's Office and Mayor and City Council in planning and conducting the financial operations of the City in a fiscally responsible manner.

Respectfully submitted,

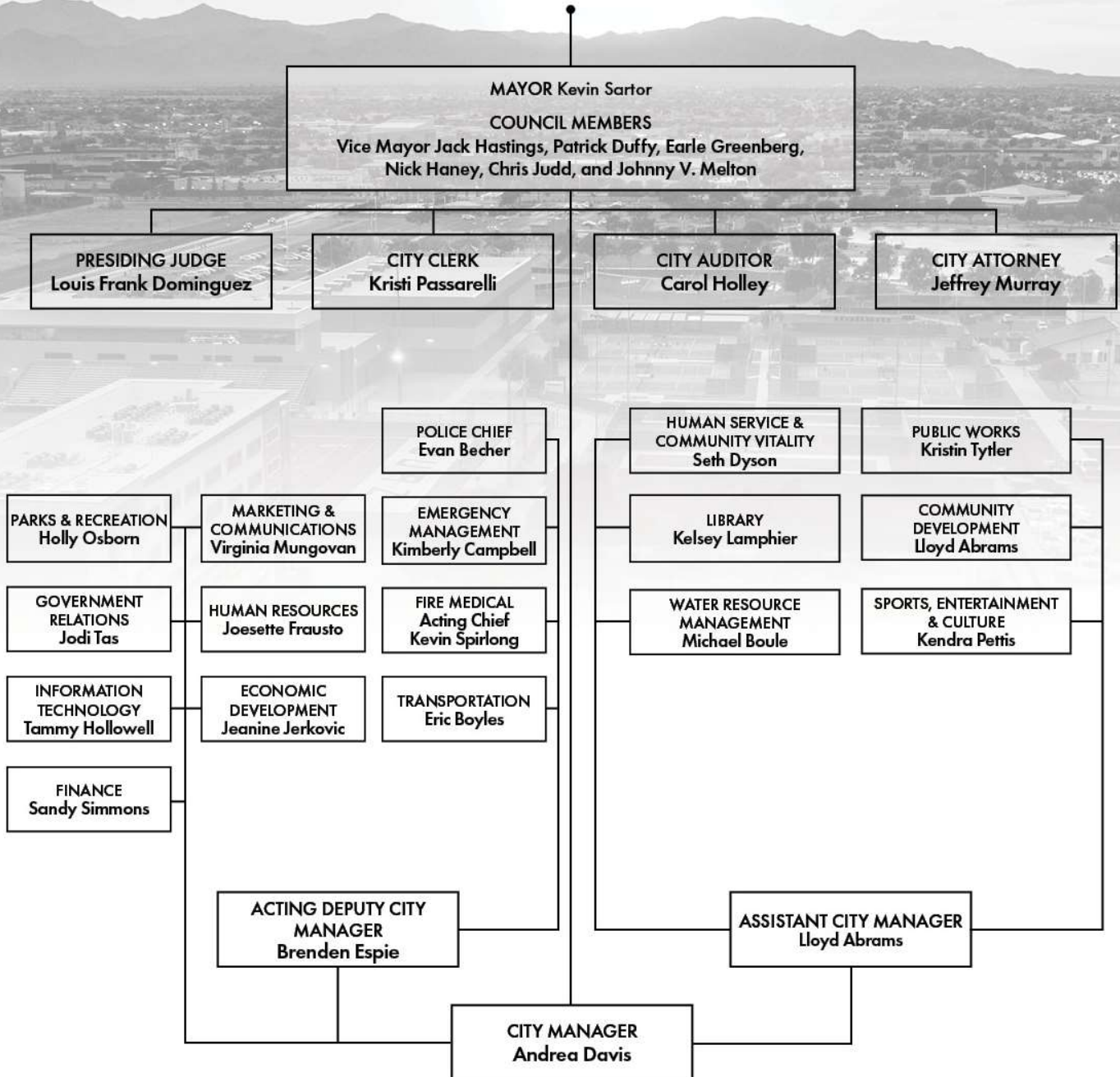


Sandy Simmons
Finance Director

ORGANIZATION CHART

CITY OF SURPRISE

Residents, Businesses, Volunteers, Youth, Seniors, Visitors, Parents, Families,
Employers, Entrepreneurs, Persons with Disabilities, Pioneers, Artists,
Commissioners, Teachers...EVERYONE



MAYOR KEVIN SARTOR — Mayor@surpriseaz.gov



Kevin Sartor was sworn in as Mayor of Surprise in January 2025 for a four-year term expiring December 2028.

As Mayor, Kevin is dedicated to addressing critical issues such as public safety, transportation, and responsible growth and advocating for the needs and desires of residents as the City creates a vision for the future.

Mayor Sartor is an Arizona native and 20-year veteran of the United States Army who has dedicated his life to the service of others and to preserving the American way of life.

In addition to serving as Mayor, Kevin is the Safety Coordinator for Dysart Unified School District and ensures the highest standards of safety and security in K-12 education.

Previously, as a member of the United States Army, Mayor Sartor deployed twice to Iraq and served as a Drill Sergeant. He was also an Engineer Officer and Company Commander in the Arizona Army National Guard where he secured state and federal funding for a crucial infrastructure project in a remote village in Alaska to stimulate economic growth and support long-term prosperity.

Continuing his public service journey, Mayor Sartor became a City of Surprise Fellow in the summer of 2023. Collaborating with City officials, he played a key role developing the City's strategic growth plan through 2040.

Volunteerism has also been a passion of Mayor Sartor's. He used his leadership and engineering background to serve on and chair the City of Surprise Planning and Zoning Commission, which brought him an in-depth understanding of growth and community development throughout the city.

In addition, Mayor Sartor has volunteered in community organizations such as the Shadow Ridge Booster Club and Girl Scout Troop 1093, served on the Dysart Override Committee in 2020 and was a volunteer youth coach in Surprise for five years.

Mayor Sartor has earned project management and leadership certificates from Cornell University, a Bachelor's Degree in Homeland Security and Emergency Management, and a Master's Degree in Public Administration from Grand Canyon University.

Mayor Sartor currently resides in Greer Ranch with his incredible wife and three children.

NICK HANEY — Nick.Haney@surpriseaz.gov



Nick Haney was elected to serve the residents of District 1 in August of 2022 and began a four-year term in January 2023. His family moved to Surprise over 20 years ago and put down roots in the community. Nick was raised in Surprise and attended school in the Dysart Unified School District. His call to service started at a young age as he became involved in the Surprise Youth Council and was elected to serve as chair.

Nick obtained his bachelor's degree from Arizona State University where he quickly became a student leader on campus. In addition to his volunteer involvement on campus, Nick achieved the highest academic success, graduating Summa Cum Laude. After college, he chose to carry on the family tradition of public service as a first responder.

Nick is proud to come from a family of public servants. Two of his grandparents served in the United States Air Force. In addition, his other grandfather, who lives in Surprise, served in the United States Navy as a Corpsman and is a veteran of the Vietnam War. Nick's father is a United States Army Veteran, and his mother is a member of law enforcement. Nick has continued this tradition of service as a firefighter paramedic with one of the busiest fire departments in the Valley. When he is not at the fire station, he volunteers at various charitable events throughout the year, giving back to those in need.

Nick recently married the love of his life, Nicole, who is a nurse at Phoenix Children's Hospital in the Pediatric Intensive Care Unit. The Haney's bought their first home in Surprise and are excited to start their new family in the city they both love.

Nick is excited to serve the City and community that has given him so much. He is committed to making Surprise an even better and safer city for his family and yours.

EARLE GREENBERG — Earle.Greenberg@surpriseaz.gov



Earle Greenberg began serving as the District 2 Councilmember in January 2025, bringing nearly four decades of entrepreneurship in media and technology businesses serving dozens of Fortune 500 clients.

Originally from the Chicago area, Earle holds degrees from Northwestern University (Tv/Film Production) and the University of Illinois (Masters in Business Administration). He has served in various leadership roles, including President of Sun City Grand, Trustee and Treasurer of the Missionbrook Sanitary District, and Chair of Telecommunications Commissions in Skokie and Northbrook, Illinois.

Earle and his wife became full-time Surprise residents in 2018 after buying in Sun City Grand in 2013. Dedicated to data-driven decision-making and community service, he is committed to helping Surprise grow thoughtfully while representing the interests of District 2 residents.

PATRICK DUFFY — Patrick.Duffy@surpriseaz.gov



Patrick Duffy was first appointed to City Council in September 2017 to represent the residents of District 3. He was subsequently elected to the District 3 seat in 2018, 2020 and again in 2024 for a four-year term. City Council selected him to serve as Vice Mayor in January 2021.

Patrick is a Financial Advisor for SCF Securities, Inc, and for nine years prior to his appointment to City Council, he worked part-time as a City of Surprise Recreation Leader. He has lived in Surprise for 11 years, four of them in District 3.

Patrick is currently chairs the Performance Evaluation Leaders Subcommittee and the Tourism Fund Subcommittee, and serves on the Community Outreach, Partnership, and Grants Subcommittee. He is also a board member WESTMARC and Greater Phoenix Economic Council. Patrick was a member of the Surprise Municipal Property Corporation Board, and through his city service, has been part of numerous Community and Recreation Services events, including Spring Training support, Relay for Life events and Cal Ripken All-Star games.

He holds a Bachelor of Arts in Political Science from Arizona State University.

JOHNNY MELTON — Johnny.Melton@surpriseaz.gov



Johnny V. Melton was elected to serve the residents of District 4 in August of 2024 and began a four-year term in January 2025.

Prior to his role on Council, Johnny served on the Dysart Unified School District (DUSD) Bond Advisory Committee in 2020 and the DUSD Bond/Override Advisory Committee in 2023/2024.

Professionally, Johnny works in energy performance contracting and has a background in corporate real estate in the areas of facility engineering and project management. He also served nine years in the United States Navy as a reactor plant operator and nuclear maintenance planner.

Johnny has lived in Surprise since 2011 and currently resides in Litchfield Manor with his wife Lori, who is heavily involved in animal rescue.

Johnny is committed to the future of Surprise through thoughtful planning and policy in all areas, including transportation, water and public safety.

VICE MAYOR JACK HASTINGS — Jack.Hastings@surpriseaz.gov



Jack Hastings was elected in 2020 and re-elected in 2022 to represent the residents of Surprise District 5.

Jack is a third-generation Surprise resident. He is married to his wife Olivia, who he met in Surprise. He works as an Academic Intervention Specialist at West Point Elementary in the Dysart Unified School District. Jack has a Bachelor’s Degree from Arizona State University and earned his Master’s Degree in Educational Leadership.

Jack has helped pass balanced budgets on the Surprise City Council. He currently chairs the Education Subcommittee and serves on the Sports and Tourism Fund Subcommittee, the Community Outreach, Partnerships and Grants Subcommittee, and the Joint Planning Advisory Council. He also is an ambassador to the Greater Phoenix Economic Council (GPEC) to help promote our city and bring jobs and businesses to Surprise.

Jack is a strong supporter of public safety and an outspoken advocate for our first responders. His faith and relationship with God is central to his life. He loves seeing the work that God is doing in the community. Jack loves Surprise and is dedicated to giving back to the city he grew up in. He serves as your voice on the Surprise City Council.

CHRIS JUDD – Chris.Judd@surpriseaz.gov



Chris Judd was elected to represent District 6 on the Surprise City Council in 2018 and re-elected in 2022. He served as Vice Mayor in 2020 and again in 2023.

His work on Council focuses on driving economic development, preserving open space, and improving quality of life through sustainable, responsible government. He currently serves on the Community Outreach, Partnerships & Grants Committee and the Audit Committee.

A native Arizonan and graduate of Arizona State University, Chris has lived and worked in Surprise for nearly 30 years. He spent over a decade as General Manager of a local manufacturing company and also owned and operated several small businesses in the West Valley. He previously served as President of the Rotary Club of Surprise, Chairman of Taste of Surprise, and continues to serve as Chairman of the Board for the White Tank Mountains Conservancy, where he leads efforts to preserve connectivity between the White Tanks and the surrounding habitat.

In addition to his council service, Chris is a Career and Technical Education instructor at West-MEC, where he is rebuilding and expanding the Water Systems program to prepare high school students for careers in water operations and environmental science. Reviving a previously inactive program, he is actively developing curriculum, building industry partnerships, and creating hands-on training opportunities that lead to certification and career readiness.

Chris and his wife Jenna have been married for over 20 years and are raising their three daughters in Surprise. The Judd family enjoys hiking, camping, and exploring Arizona’s backcountry together.



CITY OF SURPRISE
Appointed Officials

City Manager	Andrea Davis
City Clerk	Kristi Passarelli
City Attorney	Jeffrey Murray
Presiding Judge	Louis Frank Dominguez



Government Finance Officers Association

Certificate of
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in Financial
Reporting

Presented to

City of Surprise
Arizona

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended
June 30, 2024

Christopher P. Morill

Executive Director/CEO



FINANCIAL SECTION – INDEPENDENT AUDITOR’S REPORT



SURPRISE

ARIZONA



FINANCIAL SECTION – INDEPENDENT AUDITOR’S REPORT

The Financial Section is divided into seven subsections. The first subsection is the Independent Auditor’s Report, which is the official written communication of the audit results provided by the independent auditors expressing their opinion on the City’s financial statements as to whether the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

Financial Subsections

- Independent Auditor’s Report
- Management’s Discussion and Analysis
- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information
- Other Supplementary Information



SURPRISE

ARIZONA

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Surprise, Arizona

Report on Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Surprise, Arizona (City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Surprise, Arizona, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of City of Surprise, Arizona, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City implemented the provisions of GASB Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, net pension liability information, and other postemployment benefit plan information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Fund Financial Statements and Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Financial Statements and Schedules information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Statistical Section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on other work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of City of Surprise, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Surprise, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Surprise, Arizona's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
December 16, 2025



S U R P R I S E

A R I Z O N A



FINANCIAL SECTION - MANAGEMENT'S DISCUSSION AND ANALYSIS



SURPRISE

ARIZONA



FINANCIAL SECTION – MANAGEMENT’S DISCUSSION AND ANALYSIS

The Financial Section is divided into seven subsections. The second subsection is Management’s Discussion and Analysis. This component is to furnish an objective and easily readable analysis of the City’s financial activities.



S U R P R I S E

A R I Z O N A

The City of Surprise (City) is pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2025. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes and provides an objective and easy-to-read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing a summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. Amounts presented may reflect some minor differences due to rounding. This analysis is meant to be read in conjunction with the letter of transmittal.

Financial Highlights

- *Governmental Activities net position.* The City's net position increased 11.0% or \$110.5 million from \$1.0 billion to \$1.1 billion. This increase is attributable to an increase in revenue due to continued economic and population growth. The City also recorded a change in accounting principle which reduced the beginning net position by \$0.8 million due to the implementation of a new GASB standard.
- *Business-Type Activities net position.* The City's net position increased by 10.6% or \$55.2 million from \$522.3 million to \$577.5 million. Continued growth in the City accounts for the increase, with \$45.8 million of the increase resulting from developer capital contributions. The City also recorded a change in accounting principle which reduced the beginning net position by \$0.1 million due to the implementation of a new GASB standard.
- *Governmental Activities expenses* of \$287.2 million exceeded program revenues of \$124.1 million. The difference of \$163.1 million of expense represents the total burden each separate function places on the City; that is the total cost after deducting revenues charged or grants and contributions received specifically for these programs. This amount is covered by general governmental revenues net of transfers.
- *Business-Type Activities expenses* were \$70.2 million, while program revenues totaled \$119.0 million, a difference of \$48.8 million. The current year excess will be added to net position.
- *Component units.* The City includes two separate legal entities in its report: Marley Park Community Facilities District (CFD), and various Street Lighting Improvement Districts (SLID). Although legally separate, these "component units" are presented along with the City's financial statements (blended presentation). Blending component units is appropriate when they share a governing body with the primary government or when there is an exclusive benefit to the primary government. Each of the above mentioned component units meets these requirements. A more detailed description of these component units is available in Note 1.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 19-20 and 21-22) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 23. These fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The fiduciary statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 19. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities provide information about the City as a whole and about its activities in a way that helps answer this question. These statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

These two statements report the City's net position and/or changes in them. The City's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You may also consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

The statement of net position and the statement of activities are divided into two kinds of activities:

- *Governmental activities* — Most of the City's basic services are reported here, including police, fire-medical, ground ambulance services, public works, parks and recreation, human service and community vitality, community development, economic development departments, and general administration.
- *Business-Type activities* — The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City's water, sewer, sanitation, and stormwater systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 23 where the fund financial statements begin. These provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- *Governmental Funds* — Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. A description of the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is included in the reconciliations following the fund financial statements.
- *Proprietary Funds* — When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but

provide more detail and additional information, such as cash flows, for proprietary funds. The City uses an internal service fund (the other component of proprietary funds) to report activities that provide supplies and services for the City’s other programs and activities, specifically the City’s Employee Healthcare Fund, the Risk Management Fund, and the Workers’ Compensation Fund.

- *Fiduciary Funds* — The City is the fiduciary for the Flexible Spending Account. All of the City’s fiduciary activities are reported in the separate statement of fiduciary net position and statement of changes in fiduciary net position on pages 36-37.

These activities are excluded from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Position as of June 30, 2025 and June 30, 2024.

	City of Surprise’s Net Position (in Millions)					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
ASSETS						
Current and other assets	\$ 492.6	\$ 462.8	\$ 168.5	\$ 151.9	\$ 661.1	\$ 614.7
Capital assets, net	897.9	792.5	470.2	418.9	1,368.1	1,211.4
Total assets	<u>1,390.5</u>	<u>1,255.3</u>	<u>638.7</u>	<u>570.8</u>	<u>2,029.2</u>	<u>1,826.1</u>
DEFERRED OUTFLOWS OF RESOURCES	56.6	43.6	2.9	1.8	59.5	45.4
LIABILITIES						
Current liabilities	55.3	52.4	12.1	11.6	67.4	64.0
Long-term liabilities	250.5	217.9	51.0	38.0	301.5	255.9
Total liabilities	<u>305.8</u>	<u>270.3</u>	<u>63.1</u>	<u>49.6</u>	<u>368.9</u>	<u>319.9</u>
DEFERRED INFLOWS OF RESOURCES	26.6	23.6	1.0	0.7	27.6	24.3
NET POSITION						
Net investment in capital assets	741.8	693.0	426.2	390.2	1,168.0	1,083.2
Restricted	63.0	41.1	37.1	29.5	100.1	70.6
Unrestricted	309.9	270.9	114.2	102.6	424.1	373.5
Total net position	<u>\$ 1,114.7</u>	<u>\$ 1,005.0</u>	<u>\$ 577.5</u>	<u>\$ 522.3</u>	<u>\$ 1,692.2</u>	<u>\$ 1,527.3</u>

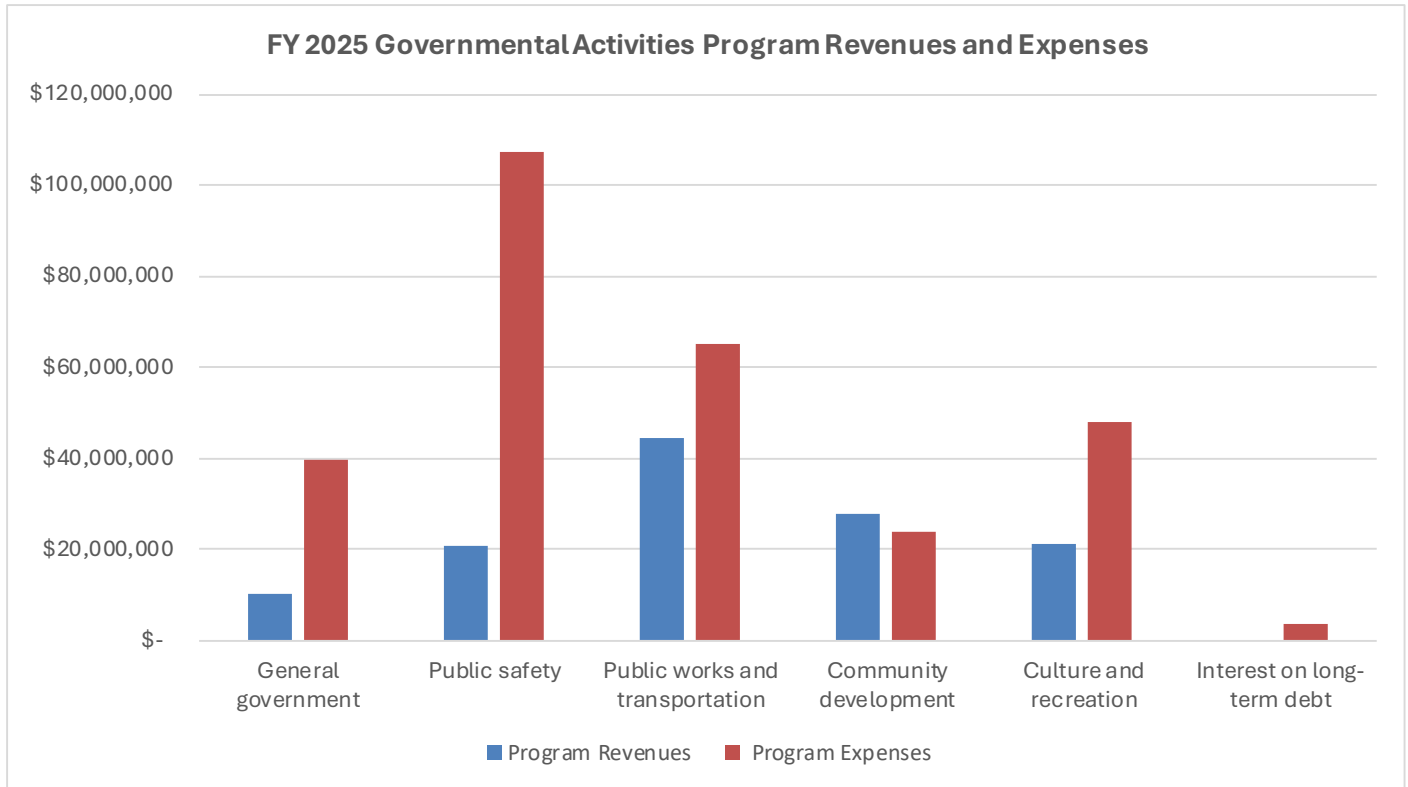
Net position is a good indicator of a City’s overall financial standing. For fiscal year 2025, the City had total combined net position of \$1.7 billion. This was an increase of \$165.7 million, or 10.9% over the prior year’s net position of \$1.5 billion. The increase can be attributed to the change in sales tax revenues as part of the tax reform discussed in the transmittal letter. Other areas impacting the increase are the strong investment earnings and the increase in charges for services for utilities due to the rate study increase implemented during the fiscal year.

Not all of the \$1.7 billion is available for the City to use without restraint. The largest portion of the City’s total net position, \$1.2 billion, or 69.1%, represents the City’s net investment in capital assets. Of the remaining net position, \$100.1 million is restricted for various purposes with the remaining \$424.1 million unrestricted as to its use.

City of Surprise’s Changes in Net Position (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
REVENUES						
Program revenues:						
Charges for services	\$ 53.8	\$ 55.4	\$ 73.2	\$ 64.0	\$ 127.0	\$ 119.4
Operating grants and contributions	16.3	15.9	-	-	16.3	15.9
Capital grants and contributions	54.0	70.5	45.8	51.4	99.8	121.9
General revenues:						
Property taxes	19.9	22.1	-	-	19.9	22.1
Sales taxes	158.8	135.0	-	-	158.8	135.0
Franchise taxes	7.3	7.5	-	-	7.3	7.5
State shared revenues	65.9	71.7	-	-	65.9	71.7
Unrestricted investment earnings	19.5	15.4	6.8	5.1	26.3	20.5
Other	0.6	0.6	1.2	0.6	1.8	1.2
Total revenues	396.1	394.1	127.0	121.1	523.1	515.2
EXPENSES						
Program activities:						
Governmental activities:						
General government	39.7	33.3	-	-	39.7	33.3
Public safety	107.3	102.2	-	-	107.3	102.2
Public works and transportation	64.9	56.4	-	-	64.9	56.4
Community development	23.9	22.7	-	-	23.9	22.7
Culture and recreation	48.0	42.3	-	-	48.0	42.3
Interest on long-term debt	3.4	2.6	-	-	3.4	2.6
Business-type activities:						
Water	-	-	25.5	23.6	25.5	23.6
Sewer	-	-	27.7	26.4	27.7	26.4
Sanitation	-	-	14.9	13.6	14.9	13.6
Stormwater	-	-	2.1	1.9	2.1	1.9
Total expenses	287.2	259.5	70.2	65.5	357.4	325.0
Excess before transfers	108.9	134.6	56.8	55.6	165.7	190.2
Transfers in (out)	1.6	1.6	(1.6)	(1.6)	-	-
Increase/(Decrease) in net position	110.5	136.2	55.2	54.0	165.7	190.2
Net position - beginning	1,004.2	868.8	522.3	468.3	1,526.5	1,337.1
Net position - ending	\$ 1,114.7	\$ 1,005.0	\$ 577.5	\$ 522.3	\$ 1,692.2	\$ 1,527.3

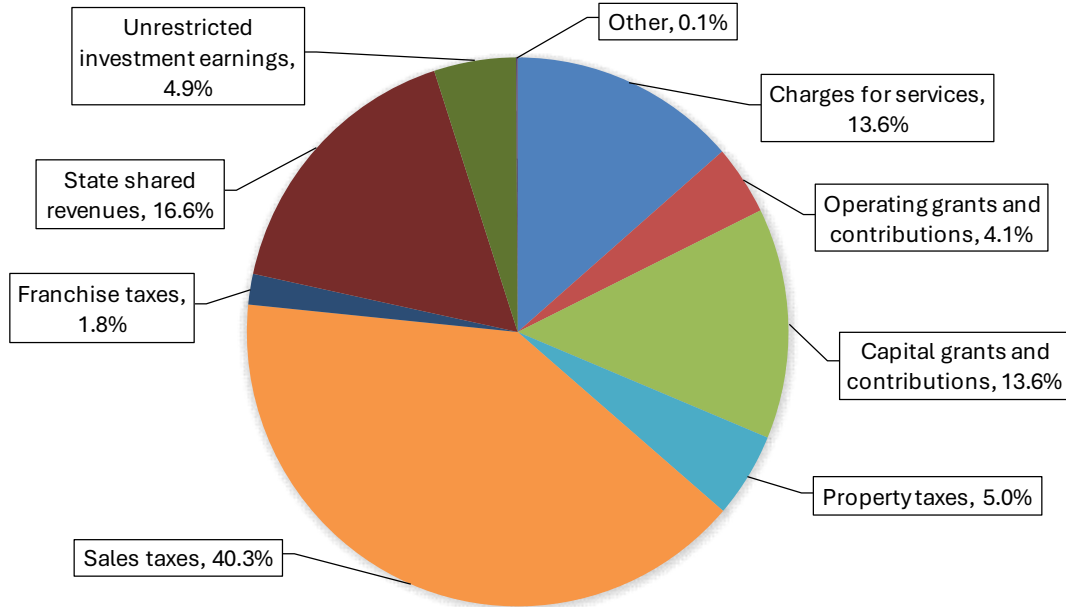
For fiscal year 2025, governmental activities program expenses exceeded program specific revenues by \$163.1 million. The remaining expenses were supported by general governmental revenues.



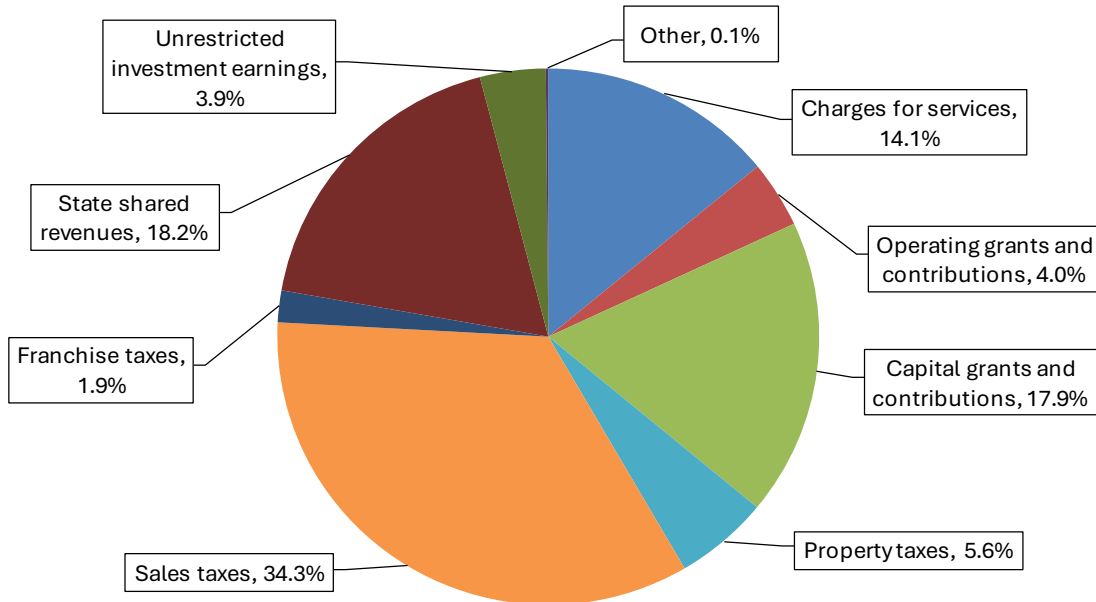
- Charges for services, operating grants and contributions, and capital grants and contributions account for 31.3% of total governmental revenues.
- Community oriented programs such as public safety (police, fire, ambulance services, and courts) and culture and recreation (parks, recreation, youth, and senior services) are subsidized by general governmental revenues. The City does not intend to charge for the total cost of these services directly.
- Culture and recreation often charges a fee for services it provides, but usually that fee does not cover the entire cost of the service.
- Community Development revenues come primarily from construction-related activities.
- SLIDS are Street Light Improvement Districts that charge a fee/tax to pay for the maintenance of light poles and the electricity used by neighborhood streetlights. Revenues and expenses for SLIDS are included in the public works and transportation program.

Governmental Activities revenues for the fiscal year ended June 30, 2025 totaled \$396.1 million and have been identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

FY 2025 Governmental Activities Revenues



FY 2024 Governmental Activities Revenues

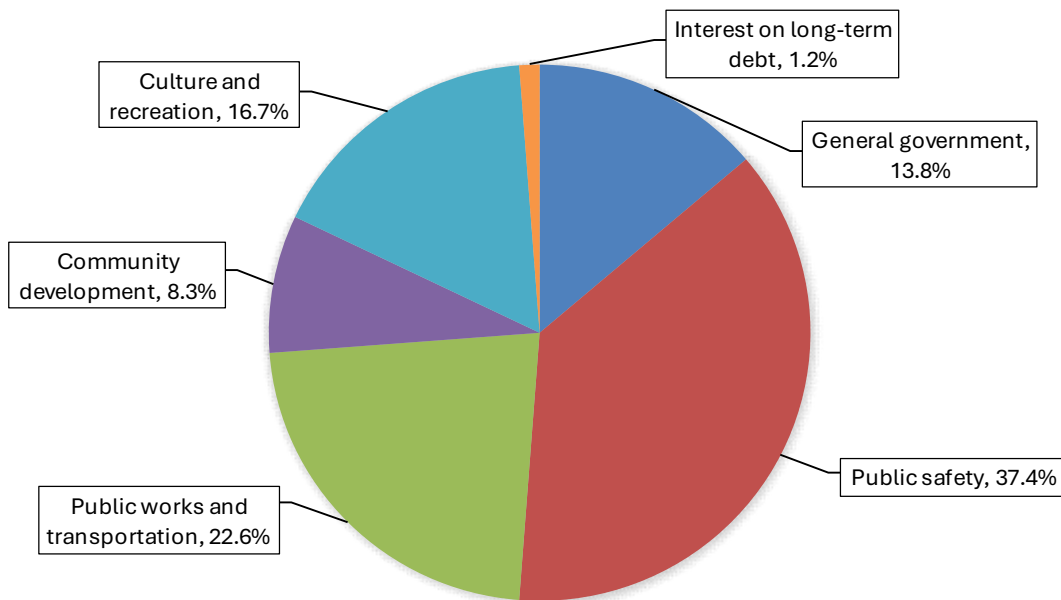


The City’s largest revenue source is sales tax revenue at \$158.8 million, followed by state shared revenues totaling \$65.9 million. Total governmental activities revenues increased \$2.0 million from the prior year as a result of the following changes in revenue: Local sales taxes increased \$23.8 million due to local economic and population growth and an increase to the rate of certain local transaction privilege tax categories, from 2.2% to 2.8%. State

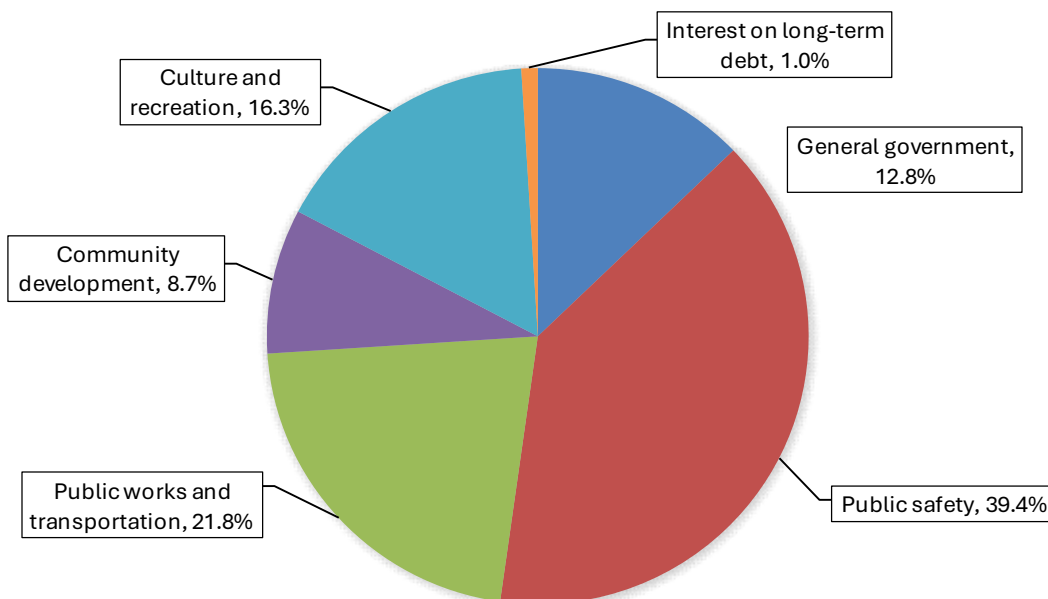
shared revenues decreased \$5.8 million due to the implementation of a flat income tax at the State level. Capital grants and contributions decreased \$16.5 million from the prior year primarily due to less developer donated infrastructure since less communities were finished compared to the prior year.

Governmental Activities expenses for the fiscal year ended June 30, 2025 totaled \$287.2 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

FY 2025 Governmental Activities Expenses



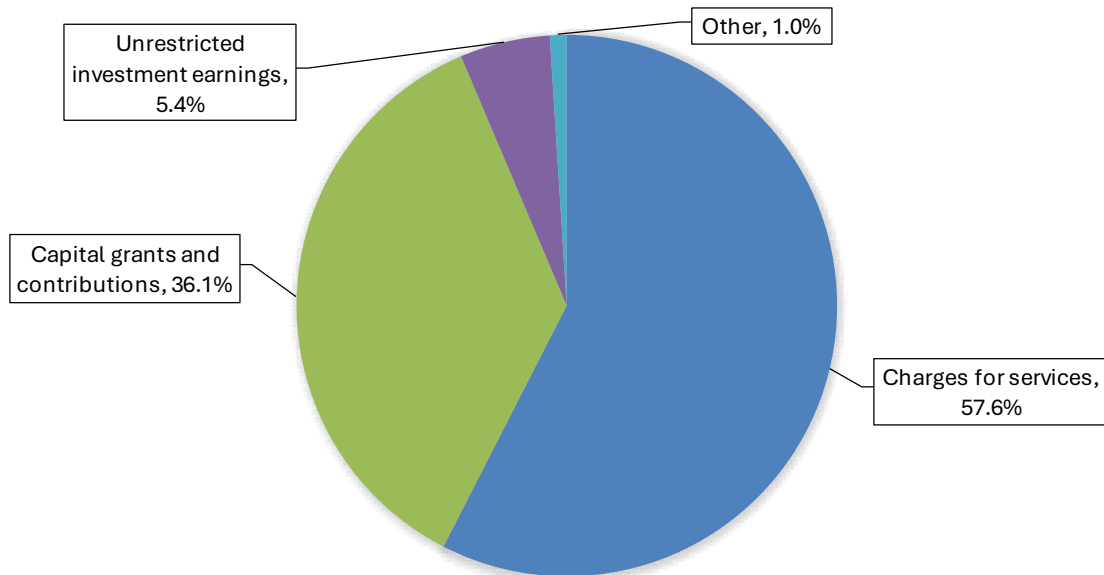
FY 2024 Governmental Activities Expenses



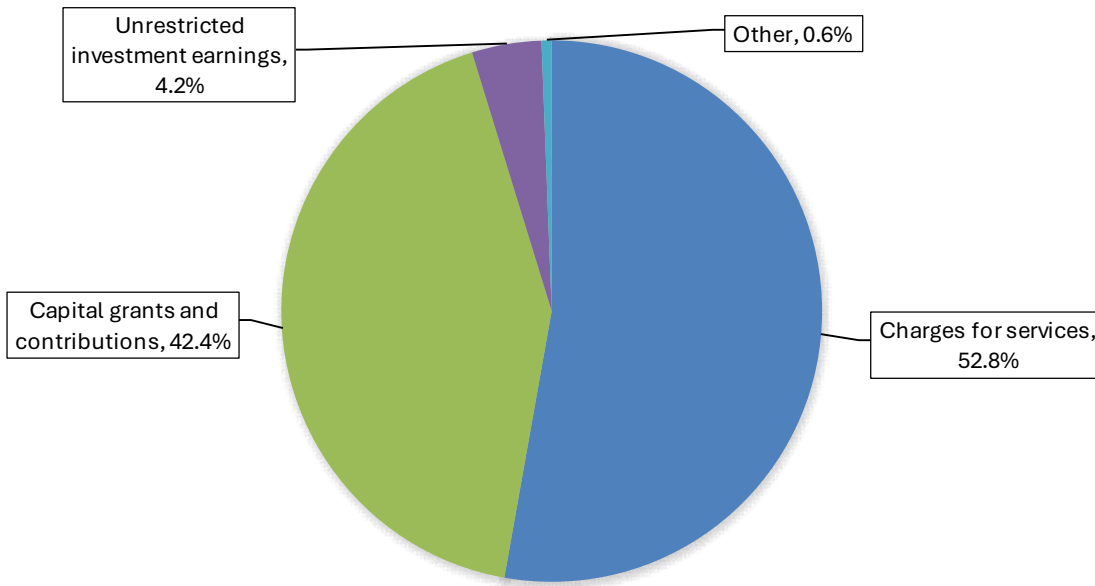
Current year expenses increased by \$27.7 million or 10.7%. Culture and recreation expenses increased by \$5.7 million or 13.5%. The increase to culture and recreation was due to adding staff to meet the demands of expanding park and recreation programs and increased community participation. There were also several park renovations that were completed during the year including Marley Park and Veramonte Splash Pads, and the Sierra Montana Playground. Public safety expenses increased by \$5.1 million or 5%. The increase in public safety expenses can primarily be attributed to population growth. New positions were added in both the police and fire departments to maintain adequate response times and ensure public safety. Public safety expenses for services (medical direction, lab services, body cameras) and personal protective equipment increased by \$1 million from the prior year. Public safety has the largest workforce paid from governmental funds. As a result, public safety comprises the largest portion of program expenditures at 37.4% or \$107.3 million.

Business-Type Activities revenues for the fiscal year ended June 30, 2025 totaling \$127.0 million are identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

FY 2025 Business-Type Activities Revenues



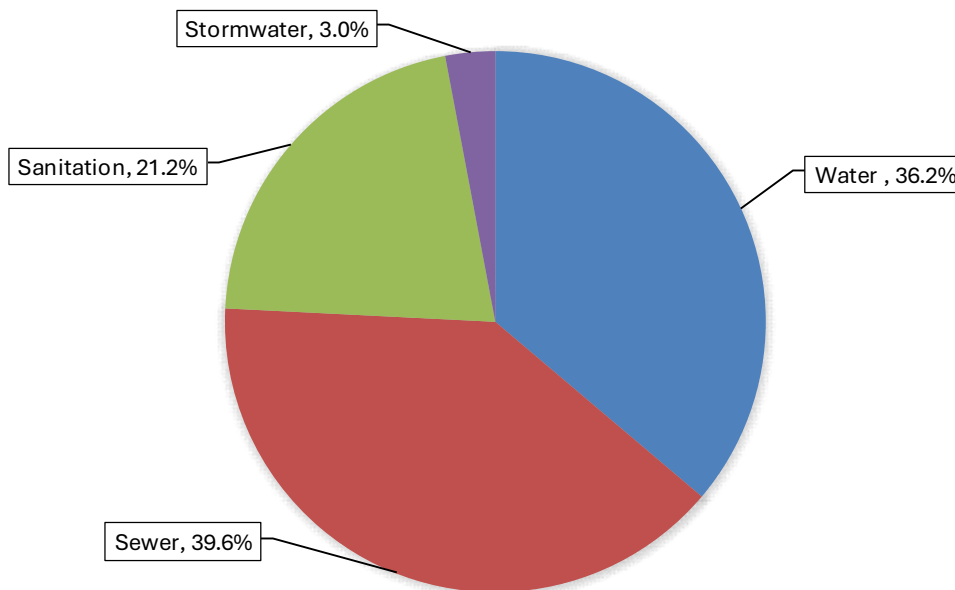
FY 2024 Business-Type Activities Revenues



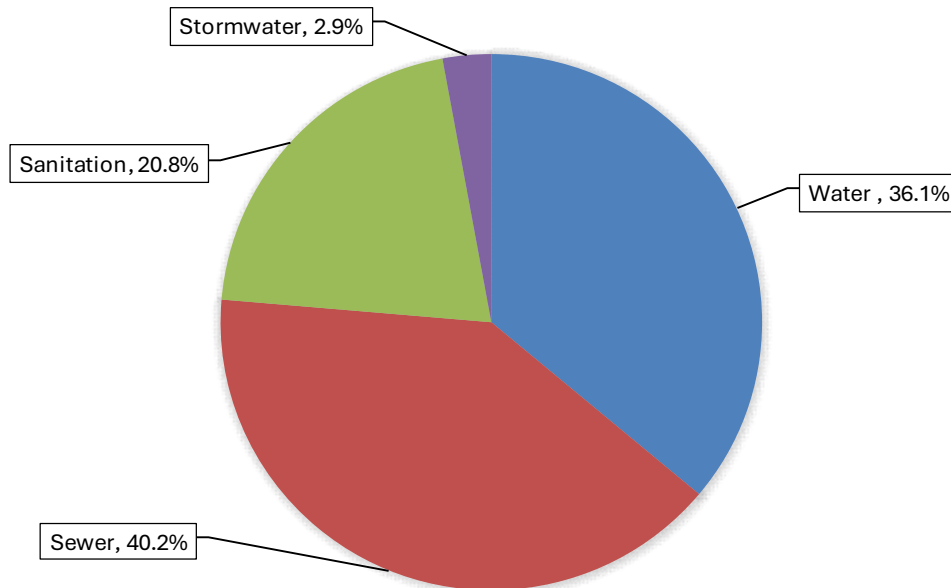
Business-Type Activities charges for services increased by \$9.3 million, or 14.5%, due to the increase in charges for services for utilities due to the rate study increases implemented during the fiscal year.

Business-Type Activities expenses for the fiscal year ended June 30, 2025 totaled \$70.2 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

FY 2025 Business-Type Activities Expenses



FY 2024 Business-Type Activities Expenses



Business-Type Activities expenses increased by \$4.7 million or 7.2% from the prior year. The increase is primarily due to \$3.1 million in usage of water supplies inventory and an increase for the Central Arizona Project water storage and delivery costs.

Financial Analysis of the City’s Funds

Total Governmental Funds fund balance increased \$25.3 million from \$366.6 million to \$391.9 million. The increase is attributed to continued economic strength, population growth, and grants. Of the total ending fund balance, \$8.3 million has been classified as nonspendable and is not available to meet future funding needs because it is not in spendable form or is legally or contractually required to be maintained intact. An additional \$59.1 million has been classified as restricted and consists of amounts restricted by external parties or as a result of the law. Of the remaining fund balance, \$89.3 million has been committed to recognize a specific council determined purpose which may not be used for another purpose without council’s direction, but the purpose can be changed by council. There is \$198.1 million of fund balance which has been assigned to a specific purpose by the Chief Financial Officer; these amounts may be used for other purposes than the currently assigned positions if the Chief Financial Officer deems it necessary. Finally, there is an unassigned fund balance of \$37 million which can be used for any purpose.

- The General Fund balance decreased \$4.1 million from the prior year. The decrease was mainly attributed to the addition of several general funded positions added during the fiscal year to serve the community after population growth. To better serve the community an additional pool, park and fire station was added during fiscal year 2025. Local sales tax revenue had an increase of \$23.2 million over the prior year. An increase of certain local transaction privilege tax categories was implemented, with rates being adjusted from 2.2% to 2.8% beginning October 2024 to offset the revenue loss of \$6.6 million due to the passing of Senate Bill 1131, which prohibits all Arizona cities from assessing and collecting residential rental tax beginning January 1, 2025. Another area of revenue loss for the City was a \$6.1 million decrease in State shared sales tax due to the implementation of a statewide flat income tax rate being assessed. The General Fund also recorded a change within the financial reporting entity due to the ground

ambulance service being recorded in the General Fund beginning in fiscal year 2025. In fiscal year 2024, ground ambulance services were recorded as a special revenue fund. This change in reporting increased the beginning General Fund Balance by \$2.6 million.

- The General Capital Projects Fund balance increased \$39.6 million in comparison with the prior year. This increase was due to the issuance and funding from the 2024 General Obligation bonds and from a transfer of one-time revenue and savings from the General Fund.
- The General Government Development Fee Fund contains \$1.8 million in advances from other funds and debt service obligations. Cash on hand in this fund will be used to repay existing advances from other funds.
- The Highway User Revenue Fund balance increased \$2.2 million from \$6.5 million to \$8.7 million. The increase is due to street maintenance expenses coming in significantly lower than budgeted, resulting in an increase of fund balance.
- The Transportation Improvement Fund balance decreased \$4.5 million from \$33.7 million to \$29.2 million. This reduction in fund balance was attributed to the \$20.3 million expended on the construction of Cactus Road between Cotton Lane and Reems Road during the fiscal year.
- The Grants Fund was previously reported as a major fund in fiscal year 2024 but is reported as nonmajor in fiscal year 2025.
- The NonMajor Governmental Funds fund balance decreased \$7.7 million. Major projects that were expended from the nonmajor governmental funds include \$8 million expended on Fire Station 309 in the Fire Development Fee Fund and \$6.7 million expended on the Rescue Oasis Park & Oasis Swim Center from the Parks and Recreation Development Fee Fund, both locations opened in the spring of this year. Another major project was for \$4.8 million in expenditures in the Grants Fund to build a multi-generational community center. The NonMajor funds also recorded a change within the financial reporting entity due to the ground ambulance service being recorded in the General Fund beginning in fiscal year 2025, in the prior fiscal year it was recorded in a special revenue fund. The second change was the Grants Fund being recorded as nonmajor for this fiscal year, in the prior fiscal year the Grants Fund was reported as a major Fund.

Proprietary Fund financial statements provide similar information contained in the government-wide financial statements but in more detail. Their results are discussed previously in the review of business-type activities.

General Fund Budgetary Highlights

- The final General Fund budget for expenditures was \$226.7 million. The \$30.1 million increase from the prior year is mainly related to the addition of several general funded positions being added during the year. The positions new in fiscal year 2025 include 32 General Fund positions, 12 of which are public safety.
- Actual General Fund expenditures totaled \$203.0 million, which was \$23.6 million less than the final budget. The variance was primarily due to budgeting for potential developer reimbursements that the City ultimately did not need to pay out during fiscal year 2025. Also, included in the budget were amounts for contingencies and unforeseen expenses that did not need to be expended.

Capital Asset and Debt Administration

Capital Assets at Year-End Net of Depreciation (in Millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2025	2024	2025	2024	2025	2024
Land and improvements	\$ 280.7	\$ 264.0	\$ 21.4	\$ 17.4	\$ 302.1	\$ 281.4
Parks	8.6	8.6	-	-	8.6	8.6
Water rights	-	-	32.4	31.7	32.4	31.7
Construction in progress	18.8	45.6	34.9	14.7	53.7	60.3
Buildings and improvements	178.1	134.8	354.7	333.6	532.8	468.4
Improvements other than buildings	39.4	34.3	9.4	8.9	48.8	43.2
Equipment and vehicles	30.9	23.7	16.8	12.6	47.7	36.3
Intangibles	1.9	2.5	-	-	1.9	2.5
Infrastructure	331.5	270.1	-	-	331.5	270.1
Subscriptions assets	3.2	3.5	0.6	-	3.8	3.5
Lease assets	4.8	5.7	-	-	4.8	5.7
Total capital assets, net	<u>\$ 897.9</u>	<u>\$ 792.8</u>	<u>\$ 470.2</u>	<u>\$ 418.9</u>	<u>\$ 1,368.1</u>	<u>\$ 1,211.7</u>

The capital assets of the Governmental Activities increased by \$105.4 million from the prior fiscal year, net of depreciation (\$149.7 million increase before depreciation).

- Changes to the Governmental Activities capital assets for fiscal year 2025 were the result of:
 - Purchase of \$8.3 million in land for future police and fire facilities.
 - Completed construction of a park, aquatic center, and fire station at Perryville and Cactus
 - Current year depreciation expense of \$49.9 million
 - Capital contributions made to the City by developers
 - \$9.3 million – right-of ways
 - \$23.2 million – streets infrastructure
- Governmental Activities construction in progress includes:
 - \$9.0 million – Multigenerational Community Center
 - \$4.0 million – Elm Street improvements

The capital assets of the Business-Type Activities funds increased by \$51.3 million from the prior fiscal year, net of depreciation (\$68.2 million increase before depreciation).

- Changes to the Business-Type Activities capital assets for fiscal year 2025 were the result of:
 - Current year depreciation expense of \$19.2 million.
 - Capital contributions made to the City by developers. The assets donated consisted primarily of water, sewer, and stormwater improvements.
 - \$19.3 million – water supply facilities
 - \$6.2 million – water lines
 - \$8.8 million – sewer lines
 - \$1.0 million – stormwater drains

- Business-Type Activities construction in progress includes:
 - \$27.9 million – Plant Capacity Increase / Enhancement
 - \$2.0 million – SPA1 Recharge Expansion

For more detailed information on Capital Assets, see Note 4 of this report.

Outstanding Debt at Year-End (in Millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2025	2024	2025	2024	2025	2024
General obligations	\$ 62.8	\$ 38.4	\$ -	\$ -	\$ 62.8	\$ 38.4
Pledged revenue obligations	7.7	9.0	-	-	7.7	9.0
Senior lien utility system revenue refunding obligations	-	-	20.4	21.8	20.4	21.8
Community facilities district bonds	29.8	30.5	-	-	29.8	30.5
Community facilities district notes	1.6	1.8	-	-	1.6	1.8
WIFA loan	-	-	15.7	3.2	15.7	3.2
Subscriptions liability	3.7	3.5	0.6	-	4.3	3.5
Leases payable	6.8	7.3	-	-	6.8	7.3
Total debt outstanding	\$ 112.4	\$ 90.5	\$ 36.7	\$ 25.0	\$ 149.1	\$ 115.5

- Long-term debt, including amounts due within one year, increased \$33.6 million this year from \$115.5 million to \$149.1 million due to:
 - Issuing \$30.2 million in G.O. bonds in September 2024
 - Receiving an additional \$15.1 million for a loan from the Water Infrastructure Finance Authority of Arizona in fiscal year 2025 to help fund the expansion of the City’s main wastewater treatment facility.

For more detailed information on long-term debt, see Note 7 of this report.

Economic Factors, Rates, and Next Year’s Budget

The fiscal year 2025 budget was focused on City Council’s commitment to maintain quality public services and ensure community priorities were met. This was done by devoting resources toward outcomes that make Surprise a sustainable, vibrant place for residents, businesses and visitors – today and into the future. The City continues to navigate the economic climate of inflation, rising interest rates, growth, ever-changing supply chain markets, and workforce shortages. The City remains focused on balancing financial stability while maintaining its current level of service.

The City’s economic position continues to be strong due to financially sound policy decisions led by our City Council. The City focused on maintaining current levels of service amidst continued growth and a \$14.3 million annual revenue loss to the General Fund, which is the principal financial support for basic services such as the police and fire departments, parks and recreation, and general government operations. A portion of that revenue loss, \$6.6 million, is due to Senate Bill 1131 passing during the 2023 legislative session, which prohibits all Arizona cities from assessing and collecting residential rental tax beginning January 1, 2025. An additional estimated \$7.7 million of revenue loss comes from a state shared income tax shortfall due to the implementation of a 2.5% flat income tax rate.

Tax reform was adopted to address the estimated \$14.3 million in revenue loss. The tax reform included a 25% reduction to the City's primary property tax rate, and an increase to the rate of certain local transaction privilege tax categories, also referred to as sales tax, from 2.2% to 2.8%. These adjustments are expected to replace the lost revenue to the General Fund so the City will be able to maintain its current level of service to residents by addressing increased operational needs, such as staffing and inflation, and capital needs, such as roads and buildings.

The City continues to see population growth. This has resulted in continued strong revenues, which has provided the City the opportunity to provide dedicated funding to maintain our high level of service and provide operational funding to enhance the services that we provide to our residents. Residential and commercial growth adds demand to our service levels in areas such as public safety, transportation, parks and recreation, and community development. The City continues to strengthen its financial position to maintain its valuable assets moving into the future.

Throughout the year, the City experienced residential population growth and implemented the tax reform. These have combined to result in an 17.6% increase in sales tax collections over the previous year. The population and commercial square footage growth has been a factor in the improved economic performance for the city.

The fiscal year 2026 budget is focused on City Council's strategic priorities outlined in the City Council Strategic Plan. Those priorities are public safety, transportation, community experience, fiscal responsibility, economic development, government transparency, and water.

The City's economic outlook remains strong and optimistic, fueled by continued population growth. This expansion brings both exciting opportunities and significant challenges. On the positive side, growth has led to sustained increases in revenue, including higher state-shared revenues due to the broader population gains across Arizona. These additional funds have enabled the City to maintain—and in some cases enhance—its service levels through dedicated investments.

However, with growth comes increased demand. To uphold the high quality of services our residents expect, the City must invest in essential infrastructure such as roads, fire stations, and police substations, as well as hire additional staff for public safety, transportation, and other critical services. While revenues are rising, so too are the expenses necessary to support a thriving and expanding community.

The fiscal year 2026 budget includes another reduction to the City's primary property tax rate, lowering it from \$0.5693 to \$0.5534 per \$100 assessed limited property value. Although this is a decrease to property taxes, the City's overall revenue has increased due to continued growth in both population, and commercial and retail establishments.

To maintain service levels for fiscal year 2026, the final budget includes an increase of 91.5 positions over the fiscal year 2025 adopted budget. The new positions in fiscal year 2026 include 30 public safety employees, 12 transportation and streets employees, 10 water resource management employees, and 6.5 part-time equivalent employees for community services and public works. This also includes four positions that were added midyear in fiscal year 2025 and are for the Parks and Recreation department to assist in the maintenance of newly acquired McMicken Dam land.

The fiscal year 2026 Capital Improvement Plan (CIP) allocates \$381.5 million in total funding, \$109.8 million of new funding and \$271.7 million in carryforward appropriations from prior years. Fiscal year's 2026 CIP program supports the Council's strategic plan and includes infrastructure initiatives approved through the General Obligation Bond funding for transportation and public safety projects, which voters approved in November 2023. The bond projects that are included in the fiscal year 2026 budget are a police substation, design of future public

safety facilities, and several transportation projects. The City is focused on public safety, transportation, and community services and continues to dedicate funding for asset replacement, pavement preservation and vehicle replacement to maintain the City's existing infrastructure and equipment.

Financial Contact

The financial report is designed to provide a general overview of the City of Surprise's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information, should be addressed to the City's Chief Financial Officer at: 16000 North Civic Center Plaza, Surprise, Arizona 85374.



SURPRISE

ARIZONA



**FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS**



SURPRISE

ARIZONA



FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Financial Section is divided into seven subsections. The third subsection is comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments and are separated into three components. The first component of the Basic Financial Statements is comprised of the government-wide financial statements. These financial statements incorporate all of the City's governmental and business-type activities. The business-type activities are financed in whole or in part by fees charged to external parties for goods or services. There are two basic government-wide financial statements: the statement of net position and the statement of activities.

CITY OF SURPRISE, ARIZONA

Statement of Net Position

June 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 404,991,331	\$ 133,318,387	\$ 538,309,718
Restricted cash and investments	35,528,735	11,900,244	47,428,979
Receivables (net of allowances):			
Accounts	2,771,680	9,064,257	11,835,937
Taxes and franchise fees	16,325,471	-	16,325,471
Grants	3,305,176	-	3,305,176
Intergovernmental	2,743,062	-	2,743,062
Leases	379,480	-	379,480
Other	2,662,098	140,827	2,802,925
Prepaid items and other assets	5,961,163	1,428,460	7,389,623
Inventory	2,368,160	5,393,311	7,761,471
Internal balances	(6,766,865)	6,766,865	-
Total current assets	<u>470,269,491</u>	<u>168,012,351</u>	<u>638,281,842</u>
NonCurrent assets:			
Equity interest in joint venture	1,263,117	-	1,263,117
Net other postemployment benefits (OPEB) asset	2,718,945	491,214	3,210,159
Leases receivable	18,374,017	-	18,374,017
Capital assets, non-depreciable	308,100,316	88,696,600	396,796,916
Capital assets, depreciable/amortizable	1,144,538,022	600,289,900	1,744,827,922
Accumulated depreciation/amortization	(554,711,464)	(218,787,197)	(773,498,661)
Total noncurrent assets	<u>920,282,953</u>	<u>470,690,517</u>	<u>1,390,973,470</u>
Total assets	<u>1,390,552,444</u>	<u>638,702,868</u>	<u>2,029,255,312</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension related	56,082,875	2,801,925	58,884,800
Deferred outflows of resources - OPEB related	505,312	53,277	558,589
Total deferred outflows of resources	<u>56,588,187</u>	<u>2,855,202</u>	<u>59,443,389</u>
Total assets and deferred outflows of resources	<u>1,447,140,631</u>	<u>641,558,070</u>	<u>2,088,698,701</u>
LIABILITIES			
Current liabilities:			
Accounts payable	19,829,751	8,889,092	28,718,843
Accrued payroll and related taxes	3,790,854	344,057	4,134,911
Deposits	878,001	619,721	1,497,722
Unearned revenues	5,071,254	526,981	5,598,235
Contracts payable	16,196,287	-	16,196,287
Other liabilities	165,581	-	165,581
Matured bond and loan interest payable	2,081,962	476,125	2,558,087
Matured bonds and loans payable	7,330,000	1,195,000	8,525,000
Total current liabilities	<u>\$ 55,343,690</u>	<u>\$ 12,050,976</u>	<u>\$ 67,394,666</u>

See accompanying Notes to Financial Statements

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
NonCurrent liabilities:			
Due within one year:			
Compensated absences payable	\$ 4,969,930	\$ 621,547	\$ 5,591,477
Bonds, loans, and payables	9,344,116	2,747,723	12,091,839
Claims payable	5,019,499	-	5,019,499
Due in more than one year:			
Compensated absences payable	7,773,479	972,162	8,745,641
Bonds, loans, and payables	103,017,460	33,969,801	136,987,261
Claims payable	414,640	-	414,640
Net pension liability	119,960,457	12,734,522	132,694,979
Net OPEB liability	9,253	2,052	11,305
Total noncurrent liabilities	<u>250,508,834</u>	<u>51,047,807</u>	<u>301,556,641</u>
Total liabilities	<u>305,852,524</u>	<u>63,098,783</u>	<u>368,951,307</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension related	7,698,304	837,678	8,535,982
Deferred inflows of resources - OPEB related	1,348,027	196,824	1,544,851
Deferred inflows of resources - lease related	17,545,284	-	17,545,284
Total deferred inflows of resources	<u>26,591,615</u>	<u>1,034,502</u>	<u>27,626,117</u>
Total liabilities and deferred inflows of resources	<u>332,444,139</u>	<u>64,133,285</u>	<u>396,577,424</u>
NET POSITION			
Net investment in capital assets	741,754,521	426,182,440	1,167,936,961
Restricted for:			
Capital projects	-	36,564,967	36,564,967
Court	748,817	-	748,817
Debt service	63,677	10,293	73,970
Public safety	24,274,025	-	24,274,025
Human service and community vitality	1,128,625	-	1,128,625
Parks and recreation	7,772,435	-	7,772,435
Public works	18,026,358	-	18,026,358
Transportation	8,263,449	-	8,263,449
OPEB	2,718,945	491,214	3,210,159
Unrestricted	<u>309,945,640</u>	<u>114,175,871</u>	<u>424,121,511</u>
Total net position	<u>\$ 1,114,696,492</u>	<u>\$ 577,424,785</u>	<u>\$ 1,692,121,277</u>

CITY OF SURPRISE, ARIZONA

Statement of Activities

For the Year Ended June 30, 2025

Functions/Programs Primary government:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 39,689,566	\$ 8,826,192	\$ 488,567	\$ 800,281
Public safety	107,251,015	11,293,092	1,663,099	7,929,079
Public works and transportation	64,913,524	5,270,559	12,028,594	27,248,875
Community development	23,880,531	19,419,057	20,000	8,055,361
Culture and recreation	48,008,341	9,039,029	2,112,774	9,952,658
Interest on long-term debt	3,416,872	-	-	-
Total governmental activities	<u>287,159,849</u>	<u>53,847,929</u>	<u>16,313,034</u>	<u>53,986,254</u>
Business-type activities:				
Water	25,460,958	27,245,344	-	33,362,045
Sewer	27,856,015	25,716,555	-	11,412,386
Sanitation	14,939,326	17,099,798	-	-
Stormwater	2,096,796	3,184,126	-	1,072,799
Total business-type activities	<u>70,353,095</u>	<u>73,245,823</u>	<u>-</u>	<u>45,847,230</u>
Total primary government	<u>\$ 357,512,944</u>	<u>\$ 127,093,752</u>	<u>\$ 16,313,034</u>	<u>\$ 99,833,484</u>

General revenues:

Property taxes

Sales taxes

Franchise taxes

Unrestricted state shared revenues

Unrestricted investment earnings

Other

Transfers

Total general revenues and transfers

Change in net position

Net position - June 30, 2024, as previously reported

Change in accounting principle

Net position - June 30, 2024, as restated

Net position - June 30, 2025

See accompanying Notes to Financial Statements

Net (Expense)/Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (29,574,526)	\$ -	\$ (29,574,526)
(86,365,745)	-	(86,365,745)
(20,365,496)	-	(20,365,496)
3,613,887	-	3,613,887
(26,903,880)	-	(26,903,880)
(3,416,872)	-	(3,416,872)
(163,012,632)	-	(163,012,632)
-	35,146,431	35,146,431
-	9,272,926	9,272,926
-	2,160,472	2,160,472
-	2,160,129	2,160,129
-	48,739,958	48,739,958
(163,012,632)	48,739,958	(114,272,674)
19,913,529	-	19,913,529
158,810,347	-	158,810,347
7,276,776	-	7,276,776
65,880,035	-	65,880,035
19,510,547	6,805,188	26,315,735
538,468	1,241,812	1,780,280
1,612,836	(1,612,836)	-
273,542,538	6,434,164	279,976,702
110,529,906	55,174,122	165,704,028
1,005,007,561	522,351,138	1,527,358,699
(840,975)	(100,475)	(941,450)
1,004,166,586	522,250,663	1,526,417,249
\$ 1,114,696,492	\$ 577,424,785	\$ 1,692,121,277



SURPRISE

ARIZONA



**FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS
FUND FINANCIAL STATEMENTS**



SURPRISE

ARIZONA



FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS FUND FINANCIAL STATEMENTS

The Financial Section is divided into seven subsections. The fourth subsection is also comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments and are separated into three components. The second component is comprised of the fund financial statements. These financial statements are presented on the basis of funds, in contrast to the government-wide financial statements.

CITY OF SURPRISE, ARIZONA

Balance Sheet

Governmental Funds

June 30, 2025

	General Fund	General Capital Projects Fund	General Government Development Fee Fund
ASSETS			
Cash and investments	\$ 145,463,644	\$ 163,287,597	\$ -
Restricted cash and investments	-	26,717,929	-
Receivables (net of allowances):			
Accounts	2,771,680	-	-
Taxes and franchise fees	16,130,641	-	-
Grants	114,432	-	-
Intergovernmental	1,629,048	-	-
Leases	16,449,159	-	-
Due from other funds	119,660	-	-
Other	969,416	-	-
Prepaid items and other assets	990,797	4,943,476	-
Inventory	1,705,233	227,059	-
Total assets	<u>\$ 186,343,710</u>	<u>\$ 195,176,061</u>	<u>\$ -</u>
LIABILITIES			
Accounts payable	\$ 2,947,655	\$ 8,214,088	\$ 208
Accrued payroll and related taxes	3,704,016	-	-
Due to other funds	-	-	-
Deposits	825,324	-	-
Unearned revenue	718,329	-	-
Contracts payable	15,964,301	-	-
Other liabilities	65,657	-	-
Matured bond interest payable	-	-	-
Matured bonds and notes payable	-	-	-
Advances from other funds	-	-	1,830,253
Total liabilities	<u>24,225,282</u>	<u>8,214,088</u>	<u>1,830,461</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - unavailable revenue	1,858,264	-	-
Deferred inflows - leases	15,430,816	-	-
Total deferred inflow of resources	<u>17,289,080</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>41,514,362</u>	<u>8,214,088</u>	<u>1,830,461</u>
FUND BALANCES/(DEFICITS)			
NonSpendable	2,696,030	5,170,535	-
Restricted	200,425	26,459,948	-
Committed	58,627,300	-	-
Assigned	42,804,546	155,331,490	-
Unassigned	40,501,047	-	(1,830,461)
Total fund balances/(deficits)	<u>144,829,348</u>	<u>186,961,973</u>	<u>(1,830,461)</u>
Total liabilities, deferred inflows, and fund balances/(deficits)	<u>\$ 186,343,710</u>	<u>\$ 195,176,061</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements

Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	Total NonMajor Funds	Total Governmental Funds
\$ 9,229,290	\$ 33,176,241	\$ -	\$ 28,231,138	\$ 379,387,910
-	-	7,814,185	996,621	35,528,735
-	-	-	-	2,771,680
-	-	146,552	48,278	16,325,471
-	-	-	3,190,744	3,305,176
1,114,014	-	-	-	2,743,062
-	-	-	2,304,338	18,753,497
-	-	-	-	119,660
-	-	-	1,236,537	2,205,953
-	1,406	-	21,624	5,957,303
393,318	-	-	42,550	2,368,160
<u>\$ 10,736,622</u>	<u>\$ 33,177,647</u>	<u>\$ 7,960,737</u>	<u>\$ 36,071,830</u>	<u>\$ 469,466,607</u>
\$ 2,067,692	\$ 3,888,548	\$ -	\$ 2,550,096	\$ 19,668,287
12,163	-	-	59,439	3,775,618
-	-	-	119,660	119,660
-	52,215	-	462	878,001
-	-	-	4,352,925	5,071,254
-	3,750	-	228,236	16,196,287
-	-	-	-	65,657
-	-	1,488,722	593,240	2,081,962
-	-	6,505,000	825,000	7,330,000
-	-	-	-	1,830,253
<u>2,079,855</u>	<u>3,944,513</u>	<u>7,993,722</u>	<u>8,729,058</u>	<u>57,016,979</u>
-	-	53,451	1,113,335	3,025,050
-	-	-	2,114,468	17,545,284
-	-	53,451	3,227,803	20,570,334
<u>2,079,855</u>	<u>3,944,513</u>	<u>8,047,173</u>	<u>11,956,861</u>	<u>77,587,313</u>
393,318	1,406	-	64,174	8,325,463
8,263,449	-	-	24,188,041	59,111,863
-	29,231,728	-	1,431,677	89,290,705
-	-	-	-	198,136,036
-	-	(86,436)	(1,568,923)	37,015,227
<u>8,656,767</u>	<u>29,233,134</u>	<u>(86,436)</u>	<u>24,114,969</u>	<u>391,879,294</u>
<u>\$ 10,736,622</u>	<u>\$ 33,177,647</u>	<u>\$ 7,960,737</u>	<u>\$ 36,071,830</u>	<u>\$ 469,466,607</u>



SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2025

Fund balances - total governmental funds		\$ 391,879,294
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	1,452,638,338	
Less accumulated depreciation	<u>(554,711,464)</u>	
		897,926,874
Some revenues are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
		3,025,050
Internal Service Funds used by management to charge the costs of employee healthcare, risk management, and workers' compensation to individual funds are included in the statement of net position.		
Net position (adjusted for interfund activity)	15,515,975	
Net pension liability	(544,958)	
Net pension deferred outflows	119,904	
Net pension deferred inflows	(35,846)	
Compensated absences payable	(92,399)	
Net OPEB asset	21,137	
Net OPEB deferred outflows	2,296	
Net OPEB deferred inflows	(8,471)	
Net OPEB liability	<u>(89)</u>	
		14,977,549
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	55,962,971	
Deferred inflows of resources related to pensions	<u>(7,662,458)</u>	
		48,300,513
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(95,895,000)	
Leases payable/subscriptions payable	(10,494,153)	
Interest payable	(99,924)	
Issuance premium (to be amortized as interest expense)	(5,972,423)	
Net pension liability	(119,415,499)	
Compensated absences payable	(12,651,010)	
Net OPEB asset	2,697,808	
Net OPEB liability	<u>(9,164)</u>	
		(241,839,365)
The equity interest in the joint venture, Regional Wireless Cooperative, is not a financial resource and, therefore, is not reported in the funds.		
		1,263,117
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to OPEB	503,016	
Deferred inflows of resources related to OPEB	<u>(1,339,556)</u>	
		(836,540)
Net position of governmental activities		<u><u>\$ 1,114,696,492</u></u>

See accompanying Notes to Financial Statements

CITY OF SURPRISE, ARIZONA

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2025

	General Fund	General Capital Projects Fund	General Government Development Fee Fund
REVENUES			
Taxes	\$ 119,920,752	\$ 28,201,935	\$ -
Licenses and permits	7,632,584	-	-
Intergovernmental revenue	68,008,013	-	-
Charges for services	35,892,931	-	-
Grants revenue	134,434	-	-
Fines	1,276,614	-	-
Rents	665,312	-	-
Development fees	-	-	800,281
Interest revenue	6,499,608	8,327,682	28,741
Donations	138,874	-	-
Indirect charges	8,010,013	-	-
Other revenue	3,841,101	10,150	-
Total revenues	252,020,236	36,539,767	829,022
EXPENDITURES			
Current:			
General government	30,157,817	654,486	-
Public safety	101,863,184	124,569	-
Public works and transportation	18,103,747	127,596	-
Community development	25,443,155	210,695	-
Culture and recreation	21,679,284	4,498,026	-
Debt service:			
Administrative charges	-	-	-
Principal retirement	1,339,768	655,574	-
Interest	51,426	14,249	-
Bond issuance costs	-	257,632	-
Capital outlay	4,391,971	73,842,917	-
Total expenditures	203,030,352	80,385,744	-
Excess/(deficiency) of revenues over expenditures	48,989,884	(43,845,977)	829,022
OTHER FINANCING SOURCES/(USES)			
Proceeds from sale of capital assets	554,106	-	-
Transfers in	2,950,425	53,629,100	-
Transfers out	(57,556,233)	(1,060,300)	-
Issuance of debt	-	27,065,000	-
Premium on debt issuance	-	3,113,023	-
Lease/SBITA arrangements	1,064,313	663,996	-
Total other financing sources/(uses)	(52,987,389)	83,410,819	-
Net change in fund balances	(3,997,505)	39,564,842	829,022
Fund balances - June 30, 2024, as previously reported	146,399,437	147,433,325	(2,659,483)
Change within financial reporting entity	2,578,122	-	-
Fund balances - June 30, 2024, as restated	148,977,559	147,433,325	(2,659,483)
Increase/(decrease) in inventories	(150,706)	(36,194)	-
Fund balances - June 30, 2025	\$ 144,829,348	\$ 186,961,973	\$ (1,830,461)

Highway User Revenue Fund	Transportation Improvement Fund	Formerly Major Grants Fund	Debt Service Fund	Total NonMajor Funds	Total Governmental Funds
\$ -	\$ 19,228,592		\$ 6,609,737	\$ 4,781,758	\$ 178,742,774
-	-		-	-	7,632,584
11,350,643	-		-	1,497,459	80,856,115
19,500	-		-	4,463,520	40,375,951
-	-		-	9,677,407	9,811,841
-	-		-	368,886	1,645,500
-	-		-	522,041	1,187,353
-	-		-	10,621,456	11,421,737
450,148	1,675,573		155,906	1,540,602	18,678,260
-	-		-	-	138,874
-	-		-	-	8,010,013
-	803,618		-	38,864	4,693,733
11,820,291	21,707,783		6,765,643	33,511,993	363,194,735
27,000	-		-	801,678	31,640,981
-	-		-	1,918,721	103,906,474
9,617,913	3,661,598		-	465,056	31,975,910
-	-		-	2,555,048	28,208,898
-	-		-	11,870,372	38,047,682
-	-		2,279	900	3,179
-	2,876		6,505,000	921,619	9,424,837
-	21		2,752,569	1,206,255	4,024,520
-	-		-	-	257,632
-	22,250,821		-	23,793,409	124,279,118
9,644,913	25,915,316		9,259,848	43,533,058	371,769,231
2,175,378	(4,207,533)		(2,494,205)	(10,021,065)	(8,574,496)
-	-		-	-	554,106
-	-		1,583,108	3,504,427	61,667,060
-	(251,700)		-	(1,185,991)	(60,054,224)
-	-		-	-	27,065,000
-	-		-	-	3,113,023
-	-		-	-	1,728,309
-	(251,700)		1,583,108	2,318,436	34,073,274
2,175,378	(4,459,233)		(911,097)	(7,702,629)	25,498,778
6,542,190	33,692,367	(1,345,458)	824,661	35,754,533	366,641,572
-	-	1,345,458	-	(3,923,580)	-
6,542,190	33,692,367		824,661	31,830,953	366,641,572
(60,801)	-		-	(13,355)	(261,056)
\$ 8,656,767	\$ 29,233,134		\$ (86,436)	\$ 24,114,969	\$ 391,879,294

CITY OF SURPRISE, ARIZONA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2025

Net change in fund balances - total governmental funds \$ 25,498,778

Amounts reported for governmental activities in the statement of activities net position are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation/amortization expense.

Expenditures for capitalized assets	123,263,940	
Less current year depreciation/amortization	(49,861,952)	
		73,401,988

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.

Capital contributions	32,498,941	
Disposals of assets	(518,399)	
		31,980,542

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (584,981)

Inventories are recorded using the purchases method in the governmental funds and an adjustment is made to record inventory using the consumption method for the statement of activities.

Change in inventory (261,056)

Governmental funds report City pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.

Pension contributions	22,570,147	
Pension expense	(20,769,654)	
		1,800,493

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. There is the same effect with premiums, discounts and similar items when debt is first issued. These items are current finance resources or uses to governmental funds, whereas, the amounts are amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term liabilities and debt related items.

Amortization of issuance premium	664,521	
Principal paid	9,424,837	
Issuance of debt	(28,793,309)	
Issuance premium	(3,113,023)	
Interest payable	(56,873)	
		\$ (21,873,847)

See accompanying Notes to Financial Statements

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.

Increase in compensated absences	\$	(887,281)
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Internal service funds are used by management to charge the costs of employee healthcare, risk management, and workers' compensation. The net revenue of certain activities of the internal services funds is reported in the statement of activities.

Change in net position for the internal service funds (adjusted for interfund activity)		445,105
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Change in equity interest in joint venture		453,231
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Governmental funds report City OPEB contributions as expenditures when made. However, in the statement of activities, OPEB expense is the cost of benefits earned adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to OPEB, and the investment experience.

OPEB contributions	217,777	
OPEB expense	339,157	
		556,934

Change in net position of governmental activities	\$	<u>110,529,906</u>
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CITY OF SURPRISE, ARIZONA

Statement of Fund Net Position

Proprietary Funds

June 30, 2025

	Business-Type Activities		
	Water Fund	Sewer Fund	Sanitation Fund
ASSETS			
Current assets:			
Cash and investments	\$ 72,019,848	\$ 43,252,727	\$ 10,403,596
Restricted cash and investments	3,800,700	7,727,998	-
Receivables (net of allowances):			
Accounts	2,861,722	2,902,985	1,916,979
Other	140,827	-	-
Other assets	173,968	1,212,567	39,947
Inventory	4,070,034	948,480	374,797
Total current assets	<u>83,067,099</u>	<u>56,044,757</u>	<u>12,735,319</u>
NonCurrent assets:			
Advances to other funds	-	1,830,253	-
Net OPEB asset	157,334	171,095	138,118
Capital assets, non-depreciable	52,098,373	36,510,906	87,321
Capital assets, depreciable	181,563,298	382,069,415	16,878,262
Accumulated depreciation	(58,945,799)	(149,577,289)	(8,125,442)
Total noncurrent assets	<u>174,873,206</u>	<u>271,004,380</u>	<u>8,978,259</u>
Total assets	<u>257,940,305</u>	<u>327,049,137</u>	<u>21,713,578</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	895,121	980,677	785,574
Deferred outflows related to OPEB	16,606	19,108	14,848
Total deferred outflows of resources	<u>911,727</u>	<u>999,785</u>	<u>800,422</u>
Total assets and deferred outflows of resources	<u>\$ 258,852,032</u>	<u>\$ 328,048,922</u>	<u>\$ 22,514,000</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,453,355	\$ 7,094,875	\$ 298,564
Accrued payroll and related taxes	109,251	123,952	96,129
Deposits	268,674	256,874	94,173
Unearned revenue	-	386,919	102,574
Claims payable	-	-	-
Compensated absences payable, due in less than one year	249,626	238,796	131,727
Matured bond interest payable	-	476,125	-
Matured bonds and loans payable	-	1,195,000	-
Bonds, loans, and payables, due in less than one year	66,462	2,681,261	-
Total current liabilities	<u>2,147,368</u>	<u>12,453,802</u>	<u>723,167</u>
NonCurrent liabilities:			
Compensated absences payable, due in more than one year	390,440	373,501	206,034
Bonds, loans, and payables, due in more than one year	256,937	33,712,864	-
Claims payable	-	-	-
Net pension liability	4,068,250	4,457,099	3,570,369
Net OPEB liability	625	753	568
Total noncurrent liabilities	<u>4,716,252</u>	<u>38,544,217</u>	<u>3,776,971</u>
Total liabilities	<u>6,863,620</u>	<u>50,998,019</u>	<u>4,500,138</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	267,610	293,188	234,859
Deferred inflows related to OPEB	62,727	68,935	55,251
Total deferred inflows of resources	<u>330,337</u>	<u>362,123</u>	<u>290,110</u>
Total liabilities and deferred inflows of resources	<u>7,193,957</u>	<u>51,360,142</u>	<u>4,790,248</u>
NET POSITION			
Net investment in capital assets	174,265,135	225,436,906	8,840,141
Restricted for:			
Capital projects	31,821,267	4,743,700	-
Debt service	-	10,293	-
OPEB	157,334	171,095	138,118
Unrestricted	45,414,339	46,326,786	8,745,493
Total net position	<u>\$ 251,658,075</u>	<u>\$ 276,688,780</u>	<u>\$ 17,723,752</u>
Difference between business-type adjustments to assets and liabilities			
Net position of business-type activities			

		Governmental Activities	
Stormwater Fund	Total Enterprise Funds	Internal Service Funds	
\$ 7,642,216	\$ 133,318,387	\$ 25,603,421	
371,546	11,900,244	-	
1,382,571	9,064,257	-	
-	140,827	456,145	
1,978	1,428,460	3,860	
-	5,393,311	-	
<u>9,398,311</u>	<u>161,245,486</u>	<u>26,063,426</u>	
-	1,830,253	-	
24,667	491,214	21,137	
-	88,696,600	-	
19,778,925	600,289,900	-	
(2,138,667)	(218,787,197)	-	
<u>17,664,925</u>	<u>472,520,770</u>	<u>21,137</u>	
<u>27,063,236</u>	<u>633,766,256</u>	<u>26,084,563</u>	
140,553	2,801,925	119,904	
2,715	53,277	2,296	
143,268	2,855,202	122,200	
<u>\$ 27,206,504</u>	<u>\$ 636,621,458</u>	<u>\$ 26,206,763</u>	
\$ 42,298	\$ 8,889,092	\$ 161,464	
14,725	344,057	15,236	
-	619,721	-	
37,488	526,981	-	
-	-	5,019,499	
1,398	621,547	36,036	
-	476,125	-	
-	1,195,000	-	
-	2,747,723	-	
<u>95,909</u>	<u>15,420,246</u>	<u>5,232,235</u>	
2,187	972,162	56,363	
-	33,969,801	-	
-	-	414,640	
638,804	12,734,522	544,958	
106	2,052	89	
<u>641,097</u>	<u>47,678,537</u>	<u>1,016,050</u>	
<u>737,006</u>	<u>63,098,783</u>	<u>6,248,285</u>	
42,021	837,678	35,846	
9,911	196,824	8,471	
<u>51,932</u>	<u>1,034,502</u>	<u>44,317</u>	
<u>788,938</u>	<u>64,133,285</u>	<u>6,292,602</u>	
17,640,258	426,182,440	-	
-	36,564,967	-	
-	10,293	-	
24,667	491,214	21,137	
8,752,641	109,239,259	19,893,024	
<u>\$ 26,417,566</u>	<u>\$ 572,488,173</u>	<u>\$ 19,914,161</u>	
	4,936,612		
	<u>\$ 577,424,785</u>		

See accompanying Notes to Financial Statements

CITY OF SURPRISE, ARIZONA

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2025

	Business-Type Activities		
	Water Fund	Sewer Fund	Sanitation Fund
OPERATING REVENUES			
Charges for services	\$ 27,245,344	\$ 25,716,555	\$ 17,099,798
Other revenue	406,844	503,041	25,099
Total operating revenues	<u>27,652,188</u>	<u>26,219,596</u>	<u>17,124,897</u>
OPERATING EXPENSES			
Costs of sales and services	16,158,849	12,970,865	10,902,018
Personnel services	-	-	-
Contractual services, materials, and supplies	-	-	-
Insurance claims, premiums, and administrative expenses	-	-	-
Indirect costs	3,155,152	2,073,600	2,474,834
Depreciation/amortization	5,656,995	11,377,443	1,536,266
Total operating expenses	<u>24,970,996</u>	<u>26,421,908</u>	<u>14,913,118</u>
Operating income/(loss)	<u>2,681,192</u>	<u>(202,312)</u>	<u>2,211,779</u>
NONOPERATING REVENUES/(EXPENSES)			
Interest revenue	3,454,811	2,418,542	558,019
Developer reimbursement	(425,772)	(327,400)	-
Gain/(Loss) on disposal of capital assets	230,689	-	76,139
Amortization on bond premium	-	231,452	-
Interest and fiscal charges	(7,310)	(1,195,386)	-
Total nonoperating revenues/(expenses)	<u>3,252,418</u>	<u>1,127,208</u>	<u>634,158</u>
Income/(loss) before contributions and transfers	5,933,610	924,896	2,845,937
Transfers in	1,303,582	-	-
Transfers out	(702,570)	(2,155,033)	(45,375)
Capital contributions	33,362,045	11,412,386	-
Change in net position	39,896,667	10,182,249	2,800,562
Total net position - June 30, 2024, as previously reported	<u>211,803,582</u>	<u>266,541,821</u>	<u>14,945,975</u>
Change in accounting principle	(42,174)	(35,290)	(22,785)
Total net position - June 30, 2024, as restated	<u>211,761,408</u>	<u>266,506,531</u>	<u>14,923,190</u>
Total net position - June 30, 2025	<u>\$ 251,658,075</u>	<u>\$ 276,688,780</u>	<u>\$ 17,723,752</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Changes in net position of business-type activities

See accompanying Notes to Financial Statements

		Governmental Activities	
Stormwater Fund	Total Enterprise Funds	Internal Service Funds	
\$ 3,184,126	\$ 73,245,823	\$ 27,437,567	
-	934,984	609,332	
<u>3,184,126</u>	<u>74,180,807</u>	<u>28,046,899</u>	
1,112,503	41,144,235	-	
-	-	760,532	
-	-	491,199	
-	-	27,545,978	
306,427	8,010,013	-	
676,036	19,246,740	-	
<u>2,094,966</u>	<u>68,400,988</u>	<u>28,797,709</u>	
<u>1,089,160</u>	<u>5,779,819</u>	<u>(750,810)</u>	
373,816	6,805,188	968,224	
-	(753,172)	-	
-	306,828	-	
-	231,452	-	
-	(1,202,696)	-	
<u>373,816</u>	<u>5,387,600</u>	<u>968,224</u>	
1,462,976	11,167,419	217,414	
-	1,303,582	-	
(13,440)	(2,916,418)	-	
<u>1,072,799</u>	<u>45,847,230</u>	<u>-</u>	
2,522,335	55,401,813	217,414	
23,895,457	517,186,835	19,701,749	
(226)	(100,475)	(5,002)	
23,895,231	517,086,360	19,696,747	
<u>\$ 26,417,566</u>	<u>\$ 572,488,173</u>	<u>\$ 19,914,161</u>	
	(227,691)		
	<u>\$ 55,174,122</u>		

CITY OF SURPRISE, ARIZONA

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2025

	Business-Type Activities		
	Water Fund	Sewer Fund	Sanitation Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 26,827,519	\$ 25,204,665	\$ 16,850,310
Cash receipts from interfund services provided	-	-	-
Payments to employees	(5,439,462)	(5,923,810)	(4,937,604)
Payments to suppliers	(13,162,197)	(10,731,483)	(8,596,669)
Payments for insurance claims and expenses	-	-	-
Other operating cash receipts	406,844	503,041	25,099
Net cash provided/(used) by operating activities	<u>8,632,704</u>	<u>9,052,413</u>	<u>3,341,136</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	-	829,230	-
Cash paid to other funds	(702,570)	(2,155,033)	(45,375)
Net cash provided/(used) by noncapital financing activities	<u>(702,570)</u>	<u>(1,325,803)</u>	<u>(45,375)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds received from development fees	7,175,537	2,200,851	-
Proceeds from debt	-	15,091,061	-
Principal and interest paid on bonds, loans and payables	(75,915)	(6,304,558)	-
Sale/acquisition of capital assets	(4,129,056)	(20,456,115)	(4,516,150)
Developer reimbursements	(425,772)	(327,400)	-
Net cash provided/(used) by capital and related financing activities	<u>2,544,794</u>	<u>(9,796,161)</u>	<u>(4,516,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest income/(loss)	3,454,811	2,418,542	558,019
Net cash provided/(used) by investing activities	<u>3,454,811</u>	<u>2,418,542</u>	<u>558,019</u>
Net increase/(decrease) in cash and cash equivalents	13,929,739	348,991	(662,370)
Balances - beginning of year	61,890,809	50,631,734	11,065,966
Balances - end of the year	<u>\$ 75,820,548</u>	<u>\$ 50,980,725</u>	<u>\$ 10,403,596</u>
Reconciliation of operating income/(loss) to net cash provided/ (used) by operating activities:			
Operating income/(loss)	\$ 2,681,192	\$ (202,312)	\$ 2,211,779
Adjustments to reconcile operating income/(loss) to net cash provided/ (used) by operating activities:			
Depreciation/Amortization expense	5,656,995	11,377,443	1,536,266
Changes in assets and liabilities:			
Accounts receivable	(400,510)	(535,420)	(271,692)
Other receivables	(78,188)	-	-
Other assets	(114,680)	(1,139,910)	(4,170)
Inventory	633,886	41,423	(114,049)
Accounts payable	(121,821)	(602,536)	(199,431)
Accrued payroll and related taxes	20,301	34,062	18,205
Deposits	60,873	147	4,167
Unearned revenue	-	23,383	18,037
Compensated absences	46,602	115,707	17,137
Net pension liability	282,610	(30,548)	153,020
Claims payable	-	-	-
Net OPEB asset/liability	(34,556)	(29,026)	(28,133)
Net cash provided/(used) by operating activities	<u>\$ 8,632,704</u>	<u>\$ 9,052,413</u>	<u>\$ 3,341,136</u>
NonCash investing, capital, and financing activities			
Capital asset contributions from developers	\$ 26,186,508	\$ 9,211,535	\$ -
Capital asset contributions to/from other funds/governmental activities	1,303,582	-	-
Lease/SBITA arrangements	392,004	374,158	-
Total noncash investing, capital, and financing activities	<u>\$ 27,882,094</u>	<u>\$ 9,585,693</u>	<u>\$ -</u>
Reconciliation to Statement of Net Position			
Cash and investments	\$ 72,019,848	\$ 43,252,727	\$ 10,403,596
Restricted cash and investments	3,800,700	7,727,998	-
Total cash and investments	<u>\$ 75,820,548</u>	<u>\$ 50,980,725</u>	<u>\$ 10,403,596</u>

		Governmental	
		Activities	
Stormwater	Total	Internal	
Fund	Enterprise	Service	
	Funds	Funds	
\$ 3,026,217	\$ 71,908,711	\$ -	
-	-	27,090,521	
(839,534)	(17,140,410)	(722,104)	
(604,036)	(33,094,385)	(889,608)	
-	-	(25,914,551)	
-	934,984	1,730,052	
<u>1,582,647</u>	<u>22,608,900</u>	<u>1,294,310</u>	
-	829,230	-	
(13,440)	(2,916,418)	-	
<u>(13,440)</u>	<u>(2,087,188)</u>	<u>-</u>	
-	9,376,388	-	
-	15,091,061	-	
-	(6,380,473)	-	
(128,852)	(29,230,173)	-	
-	(753,172)	-	
<u>(128,852)</u>	<u>(11,896,369)</u>	<u>-</u>	
373,816	6,805,188	968,224	
<u>373,816</u>	<u>6,805,188</u>	<u>968,224</u>	
1,814,171	15,430,531	2,262,534	
6,199,591	129,788,100	23,340,887	
<u>\$ 8,013,762</u>	<u>\$ 145,218,631</u>	<u>\$ 25,603,421</u>	
\$ 1,089,160	\$ 5,779,819	\$ (750,810)	
676,036	19,246,740	-	
(155,865)	(1,363,487)	-	
-	(78,188)	773,674	
5,692	(1,253,068)	(3,590)	
-	561,260	-	
(33,226)	(957,014)	(393,150)	
1,002	73,570	4,408	
(238)	64,949	-	
(1,806)	39,614	-	
401	179,847	22,020	
5,993	411,075	14,455	
-	-	1,631,427	
(4,502)	(96,217)	(4,124)	
<u>\$ 1,582,647</u>	<u>\$ 22,608,900</u>	<u>\$ 1,294,310</u>	
\$ 1,072,799	36,470,842	\$ -	
-	1,303,582	-	
-	766,162	-	
<u>\$ 1,072,799</u>	<u>\$ 38,540,586</u>	<u>\$ -</u>	
\$ 7,642,216	\$ 133,318,387	\$ 25,603,421	
371,546	11,900,244	-	
<u>\$ 8,013,762</u>	<u>\$ 145,218,631</u>	<u>\$ 25,603,421</u>	

See accompanying Notes to Financial Statements

CITY OF SURPRISE, ARIZONA

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2025

	<u>Custodial Fund</u>
ASSETS	
Cash and investments	\$ 167,022
Total assets	<u>167,022</u>
LIABILITIES	
Accounts payable	<u>60,000</u>
Total liabilities	<u>60,000</u>
NET POSITION	
Restricted for:	
Individuals	<u>107,022</u>
Total net position	<u>\$ 107,022</u>

See accompanying Notes to Financial Statements

CITY OF SURPRISE, ARIZONA

Statement of Changes in Fiduciary Net Position

Fiduciary Fund

For the Year Ended June 30, 2025

	<u>Custodial Fund</u>
ADDITIONS	
Contributions:	
Employee contributions	\$ 784,817
Total contributions	<u>784,817</u>
Total additions	<u>784,817</u>
 DEDUCTIONS	
Claim settlement	<u>867,069</u>
Total deductions	<u>867,069</u>
 Net increase/(decrease) in net position	 <u>(82,252)</u>
 Net position - beginning	 <u>189,274</u>
Net position - end of the year	<u>\$ 107,022</u>

See accompanying Notes to Financial Statements



SURPRISE

ARIZONA



FINANCIAL SECTION – NOTES TO THE FINANCIAL STATEMENTS



S U R P R I S E

A R I Z O N A



FINANCIAL SECTION – NOTES TO THE FINANCIAL STATEMENTS

The Financial Section is divided into seven subsections. The fifth subsection is also comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments. In addition to the government-wide and fund financial statements, the third component of the Basic Financial Statements, the notes to the basic financial statements, are an integral part of the financial statements and include a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying financial statements.



SURPRISE

ARIZONA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Surprise, Arizona (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Implementation of New Accounting Principles

For the year ended June 30, 2025, the City implemented the following GASB Statements:

GASB Statement No. 101, *Compensated Absences*. The objective of the statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The statement requires that liabilities be recognized for leave that has not been used, is attributable to services already rendered, accumulates and the leave is more likely than not to be paid in cash or settled through non-cash means. This pronouncement resulted in a prior period adjustment of \$840,975 and \$100,475 to the net positions of Governmental and Business Type Activities, respectively, due to the change in accounting principle.

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

A. REPORTING ENTITY

The City is located approximately 20 miles northwest of downtown Phoenix and was incorporated in 1960 under the provision of the Arizona Constitution. During 2003, the voters approved the Home Rule, an alternative expenditure limitation for budget years through June 30, 2007. City of Surprise voters approved an Alternative Expenditure Limitation (Permanent Base Adjustment) on November 7, 2006. The City is governed by an elected mayor, and a six-member council, and offers the following services: public safety (police, fire-medical, and court), highways and streets, sanitation, water, sewer, stormwater, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

Component Units

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. A primary government is considered financially accountable for another organization when it can impose its will or have a financial benefit or burden relationship. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The following entities are blended component units of the City:

Various *Street Lighting Improvement Districts* (SLIDs) are maintained by the City for developing areas, and the City's council is the board for the SLIDs. The SLID property tax assessment rates are approved by the City's council. The SLIDs are reported in a special revenue fund.

Marley Park Community Facilities District (CFD) is maintained by the City for a developing area. The CFD's board is the same as the City's council. CFD property tax rates are approved by the City's council. The CFD is reported in a special revenue fund.

For the fiscal year ended June 30, 2025, the City had no discretely presented component units. Separately issued financial statements are not prepared for any of the component units.

Related Organizations

A related organization is one for which the primary government is not financially accountable even though the primary government appoints a voting majority of the organization's governing board.

Excluded Organizations

Although there are schools located within the geographic boundaries of the City, school districts are separate from the municipalities in which they are located, with their own elected officials and taxing powers. Consequently, this report does not include the activities of the area school districts.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

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

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with the service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the receipts of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenue, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net position is reported as restricted when constraints placed on net position is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Using a fund accounting system, amounts are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activity. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. NonMajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end and on behalf of the government are also recognized as revenue. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. General capital asset acquisitions are reported as expenditures. Issuances of general long-term debt and acquisitions under lease contracts and subscription-based information technology arrangements are reported as other financing sources. Major governmental funds include the following:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **General Capital Projects Fund**, a capital projects fund, accounts for revenues and expenditures relating to the acquisition of capital items.
- The **General Government Development Fee Fund***, a special revenue fund, accounts for revenues and expenditures associated with general government development impact fees assessed to fund infrastructure and other expenditures for growth-related general government projects.
- The **Highway User Revenue Fund***, a special revenue fund, accounts for State shared highway user revenues consisting of state taxes collected on gasoline, vehicle registration, vehicle license tax, and a number of other additional transportation related fees and expenditures that are legally restricted to expenditures for transportation and the construction, repairs, and maintenance of public works and streets.
- The **Transportation Improvement Fund***, a special revenue fund, accounts for revenues and expenditures that are legally restricted to expenditures for existing roadway corridor improvements and the related costs of the construction of new roadways.
- The **Debt Service Fund**, a debt service fund, accounts for revenues and expenditures that are legally restricted for the payment of principal, interest, and associated costs of long-term debt of the City.

Proprietary and Fiduciary Funds

All proprietary and custodial funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues/additions are recorded when earned and expenses/deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Major proprietary funds include the following:

- The **Water Fund** accounts for the provision of the water treatment and distribution to residential and commercial customers of the City.
- The **Sewer Fund** accounts for sanitary sewer services provided to the residential and commercial customers of the City.
- The **Sanitation Fund*** accounts for trash collection services provided to the residential and some commercial customers of the City.
- The **Stormwater Fund*** accounts for stormwater management services provided to the residential and commercial customers of the City.

* These funds have not met the criterion which mandates they be reported separately as major funds. However, the City has chosen to present these funds as major funds.

In addition, the City reports the following fund types:

- **Internal service funds** are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The funds account for transactions of the City's internal insurance activities which includes general insurance, health insurance programs, and workers' compensation.
- **Custodial fund** (not included in government-wide statements) accounts for employee contributions to their flexible spending accounts.

C. DEPOSITS AND INVESTMENTS

Cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less, including amounts on deposit with the Local Government Investment Pool.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

D. RESTRICTED ASSETS

Restricted cash and investments reported in the statements are comprised of restricted deposits for development and construction agreements, for outstanding debt amounts and other contractual requirements.

E. RECEIVABLES AND PAYABLES

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Fund balance resulting from advances to other funds is shown as nonspendable and committed amounts.

All accounts receivable are shown net of allowance for uncollectible amounts when applicable.

F. INVENTORIES AND PREPAID ITEMS

Inventories consist of expendable supplies held for consumption. For the governmental funds, inventories are reported using the purchases method: expenditures are incurred as inventory is purchased and an adjustment is made at year end directly to inventory and fund balance. For the proprietary funds and government wide statements inventories are reported using the consumption method: inventory is recorded when it is purchased and expensed as it is used. Inventory is valued using the average cost method. Certain payments to vendors reflect costs applicable to future accounting periods and are reported using the consumption method in both government-wide and fund financial statements and are therefore recorded as prepaid items.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, intangibles (e.g. software, rights such as water rights, and right-to-use lease assets), and infrastructure assets (e.g., streets, traffic signals and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City’s policy defines capital assets as assets with an initial individual cost greater than \$10,000 and an estimated useful life of two or more years. Land, right-of-ways, and easements regardless of cost are capitalized. Donated (contributed) capital assets, works of art, historical treasures, and any capital assets the City may receive as part of a service concession arrangement are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Significant outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation and amortization of capital assets is computed and recorded according to the straight-line method. Estimated useful lives of the various classes of depreciated and amortized capital assets are as follows:

<u>Assets</u>	<u>Useful life (Years)</u>
Buildings and improvements	20-50
Buildings and system	20-50
Improvements other than buildings	5-50
Equipment and vehicles	2-15
Intangibles	5-30
Infrastructure	5-50
Right-to-use subscription assets	2-5
Right-to-use lease assets:	
Land and land improvements	5-50
Buildings and improvements	5-50
Equipment and vehicles	2-15

Intangible right-to-use lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the City is reasonably certain of being exercised - then the lease asset is amortized over the useful life of the underlying asset.

Intangible right-to-use subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying IT assets.

H. DEFERRED OUTFLOWS OF RESOURCES

The City recognizes the consumption of net assets that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions, other post employment benefits (OPEB), and bond refunding.

I. COMPENSATED ABSENCES

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example, paid in cash to the employee) during or upon separation from employment. Based on the criteria listed, one type of leave qualifies for liability recognition for compensated absences – Paid Time Off (PTO). The liability for compensated absences includes salary-related benefits, where applicable.

Vested or accumulated PTO leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated PTO leave that is not expected to be liquidated with expendable available financial resources is reported in the government-wide statements. No expenditure is reported for these amounts in the governmental fund statements. Vested or accumulated PTO leave in proprietary funds and the government-wide statements is recorded as an expense and liability of those funds as the benefits accrue to employees. The internal service funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities schedule.

J. LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. POSTEMPLOYMENT BENEFITS

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For the governmental activities, the General Fund, Highway User Revenue Fund, Transportation Improvement Fund, the nonmajor funds – Grants Fund, SPD Towing Fund, Neighborhood Revitalization Fund, Municipal Court FARE Fund, Municipal Court JCEF Fund, and the Municipal Court MFTG Fund; the Employee Healthcare Fund, Workers' Compensation Fund, and the Risk Management Fund have been used in prior years to liquidate the Pension and OPEB liabilities.

L. DEFERRED INFLOWS OF RESOURCES

The City recognizes the acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions, other postemployment benefits (OPEB), bond refundings, and lease accounting, and in connection with receivables for revenues that are not considered to be measurable and available to liquidate liabilities of the current period.

M. FUND BALANCE

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which those funds can be spent. The classifications of fund balance are NonSpendable, Restricted, Committed, Assigned, and Unassigned.

NonSpendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as inventory or prepaid items, or because resources legally or contractually must remain intact.

Restricted fund balances are the portion of fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantors, laws and regulations of other governments, or enabling legislation.

Committed fund balances are self-imposed limitations by the highest level of decision making authority, namely Mayor and City Council, prior to the end of the reporting period. Mayor and City Council approval is required to

commit resources or to rescind the commitment through a City Council resolution. Only City Council can remove or change the constraints placed on committed fund balance through formal council resolution.

Assigned fund balances are limitations imposed internally by management based on the intended use of the funds. The City Council has designated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO). Approval of the CFO is necessary to establish, modify or rescind an assignment of fund balance.

Unassigned fund balances represent the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

N. MINIMUM FUND BALANCE

The minimum fund balances are not intended to be spent. The purpose of the minimum fund balance is to ensure the City has adequate resources to meet its needs. If the necessity arises to draw down a fund balance below the minimum requirements that have been set, a plan to replenish the minimum fund balance will be presented to the City Council for approval.

Minimum fund balance requirements will be evaluated annually for long-term adequacy and use requirements.

The City has formally adopted a minimum fund balance policy for the following governmental funds:

The General Fund will maintain a reserve equal to three months of budgeted personnel, supplies, and services for the General Fund, and Highway User Revenue Fund. This amount will be allocated across a three-part reserve as follows:

1. Ten percent (10%) will be dedicated to an Emergency Reserve for unexpected, large-scale expenses resulting from events where immediate, remedial action must be taken to protect the health and safety of residents, all unassigned fund balance has been exhausted, and no amount previously appropriated by the City Council is otherwise available. Any use of the Emergency Reserve must be approved by the City Manager or designee. When this occurs, the City Manager shall provide a summary report to the City Council as soon as practical on the usage of these funds and have City Council approve any necessary budget amendments. At that time, the City Manager will also present a plan to restore the Emergency Reserve within the next fiscal year following the fiscal year in which the event occurred. For the year ended June 30, 2025, this balance totaled \$5.9 million.
2. Sixty percent (60%) will be dedicated to an Operating Reserve for unexpected events such as failure of the state to remit revenues to the City, loss of state shared revenues, or other impairment of a significant funding source for the remainder of the fiscal year.

The Operating Reserve may also be used for unexpected mandates or other events that cause the City to incur unplanned expenses. The Operating Reserve allows for the continuance of critical City services due to these unanticipated events and is done so after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Operating Reserve, and associated budget amendments, must be approved by the City Council and include a

repayment plan that projects to restore the Operating Reserve within two fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, the operating reserve totaled \$35.2 million.

3. Thirty percent (30%) will be dedicated to a Stabilization Reserve to provide funding to offset reductions in revenues resulting from fluctuations in the economic cycle that cannot be otherwise absorbed by the operating budget. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical City activities and is used after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Budget Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve within the three fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, the stabilization reserve totaled \$17.6 million.

General Capital Projects Fund — \$1.0 million

Transportation Improvement Fund — \$500,000

Tourism Fund — \$5,000

Sports & Tourism Fund — will have a minimum fund balance of \$600,000. Any excess fund balance remaining as of June 30 shall be remitted to the General Fund.

Street Light Improvement Districts Fund — SLIDs have a maximum levy limit of \$1.20 per \$100 of assessed valuation in accordance with A.R.S. 48-616. To the extent that the levy limit has not been exceeded, taxes will be levied at a rate that will approach an individual ending fund balance reserve of 5% of its budgeted annual expenses.

These minimum fund balance policies do not affect the presentation of fund balance on the face of the financial statements. The City is in compliance with its established minimum fund balance policies.

O. NET POSITION

The government-wide, proprietary, and fiduciary fund financial statements present ending resources as net position. Net position is categorized to help signify their availability.

Net Investment in Capital Assets includes all capital assets of the City both depreciable and non-depreciable net of accumulated depreciation and outstanding debt balances attributable to the acquisition, construction or improvement of these assets. Net position in this category represents infrastructure of the City and is not available to meet the City's needs.

Restricted Net Position consists of amounts that have external restrictions imposed upon them by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Net position in this category represents amounts that are not available to meet the City's needs as they have been promised for other purposes.

Unrestricted Net Position represents amounts that have not been restricted for any project or other purpose. These amounts are available to meet any needs of the City. While unrestricted net position is technically available to be spent by the City, it is important to remember that the City has established financial policies that would

prevent this. There are certain self-imposed criteria, such as maintaining a minimum operating fund balance that would further reduce the amount the City is willing to spend.

P. MINIMUM NET POSITION

Minimum net position is not intended to be spent. The purpose of the minimum net position balance is to ensure the City has adequate resources to meet its operational needs in the event of unusual and unforeseen circumstances.

The Water Fund will have a four-part reserve as follows:

1. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Water Fund. For the year ended June 30, 2025, this balance totaled \$4.1 million.
2. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2025, this balance totaled \$3.8 million.
3. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total charges for services revenue. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, this balance totaled \$1.2 million.
4. The City will maintain a Resource Portfolio Reserve equal to fifteen percent (15%) of the total cost of delivery and capital charges for Municipal and Industrial water plus the Phoenix Active Management Area (AMA) Underground Storage charges multiplied by the total amount of the City's Central Arizona Project (CAP) allocation. For the year ended June 30, 2025, this balance totaled \$887,900.

The Sewer Fund will have a three-part reserve as follows:

1. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Wastewater Fund. For the year ended June 30, 2025, this balance totaled \$4.3 million.
2. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2025, this balance totaled \$7.7 million.
3. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, this balance totaled \$1.3 million.

The Sanitation Fund will have a four-part reserve as follows:

1. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Sanitation Fund. For the year ended June 30, 2025, this balance totaled \$3.2 million.
2. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2025, this balance totaled \$278,800.
3. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, this balance totaled \$839,000.
4. As the Sanitation Fund has excess revenues, the City will maintain a phased Contingency Reserve equal to one-half percent (0.5%) beginning in FY2022 and increases to one percent (1%) for each subsequent year through FY2024. For the year ended June 30, 2025, this balance was \$126,100.

The Stormwater Fund will have a three-part reserve as follows:

1. The City will maintain an amount equal to the average budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the Stormwater Fund. For the year ended June 30, 2025, this balance totaled \$274,400.
2. The City will maintain an amount equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year for repair and replacement. For the year ended June 30, 2025, this balance totaled \$371,546.
3. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2025, this balance totaled \$169,000.

The Risk Management Fund will maintain an amount that, together with purchased insurance policies, will adequately indemnify the City. The appropriate funding level will be set at three times the maximum annual loss of \$250,000, equal to \$750,000, which will be approved by the City Council. For the year ended June 30, 2025, the balance was \$9.6 million.

The Employee Healthcare Trust Fund ("Trust Fund") will maintain an amount at a level which, together with purchased insurance policies (individual and aggregate stop loss), will adequately indemnify the City. The City has established an Adverse Times Reserve. The purpose of this reserve is to address cash flow needs caused by

periods in which claim payments exceed projections. The target amount of this reserve is at least twenty-five percent (25%) of expected annual claims. If, at any time prior to the end of the fiscal year, the Trust Fund's target reserve is met and fully funded for the entire fiscal year based on the original budget projections approved by the City Council, the Finance Director shall document such funding and, after consulting with the City Manager, may conduct an evaluation of the claims incurred by the Trust Fund year to date, and if fiscally and financially prudent based on the claims incurred, transfer from the City's various operating funds only that portion of the employer premium necessary to cover actual claims incurred, such that the Trust Fund revenues are equal to the Trust Fund expenses, and the Trust Fund account experiences a zero change in net position. At all times the City will continue to transfer and deposit into the Trust Fund 100% of the monthly employee premiums collected. For the year ended June 30, 2025, the balance was \$6.6 million.

The Workers' Compensation Fund will maintain an amount which, together with the purchased excess insurance policy, will adequately indemnify the City. The City has established an Adverse Times Reserve of \$2,000,000. The purpose of this reserve is to maintain the regulatory required reserve. For the year ended June 30, 2025, the balance was \$3.8 million.

The City is in compliance with its established minimum net position policies.

Q. PROPERTY TAX

An annual primary tax levy is limited to an increase of two percent over the previous year's maximum allowable primary levy plus an increased dollar amount due to a net gain in property not taxed the previous year (Section 42-17051, Arizona Revised Statutes). The two percent increase is based on the City's "maximum allowable levy" for the prior year.

Property taxes are recognized as revenues in the year they are levied and collected, or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the year-end for which they are levied, are reported as unavailable revenues.

The County levies real property taxes on or before the third Monday in August, that become due and payable in two equal installments. The first installment is due on the first day of October, and becomes delinquent after the first business day in November. The second installment is due on the first day of March of the next year, and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

R. GRANT REVENUES

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

S. INTEREST REVENUE

Investment revenue is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment revenue is included in other local revenue in the governmental fund financial statements and in non-operating revenues in the proprietary fund financial statements.

T. INTERFUND TRANSACTIONS

Interfund services provided or used are presented as revenues, expenditures or expenses. All other interfund transactions are reported as transfers.

U. ESTIMATES

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

V. LEASES / SBITAs

Leases - As lessee, the City recognizes lease liabilities with an initial, individual value of \$50,000 or more. The City does not have an incremental borrowing rate or any current debt instruments representing leasing arrangements as a basis for calculating such a rate. Therefore, the City uses discounted lease rates of comparable governmental entities in similar leasing arrangements to measure lease liabilities unless it can readily determine the interest rate implicit in the lease.

As lessor, the City recognizes receivables with an initial, individual value of \$50,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate the City charges the lessee) and the implicit rate cannot be determined, the City uses discounted lease rates of comparable governmental entities in similar leasing arrangements to measure lease receivables.

Subscription-based information technology arrangements - The City recognizes subscription liabilities with an initial, individual value of \$50,000 or more. The City does not have an incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate implicit in the arrangement. The City's estimated incremental borrowing rate is calculated as described above.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2025 are classified in the accompanying statements as follows:

<u>Government-Wide Financial Statements</u>	
Total cash and investments	\$ 538,309,718
Total restricted cash and investments	47,428,979
Subtotal	<u>585,738,697</u>
Government-wide total cash and investments	585,738,697
Plus: Fiduciary Fund cash and cash equivalents	167,022
Total	<u><u>\$ 585,905,719</u></u>

<u>Fund Financial Statements</u>	
<i>Governmental Funds</i>	
Cash and investments	\$ 379,387,910
Restricted cash and cash equivalents	35,528,735
<i>Enterprise Funds</i>	
Cash and investments	133,318,387
Restricted cash and cash equivalents	11,900,244
<i>Internal Service Funds</i>	
Cash and investments	25,603,421
<i>Custodial Fund</i>	
Cash and cash equivalents	167,022
Total	<u><u>\$ 585,905,719</u></u>

Deposits

Total cash and investments for the City as of June 30, 2025, are as follows:

City's deposits	\$ 267,111,208
Cash on hand	4,899
City's investments	317,489,733
Cash held by trustee	1,299,879
Total	<u><u>\$ 585,905,719</u></u>

A reconciliation of the bank balance of the City’s deposit balance as of June 30, 2025, follows:

Cash in bank	\$ 268,821,533
<i>Reconciling items:</i>	
Outstanding checks	(2,482,033)
Deposits in transit	772,468
Other	(760)
	<u>\$ 267,111,208</u>
Less:	
Custodial Fund	167,022
Total City deposits	<u>\$ 266,944,186</u>

Custodial Credit Risk– Deposits. Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, \$750,000 of the City’s deposits were covered by federal depository insurance. Of the remaining bank balance not covered by federal depository insurance, \$266,771,654 was covered by the pledging financial institution’s trust department or agent, but not in the City’s name and \$1,299,879 was not held by the City.

Investments

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

The City’s formal investment policy limits investment choices to the following:

1. Certificates of deposit in eligible depositories that must be insured or fully collateralized;
2. Interest bearing savings accounts in banks and savings and loan institutions doing business in the State of Arizona whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under Arizona Revised Statutes 35-323 (A);
3. Securities of or any other interests in any open-end management type investment company whose underlying investments are invested in securities allowed by state law, registered under the investment company act of 1940, as amended;
4. The pooled investment funds established by the State Treasurer pursuant to Arizona Revised Statute 35-326;
5. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities;
6. Bonds or other evidence of indebtedness of the State of Arizona or any of its counties, incorporated cities, towns, school districts, or special taxing districts, including registered warrants, substitute checks, and electronic funds transfers that bear interest pursuant to Arizona Revised Statutes 11-635;

7. Bonds, notes, or evidences of indebtedness of any county, municipal district, municipal utility, or special taxing district within the State of Arizona that are payable from revenues, earnings, or a special tax specifically pledged for the payment of the principal and interest on the obligations that are rated “A/A2” or the equivalent by a nationally recognized statistical rating organization;
8. Bonds, notes, or evidences of indebtedness issued by any county improvement district or municipal improvement district in the State of Arizona to finance local improvements authorized by law that are rated “A” or the equivalent by a nationally recognized statistical rating organization;
9. Commercial paper of prime quality; and
10. Bonds, debentures, notes or other evidences of indebtedness.

The City’s investments consisted of the following as of June 30, 2025:

Investment Type	Total Fair Value	Maturities			
		Less than 1 year	1-2 years	2-3 years	3-5 years
U. S. government securities	\$ 192,757,757	\$ 89,489,392	\$ 26,506,340	\$ 32,408,322	\$ 44,353,703
Corporate bonds	9,873,773	4,586,198	2,130,753	3,156,822	-
Money market mutual funds	1,417,274	1,417,274	-	-	-
Local government investment pool	113,440,929	113,440,929	-	-	-
	<u>\$ 317,489,733</u>	<u>\$ 208,933,793</u>	<u>\$ 28,637,093</u>	<u>\$ 35,565,144</u>	<u>\$ 44,353,703</u>

Credit Risk -Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of June 30, 2025, the City’s investments were rated as follows:

Investment Type	Amount	Minimum Legal Rating				
		AA-/AA+	A/A+	AAf/S1+	Not Rated	
U. S. government securities	\$ 192,757,757	N/A	\$ 108,426,617	\$ 84,331,140	\$ -	\$ -
Corporate bonds	9,873,773	A/A2	5,946,223	3,927,550	-	-
Money market mutual funds	1,417,274	N/A	-	-	-	1,417,274
Local government investment pool	113,440,929	N/A	-	-	113,440,929	-
	<u>\$ 317,489,733</u>		<u>\$ 114,372,840</u>	<u>\$ 88,258,690</u>	<u>\$ 113,440,929</u>	<u>\$ 1,417,274</u>

Custodial Credit Risk – Investments. All of the City’s security investments are held in the City’s name. The City’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the City’s portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk - The City's formal investment policy places a limit on certain investment choices as follows:

1. Certificates of deposits have a 50% sector limit with a 5% issuer limit.
2. Bonds or other evidences of indebtedness of the State of Arizona or any of its counties, incorporated cities, towns, school districts, or special taxing districts, including registered warrants, substitute checks, and electronic funds transfers that bear interest pursuant to Arizona Revised Statute 11-635 have a 25% sector limit and a 5% issuer limit.
3. Bonds, notes, or evidences of indebtedness of any county, municipal district, municipal utility, or special taxing district within the State of Arizona that are payable from revenues, earnings, or a special tax specifically pledged for the payment of the principal and interest on the obligations that are rated "A" or the equivalent by a nationally recognized statistical rating organization have a 25% sector limit and a 5% issuer limit.
4. Bonds, notes, or evidences of indebtedness issued by any county improvement district or municipal improvement district in the State of Arizona to finance local improvements authorized by law that are rated "A/A2" or the equivalent by a nationally recognized statistical rating organization have a 25% sector limit and a 5% issuer limit. All other eligible investment choices do not have a concentration limit placed on them by the City's investment policy.
5. Commercial paper of prime quality that is rated within the top two ratings by a nationally recognized rating agency, must be issued by corporations organized and doing business in the United States and are subject to a 10% sector limit and a 2% issuer limit.
6. Bonds, debentures, notes or other evidences of indebtedness that are denominated in United States dollars and carry at a minimum an "A/A2" or better rating, at the time of purchase, from at least two nationally recognized rating agencies and are subject to a 10% sector limit and a 2% issuer limit.

Investment in State Investment Pool - The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments.

Fair Value Measurements - The City uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, or inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset.

Investments are measured as follows:

	Disclosure of Fair Value Inputs		
	Total	Level 1	Level 2
Investments by Fair Value Level:			
U. S. government securities	\$ 192,757,757	\$ 192,757,757	\$ -
Corporate Bonds	9,873,773	-	9,873,773
Total investments by fair value level	\$ 202,631,530	\$ 192,757,757	\$ 9,873,773
External Investment Pool Measured at Fair Value:			
LGIP	113,440,929		
Total investments measured at fair value	\$ 316,072,459		
Investments Measured at Amortized Cost			
Money market mutual funds	1,417,274		
Total investments	\$ 317,489,733		

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

NOTE 3 – RECEIVABLES

Accounts receivable are recorded in the various funds and displayed in the financial statements net of an allowance for uncollectible accounts as follows at June 30, 2025:

<u>ACFR Fund Name</u>	<u>Receivables</u>	<u>Allowance</u>	<u>Net</u>
Governmental funds:			
General Fund	\$ 19,691,551	\$ 16,919,871	\$ 2,771,680
Total governmental funds	<u>\$ 19,691,551</u>	<u>\$ 16,919,871</u>	<u>\$ 2,771,680</u>
Proprietary funds:			
Water Fund	\$ 3,335,139	\$ 473,417	\$ 2,861,722
Sewer Fund	4,054,475	1,151,490	2,902,985
Sanitation Fund	2,855,541	938,562	1,916,979
Stormwater Fund	2,099,696	717,125	1,382,571
Total proprietary funds	<u>\$ 12,344,851</u>	<u>\$ 3,280,594</u>	<u>\$ 9,064,257</u>

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received, but not yet earned. The amounts reported in the governmental funds for the year ended June 30, 2025, are as follows:

<u>ACFR Fund Name</u>	<u>Unearned</u>	<u>Unavailable</u>
General Fund	\$ 718,329	\$ 1,858,264
Debt Service Fund	-	53,451
NonMajor Governmental Funds	4,352,925	1,113,335
Total	<u>\$ 5,071,254</u>	<u>\$ 3,025,050</u>

Proprietary funds also report unearned revenue in connection with resources that have been received, but not yet earned. The amounts reported in the proprietary funds for the year ended June 30, 2025, are as follows:

<u>ACFR Fund Name</u>	<u>Unearned</u>
Sewer Fund	\$ 386,919
Sanitation Fund	102,574
Stormwater Fund	37,488
Total	<u>\$ 526,981</u>

Lease receivables — The City leases land, buildings and building improvements to third parties under the provisions of various lease agreements. One of the buildings is a sublease to the third party. During the fiscal year ended June 30, 2025, the City recognized total lease-related revenues of \$726,566.

Housing rehabilitation loan program — The City has entered into several Housing Rehabilitation agreements utilizing Community Development Block Grant funds. These deferred loans are due upon the sale, transfer or foreclosure of the property. Due to the contingent nature of the repayment of these loans, there is an allowance recorded at 100% of the outstanding balance. The balance of the rehabilitation loans at June 30, 2025, is \$484,491.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2025, was as follows:

	Primary Government				Balance June 30, 2025
	Balance July 1, 2024	Increases	Decreases	Transfers	
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 263,982,010	\$ 17,043,068	\$ (285,141)	\$ -	\$ 280,739,937
Parks	8,607,783	-	-	-	8,607,783
Construction in progress	45,559,637	97,968,088	-	(124,775,129)	18,752,596
Total not being depreciated	<u>318,149,430</u>	<u>115,011,156</u>	<u>(285,141)</u>	<u>(124,775,129)</u>	<u>308,100,316</u>
Other capital assets:					
Buildings and improvements	253,783,569	734,623	(1,709,969)	52,580,127	305,388,350
Improvements other than buildings	52,883,619	1,438,342	-	9,648,520	63,970,481
Equipment and vehicles	72,187,053	11,351,425	(3,874,557)	3,002,574	82,666,495
Intangibles	12,040,834	15,465	(13,257)	-	12,043,042
Infrastructure	580,624,334	25,915,452	-	59,543,908	666,083,694
Right-to-use subscription assets	5,634,188	1,296,418	(133,852)	-	6,796,754
Right-to-use lease assets:					
Land and land improvements	11,380	-	(11,380)	-	-
Buildings and improvements	6,852,042	-	-	-	6,852,042
Equipment and vehicles	737,164	-	-	-	737,164
Total other capital assets	<u>984,754,183</u>	<u>40,751,725</u>	<u>(5,743,015)</u>	<u>124,775,129</u>	<u>1,144,538,022</u>
Total assets before depreciation/ amortization	<u>1,302,903,613</u>	<u>155,762,881</u>	<u>(6,028,156)</u>	<u>-</u>	<u>1,452,638,338</u>
Accumulated depreciation/amortization:					
Building and improvements	(119,029,409)	(9,893,585)	1,651,757	-	(127,271,237)
Improvements other than buildings	(18,625,836)	(5,919,766)	-	-	(24,545,602)
Equipment and vehicles	(48,535,785)	(6,894,147)	3,699,511	-	(51,730,421)
Intangibles	(9,495,988)	(710,855)	13,257	-	(10,193,586)
Infrastructure	(310,568,430)	(23,979,621)	-	-	(334,548,051)
Right-to-use subscription assets	(2,164,764)	(1,574,039)	133,852	-	(3,604,951)
Right-to-use lease assets:					
Land and land improvements	(8,535)	(2,845)	11,380	-	-
Buildings and improvements	(1,893,664)	(739,661)	-	-	(2,633,325)
Equipment and vehicles	(36,858)	(147,433)	-	-	(184,291)
Total accumulated depreciation/ amortization	<u>(510,359,269)</u>	<u>(49,861,952)</u>	<u>5,509,757</u>	<u>-</u>	<u>(554,711,464)</u>
Net capital assets governmental activities	<u>\$ 792,544,344</u>	<u>\$ 105,900,929</u>	<u>\$ (518,399)</u>	<u>\$ -</u>	<u>\$ 897,926,874</u>

Depreciation/amortization was charged by function as follows:

General government	\$ 2,626,198
Public safety	7,943,680
Public works and transportation	28,899,644
Community development	35,686
Culture and recreation	10,356,744
Total governmental activities depreciation/amortization expense	<u>\$ 49,861,952</u>

	Primary Government				Balance June 30, 2025
	Balance	Increases	Decreases	Transfers	
	July 1, 2024				
Business-type activities:					
Not being depreciated:					
Land	\$ 17,413,774	\$ 3,933,053	\$ -	\$ -	\$ 21,346,827
Water rights	31,738,535	699,810	-	-	32,438,345
Construction in progress	14,693,837	23,317,127	-	(3,099,536)	34,911,428
Total not being depreciated	63,846,146	27,949,990	-	(3,099,536)	88,696,600
Other capital assets:					
Buildings and system	514,104,214	35,420,664	(72,834)	1,356,755	550,808,799
Improvements other than buildings	11,299,999	-	-	903,280	12,203,279
Vehicles and equipment	30,949,244	7,074,897	(2,903,074)	839,501	35,960,568
Intangibles	551,092	-	-	-	551,092
Right-to-use subscription assets	-	766,162	-	-	766,162
Total other capital assets	556,904,549	43,261,723	(2,975,908)	3,099,536	600,289,900
Total assets before depreciation/ amortization	620,750,695	71,211,713	(2,975,908)	-	688,986,500
Accumulated depreciation/amortization:					
Buildings and system	(180,511,032)	(15,565,187)	3,895	-	(196,072,324)
Improvements other than buildings	(2,432,665)	(420,060)	-	-	(2,852,725)
Vehicles and equipment	(18,372,566)	(3,105,337)	2,309,850	-	(19,168,053)
Intangibles	(537,939)	(2,924)	-	-	(540,863)
Right-to-use subscription assets	-	(153,232)	-	-	(153,232)
Total accumulated depreciation/ amortization	(201,854,202)	(19,246,740)	2,313,745	-	(218,787,197)
Net capital assets business-type activities	\$ 418,896,493	\$ 51,964,973	\$ (662,163)	\$ -	\$ 470,199,303

Depreciation/amortization was charged by function as follows:

Water	\$ 5,656,995
Sewer	11,377,443
Sanitation	1,536,266
Stormwater	676,036
Total business-type depreciation/amortization expense	<u>\$ 19,246,740</u>

NOTE 5 - DEVELOPER AGREEMENTS

The City of Surprise has entered into agreements with developers for infrastructure related to commercial and residential development. The developers construct the infrastructure and convey the assets to the City. Based on the terms of the agreements, over a designated period of time, the City pays the developers for the infrastructure with collections of impact fees and other specified revenues, up to the maximum amount per agreement. Commitments to reimburse developers under these agreements are not currently recognized until the requirements of the agreements are met. If the term of the agreement expires before the maximum amount has been repaid, the City has no further obligation to continue making payments under the agreement.

Development agreements related to water system infrastructure will be reimbursed using water system impact fees. Total water system infrastructure value conveyed is \$25,629,990. Depending on the terms of the specific

agreement, this value is eligible for reimbursement during the next eight years. Once an agreement expires, water system fees are no longer eligible for developer reimbursement. As of June 30, 2025, \$20,364,363 had expired or been reimbursed, leaving a potential remaining balance of \$5,265,627.

Development agreement reimbursements related to wastewater system infrastructure will be calculated based on specified sales tax revenues. The total net value reimbursable for wastewater system infrastructure is \$15,863,666. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next twenty-five years. Once the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2025, \$451,520 had expired or been reimbursed, leaving a potential remaining balance of \$15,412,146.

Infrastructure installed in connection with development agreements related to transportation will be reimbursed using a portion of sales tax collections as prescribed in the agreements. The total net reimbursable value for this infrastructure is \$74,070,042 at June 30, 2025. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next twenty-five years. Once the agreements expire, no further developer reimbursement of the unpaid balance is required. As of June 30, 2025, \$3,954,189 had expired or been reimbursed, leaving a potential remaining balance of \$70,115,853.

Development agreements related to park infrastructure will be reimbursed using park impact fees. Total park infrastructure value conveyed is \$4,777,882. Depending on the terms of the specific agreement, this value is eligible for reimbursement through November 2030. Once an agreement expires, park impact fees are no longer eligible for developer reimbursement. As of June 30, 2025, the City has reimbursed \$1,966,031 leaving a potential balance remaining of \$2,811,851.

In addition, the City has entered into a number of developer agreements for infrastructure that has not yet been conveyed to the City. The total cost to be incurred under these agreements is currently indeterminable.

Tax Abatements—The City of Surprise participates in a tax abatement program, foreign trade zone and a sales tax incentive program.

Foreign Trade Zones. The City of Surprise provides property tax abatements in any area of the City deemed to be foreign trade zone in accordance with Section 44-6501, Arizona Revised Statutes. The State of Arizona, any county, city or town within the state or a public or private corporation or any combination thereof can apply to the foreign trade zones board, United States Department of Commerce, for the right to establish, operate and maintain a foreign trade zone and subzones. For tax purposes, property in foreign trade zones is classified as class six property in accordance with Section 42-12006, Arizona Revised Statutes. The change in tax classification is administered by the County who levies and collects property taxes on the City's behalf. The property would otherwise be class one property. Class six foreign trade zones have a property tax assessment ratio of 5 percent compared to class one properties which have an assessment ratio of 16.5 percent. For fiscal year 2025, \$27,452 of property taxes were abated by this program.

Sales Tax Incentive Program. The City of Surprise administers a sales tax (transaction privilege tax) incentive program in accordance with Arizona Revised Statutes 42-6010. The City has entered into agreements with specific businesses to return a portion of the sales tax generated by the business and paid to the Arizona State Department of Revenue. The City will return up to 50% of the sales tax generated by the business. The amount of taxes paid and returned is determined by the City's review of the monthly reports received from the Arizona State Department of Revenue. The exact amount of taxes abated during fiscal year 2025 cannot be disclosed in accordance with Arizona Revised Statutes 42-2002.

The City has entered into a development agreement to reimburse developers for the construction of public infrastructure that will benefit the community. These reimbursements are paid over time from collections within a defined area. For the fiscal year ended June 30, 2025, the City reimbursed \$16,249,397.

Contracts Payable

General Government Activities

A balance of \$16,196,287 is owed based on improvements and deposits paid toward improvements made by developers per development agreements for various infrastructure items the City will own, and amounts owed to contractors for the retainage of on-going projects.

NOTE 6 – SIGNIFICANT COMMITMENTS

The City of Surprise has active construction projects as of June 30, 2025. At year end, the City commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment	Funding Source
136th Ave Junction Structure	\$ 499,637	\$ 223,592	Sewer Utility Capital
163rd Ave Roadway Improvements	1,647,496	10,732,379	General Capital Projects Fund
Cactus Rd (Cotton to Reems)	7,042,412	26,270,269	In Lieu Developer Revenue
Cactus Road (Litchfield to RR Track)	736,406	7,840,444	General Capital Projects Fund
Elm Street (Civic Center Dr to Bullard Ave)	9,386,220	5,817,438	General Capital Projects Fund
Happy Valley Rd (163rd to Rancho Mrcdo)	194,769	2,526,086	General Capital Projects Fund
Multigenerational Community Center	7,650,533	12,834,463	ARPA Grant Funding
Plant Capacity Increase / Enhancement	52,182,894	44,160,829	Sewer Utility Capital
Police Substation #1	1,752,833	1,055,714	Police Development Fee
Rancho Mercado Well No. 2	4,047,524	4,762,512	Wtr Res Dev Fee 2020
Solar Biosolids Dryer Phase II	2,401,519	1,521,608	Sewer Utility Capital
SPA 1 Headworks	251,142	2,008,459	Sewer Utility Capital
SPA 1 System Optimization	243,821	433,973	Wtr Res SPA 2 Dev Fee
SPA1 Recharge Expansion	1,878,305	547,055	Sewer Utility Capital
Traffic Signal (Bullard and Buck O'Neil)	79,569	543,578	In Lieu Developer Revenue
Traffic Signal (Parkview Place and Vista Center)	300,668	303,783	In Lieu Developer Revenue
Traffic signal (Perryville and Desert Cove)	470,602	474,016	In Lieu Developer Revenue
40 Acres (185th Ave and Deer Valley Rd)	303,000	1,062,000	General Capital Projects Fund
Regional Communications Tower #2	379,967	3,796,320	General Capital Projects Fund
Fiber Network (163rd Ave and 303)	162,649	367,311	General Capital Projects Fund
Circle City Enhancements	4,163	265,088	Wtr Res SPA 2 Dev Fee
Art - Confluencia	200,000	690,081	General Capital Projects Fund
Total	\$ 91,816,129	\$ 128,236,998	

NOTE 7 - LONG-TERM DEBT & OTHER PAYABLES**Pledged Revenue Obligations***Series 2015 Pledged Revenue Obligations*

In 2015, the City of Surprise issued Pledged Revenue Obligations and Pledged Revenue Refunding Obligations secured by a pledge on excise tax revenues and state shared revenues, for the construction of stadium improvements.

The issuance requires excise tax and state shared revenues to be maintained at a minimum of 3.0 times the combined debt service requirement payable. The debt service coverage ratio at June 30, 2025, (revenues to debt service payable) is 167.6.

The Pledged Revenue Obligations, Series 2015, were issued in the amount of \$17,385,000, and have an outstanding principal balance at June 30, 2025, of \$7,070,000. Proceeds of these obligations are designated for the construction of stadium improvements. The obligations are payable solely from pledged revenues and are payable through 2030. Principal and interest payments and pledged revenues for the current year were \$1,584,550 and \$265,171,922, respectively. Next year's principal and interest payments of \$1,582,050 constitute approximately 0.6% of the current year pledged revenue.

Series 2018 Senior Lien Utility System Revenue Refunding Obligations

In August 2018, the City of Surprise issued Senior Lien Utility System Revenue Refunding Obligations, Series 2018, secured by a pledge of revenues of the system, which are revenues (including any unrestricted fund balances of the System) remaining after deducting operation expenses. A portion of the proceeds of the obligations, together with other legally available funds of the City, were placed in a trust fund which fully defeased the City of Surprise Municipal Property Corporation Wastewater Development Impact Fee and Subordinate Lien Wastewater Revenue Bonds, Series 2007, on October 1, 2018.

The Senior Lien Utility System Revenue Refunding Obligations, Series 2018, were issued in the amount of \$25,255,000, and have an outstanding principal balance at June 30, 2025, of \$17,850,000. The refunding obligations have interest rates that range between 4%-5%, are payable solely from pledged revenue, and mature in 2036. Principal and interest payable and pledged revenues for the current year were \$2,147,250 and \$27,292,373, respectively. Current year pledged revenue equals approximately 1,271 percent of next year's principal and interest payments, which total \$2,147,500.

The issuance requires pledged revenues to be at least 175 percent of the Parity Lien Test Debt Service. Parity Lien Test Debt Service is the highest aggregate Principal Requirement and Interest Requirement of all Series 2018 Senior Lien Utility System obligations and additional Utility System obligations then outstanding, to fall due and payable in the current or any future Bond Year. At June 30, 2025, the Parity Lien Test Debt Service is \$2,151,000 and pledged revenues are \$27,292,373. The current year ratio is 1,269 percent of the Parity Lien Test Debt Service.

The issuance also requires the City to establish and maintain rates, fees, and charges for all services supplied by the System, to provide Pledged Revenues fully sufficient to produce pledged revenue in each fiscal year equal to at least 125 percent of the Principal Requirement and Interest Requirement on all Series 2018 Senior Lien Utility System Obligations and Additional Utility Obligations then outstanding for the corresponding Bond Year. At June 30, 2025, pledged revenue equals 1,271 percent of that Principal Requirement and Interest Requirement.

Water Infrastructure Finance Authority of Arizona Loan

On May 23, 2023, the City executed a loan agreement with the Water Infrastructure Finance Authority of Arizona (WIFA) in which WIFA would reimburse costs incurred by the City for funding wastewater capital improvement projects for an amount not to exceed \$34,980,000. The loan is secured by system net revenues and provides for semiannual payments of principal and interest, payable from system revenues, for a term of 20 years, at a combined interest and fee rate percentage of 2.805%, with maturity at July 1, 2043. The loan carries a forgivable amount of \$1,000,000 upon qualification. During the year ended June 30, 2025, the City incurred \$17,289,664 in expenses, for a total of \$25,094,585 of project expenses, of which \$18,305,196 had been funded by WIFA through June 30, 2025. The total outstanding loan balance at June 30, 2025 was \$15,689,271.

General Obligations

The City of Surprise has three issues of General Obligation Bonds, secured by secondary property taxes, which are currently outstanding. The Bonds are issued pursuant to the Arizona Constitution and laws of the State of Arizona, including particularly Title 35, Chapter 3, Article 3, Arizona Revised Statutes.

In May 2018, the City issued the Series 2018 General Obligation Bonds in the amount of \$37,730,000. These bonds have coupon rates ranging from 3%-5% with final maturity occurring in 2038, and a principal balance at June 30, 2025, of \$25,690,000.

In September 2020, the City issued the Series 2020 General Obligation Bonds in the amount of \$17,460,000. The Bonds carry interest rates ranging from 2% to 4%, have a final maturity in 2028, and have a remaining principal balance at June 30, 2025, of \$6,060,000.

The Series 2018 and Series 2020 General Obligation Bonds were issued for the purpose of paying for certain facilities improvements including a Fire Station, an Evidence and Readiness Center, a Public Works Operations Facility, and road projects including improvements to Greenway, Litchfield, and Waddell Roads, and the costs of issuance of the Bonds.

In September 2024, the City issued the Series 2024 General Obligation Bonds in the amount of \$27,065,000. The Bonds carry interest rates ranging from 3% to 5%, have a final maturity in 2044, and have a remaining principal balance at June 30, 2025, of \$25,855,000.

The Series 2024 General Obligation Bonds were issued for the purpose of paying for certain public safety projects, including a police substation and fire station and road projects including improvements to Waddell, Cactus, and Happy Valley roads and 163rd avenue. As of June 30, 2025, the City has \$69,989,500 of unissued general obligation bonds from the November 2023 authorization.

Community Facilities District Bonds and Notes

Community Facilities District (CFD) Bonds and Notes are special purpose government entity debt which the City Council and District Board may issue under Arizona law to (among other things) acquire and improve public infrastructure.

In October 2016, Marley Park Community Facilities District defeased certain general obligation bonds related to the Series 2006, 2007 and 2008 Bonds through a new issuance of Marley Park Series 2016 general obligation bonds. The new bonds were issued in the original amount of \$11,365,000 of which \$4,800,000 was new issuance and \$6,565,000 was in refunding obligations for the purpose of accomplishing the aforementioned defeasance.

In October 2017, Marley Park Community Facilities District directly borrowed \$3,000,000 through new general obligation notes. These new note funds were used for the cost of issuance as well as the acquisition of infrastructure. These notes have an interest rate of 2.690% with final maturity occurring in 2032. The notes contain a gross up provision in the event they become taxable due to actions or omissions of the District. In such a case the taxable rate would be 4.14% and would be effective as of the date of a final determination of the Internal Revenue Service or a court of competent jurisdiction, or an opinion of a nationally recognized bond counsel selected by the lender.

In October 2019, Marley Park Community Facilities District issued \$8,470,000 in new general obligation bonds. The proceeds were used for the cost of issuance as well as the acquisition of capital assets. The bonds carry interest rates from 3% to 4% with final maturity in 2044.

In September 2022 Marley Park Community Facilities District issued \$13,065,000 in new general obligation bonds. The proceeds were used for the cost of issuance as well as the acquisition of capital assets. The bonds carry interest rates from 4.125% to 5.0% with final maturity in 2047.

At June 30, 2025, there remained \$41,955,000 in authorized but unissued debt authority. Such debt could be issued in future years, when and if qualifying infrastructure costs are incurred and presented for acceptance by the District.

Long-term debt as of June 30, 2025, is comprised of the following:

Classified in Governmental Activities on the Government-wide Financial Statements:

<u>City of Surprise General and Revenue Obligations</u>	<u>Long-Term Debt Outstanding</u>
2015, Pledged Revenue Obligation (issued June 23, 2015) due in annual installments of \$1,025,000 to \$1,505,000 through July 1, 2030; interest at 3 percent to 5 percent. Original issue amount \$17,385,000.	\$ 7,070,000
2015, Pledged Revenue Revenue Obligations, Issuance Premium	581,085
2018, General Obligation Bonds, (issued May 9, 2018) due in annual installments of \$1,205,000 to \$2,400,000 through July 1, 2038; interest at 3 percent to 5 percent. Original issue amount of \$37,730,000.	25,690,000
2018, General Obligation Bonds, Issuance Premium	1,467,375
2020, General Obligation Bonds, (issued September 30, 2020) due in annual installments of \$260,000 to \$3,010,000 through July 1, 2028; interest at 2 percent to 4 percent. Original issue amount of \$17,460,000.	6,060,000
2020, General Obligation Bonds, Issuance Premium	768,295
2024, General Obligation Bonds, (issued September 4, 2024) due in annual installments of \$370,000 to \$2,135,000 through July 1, 2044; interest at 3 percent to 5 percent. Original issue amount of \$27,065,000.	25,855,000
2024, General Obligation Bonds, Issuance Premium	2,957,372
Total General and Revenue Obligations	\$ 70,449,127

Community Facilities District General Obligation Bonds and Notes	Long-Term Debt Outstanding
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, due in annual installments of \$385,000 to \$665,000 through July 15, 2041; interest from 2 to 4%. Original issue amount \$11,365,000 of which \$4,800,000 was new issuance and \$6,565,000 was refunding obligations.	\$ 8,705,000
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, Issuance Premium	142,821
2017 Marley Park Community Facilities District General Obligation Notes, directly placed borrowing, due in annual installments of \$185,000 to \$245,000 through July 15, 2032; interest at 2.690%. Original issue amount \$3,000,000.	1,600,000
2019 Marley Park Community Facilities District General Obligation Bonds, due in annual installments of \$50,000 to \$1,260,000 through July 15, 2044; interest from 3% to 4%. Original issue amount \$8,470,000.	8,020,000
2019 Marley Park Community Facilities District General Obligation Bonds, Issuance Premium	31,230
2022 Marley Park Community Facilities General Obligation Bonds, due in annual installments of \$40,000 to \$2,025,000 through July 15, 2047; interest from 4.125% to 5%. Original issue of \$13,065,000.	12,895,000
2022 Marley Park Community Facilities District General Obligation Bonds, Issuance Premium	<u>24,245</u>
Total Community Facilities Districts General Obligation Bonds and Notes Outstanding	<u>31,418,296</u>
Total Bonds and Notes Payable Recorded in Governmental Activities	<u><u>\$ 101,867,423</u></u>

Classified in Business-type Activities on the Government-wide Financial Statements:

Revenue Obligations and Loans	Long-Term Debt Outstanding
2018, Senior Lien Utility System Revenue Refunding Obligations (issued August 7, 2018) due in installments of \$985,000 to \$2,045,000 through July 1, 2036; interest from 4% to 5%. Original issue amount \$25,255,000.	\$ 17,850,000
2018, Senior Lien Utility System Revenue Refunding Obligations, Issuance Premium	2,545,967
WIFA Loan, interest and fee rate at 2.805%, not to exceed \$34,980,000	<u>15,689,271</u>
Total Bonds Payable Recorded in Business-type Activities	<u>36,085,238</u>
Total Long-Term Bonds, Notes, and Loans Payable	<u><u>\$ 137,952,661</u></u>

The following is a summary of long-term liabilities for the year ended June 30, 2025:

	Balance July 1, 2024 (as restated)	Additions	Reductions	Balance June 30, 2025	Due within 1 Year
Governmental activities					
Bonds, loans, and payables:					
City of Surprise, Series 2015					
Pledged revenue obligations					
\$28,701,375 (\$36,665,000 issued)	\$ 8,320,000	\$ -	\$ (1,250,000)	\$ 7,070,000	\$ 1,310,000
City of Surprise, Series 2018					
General obligations \$37,730,000	27,155,000	-	(1,465,000)	25,690,000	1,540,000
City of Surprise, Series 2020					
General obligations \$17,460,000	8,640,000	-	(2,580,000)	6,060,000	2,790,000
City of Surprise, Series 2024					
General obligations \$27,065,000		27,065,000	(1,210,000)	25,855,000	-
For issuance premium 2015	697,302	-	(116,217)	581,085	-
For issuance premium 2018	1,580,250	-	(112,875)	1,467,375	-
For issuance premium 2020	1,024,394	-	(256,099)	768,295	-
For issuance premium 2024		3,113,023	(155,651)	2,957,372	-
Community Facilities District					
Series 2016 Bonds \$11,365,000					
issued	9,130,000	-	(425,000)	8,705,000	435,000
Series 2017 Direct Placement Note					
\$3,000,000 issued	1,805,000	-	(205,000)	1,600,000	210,000
Series 2019 Bonds					
\$8,470,000 issued	8,085,000	-	(65,000)	8,020,000	65,000
Series 2022 Bonds, \$13,065,000					
issued	13,025,000	-	(130,000)	12,895,000	240,000
For issuance premium 2016	163,754	-	(20,933)	142,821	-
For issuance premium 2019	32,874	-	(1,644)	31,230	-
For issuance premium 2022	25,347	-	(1,102)	24,245	-
Subscriptions liability	3,527,820	1,728,309	(1,591,049)	3,665,080	1,532,627
Leases payable	7,332,861	-	(503,788)	6,829,073	1,221,489
Total bonds, loans, and payables	<u>90,544,602</u>	<u>31,906,332</u>	<u>(10,089,358)</u>	<u>112,361,576</u>	<u>9,344,116</u>
Compensated absences payable	11,834,108	8,694,476	(7,785,175)	12,743,409	4,969,930
Claims payable	3,802,712	22,871,142	(21,239,715)	5,434,139	5,019,499
Total governmental activities long-term liabilities	<u>\$ 106,181,422</u>	<u>\$ 63,471,950</u>	<u>\$ (39,114,248)</u>	<u>\$ 130,539,124</u>	<u>\$ 19,333,545</u>

	Balance July 1, 2024 (as restated)	Additions	Reductions	Balance June 30, 2025	Due within 1 Year
Business-type activities					
Bonds, loans, and payables:					
Senior Lien Utility System Revenue					
Refunding Obligations, Series 2018	\$ 19,045,000	\$ -	\$ (1,195,000)	\$ 17,850,000	\$ 1,255,000
For issuance premium 2018	2,777,418	-	(231,451)	2,545,967	-
Loan Payable to WIFA, Revolving to \$33,980,000	3,214,135	15,091,061	(2,615,925)	15,689,271	1,363,249
Subscriptions liability	-	766,162	(133,876)	632,286	129,474
Total bonds, loans, and payables	<u>25,036,553</u>	<u>15,857,223</u>	<u>(4,176,252)</u>	<u>36,717,524</u>	<u>2,747,723</u>
Compensated absences payable	<u>1,413,861</u>	<u>1,024,950</u>	<u>(845,102)</u>	<u>1,593,709</u>	<u>621,547</u>
Total business-type activities					
long-term liabilities	<u>\$ 26,450,414</u>	<u>\$ 16,882,173</u>	<u>\$ (5,021,354)</u>	<u>\$ 38,311,233</u>	<u>\$ 3,369,270</u>

The City’s outstanding bonds had the following ratings:

Description	Fitch Rating	Standard & Poor’s Rating
City of Surprise, Arizona, Pledged Revenue and Revenue Refunding Obligations SERIES 2015	AAA	AA+
City of Surprise, Arizona, General Obligation Bonds SERIES 2018	Not rated	AA
City of Surprise, Arizona, General Obligation Bonds SERIES 2020	Not rated	AA
City of Surprise, Arizona, General Obligation Bonds SERIES 2024	AAA	AA
City of Surprise, Arizona, Senior Lien Utility System Revenue Refunding Obligations SERIES 2018	Not rated	AA+
Marley Park Community Facilities District General Obligation Bonds SERIES 2019*	Not rated	AA
Marley Park Community Facilities District General Obligation Bonds SERIES 2017	Not rated	Not rated
Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds SERIES 2016*	Not rated	AA
Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds SERIES 2022*	Not rated	AA

* Insured by Building America Mutual

The following is a summary of debt service requirements for the year ended June 30, 2025. Deferred amounts are not included:

Governmental Activities						
Year Ended	Refunding/Stadium Imp		GO Bonds 2018		GO Bonds 2020	
	2015					
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2026	\$ 1,310,000	\$ 272,050	\$ 1,540,000	\$ 939,044	\$ 2,790,000	\$ 242,400
2027	1,375,000	206,550	1,620,000	862,044	3,010,000	130,800
2028	1,420,000	165,300	1,700,000	781,044	260,000	10,400
2029	1,460,000	122,700	1,785,000	696,044	-	-
2030	1,505,000	75,250	1,855,000	624,644	-	-
2031-2035	-	-	10,225,000	2,172,082	-	-
2036-2040	-	-	6,965,000	475,369	-	-
Total	\$ 7,070,000	\$ 841,850	\$ 25,690,000	\$ 6,550,271	\$ 6,060,000	\$ 383,600

Governmental Activities						
Year Ended	GO Bonds 2024		Marley Park CFD 2016		Marley Park CFD 2017 Direct Placement	
	Principal	Interest	Principal	Interest	Principal	Interest
	June 30					
2026	\$ -	\$ 1,224,500	\$ 435,000	\$ 296,037	\$ 210,000	\$ 43,040
2027	370,000	1,224,500	445,000	286,250	215,000	37,391
2028	540,000	1,206,000	460,000	275,681	225,000	31,608
2029	1,220,000	1,179,000	470,000	257,281	230,000	25,555
2030	1,220,000	1,118,000	495,000	238,481	235,000	19,368
2031-2035	6,715,000	4,700,450	2,690,000	881,806	485,000	19,637
2036-2040	7,790,000	3,011,000	3,045,000	395,313	-	-
2041-2045	8,000,000	876,100	665,000	20,781	-	-
Total	\$ 25,855,000	\$ 14,539,550	\$ 8,705,000	\$ 2,651,630	\$ 1,600,000	\$ 176,599

Year Ended	Governmental Activities					
	Marley Park CFD 2019		Marley Park CFD 2022		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2026	\$ 65,000	\$ 250,150	\$ 240,000	\$ 574,788	\$ 6,590,000	\$ 3,842,009
2027	70,000	248,200	245,000	562,787	7,350,000	3,558,522
2028	60,000	246,100	265,000	550,537	4,930,000	3,266,670
2029	75,000	244,300	275,000	537,287	5,515,000	3,062,167
2030	70,000	242,050	290,000	523,538	5,670,000	2,841,331
2031-2035	1,290,000	1,131,450	1,670,000	2,386,937	23,075,000	11,292,362
2036-2040	2,225,000	829,050	2,085,000	1,977,088	22,110,000	6,687,820
2041-2045	4,165,000	347,550	3,860,000	1,495,313	16,690,000	2,739,744
2046-2047	-	-	3,965,000	262,063	3,965,000	262,063
Total	\$ 8,020,000	\$ 3,538,850	\$ 12,895,000	\$ 8,870,338	\$ 95,895,000	\$ 37,552,688

Year Ended	Business-Type Activities					
	Sr. Lien Utility System		WIFA 2023 Loan*		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2026	\$ 1,255,000	\$ 892,500	\$ 1,363,249	\$ 860,643	\$ 2,618,249	\$ 1,753,143
2027	1,320,000	829,750	1,401,488	821,867	2,721,488	1,651,617
2028	1,385,000	763,750	1,440,800	782,004	2,825,800	1,545,754
2029	1,455,000	694,500	1,481,214	741,023	2,936,214	1,435,523
2030	1,525,000	621,750	1,522,762	698,892	3,047,762	1,320,642
2031-2035	8,865,000	1,884,000	8,278,986	2,819,958	17,143,986	4,703,958
2036-2040	2,045,000	102,250	9,507,106	1,574,613	11,552,106	1,676,863
2041-2045	-	-	6,368,469	271,247	6,368,469	271,247
Total	\$ 17,850,000	\$ 5,788,500	\$ 31,364,074	\$ 8,570,247	\$ 49,214,074	\$ 14,358,747

* reflects the full loan authorization amount; the debt payment schedule will be revised after the final draw has been made.

Legal Debt Limit

The Arizona Constitution provides that the general obligation bonded indebtedness for a city may not exceed twenty percent of the net assessed full cash value of the taxable property of the city for projects for purposes of water, wastewater, artificial light, open space preserves, parks and recreational facilities, public safety, law enforcement, fire and emergency services facilities, streets, and transportation facilities. Outstanding general obligation bonded indebtedness for all other purposes may not exceed six percent of the City's net assessed full cash value of the taxable property of the City. The following summarizes the City of Surprise, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2025:

20% Limitation		6% Limitation	
20% Constitutional Limit	\$ 664,894,428	6% Constitutional Limit	\$ 199,468,328
Less General Obligation 20%		Less General Obligation 6%	
Bonds Outstanding	(57,605,000)	Bonds Outstanding	-
Reduction for Excess Premium	(5,193,042)	Reduction for Excess Premium	-
Available 20% Limitation		Available 6% Limitation	
Borrowing Capacity	\$ 602,096,386	Borrowing Capacity	\$ 199,468,328

Leases

The City has obtained the right to use land and buildings, such as a church, a social hall, a residential facility and nearby university facilities, under the provisions of various lease agreements. The City subleases the church building to a third party.

The total amount of lease assets and related accumulated amortization, as of June 30, 2025, are as follows:

	Governmental Activities
Total intangible right-to-use lease assets	\$ 7,589,206
Less: accumulated amortization	(2,817,616)
Carrying value	\$ 4,771,590

The following schedule details minimum lease payments to maturity for the City's leases payable at June 30, 2025:

Year ending June 30	Governmental Activities	
	Principal	Interest
2026	\$ 1,221,489	\$ 97,271
2027	1,240,529	70,442
2028	1,260,168	52,318
2029	1,253,599	33,888
2030	888,176	18,709
2031-2035	770,810	44,986
2036-2037	194,302	1,845
Total	\$ 6,829,073	\$ 319,459

Subscription-Based Information Technology Arrangements (SBITAs)

The City has acquired intangible right-to-use software, under the provisions of various subscription-based information technology arrangements. The total amount of subscription assets and related accumulated amortization, as of June 30, 2025, are as follows:

	Governmental Activities	Business-Type Activities
Total intangible right-to-use subscription assets	\$ 6,796,754	\$ 766,162
Less: accumulated amortization	(3,604,951)	(153,232)
Carrying value	<u>\$ 3,191,803</u>	<u>\$ 612,930</u>

The following schedule details minimum subscription payments to maturity for the City’s subscriptions liability at June 30, 2025:

Year ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2026	\$ 1,532,627	\$ 104,271	\$ 129,474	\$ 21,249
2027	720,325	70,005	136,778	16,898
2028	506,771	46,621	144,457	12,301
2029	479,894	30,426	152,548	7,447
2030	425,463	14,298	69,029	2,320
Total	<u>\$ 3,665,080</u>	<u>\$ 265,621</u>	<u>\$ 632,286</u>	<u>\$ 60,215</u>

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS) for police officers and firefighters, and the Elected Officials Retirement Plan (EORP) for elected officials and judges. The plans are component units of the State of Arizona. At June 30, 2025, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net OPEB asset	\$ 2,718,945	\$ 491,214	\$ 3,210,159
Net pension liabilities	119,960,457	12,734,522	132,694,979
Net OPEB liabilities	9,253	2,052	11,305
Deferred outflows of resources related to pensions	56,082,875	2,801,925	58,884,800
Deferred outflows of resources related to OPEB	505,312	53,277	558,589
Deferred inflows of resources related to pensions	7,698,304	837,678	8,535,982
Deferred inflows of resources related to OPEB	1,348,027	196,824	1,544,851
Pension expense	20,769,654	1,667,584	22,437,238
OPEB expense	(339,157)	(65,546)	(404,703)
Pension contributions	22,570,147	1,479,737	24,049,884
OPEB contributions	217,777	26,856	244,633

The City reported accrued payroll and employee benefits of \$564,737 for outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2025. Also, the City reported \$20,430,488 of pension and OPEB expenditures in the governmental funds related to all plans to which it contributes.

Arizona State Retirement System

Plan description — City employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided — The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions — In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2025, statute required active ASRS members to contribute at the actuarially determined rate of 12.27 percent (12.12 percent for retirement and 0.15 percent for long-term disability) of the members’ annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 12.27 percent (12.05 percent for retirement, 0.07 percent for health insurance premium benefit, and 0.15 percent for long-term disability) of the active members’ annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.19 percent (10.14 percent for retirement and 0.05 percent for long-term disability) of annual covered payroll of retired

members who worked for the City in positions that an employee who contributes to the ASRS would typically fill. The City’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2025, were \$7,816,889, \$45,132, and \$96,736, respectively.

During fiscal year 2025, the City paid for ASRS pension and OPEB contributions as follows: 73% from the General Fund, 22% from enterprise funds, and 5% from other funds.

Liability/(Asset)—At June 30, 2025, the City reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

ASRS	Net Pension/OPEB (asset)/liability
Pension	\$ 68,662,459
Health insurance premium benefit	(2,645,553)
Long-term disability	11,305

The net asset and net liabilities were measured as of June 30, 2024. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2023, to the measurement date of June 30, 2024.

The City’s proportion of the net asset or net liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2024. The City’s proportions measured as of June 30, 2024, and the change from its proportions measured as of June 30, 2023, were:

ASRS	Proportion June 30, 2024	Increase/(decrease) from June 30, 2023
Pension	0.43%	0.03%
Health insurance premium benefit	0.44%	0.03%
Long-term disability	0.43%	0.03%

Expense—For the year ended June 30, 2025, the City recognized the following pension and OPEB expense:

ASRS	Pension/OPEB expense
Pension	\$ 8,561,731
Health insurance premium benefit	(392,851)
Long-term disability	54,537

Deferred outflows/inflows of resources — At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

ASRS - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 3,832,674	\$ -
Difference between projected and actual investment earnings	-	4,384,850
Changes in proportion and differences between City contributions and proportionate share of contributions	3,457,961	131,769
City contributions subsequent to the measurement date	7,816,889	-
Total	\$ 15,107,524	\$ 4,516,619
ASRS - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 76,558	\$ 638,798
Changes in assumptions or other inputs	-	27,442
Difference between projected and actual investment earnings	-	181,856
Changes in proportion and differences between City contributions and proportionate share of contributions	4,960	101,753
City contributions subsequent to the measurement date	45,132	-
Total	\$ 126,650	\$ 949,849
ASRS - Long-term disability	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 41,569	\$ 30,108
Changes in assumptions or other inputs	8,180	67,681
Difference between projected and actual investment earnings	-	12,348
Changes in proportion and differences between City contributions and proportionate share of contributions	17,501	2,599
City contributions subsequent to the measurement date	96,736	-
Total	\$ 163,986	\$ 112,736

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

ASRS	Pension	Health insurance premium benefit	Long-term disability
Year ending June 30			
2026	\$ (308,137)	\$ (514,824)	\$ (16,058)
2027	4,996,775	(136,293)	944
2028	(1,109,950)	(131,572)	(16,620)
2029	(804,672)	(68,602)	(15,417)
2030	-	(17,040)	(5,110)
Thereafter	-	-	6,775

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension/OPEB liability/(asset) are as follows:

ASRS	
Actuarial valuation date	June 30, 2023
Actuarial roll forward date	June 30, 2024
Actuarial cost method	Entry age normal
Investment rate of return	7.00%
Projected salary increases	2.9–8.4% for pensions/not applicable for OPEB
Inflation	2.30%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes, which were applied to the June 30, 2020 actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage excluding any expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS - Asset Class	Target Allocation	Long-term expected geometric real rate of return
Public equity	44%	4.48%
Fixed income - credit	23%	4.40%
Real estate	17%	6.05%
Private equity	10%	6.11%
Interest rate sensitive	6%	(0.45)%
Total	100%	

Discount rate — At June 30, 2024, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0%, which was a decrease of 0.5% from the discount rate used as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the City’s proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate — The following table presents the City’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.0%, as well as what the City’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

ASRS	1% Decrease (6.0%)	Current discount rate (7.0%)	1% Increase (8.0%)
City’s proportionate share of the:			
Net pension liability	\$ 105,136,265	\$ 68,662,459	\$ 38,264,726
Net health insurance premium benefit liability/(asset)	(1,923,299)	(2,645,553)	(3,259,612)
Net long-term disability liability	38,899	11,305	(15,838)

Plan fiduciary net position — Detailed information about the plans’ fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

Public Safety Personnel Retirement System

Plan descriptions — City police employees and City firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who are PSPRS members participate in the agent plans. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided — The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit based on initial membership date as follows:

PSPRS	Initial membership date:		
	Before January 1, 2012 (Tier 1)	On or after January 1, 2012 and before July 1, 2017 (Tier 2)	On or after July 1, 2017 (Tier 3)
Retirement and disability			
Years of service and age required to receive benefit	20 years of service, any age, or 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5	15 or more years of service, age 55, or 15 years of credited service, age 52.5*
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years	Highest 60 consecutive months of last 15 years
Benefit percent:			
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%	
Accidental disability retirement	50% or normal retirement, whichever is greater		
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater		
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20		
Survivor benefit:			
Retired members	80% to 100% of retired member’s pension benefit		
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job		

*with actuarially reduced benefits

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50% of the member’s compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

Employees covered by benefit terms — At June 30, 2025, the following employees were covered by the agent plans’ benefit terms:

PSPRS	Police		Fire	
	Pension	Health	Pension	Health
Inactive employees or beneficiaries				
currently receiving benefits	77	77	19	19
Inactive employees entitled to but not yet receiving benefits	22	5	22	20
Active employees	90	90	94	94
Total	189	172	135	133

Contributions — State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2025, are indicated below. Rates are a percentage of active members’ annual covered payroll.

PSPRS	Police		Fire	
	Tier 1 & 2	Tier 3	Tier 1 & 2	Tier 3
Active members - pension	7.65%	8.77%	7.65%	8.77%
Active members - health benefit	0.00%	0.12%	0.00%	0.12%
City Pension	37.67%	31.83%	29.45%	21.56%
Health insurance premium benefit	0.18%	0.12%	0.32%	0.12%

In addition, statute required the City to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the PSPRS would typically fill.

PSPRS	Police	Fire
Alternative contribution rate - pension and health	23.06%	12.79%

The City’s contributions to the plans for the year ended June 30, 2025, were:

PSPRS	Police	Fire
Pension	\$ 8,123,499	\$ 7,988,995
Health Insurance premium benefit	43,060	59,705

During fiscal year 2025, the City paid for PSPRS pension and OPEB contributions primarily from the General Fund.

Liability/(asset) — At June 30, 2025, the City reported the following net pension/OPEB liabilities/(assets):

PSPRS	Net pension liability	Net OPEB liability/(asset)
Police	\$ 36,352,363	\$ (409,891)
Fire	26,192,166	(154,715)

The net assets and net liabilities were measured as of June 30, 2024, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension/OPEB liability/(asset) are as follows:

PSPRS	
Actuarial valuation date	June 30, 2024
Actuarial cost method	Entry age normal
Investment rate of return	7.20%
Wage inflation	2.75 - 15.0% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.85% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2021.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.2% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class.

The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The PSPRS Board adopted the experience study recommended changes which were applied to the June 30, 2022, actuarial valuation.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS - Asset class	Target Allocation	Long-term expected geometric real rate of return
U.S. Public Equity	24%	3.62%
International Public Equity	16%	4.47%
Global Private Equity	27%	7.05%
Core Bonds	6%	2.44%
Private Credit	20%	6.24%
Diversifying Strategies	5%	3.15%
Cash Mellon	2%	0.89%
Total	100%	

Discount rate — At June 30, 2024, the discount rate used to measure the PSPRS total pension/OPEB liability/(asset) was 7.2%, which did not change from the prior year. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability/(asset).

Changes in the net pension/OPEB liability/(asset) – The following tables present changes in the City’s net pension/OPEB liability (asset) for the PSPRS – Police and PSPRS – Fire plans as follows:

PSPRS - Police - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability/(asset) (a) – (b)
Balances at June 30, 2024	\$ 108,759,421	\$ 71,388,618	\$ 37,370,803
Changes for the year:			
Service cost	2,581,817	-	2,581,817
Interest on the total pension liability	7,840,196	-	7,840,196
Difference between expected and actual experience of the total pension liability	3,609,818	-	3,609,818
Contributions—employer	-	6,512,040	(6,512,040)
Contributions—employee	-	895,580	(895,580)
Net investment income		7,693,176	(7,693,176)
Benefit payments, including refunds of employee contributions	(4,899,243)	(4,899,243)	-
Administrative expense	-	(50,525)	50,525
Net changes	9,132,588	10,151,028	(1,018,440)
Balances at June 30, 2025	\$ 117,892,009	\$ 81,539,646	\$ 36,352,363

PSPRS - Police - Health insurance premium benefit	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability/(asset) (a) – (b)
Balances at June 30, 2024	\$ 1,185,104	\$ 1,591,428	\$ (406,324)
Changes for the year:			
Service cost	35,955	-	35,955
Interest on the total OPEB liability	85,993	-	85,993
Difference between expected and actual experience of the total OPEB liability	68,766	-	68,766
Contributions—employer	-	37,897	(37,897)
Net investment income	-	157,308	(157,308)
Benefit payments, including refunds of employee contributions	(53,414)	(53,414)	-
OPEB plan administrative expense	-	(924)	924
Net changes	137,300	140,867	(3,567)
Balances at June 30, 2025	\$ 1,322,404	\$ 1,732,295	\$ (409,891)

PSPRS - Fire - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability/(asset) (a) – (b)
Balances at June 30, 2024	\$ 105,043,890	\$ 83,314,270	\$ 21,729,620
Changes for the year:			
Service cost	3,354,728	-	3,354,728
Interest on the total pension liability	7,683,372	-	7,683,372
Difference between expected and actual experience of the total pension liability	10,536,788	-	10,536,788
Contributions—employer	-	7,036,384	(7,036,384)
Contributions—employee	-	1,069,773	(1,069,773)
Net investment income	-	9,044,839	(9,044,839)
Benefit payments, including refunds of employee contributions	(3,370,249)	(3,370,249)	-
Administrative expense	-	(38,654)	38,654
Net changes	18,204,639	13,742,093	4,462,546
Balances at June 30, 2025	\$ 123,248,529	\$ 97,056,363	\$ 26,192,166

PSPRS - Fire - Health insurance premium benefit	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability/(asset) (a) – (b)
Balances at June 30, 2024	\$ 1,271,910	\$ 1,421,777	\$ (149,867)
Changes for the year:			
Service cost	44,159	-	44,159
Interest on the total OPEB liability	94,013	-	94,013
Difference between expected and actual experience of the total OPEB liability	45,416	-	45,416
Contributions—employer	-	46,663	(46,663)
Net investment income	-	142,316	(142,316)
Benefit payments, including refunds of employee contributions	(20,675)	(20,675)	-
OPEB plan administrative expense	-	(543)	543
Net changes	162,913	167,761	(4,848)
Balances at June 30, 2025	\$ 1,434,823	\$ 1,589,538	\$ (154,715)

Sensitivity of the City’s net pension/OPEB liability/(asset) to changes in the discount rate — The following table presents the City’s net pension/OPEB liabilities (assets) calculated using the discount rate of 7.2%, as well as what the City’s net pension/OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.2%) or 1 percentage point higher (8.2%) than the current rate:

PSPRS	1% Decrease (6.2%)	Current discount rate (7.2%)	1% Increase (8.2%)
Police			
Net pension liability	\$ 54,266,490	\$ 36,352,363	\$ 21,897,441
Net OPEB liability/(asset)	(252,223)	(409,891)	(542,146)
Fire			
Net pension liability	\$ 45,398,095	\$ 26,192,166	\$ 10,621,622
Net OPEB liability/(asset)	18,155	(154,715)	(300,286)

Plan fiduciary net position — Detailed information about the plan’s fiduciary net position is available in the separately issued PSPRS financial reports. These reports are available on the PSPRS website at www.psprs.com.

Expense — For the year ended June 30, 2025, the City recognized the following pension and OPEB expense:

PSPRS	Pension expense	OPEB expense
Police	\$ 7,639,388	\$ (60,049)
Fire	5,829,616	(6,340)

Deferred outflows/inflows of resources — At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
PSPRS - Police - Pension		
Difference between expected and actual experience	\$ 9,212,087	\$ 69,520
Changes in assumptions or other inputs	954,172	-
Net difference between projected and actual earnings on pension plan investments	-	1,407,656
City contributions subsequent to the measurement date	8,123,499	-
Total	\$ 18,289,758	\$ 1,477,176
PSPRS - Police - Health insurance premium benefit		
Difference between expected and actual experience	\$ 88,285	\$ 236,102
Changes in assumptions or other inputs	19,802	-
Net difference between projected and actual earnings on OPEB plan investments	-	16,759
City contributions subsequent to the measurement date	43,060	-
Total	\$ 151,147	\$ 252,861

PSPRS - Fire - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 16,315,467	\$ 1,001,067
Changes in assumptions or other inputs	1,062,555	-
Net difference between projected and actual earnings on pension plan investments	-	1,525,431
City contributions subsequent to the measurement date	7,988,995	-
Total	<u>\$ 25,367,017</u>	<u>\$ 2,526,498</u>

PSPRS - Fire - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 44,558	\$ 190,052
Changes in assumptions or other inputs	12,543	24,572
Net difference between projected and actual earnings on OPEB plan investments	-	14,781
City contributions subsequent to the measurement date	59,705	-
Total	<u>\$ 116,806</u>	<u>\$ 229,405</u>

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability (asset) in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

PSPRS	Police		Fire	
	Pension	Health	Pension	Health
Year ending June 30				
2026	\$ 2,226,120	\$ (85,484)	\$ 1,786,740	\$ (59,760)
2027	4,390,536	(30,222)	3,892,174	(17,647)
2028	1,843,406	(37,412)	2,099,794	(33,121)
2029	229,021	(3,117)	2,250,342	(32,297)
2030	-	11,461	3,026,980	(23,032)
Thereafter	-	-	1,795,494	(6,447)

Elected Officials Retirement Plan

Plan description — Elected officials and judges participate in the Elected Officials Retirement Plan (EORP), ASRS, or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials and judges who were members of the plan on December 31, 2013. The EORP pension and OPEB plans were closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS’s website at www.psprs.com. The EORP OPEB

is immaterial to the financial statements of the City; therefore, it is not included in the financial statements or presented here in the notes to the financial statements.

Benefits provided — The EORP provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member's benefit	50% of retired member's benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 8 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 7 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Contributions — State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain

court fees for the EORP. For the year ended June 30, 2025, statute required active EORP members to contribute 7% or 13% of the members’ annual covered payroll and the City to contribute at the actuarially determined rate of 70.44% of all active EORP members’ annual covered payroll. Also, statute required the City to contribute 58.32% to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 46.62% to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the City’s required contributions to ASRS and EODCRS for these elected officials and judges. The City’s contributions to the pension and health insurance premium benefit plans for the year ended June 30, 2025, were \$120,501 and \$166, respectively.

During fiscal year 2025, the City paid for EORP pension contributions as follows: 100% from the General Fund.

Liability — At June 30, 2025, the City reported a liability for its proportionate share of the EORP’s net pension liability that reflected a reduction for the City’s proportionate share of the State’s appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

<u>EORP</u>	
City's proportionate share of the net pension liability	\$ 1,487,991
State's proportionate share of the net pension liability associated with the City	96,400
Total	<u>\$ 1,584,391</u>

The City’s proportion of the net pension liability was based on the City’s required contributions to the pension plan relative to the total of all participating employers’ required contributions for the year ended June 30, 2024. The City’s proportion measured as of June 30, 2024, and the change from its proportions measured as of June 30, 2023, were:

<u>EORP</u>	<u>Proportion June 30, 2024</u>	<u>Increase/(decrease) from June 30, 2023</u>
Pension	0.25%	0.11%

Expense — For the year ended June 30, 2025, the City recognized pension expense for EORP of \$406,503 and revenue of \$41,602 for the City’s proportionate share of the State’s appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources — At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>EORP - Pension</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 15,689
City contributions subsequent to the measurement date	120,501	-
Total	<u>\$ 120,501</u>	<u>\$ 15,689</u>

The amounts reported as deferred outflows of resources related to EORP pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized as expenses as follows:

Year ending June 30	Pension
2026	\$ (14,425)
2027	11,874
2028	(7,267)
2029	(5,871)
2030	-

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension liability are as follows:

EORP	
Actuarial Valuation Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.20%
Wage Inflation	3.25%
Price Inflation	2.50%
Cost of Living Adjustment	1.85%
Mortality rate	PUBG-2010 Tables

Actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2021.

The long-term expected rate of return on EORP plan investments was determined to be 7.2% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP - Asset Class	Target allocation	Long-term expected geometric real rate of return
U.S. Public Equity	24%	3.62%
International Public Equity	16%	4.47%
Global Private Equity	27%	7.05%
Core Bonds	6%	2.44%
Private Credit	20%	6.24%
Diversifying Strategies	5%	3.15%
Cash-Mellon	2%	0.89%
Total	100%	

Discount rates — At June 30, 2024, the discount rate used to measure the EORP total pension liability was 7.2%, which was a decrease of 0.1 from the discount rate used as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and State contributions will be made as currently required by statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s proportionate share of the EORP net pension liability to changes in the discount rate — The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.2%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.2%) or 1 percentage point higher (8.2%) than the current rate:

EORP	1% decrease (6.2%)	Current discount rate (7.2%)	1% increase (8.2%)
City's proportionate share of the net pension liability	\$ 1,730,129	\$ 1,487,991	\$ 1,280,028

Plan fiduciary net position — Detailed information about the plan’s fiduciary net position is available in the separately issued EORP financial report.

EODCRS plan — Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS and the Elected Officials Defined Contribution Retirement System Disability Program (EODCDP). The EODCRS is a defined contribution pension plan. The EODCDP is a cost-sharing multiple-employer defined benefit disability (OPEB) plan for EODCRS members. The PSPRS Board of Trustees governs the EODCRS and EODCDP according to the provisions of A.R.S. Title 38, Chapter 5, Articles 3.1 and 3.2. Benefit terms, including contribution requirements, are established by State statute. The EODCDP is not further disclosed because of its relative insignificance to the City’s financial statements.

For the year ended June 30, 2025, active EODCRS members were required by statute to contribute 8% of the members’ annual covered payroll, and the City was required by statute to contribute 6% of active members’ annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the City’s contributions to the individual employee account and the earnings on those contributions. For the year ended June 30, 2025, the City recognized pension expense of \$7,133.

Deferred Compensation Plans

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time government employees at their option, permits participants to defer a portion of their salary until future years. A governing board (committee) makes decisions about investment options available within each Plan. In fiscal year 2025, the City contributed to the 457 plan on behalf of eligible employees in an amount equal to a percentage of base annual salary. The City contributed \$1,130,830 for the year ended June 30, 2025. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency.

The City’s fiduciary responsibility for the plan is that of exercising “due care” in selecting a third-party administrator. Federal legislation requires that Section 457 plan assets be held in trust for employees; therefore, employee assets held in Section 457 plan assets are held in trust for employees. Employee assets held in Section

457 plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Custodial Fund is not included in the City's Financial Statements.

Defined Contribution Other Postemployment Plans

The City also offers a Post-Employment Health Plan (PEHP). The PEHP is a defined contribution plan designed to allow the City and employees to set aside money during the course of employment with the City, for the payment of qualified medical expenses incurred post-employment. The Post-Employment Health Plan consists of two sub-accounts that can accept contributions. One account accepts fixed contributions from the City and the other accepts earned and unused personal time off (vacation and sick leave). After voluntary termination of employment with the City, employees are provided with the option to be paid for all, or a portion of, earned and unused personal time off, or move earned and unused personal time off into their PEHP account.

The City is contributing \$45 per pay period to the plan for members of the Surprise Police Employees Association and the Northwest Valley Fire Fighters Association Local 4361. Employees are not required to contribute in order to receive the City's contribution.

Further, eligible employees that are Tier 1 members of the Public Safety Personnel Retirement System (PSPRS), who enter the Deferred Retirement Option Plan (DROP) are eligible for an additional benefit. Upon the employee's acceptance by the local board and PSPRS to the DROP program, the City will contribute eight percent of total PSPRS eligible earnings, per pay period, to the employee's PEHP. If for any reason an employee terminates participation in DROP, this additional benefit shall cease.

The City contributed \$1,085,837 for the year ended June 30, 2025.

The City's fiduciary responsibility for the plan is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that post-employment health plan assets be held in trust for employees; therefore, employee assets held in post-employment plan assets are held in trust for employees. Employee assets held in post-employment health plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Custodial Fund is not included in the City's Financial Statements.

NOTE 9 – RISK MANAGEMENT**Risk Management Fund**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Thus, the City participates in the Arizona Municipal Risk Retention Pool (AMRRP), which provides a comprehensive municipal coverage program covering property, general liability, public officials' liability, automobile liability and physical damage, bonds and crime. The basic coverage program is standard for all participants and deemed to be appropriate by the governing board of the AMRRP. Individual limits are determined by the Council and staff members.

The limit for basic coverage is \$2 million per occurrence and \$13 million under an umbrella policy for a total of \$15 million on a claim made basis. The AMRRP is structured such that member premiums are based on actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligation. The Pool has the authority to assess its members' additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations. The City can be assessed up to the amount of the current year's contribution. The City's obligation is to file claims timely. The AMRRP is responsible for investigating claims,

settling claims and billing the City for any deductible portion. The City’s loss has not exceeded its coverage in any of the last three years, and the deductible portion has not been material to the City’s financial position.

As of June 30, 2025, unpaid claims were as follows:

	Risk Management Fund	
	2025	2024
Beginning unpaid claims	\$ 129,527	\$ 236,677
Claims incurred and changes in estimates	2,046,346	683,846
Payments made	(913,567)	(790,996)
Ending unpaid claims	<u>\$ 1,262,306</u>	<u>\$ 129,527</u>

Employee Healthcare Fund

The City has established the Employee Healthcare Fund to account for the costs of claims incurred by the City through a self-insurance program. The City is self-insured for individual health claims up to \$250,000. Commercial stop loss insurance is in place for claims in excess of the individual limit as well as aggregate insurance for claims in excess of 125% of the City’s total actuarially projected claims.

The claims liability includes an estimated amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors. Claims that have been incurred but not reported make up \$2,120,300 of the total claims payable reported. The remaining \$1,337,932 is made up of outstanding claims at year end. The City’s loss has not exceeded its coverage over the last year.

As of June 30, 2025, unpaid claims were as follows:

	Employee Healthcare Fund	
	2025	2024
Beginning unpaid claims	\$ 2,803,937	\$ 1,779,297
Claims incurred and changes in estimates	20,044,610	17,824,121
Payments made	(19,390,315)	(16,799,481)
Ending unpaid claims	<u>\$ 3,458,232</u>	<u>\$ 2,803,937</u>

Workers’ Compensation Fund

Following in-depth analysis including an actuarial study to determine feasibility, the Mayor and City Council approved establishing a Workers’ Compensation Fund on January 3, 2017, to administer a self-insured workers’ compensation program. The City sought and gained authority to self-insure/self-administer workplace injury claims through the Industrial Commission of Arizona (ICA), effective July 1, 2017. The program assumed responsibility for all new workplace injury/exposures deemed compensable, while leaving liability of prior claims with the previous insurance carrier. Beginning on April 1, 2023, the City transitioned the workers’ compensation program from the self-administered and self-insured model to a fully insured model with the Arizona Risk Retention Pool providing continuity of care, greatly reducing the City’s long-term liability. The City will continue to provide funding to the Workers’ Compensation fund for the management of processing self-insured claims in accordance with the rules and regulations set forth by the ICA.

The self-insured program assumes first-dollar losses up to the established self-insured retention (SIR) levels of three categories of employees. The first category, General Employee Population, carries a self-insured retention level of \$500,000 per occurrence. Public Safety Population assumes a self-insured retention of \$1,000,000 per occurrence. The third category, presumptive loss, assumes a self-insured retention of \$2,000,000 per occurrence. Should a claim exceed the respective SIR, the excess carrier assumes liability up to statutory limits. All claims below the SIR are managed in-house and resolved via funds established for claims settlement. Expenses within the program are reported regularly to the Health Benefits Trust Fund Board, as prescribed by Arizona Revised Statute.

The Workers’ Compensation Fund currently has an established reserve of \$3,000,000, which exceeds the required amount designated by the ICA. The funds held in this reserve account are maintained by the City following approval from both City Council and the ICA for exemption from posting security for outstanding workers’ compensation claims, per Arizona Administrative Code R20-5-5025.

The claims liability includes an estimated amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors. Claims that have been incurred but not reported make up \$705,560 of the total claims payable reported. The remaining \$8,041 is made up of outstanding claims at year end. The City’s loss on the self-insured program has not exceeded its coverage over the last year. Settled claims on the fully insured model have not exceeded commercial insurance coverage for the fiscal year.

As of June 30, 2025, unpaid claims were as follows:

	Workers’ Compensation Fund	
	2025	2024
Beginning unpaid claims	\$ 869,248	\$ 987,163
Claims incurred and changes in estimates	780,186	788,456
Payments made	(935,833)	(906,371)
Ending unpaid claims	<u>\$ 713,601</u>	<u>\$ 869,248</u>

NOTE 10 – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits that are incidental to the ordinary course of its operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s legal counsel, the resolution of these matters will not have a material adverse effect on the City’s financial position.

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

NOTE 11 – INTERFUND BORROWING AND TRANSFERS

As of June 30, 2025, interfund balances were as follows:

Due to/from other funds:

The following “due to/from other funds” balance has been recorded to address temporary cash flow needs:

<u>Due from</u>	<u>Due to General Fund</u>
NonMajor Governmental Funds	
Neighborhood Revitalization Fund	\$ 119,660

The Neighborhood Revitalization Fund had a deficit cash balance due to pending grant reimbursements.

Advances to/from other funds:

<u>Advances to</u>	<u>Advances from Sewer Fund</u>
General Government Development Fee Fund	\$ 1,830,253

As of June 30, 2025, the City had one long-term loan outstanding. The loan relates to expenditures for projects to be funded by impact fees. This loan will be repaid as impact fees are collected in future years.

Interfund Transfers:

	<u>Transfers Out</u>	<u>Transfers In</u>
Governmental Funds		
General Fund	\$ 57,556,233	\$ 2,950,425
General Capital Projects Fund	1,060,300	53,629,100
Transportation Improvement Fund	251,700	-
Debt Service Fund	-	1,583,108
NonMajor Governmental Funds	1,185,991	3,504,427
Total Governmental	<u>60,054,224</u>	<u>61,667,060</u>
Enterprise Funds		
Water Fund	702,570	1,303,582
Sewer Fund	2,155,033	-
Sanitation Fund	45,375	-
Stormwater Fund	13,440	-
Total Enterprise Funds	<u>2,916,418</u>	<u>1,303,582</u>
Total	<u>\$ 62,970,642</u>	<u>\$ 62,970,642</u>

Transfers between funds were used to (1) record payments in lieu of franchise fees from the enterprise funds to the General Fund (2) record payments in lieu of property taxes from the enterprise funds to the General Fund and Debt Service Fund (3) support as needed replacement of vehicles and maintenance and construction or purchase of city assets (4) move amounts for debt service payments (5) fund municipal arts projects, and (6) transfer water rights (capital assets) generated by the Sewer Fund to the Water Fund to be used for water services.

NOTE 12 – FUND BALANCE CLASSIFICATION

The fund balance classifications of the governmental funds as of June 30, 2025, were as follows:

	General Fund	General Capital Projects Fund	General Govt Development Fee Fund	Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	NonMajor Governmental Funds	Total
Fund balance								
NonSpendable:								
Inventory	\$ 1,705,233	\$ 227,059	\$ -	\$ 393,318	\$ -	\$ -	\$ 42,550	\$ 2,368,160
Prepays	990,797	4,943,476	-	-	1,406	-	21,624	5,957,303
Total NonSpendable	2,696,030	5,170,535	-	393,318	1,406	-	64,174	8,325,463
Restricted:								
Court	-	-	-	-	-	-	748,817	748,817
Fire-Medical	-	-	-	-	-	-	5,722,176	5,722,176
HSCV	30,179	-	-	-	-	-	-	30,179
Parks and recreation	63,683	-	-	-	-	-	7,708,752	7,772,435
Police	106,563	-	-	-	-	-	10,008,296	10,114,859
Transportation	-	-	-	8,263,449	-	-	-	8,263,449
Unspent bond proceeds	-	26,459,948	-	-	-	-	-	26,459,948
Total Restricted	200,425	26,459,948	-	8,263,449	-	-	24,188,041	59,111,863
Committed:								
Emergency reserve	5,862,700	-	-	-	-	-	-	5,862,700
Operating reserve	35,176,400	-	-	-	-	-	-	35,176,400
Stabilization reserve	17,588,200	-	-	-	-	-	-	17,588,200
Transportation	-	-	-	-	29,231,728	-	-	29,231,728
Tourism	-	-	-	-	-	-	1,431,677	1,431,677
Total Committed	58,627,300	-	-	-	29,231,728	-	1,431,677	89,290,705
Assigned:								
Construction projects	-	135,784,993	-	-	-	-	-	135,784,993
Facilities	-	2,535,296	-	-	-	-	-	2,535,296
Vehicle replacement	-	5,539,656	-	-	-	-	-	5,539,656
IT asset replacement	-	5,153,876	-	-	-	-	-	5,153,876
S&T asset replacement	-	3,849,997	-	-	-	-	-	3,849,997
Parks asset replacement	-	1,290,188	-	-	-	-	-	1,290,188
PSPRS funding	40,391,495	-	-	-	-	-	-	40,391,495
Public safety	10,630	-	-	-	-	-	-	10,630
Wildland vehicle replacement	74,630	-	-	-	-	-	-	74,630
Municipal Art	2,327,791	-	-	-	-	-	-	2,327,791
Other	-	1,177,484	-	-	-	-	-	1,177,484
Total Assigned	42,804,546	155,331,490	-	-	-	-	-	198,136,036
Unassigned:								
Unassigned or negative fund balance	40,501,047	-	(1,830,461)	-	-	(86,436)	(1,568,923)	37,015,227
Total	\$144,829,348	\$186,961,973	\$ (1,830,461)	\$ 8,656,767	\$ 29,233,134	\$ (86,436)	\$ 24,114,969	\$391,879,294

NOTE 13 – DEFICIT FUND BALANCES

As of June 30, 2025, the following individual governmental funds reported deficits in fund balances:

Fund	Deficit
Major Fund:	
General Government Development Fee Fund	\$ 1,830,461
Debt Service Fund	86,436
NonMajor Governmental Funds:	
Grants Fund	1,379,916
Neighborhood Revitalization Fund	103,580
Street Lighting Districts Fund	58,321
Marley Park CFD Fund	24,888

Deficits arose in the General Government Development Fee Fund, Grants Fund, and Neighborhood Revitalization Fund due to timing differences from pending grant reimbursements and reimbursements from developers. Revenue accruals are not recognized in the current fiscal year due to the unavailability of the funds. These reimbursements will be recognized as revenue when received.

The Debt Service Fund, Street Lighting Districts Fund, and Marley Park CFD Fund had deficit ending fund balances due to the impact of the Maricopa County Qasimyar Settlement. The deficit fund balances are expected to be resolved in the next fiscal year.

NOTE 14 – BUDGET BASIS OF ACCOUNTING

The City records expenditures for prepaid items as an expenditure in the period goods or services are received; however, on the budgetary basis of accounting the expenditure is recorded in the period of the actual cash outlay.

NOTE 15 – JOINT VENTURE

The City currently participates with twenty-two cities, towns and fire districts in the Regional Wireless Cooperative (RWC) agreement for the administration, operation, management, construction, and maintenance of a regional public safety communications network. The RWC is an Arizona joint venture, multi-jurisdictional organization throughout the Phoenix Metropolitan Region. The City of Phoenix is both the Network Managing Member and the Administrative Managing Member. As the Network Managing Member, the City of Phoenix operates and maintains the network. As the Administrative Managing Member, the City of Phoenix is responsible for accounting, budgeting, procurement and contracting for the RWC.

The City has an ongoing financial responsibility as a result of the agreement to participate in the cost to construct, operate and maintain the network. The City’s share of costs is determined based on the proportionate number of subscriber units in use at the time of assessment. The equity interest for the City at June 30, 2024, which is the latest audited information available, was \$1,263,117.

Separate financial statements may be obtained from the RWC Director’s Office, 200 W. Washington Street, 14th Floor, Phoenix, Arizona 85003.

NOTE 16 – ACCOUNTING CHANGES

Changes within the financial reporting entity were made to record the activity related to ground ambulance service in the General Fund and to record the Grants Fund as a nonmajor fund. There was also a change in accounting principle made to reflect the impact of GASB 101 on the balance of reported compensated absences. The changes resulted in the following adjustments to the presentation of net position and fund balances at June 30, 2024:

	June 30, 2024, as previously reported	Change within the financial reporting entity	Change in accounting principle	June 30, 2024, as adjusted
Government-Wide Net Position				
Governmental Activities	\$ 1,005,007,561	\$ -	\$ (840,975)	\$ 1,004,166,586
Business Type Activities	522,351,138	-	(100,475)	522,250,663
Total Government Wide	<u>\$ 1,527,358,699</u>	<u>\$ -</u>	<u>\$ (941,450)</u>	<u>\$ 1,526,417,249</u>
Governmental Funds Fund Balances				
Major Funds:				
General Fund	\$ 146,399,437	\$ 2,578,122	\$ -	\$ 148,977,559
General Capital Projects Fund	147,433,325	-	-	147,433,325
General Government Development Fee Fund	(2,659,483)	-	-	(2,659,483)
Highway User Revenue Fund	6,542,190	-	-	6,542,190
Transportation Improvement Fund	33,692,367	-	-	33,692,367
Grants Fund	(1,345,458)	1,345,458	-	-
Debt Service Fund	824,661	-	-	824,661
NonMajor Governmental Funds	35,754,533	(3,923,580)	-	31,830,953
Total Governmental Funds	<u>\$ 366,641,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,641,572</u>
Enterprise Funds Net Position				
Water Fund	\$ 211,803,582	\$ -	\$ (42,174)	\$ 211,761,408
Sewer Fund	266,541,821	-	(35,290)	266,506,531
Sanitation Fund	14,945,975	-	(22,785)	14,923,190
Stormwater Fund	23,895,457	-	(226)	23,895,231
Total Enterprise Funds	<u>\$ 517,186,835</u>	<u>\$ -</u>	<u>\$ (100,475)</u>	<u>\$ 517,086,360</u>
Internal Service Funds Net Position				
Risk Management Fund	\$ 9,569,593	\$ -	\$ (1,215)	\$ 9,568,378
Employee Healthcare Trust Fund	6,512,373	-	(672)	6,511,701
Workers' Compensation Fund	3,619,783	-	(3,115)	3,616,668
Total Internal Service Funds	<u>\$ 19,701,749</u>	<u>\$ -</u>	<u>\$ (5,002)</u>	<u>\$ 19,696,747</u>



FINANCIAL SECTION - REQUIRED SUPPLEMENTARY INFORMATION



SURPRISE

ARIZONA



FINANCIAL SECTION – REQUIRED SUPPLEMENTARY INFORMATION

The sixth subsection is comprised of the Required Supplementary Information (RSI) section which presents certain information concerning the City’s progress in funding its pension obligations and its other post employment benefits (OPEB) obligations. This section also includes budgetary comparison schedules for the General Fund and for each major special revenue fund.

Required Supplementary Information

Schedule of the City's Proportionate Share of the Net Pension/OPEB Liability/(Asset)

Cost-Sharing Plans

Arizona State Retirement System - Pension	Reporting fiscal year (measurement date)		
	2025	2024	2023
	(2024)	(2023)	(2022)
City's proportion of the net pension liability	0.42%	0.40%	0.40%
City's proportionate share of the net pension liability	\$ 68,662,459	\$ 64,212,828	\$ 65,244,813
City's covered payroll	\$ 60,062,519	\$ 51,589,538	\$ 45,673,733
City's proportionate share of the net pension liability as a percentage of its covered payroll	114.32%	124.47%	142.85%
Plan fiduciary net position as a percentage of the total pension liability	76.93%	75.47%	74.26%

Arizona State Retirement System - Health insurance premium benefit	Reporting fiscal year (measurement date)		
	2025	2024	2023
	(2024)	(2023)	(2022)
City's proportion of the net OPEB (asset)	0.44%	0.41%	0.41%
City's proportionate share of the net OPEB (asset)	\$ (2,645,553)	\$ (2,187,407)	\$ (2,278,716)
City's covered payroll	\$ 60,062,519	\$ 51,589,538	\$ 45,673,733
City's proportionate share of the net OPEB (asset) as a percentage of its covered payroll	(4.40%)	(4.24%)	(4.99%)
Plan fiduciary net position as a percentage of the total OPEB liability	137.51%	134.37%	137.79%

Information not available for fiscal year 2016 through 2017.

Arizona State Retirement System - Long-term disability	Reporting fiscal year (measurement date)		
	2025	2024	2023
	(2024)	(2023)	(2022)
City's proportion of the net OPEB liability	0.43%	0.40%	0.40%
City's proportionate share of the net OPEB liability	\$ 11,305	\$ 52,442	\$ 37,211
City's covered payroll	\$ 60,062,519	\$ 51,589,538	\$ 45,673,733
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.02%	0.10%	0.08%
Plan fiduciary net position as a percentage of the total OPEB liability	98.77%	93.70%	95.40%

Information not available for fiscal year 2016 through 2017.

Elected Officials Retirement Plan - Pension	Reporting fiscal year (measurement date)		
	2025	2024	2023
	(2024)	(2023)	(2022)
City's proportion of the net pension liability	0.25%	0.14%	0.26%
City's proportionate share of the net pension liability	\$ 1,487,991	\$ 883,591	\$ 1,749,832
State's proportionate share of the net pension liability associated with the City	\$ 96,399	\$ 987,898	\$ 170,379
Total	\$ 1,584,390	\$ 1,871,489	\$ 1,920,211
City's covered payroll	\$ 282,975	\$ 250,647	\$ 233,509
City's proportionate share of the net pension liability as a percentage of its covered payroll	525.84%	352.52%	749.36%
Plan fiduciary net position as a percentage of the total pension liability	42.22%	38.63%	32.01%

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
0.38%	0.38%	0.38%	0.37%	0.36%	0.35%	0.32%
\$ 49,671,464	\$ 65,171,972	\$ 55,824,084	\$ 51,433,226	\$ 56,257,015	\$ 56,796,968	\$ 50,841,272
\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842	\$ 32,932,534	\$ 30,121,665
116.80%	153.57%	143.24%	136.86%	159.64%	172.46%	168.79%
78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
0.38%	0.38%	0.39%	0.38%	0.37%
\$ (1,880,770)	\$ (270,717)	\$ (108,422)	\$ (135,084)	\$ (199,174)
\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
(4.42%)	(0.64%)	(0.28%)	(0.36%)	(0.57%)
130.24%	104.33%	101.62%	102.20%	103.57%

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
0.38%	0.38%	0.39%	0.37%	0.36%
\$ 78,871	\$ 287,923	\$ 253,425	\$ 193,112	\$ 131,344
\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
0.19%	0.68%	0.65%	0.51%	0.37%
90.38%	68.01%	72.85%	77.83%	84.44%

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
0.26%	0.26%	0.23%	0.29%	0.17%	0.19%	0.16%
\$ 1,596,460	\$ 1,745,940	\$ 1,511,837	\$ 1,849,518	\$ 2,034,660	\$ 1,829,709	\$ 1,276,030
\$ 160,464	\$ 165,938	\$ 142,097	\$ (90,103)	\$ 213,700	\$ 100,812	\$ 107,037
\$ 1,756,924	\$ 1,911,878	\$ 1,653,934	\$ 1,759,415	\$ 2,248,360	\$ 1,930,521	\$ 1,383,067
\$ 205,522	\$ 206,644	\$ 176,123	\$ 150,767	\$ 154,566	\$ 155,470	\$ 155,918
776.78%	844.90%	858.40%	1226.74%	1316.37%	1176.89%	818.40%
36.27%	29.80%	30.14%	30.36%	19.66%	23.42%	28.32%

Required Supplementary Information

Schedule of Changes in the City's Net Pension/OPEB Liability/(Asset) and Related Ratios

Agent Plans

	Reporting fiscal year (measurement date)		
	2025 (2024)	2024 (2023)	2023 (2022)
PSPRS - Police - Pension			
Total pension liability			
Service cost	\$ 2,581,817	\$ 2,334,509	\$ 2,296,280
Interest on the total pension liability	7,840,196	6,977,214	6,546,272
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	3,609,818	6,778,671	1,311,952
Changes of assumptions or other inputs	-	-	856,726
Benefit payments	(4,899,243)	(3,804,415)	(3,832,929)
Net change in total pension liability	9,132,588	12,285,979	7,178,301
Total pension liability-beginning	108,759,421	96,473,442	89,295,141
Total pension liability-ending (a)	<u>\$ 117,892,009</u>	<u>\$ 108,759,421</u>	<u>\$ 96,473,442</u>
Plan fiduciary net position			
Contributions-employer	\$ 6,512,040	\$ 5,524,671	\$ 4,734,626
Contributions-employee	895,580	1,130,368	1,225,997
Net investment income	7,693,176	5,183,262	(2,669,674)
Benefit payments, including refunds of employee contributions	(4,899,243)	(3,804,415)	(3,832,929)
Pension plan administrative expense	(50,525)	(39,197)	(48,124)
Tiers 1 & 2 adjustment	-	(54,195)	-
Other changes	-	2,698	23,088
Net change in plan fiduciary net position	10,151,028	7,943,192	(567,016)
Plan fiduciary net position-beginning	71,388,618	63,445,426	64,012,442
Adjustment to beginning of year	-	-	-
Plan fiduciary net position-ending (b)	<u>\$ 81,539,646</u>	<u>\$ 71,388,618</u>	<u>\$ 63,445,426</u>
City's net pension (asset) liability-ending (a) - (b)	<u>\$ 36,352,363</u>	<u>\$ 37,370,803</u>	<u>\$ 33,028,016</u>
Plan fiduciary net position as a percentage of the total pension liability	69.16%	65.64%	65.76%
Covered payroll	\$ 18,961,470	\$ 16,214,339	\$ 13,046,658
City's net pension (asset)/liability as a percentage of covered payroll	191.72%	230.48%	253.15%

See accompanying notes to this schedule

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
\$ 2,331,614	\$ 2,500,116	\$ 2,625,724	\$ 2,432,053	\$ 2,580,430	\$ 2,064,206	\$ 1,663,042
6,036,548	5,548,786	4,977,350	4,564,294	4,152,228	3,530,011	2,833,422
-	-	-	-	431,035	4,507,117	-
2,228,010	1,718,866	1,469,073	(615,366)	884,245	144,478	5,574,308
-	-	2,103,228	-	950,588	2,249,172	-
(3,323,784)	(2,511,403)	(2,089,561)	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)
7,272,388	7,256,365	9,085,814	4,052,856	6,111,187	10,665,632	9,104,921
82,022,723	74,766,358	65,680,544	61,627,688	55,516,501	44,850,869	35,745,948
<u>\$ 89,295,111</u>	<u>\$ 82,022,723</u>	<u>\$ 74,766,358</u>	<u>\$ 65,680,544</u>	<u>\$ 61,627,688</u>	<u>\$ 55,516,501</u>	<u>\$ 44,850,869</u>
\$ 4,486,148	\$ 3,698,985	\$ 4,065,062	\$ 3,608,348	\$ 2,601,364	\$ 2,303,420	\$ 1,729,946
1,228,642	972,696	1,015,880	1,121,032	1,376,163	1,496,064	1,196,870
14,037,729	607,678	2,315,207	2,508,024	3,589,391	168,147	951,951
(3,323,784)	(2,511,403)	(2,089,561)	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)
(65,272)	(49,546)	(41,215)	(38,871)	(32,160)	(24,595)	(23,613)
-	-	-	-	-	-	-
-	-	-	20,867	36,754	138,888	210,447
16,363,463	2,718,410	5,265,373	4,891,275	4,684,173	2,252,572	3,099,750
47,648,979	44,930,566	39,693,746	34,802,471	30,118,298	27,865,726	24,765,976
-	3	(28,553)	-	-	-	-
<u>\$ 64,012,442</u>	<u>\$ 47,648,979</u>	<u>\$ 44,930,566</u>	<u>\$ 39,693,746</u>	<u>\$ 34,802,471</u>	<u>\$ 30,118,298</u>	<u>\$ 27,865,726</u>
<u>\$ 25,282,699</u>	<u>\$ 34,373,744</u>	<u>\$ 29,835,792</u>	<u>\$ 25,986,798</u>	<u>\$ 26,825,217</u>	<u>\$ 25,398,203</u>	<u>\$ 16,985,143</u>
71.69%	58.09%	60.09%	60.43%	56.47%	54.25%	62.13%
\$ 13,066,287	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882	\$ 11,159,388	\$ 10,682,880
193.50%	264.63%	228.34%	210.83%	227.91%	227.59%	158.99%

Required Supplementary Information

Schedule of Changes in the City's Net Pension/OPEB Liability/(Asset) and Related Ratios

Agent Plans

	Reporting fiscal year (measurement date)		
	2025 (2024)	2024 (2023)	2023 (2022)
PSPRS - Police - OPEB			
Total OPEB liability			
Service cost	\$ 35,955	\$ 38,587	\$ 40,190
Interest on the total OPEB liability	85,993	88,223	78,438
Changes of benefit terms	-	-	-
Differences between expected and actual experience of the total OPEB liability	68,766	(102,573)	54,218
Changes of assumptions or other inputs	-	-	24,055
Benefit payments	(53,414)	(51,717)	(37,228)
Net change in total OPEB liability	<u>137,300</u>	<u>(27,480)</u>	<u>159,673</u>
Total OPEB liability-beginning	1,185,104	1,212,584	1,052,911
Total OPEB liability-ending (a)	<u>\$ 1,322,404</u>	<u>\$ 1,185,104</u>	<u>\$ 1,212,584</u>
Plan fiduciary net position			
Contributions-employer	\$ 37,897	\$ 10,229	\$ 22,060
Net investment income	157,308	113,415	(62,282)
Benefit payments, including refunds of employee contributions	(53,414)	(51,717)	(37,228)
OPEB plan administrative expense	(924)	(911)	(1,109)
Other changes	-	-	-
Net change in plan fiduciary net position	<u>140,867</u>	<u>71,016</u>	<u>(78,559)</u>
Plan fiduciary net position-beginning	1,591,428	1,520,412	1,598,971
Adjustment to beginning of the year	-	-	-
Plan fiduciary net position-ending (b)	<u>\$ 1,732,295</u>	<u>\$ 1,591,428</u>	<u>\$ 1,520,412</u>
City's net OPEB (asset) liability-ending (a) - (b)	<u>\$ (409,891)</u>	<u>\$ (406,324)</u>	<u>\$ (307,828)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	131.00%	134.29%	125.39%
Covered payroll	\$ 18,961,470	\$ 16,214,339	\$ 13,046,658
City's net OPEB (asset) liability as a percentage of covered payroll	(2.16%)	(2.51%)	(2.36%)

Information not available for fiscal years 2016 through 2017.

See accompanying notes to this schedule

	2022	2021	2020	2019	2018
	(2021)	(2020)	(2019)	(2018)	(2017)
\$	43,797	\$ 47,355	\$ 33,493	\$ 34,574	\$ 37,056
	82,702	83,812	88,366	87,925	94,154
	-	-	-	-	6,912
	(146,929)	(97,685)	(194,295)	(105,683)	(68,029)
	-	-	24,230	-	(107,363)
	(31,522)	(27,706)	(26,693)	(27,446)	(29,932)
	(51,952)	5,776	(74,899)	(10,630)	(67,202)
	1,104,863	1,099,087	1,173,986	1,184,616	1,251,818
\$	1,052,911	\$ 1,104,863	\$ 1,099,087	\$ 1,173,986	\$ 1,184,616
\$	33,459	\$ 34,570	\$ 42,535	\$ 26,730	\$ 55,927
	342,648	15,453	61,524	73,735	110,362
	(31,522)	(27,706)	(26,693)	(27,446)	(29,932)
	(1,409)	(1,257)	(1,062)	(1,122)	(976)
	-	-	-	1	-
	343,176	21,060	76,304	71,898	135,381
	1,255,795	1,234,735	1,129,879	1,057,981	922,600
	-	-	28,552	-	-
\$	1,598,971	\$ 1,255,795	\$ 1,234,735	\$ 1,129,879	\$ 1,057,981
\$	(546,060)	\$ (150,932)	\$ (135,648)	\$ 44,107	\$ 126,635
	151.86%	113.66%	112.34%	96.24%	89.31%
\$	13,066,287	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882
	(4.18%)	(1.16%)	(1.04%)	0.36%	1.08%

Required Supplementary Information

Schedule of Changes in the City's Net Pension/OPEB Liability/(Asset) and Related Ratios

Agent Plans

	Reporting fiscal year (measurement date)		
	2025 (2024)	2024 (2023)	2023 (2022)
PSPRS - Fire - Pension			
Total pension liability			
Service cost	\$ 3,354,728	\$ 3,219,873	\$ 2,827,598
Interest on the total pension liability	7,683,372	6,946,492	6,083,653
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	10,536,788	2,321,913	4,696,366
Changes of assumptions or other inputs	-	-	382,523
Benefit payments	(3,370,249)	(1,407,149)	(1,074,975)
Net change in total pension liability	18,204,639	11,081,129	12,915,165
Total pension liability-beginning	105,043,890	93,962,761	81,047,596
Total pension liability-ending (a)	<u>\$ 123,248,529</u>	<u>\$ 105,043,890</u>	<u>\$ 93,962,761</u>
Plan fiduciary net position			
Contributions-employer	\$ 7,036,384	\$ 4,806,903	\$ 4,049,340
Contributions-employee	1,069,773	1,093,961	1,070,430
Net investment income	9,044,839	5,931,533	(3,008,243)
Benefit payments, including refunds of employee contributions	(3,370,249)	(1,407,149)	(1,074,975)
Pension plan administrative expense	(38,654)	(29,506)	(54,211)
Tiers 1 & 2 adjustment	-	(51,020)	-
Other changes	-	(3,926)	-
Net change in plan fiduciary net position	13,742,093	10,340,796	982,341
Plan fiduciary net position-beginning	83,314,270	72,973,474	71,991,133
Adjustment to beginning of year	-	-	-
Plan fiduciary net position-ending (b)	<u>\$ 97,056,363</u>	<u>\$ 83,314,270</u>	<u>\$ 72,973,474</u>
City's net pension (asset)/liability-ending (a) - (b)	<u>\$ 26,192,166</u>	<u>\$ 21,729,620</u>	<u>\$ 20,989,287</u>
Plan fiduciary net position as a percentage of the total pension liability	78.75%	79.31%	77.66%
Covered payroll	\$ 20,680,727	\$ 16,649,124	\$ 17,278,086
City's net pension (asset)/liability as a percentage of covered payroll	126.65%	130.52%	121.48%

See accompanying notes to this schedule

2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
\$ 2,605,918	\$ 2,585,747	\$ 2,703,787	\$ 2,629,254	\$ 2,540,844	\$ 1,944,045	\$ 1,709,096
5,389,067	4,775,536	4,299,178	3,959,756	3,537,634	2,858,919	2,480,922
-	-	-	-	324,839	4,813,386	-
2,288,365	2,107,451	223,172	(2,685,396)	721,498	(428,646)	991,201
-	-	1,224,623	-	36,178	2,042,866	-
(905,343)	(1,263,395)	(759,444)	(652,543)	(1,074,336)	(485,385)	(481,494)
9,378,007	8,205,339	7,691,316	3,251,071	6,086,657	10,745,185	4,699,725
71,669,589	63,464,250	55,772,934	52,521,863	46,435,206	35,690,021	30,990,296
<u>\$ 81,047,596</u>	<u>\$ 71,669,589</u>	<u>\$ 63,464,250</u>	<u>\$ 55,772,934</u>	<u>\$ 52,521,863</u>	<u>\$ 46,435,206</u>	<u>\$ 35,690,021</u>
\$ 4,411,913	\$ 2,592,924	\$ 3,232,317	\$ 3,149,148	\$ 1,828,952	\$ 1,773,960	\$ 1,394,750
1,194,804	1,086,498	955,090	1,036,287	1,340,153	1,188,041	1,085,819
15,348,395	662,772	2,477,023	2,659,343	3,742,608	170,022	956,696
(905,343)	(1,263,395)	(759,444)	(652,543)	(1,074,336)	(485,385)	(481,494)
(71,250)	(54,041)	(44,033)	(41,175)	(33,516)	(24,864)	(23,732)
-	-	-	-	-	-	-
62,571	-	-	147,401	141,131	30,036	23,521
20,041,090	3,024,758	5,860,953	6,298,461	5,944,992	2,651,810	2,955,560
51,950,043	48,925,283	43,082,800	36,784,339	30,839,347	28,187,537	25,231,977
-	2	(18,470)	-	-	-	-
<u>\$ 71,991,133</u>	<u>\$ 51,950,043</u>	<u>\$ 48,925,283</u>	<u>\$ 43,082,800</u>	<u>\$ 36,784,339</u>	<u>\$ 30,839,347</u>	<u>\$ 28,187,537</u>
<u>\$ 9,056,463</u>	<u>\$ 19,719,546</u>	<u>\$ 14,538,967</u>	<u>\$ 12,690,134</u>	<u>\$ 15,737,524</u>	<u>\$ 15,595,859</u>	<u>\$ 7,502,484</u>
88.83%	72.49%	77.09%	77.25%	70.04%	66.41%	78.98%
\$ 13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060	\$ 10,648,460	\$ 9,802,389
68.21%	167.99%	123.55%	110.02%	139.32%	146.46%	76.54%

Required Supplementary Information

Schedule of Changes in the City's Net Pension/OPEB Liability/(Asset) and Related Ratios

Agent Plans

	Reporting fiscal year (measurement date)		
	2025 (2024)	2024 (2023)	2023 (2022)
PSPRS - Fire - OPEB			
Total OPEB liability			
Service cost	\$ 44,159	\$ 44,720	\$ 42,976
Interest on the total OPEB liability	94,013	90,368	82,978
Changes of benefit terms	-	-	10,060
Differences between expected and actual experience of the total OPEB liability	45,416	(66,110)	(467)
Changes of assumptions or other inputs	-	-	-
Benefit payments, including refunds of employee contributions	(20,675)	(14,928)	(22,804)
Net change in total OPEB liability	162,913	54,050	112,743
Total OPEB liability-beginning	1,271,910	1,217,860	1,105,117
Total OPEB liability-ending (a)	\$ 1,434,823	\$ 1,271,910	\$ 1,217,860
Plan fiduciary net position			
Contributions-employer	\$ 46,663	\$ 34,231	\$ 41,621
Contributions-employee	-	-	-
Net investment income	142,316	98,704	(52,577)
Benefit payments	(20,675)	(14,928)	(22,804)
OPEB plan administrative expense	(543)	(517)	(936)
Other changes	-	-	-
Net change in plan fiduciary net position	167,761	117,490	(34,696)
Plan fiduciary net position-beginning	1,421,777	1,304,287	1,338,983
Adjust to beginning of year	-	-	-
Plan fiduciary net position-ending (b)	\$ 1,589,538	\$ 1,421,777	\$ 1,304,287
City's net OPEB (asset)/liability-ending (a) - (b)	\$ (154,715)	\$ (149,867)	\$ (86,427)
Plan fiduciary net position as a percentage of the total OPEB liability	110.78%	111.78%	107.10%
Covered payroll	\$ 20,680,727	\$ 16,649,124	\$ 17,278,086
City's net OPEB (asset)/liability as a percentage of covered payroll	(0.75%)	(0.90%)	(0.50%)

Information not available for fiscal years 2016 through 2017.

See accompanying notes to this schedule

	2022	2021	2020	2019	2018
	(2021)	(2020)	(2019)	(2018)	(2017)
\$	42,778	\$ 42,441	\$ 28,223	\$ 28,223	\$ 28,898
	79,625	72,508	78,968	72,743	78,136
	-	-	-	-	8
	(57,371)	11,259	(206,517)	(17,297)	(28,004)
	-	-	12,836	-	(124,948)
	(15,780)	(15,486)	(14,571)	(12,727)	(12,382)
	49,252	110,722	(101,061)	70,942	(58,292)
	1,055,865	945,143	1,046,204	975,262	1,033,554
\$	1,105,117	\$ 1,055,865	\$ 945,143	\$ 1,046,204	\$ 975,262
\$	37,731	\$ 35,723	\$ 34,300	\$ 29,385	\$ 40,649
	-	-	-	-	-
	283,657	12,652	50,072	58,948	86,787
	(15,780)	(15,486)	(14,571)	(12,727)	(12,382)
	(1,166)	(1,029)	(864)	(897)	(769)
	-	-	-	1	-
	304,442	31,860	68,937	74,710	114,285
	1,034,541	1,002,681	915,274	840,564	726,279
	-	-	18,470	-	-
\$	1,338,983	\$ 1,034,541	\$ 1,002,681	\$ 915,274	\$ 840,564
\$	(233,866)	\$ 21,324	\$ (57,538)	\$ 130,930	\$ 134,698
	121.16%	97.98%	106.09%	87.49%	86.19%
\$	13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060
	(1.76%)	0.18%	(0.49%)	1.14%	1.19%

Required Supplementary Information

Schedule of City Pension/OPEB Contributions

Arizona State Retirement System - Pension

	Reporting fiscal year		
	2025	2024	2023
Statutorily required contribution	\$ 7,816,889	\$ 7,216,809	\$ 6,091,867
City's contributions in relation to the statutorily required contribution	7,816,889	7,216,809	6,091,867
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 64,941,768	\$ 60,062,519	\$ 51,589,538
City's contributions as a percentage of covered payroll	12.04%	12.02%	11.81%

Arizona State Retirement System - Health insurance premium benefit

	Reporting fiscal year		
	2025	2024	2023
Statutorily required contribution	\$ 45,142	\$ 66,231	\$ 110,400
City's contributions in relation to the statutorily required contribution	45,142	66,231	110,400
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 64,941,768	\$ 60,062,519	\$ 51,589,538
City's contributions as a percentage of covered payroll	0.07%	0.11%	0.21%

Information not available for fiscal year 2016.

Arizona State Retirement System - Long-term disability

	Reporting fiscal year		
	2025	2024	2023
Statutorily required contribution	\$ 96,736	\$ 89,497	\$ 72,905
City's contributions in relation to the statutorily required contribution	96,736	89,497	72,905
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 64,941,768	\$ 60,062,519	\$ 51,589,538
City's contributions as a percentage of covered payroll	0.15%	0.15%	0.14%

Information not available for fiscal year 2016.

See accompanying notes to this schedule

2022	2021	2020	2019	2018	2017	2016
\$ 5,478,357	\$ 4,940,338	\$ 4,678,053	\$ 4,349,366	\$ 4,084,163	\$ 3,773,263	\$ 3,569,994
5,478,357	4,940,338	4,678,053	4,349,366	4,084,163	3,773,263	3,569,994
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 45,673,733	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842	\$ 32,932,534
11.99%	11.62%	11.02%	11.16%	10.87%	10.71%	10.84%

2022	2021	2020	2019	2018	2017
\$ 97,559	\$ 172,796	\$ 191,599	\$ 178,575	\$ 164,581	\$ 196,952
97,559	172,796	191,599	178,575	164,581	196,952
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 45,673,733	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
0.21%	0.41%	0.45%	0.46%	0.44%	0.56%

2022	2021	2020	2019	2018	2017
\$ 86,437	\$ 76,187	\$ 69,064	\$ 62,149	\$ 61,374	\$ 49,278
86,437	76,187	69,064	62,149	61,374	49,278
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 45,673,733	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
0.19%	0.18%	0.16%	0.16%	0.16%	0.14%

Required Supplementary Information

Schedule of City Pension/OPEB Contributions

Elected Official Retirement Plan - Pension

	Reporting fiscal year		
	2025	2024	2023
Statutorily required contribution	\$ 120,501	\$ 168,324	\$ 145,311
City's contributions in relation to the statutorily required contribution	120,501	168,324	145,311
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 294,811	\$ 282,975	\$ 250,647
City's contributions as a percentage of covered payroll	40.87%	59.48%	57.97%

The City was not required to and did not contribute to the EORP health insurance premium benefit plan for fiscal years 2025 through 2017.

PSPRS - Police - Pension

	Reporting fiscal year		
	2025	2024	2023
Actuarially determined contribution	\$ 8,123,499	\$ 6,230,911	\$ 5,515,963
City's contributions in relation to the actuarially determined contribution	8,123,499	7,035,412	5,911,475
City's contribution deficiency/(excess)	\$ -	\$ (804,501)	\$ (395,512)
City's covered payroll	\$ 21,313,663	\$ 18,961,470	\$ 16,214,339
City's contributions as a percentage of covered payroll	38.11%	37.10%	36.46%

PSPRS - Police - OPEB

	Reporting fiscal year		
	2025	2024	2023
Actuarially determined contribution	\$ 43,060	\$ 47,897	\$ 41,698
City's contributions in relation to the actuarially determined contribution	43,060	47,897	41,698
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 21,313,663	\$ 18,961,470	\$ 16,214,339
City's contributions as a percentage of covered payroll	0.20%	0.25%	0.26%

Information not available for fiscal year 2016.

See accompanying notes to this schedule

2022	2021	2020	2019	2018	2017	2016
\$ 120,671	\$ 115,754	\$ 117,327	\$ 101,371	\$ 66,206	\$ 34,133	\$ 36,535
120,671	115,754	117,327	101,371	66,206	34,133	36,535
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 233,509	\$ 205,522	\$ 206,644	\$ 176,123	\$ 150,767	\$ 154,566	\$ 155,470
51.68%	56.32%	56.78%	57.56%	43.91%	22.08%	23.50%

2022	2021	2020	2019	2018	2017	2016
\$ 4,043,750	\$ 4,094,704	\$ 3,850,896	\$ 3,977,387	\$ 5,056,552	\$ 2,598,440	\$ 2,301,028
4,670,817	4,094,704	3,850,896	3,977,387	5,056,552	2,598,440	2,301,028
\$ (627,067)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 13,046,658	\$ 13,066,287	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882	\$ 11,159,388
35.80%	31.34%	29.65%	30.44%	41.02%	22.08%	20.62%

2022	2021	2020	2019	2018	2017
\$ 25,907	\$ 40,791	\$ 37,796	\$ 44,365	\$ 79,382	\$ 58,849
41,394	40,791	37,796	44,365	79,382	58,849
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 13,046,658	\$ 13,066,287	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882
0.32%	0.31%	0.29%	0.34%	0.64%	0.50%

Required Supplementary Information

Schedule of City Pension/OPEB Contributions

PSPRS - Fire - Pension

	Reporting fiscal year		
	2025	2024	2023
Actuarially determined contribution	\$ 7,988,995	\$ 4,298,173	\$ 4,565,888
City's contributions in relation to the actuarially determined contribution	7,988,995	6,514,995	5,543,071
City's contribution deficiency/(excess)	\$ -	\$ (2,216,822)	\$ (977,183)
City's covered payroll	\$ 18,669,354	\$ 18,669,354	\$ 16,649,124
City's contributions as a percentage of covered payroll	42.79%	34.90%	33.29%

PSPRS - Fire - OPEB

	Reporting fiscal year		
	2025	2024	2023
Actuarially determined contribution	\$ 59,705	\$ 52,405	\$ 47,581
City's contributions in relation to the actuarially determined contribution	59,705	52,405	47,581
City's contribution deficiency/(excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 18,669,354	\$ 18,669,354	\$ 16,649,124
City's contributions as a percentage of covered payroll	0.32%	0.28%	0.29%

Information not available for fiscal year 2016.

See accompanying notes to this schedule

2022	2021	2020	2019	2018	2017	2016
\$ 3,181,809	\$ 3,569,521	\$ 3,060,602	\$ 2,977,137	\$ 4,499,428	\$ 1,832,987	\$ 1,716,087
4,637,873	3,569,521	3,060,602	2,977,137	4,499,428	1,832,987	1,716,087
\$ (1,456,064)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 17,278,086	\$ 13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060	\$ 10,648,460
26.84%	26.88%	26.07%	25.30%	39.01%	16.23%	16.12%

2022	2021	2020	2019	2018	2017
\$ 37,981	\$ 40,124	\$ 36,517	\$ 35,366	\$ 77,072	\$ 40,740
46,383	40,124	36,517	35,366	77,072	40,740
\$ (8,402)	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 17,278,086	\$ 13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060
0.27%	0.30%	0.31%	0.30%	0.67%	0.36%

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTIONS RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30, two years prior to the beginning of the fiscal year in which contributions are reported. The actuarial assumptions used to establish the contribution requirements are as follows:

Actuarial assumptions:

Investment rate of return	In the 2022 actuarial valuation, the investment rate of return was decreased from 7.3% to 7.2%. In the 2019 actuarial valuation, the investment rate of return was decreased from 7.4% to 7.3%. In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5%. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%.
Wage growth	In the 2022 actuarial valuation, wage growth was changed from 3.5% to a range of 3.0 - 6.25%. In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5%. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2019 actuarial valuation, changed to PubS-2010 tables. In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

NOTE 2 – FACTORS THAT AFFECT TRENDS**Arizona State Retirement System (ASRS)**

The actuarial assumptions related to funding used in the June 30, 2023, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2020. The major changes in assumptions involved the investment return, the inflation rate, general wage inflation, and future permanent benefit increases. The ASRS Board adopted the recommended changes from the experience study, which were first applied to the June 30, 2020, actuarial valuation.

Public Safety Personnel Retirement System (PSPRS)

The actuarial assumptions used in the June 30, 2024, valuation for PSPRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2021. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The PSPRS Board adopted the experience study recommended changes, which were applied beginning with the June 30, 2022, actuarial valuation. The total liabilities as of June 30, 2023, reflected changes in actuarial assumptions based on the results of the actuarial experience study, including decreasing the discount rate from 7.3 percent to 7.2 percent, changing the wage inflation rate from 3.5 percent to a range of 2.75-15.0 percent, and increasing the cost-of-living adjustment rate from 1.75 percent to 1.85 percent.

Arizona courts have ruled those provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

Elected Official Retirement Plan (EORP)

The fiscal year 2019 (measurement date 2018) pension liability for EORP reflects the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also, the EORP liability and required pension contributions for fiscal year 2019 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

General Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 111,164,400	\$ 111,164,400	\$ 119,920,752	\$ 8,756,352
Licenses and permits	7,307,200	7,307,200	7,632,584	325,384
Intergovernmental revenue	66,277,800	66,399,500	68,008,013	1,608,513
Charges for services	38,744,300	38,744,300	35,892,931	(2,851,369)
Grants revenue	-	114,500	134,434	19,934
Fines	751,100	751,100	1,276,614	525,514
Rents	687,900	687,900	665,312	(22,588)
Interest revenue	2,949,700	2,949,700	6,499,608	3,549,908
Donations	50,000	50,000	138,874	88,874
Indirect charges	8,010,000	8,010,000	8,010,013	13
Other revenue	531,600	531,600	3,841,101	3,309,501
Total revenues	<u>236,474,000</u>	<u>236,710,200</u>	<u>252,020,236</u>	<u>15,310,036</u>
EXPENDITURES				
Current:				
General government:				
City council	963,800	963,800	609,349	354,451
City manager	2,504,300	2,504,300	2,253,364	250,936
City attorney	3,457,400	3,457,400	3,263,555	193,845
City clerk	1,492,000	1,492,000	1,091,847	400,153
Finance	7,469,700	7,454,600	6,471,423	983,177
Human resources	3,343,100	3,343,100	2,960,789	382,311
Information technology	9,653,900	9,653,900	7,725,157	1,928,743
Marketing and communications	1,707,500	1,707,500	1,639,063	68,437
City auditor	538,700	538,700	526,756	11,944
General operations	11,106,600	11,119,400	3,616,514	7,502,886
Total general government	<u>42,237,000</u>	<u>42,234,700</u>	<u>30,157,817</u>	<u>12,076,883</u>
Public safety:				
Police	49,265,000	49,815,600	49,716,335	99,265
Fire-Medical	49,771,200	49,813,900	49,248,765	565,135
Court	3,482,500	3,482,500	2,898,084	584,416
Total public safety	<u>102,518,700</u>	<u>103,112,000</u>	<u>101,863,184</u>	<u>1,248,816</u>
Public works and transportation:				
Public works	11,880,600	11,880,600	10,983,780	896,820
Transportation	7,083,400	7,173,300	7,119,967	53,333
Total public works and transportation	<u>18,964,000</u>	<u>19,053,900</u>	<u>18,103,747</u>	<u>950,153</u>
Community development:				
Economic development	23,239,300	23,335,300	18,122,231	5,213,069
Community development	8,937,700	8,910,400	7,320,924	1,589,476
Total community development	<u>32,177,000</u>	<u>32,245,700</u>	<u>25,443,155</u>	<u>6,802,545</u>
Culture and recreation:				
Human service and community vitality	3,149,200	3,131,700	2,775,292	356,408
Arts, culture, and library	4,090,700	4,236,400	3,928,152	308,248
Parks and recreation	16,819,000	16,789,900	14,975,840	1,814,060
Total culture and recreation	<u>24,058,900</u>	<u>24,158,000</u>	<u>21,679,284</u>	<u>2,478,716</u>
Total current	<u>\$ 219,955,600</u>	<u>\$ 220,804,300</u>	<u>\$ 197,247,187</u>	<u>\$ 23,557,113</u>

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Debt service:				
Principal retirement	\$ 1,339,850	\$ 1,339,850	\$ 1,339,768	\$ 82
Interest	51,450	51,450	51,426	24
Total debt service	1,391,300	1,391,300	1,391,194	106
Capital outlay	5,117,600	4,474,100	4,391,971	82,129
Total expenditures	226,464,500	226,669,700	203,030,352	23,639,348
Excess/(deficiency) of revenues over expenditures	10,009,500	10,040,500	48,989,884	38,949,384
OTHER FINANCING SOURCES/(USES)				
Proceeds from sale of capital assets	157,900	157,900	554,106	396,206
Transfers in	2,779,500	2,779,500	2,950,425	170,925
Transfers out	(27,332,500)	(27,332,500)	(57,556,233)	(30,223,733)
Lease/SBITA arrangements	-	-	1,064,313	1,064,313
Total other financing sources/(uses)	(24,395,100)	(24,395,100)	(52,987,389)	(28,592,289)
Net change in fund balances	\$ (14,385,600)	\$ (14,354,600)	\$ (3,997,505)	\$ 10,357,095

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

General Government Development Fee Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 645,500	\$ 645,500	\$ 800,281	\$ 154,781
Interest revenue	-	-	28,741	28,741
Total revenues	<u>645,500</u>	<u>645,500</u>	<u>829,022</u>	<u>183,522</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Total current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess/(deficiency) of revenues over expenditures	<u>645,500</u>	<u>645,500</u>	<u>829,022</u>	<u>183,522</u>
Net change in fund balances	<u>\$ 645,500</u>	<u>\$ 645,500</u>	<u>\$ 829,022</u>	<u>\$ 183,522</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Highway User Revenue Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 11,819,000	\$ 11,819,000	\$ 11,350,643	\$ (468,357)
Charges for services	8,300	8,300	19,500	11,200
Interest revenue	-	-	450,148	450,148
Other revenue	1,500	1,500	-	(1,500)
Total revenues	<u>11,828,800</u>	<u>11,828,800</u>	<u>11,820,291</u>	<u>(8,509)</u>
EXPENDITURES				
Current:				
General government	27,000	27,000	27,000	-
Public works and transportation	14,949,800	14,949,800	9,617,913	5,331,887
Total current	<u>14,976,800</u>	<u>14,976,800</u>	<u>9,644,913</u>	<u>5,331,887</u>
Total expenditures	<u>14,976,800</u>	<u>14,976,800</u>	<u>9,644,913</u>	<u>5,331,887</u>
Excess/(deficiency) of revenues over expenditures	<u>(3,148,000)</u>	<u>(3,148,000)</u>	<u>2,175,378</u>	<u>5,323,378</u>
Net change in fund balances	<u>\$ (3,148,000)</u>	<u>\$ (3,148,000)</u>	<u>\$ 2,175,378</u>	<u>\$ 5,323,378</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Transportation Improvement Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 16,019,600	\$ 16,019,600	\$ 19,228,592	\$ 3,208,992
Interest revenue	568,700	568,700	1,675,573	1,106,873
Other revenue	44,200	44,200	803,618	759,418
Total revenues	<u>16,632,500</u>	<u>16,632,500</u>	<u>21,707,783</u>	<u>5,075,283</u>
EXPENDITURES				
Current:				
Public works and transportation	4,408,800	4,408,800	3,661,598	747,202
Total current	<u>4,408,800</u>	<u>4,408,800</u>	<u>3,661,598</u>	<u>747,202</u>
Debt service:				
Principal retirement	2,880	2,880	2,876	4
Interest	20	20	21	(1)
Total debt service	<u>2,900</u>	<u>2,900</u>	<u>2,897</u>	<u>3</u>
Capital outlay	47,339,400	47,689,400	22,250,821	25,438,579
Total expenditures	<u>51,751,100</u>	<u>52,101,100</u>	<u>25,915,316</u>	<u>26,185,784</u>
Excess/(deficiency) of revenues over expenditures	<u>(35,118,600)</u>	<u>(35,468,600)</u>	<u>(4,207,533)</u>	<u>31,261,067</u>
OTHER FINANCING SOURCES/(USES)				
Transfers out	(251,700)	(251,700)	(251,700)	-
Total other financing sources/(uses)	<u>(251,700)</u>	<u>(251,700)</u>	<u>(251,700)</u>	<u>-</u>
Net change in fund balances	<u>\$ (35,370,300)</u>	<u>\$ (35,720,300)</u>	<u>\$ (4,459,233)</u>	<u>\$ 31,261,067</u>

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds with the following exceptions: (1) Capital Projects, the Grants, and Neighborhood Revitalization Funds adopt project-length budgets which normally extend beyond the fiscal year, (2) Compensated absences are expended when paid, (3) Capital outlays within the enterprise funds are expended on a budget basis, (4) Bad debt expense represents revenue the City won't receive, rather than an actual cash outlay, and (5) Prepaid items, leases, and inventory are expended when paid not when the goods or services are received or used.

Prior to the third Monday in July, the City Manager submits to the City Council, and Council adopts a tentative budget for the fiscal year commencing on July 1. The tentative budget includes a schedule of the estimated expenditures and revenues. The proposed budget sets the maximum limit. The tentative budget is then published once a week for two consecutive weeks in a local newspaper. Finally, the City holds a public hearing on the budget and convenes a special meeting to adopt the final proposed budget on or before the 14th day before the tax levy is adopted.

The annual budget is adopted by resolution and serves as the foundation for the City of Surprise's financial planning and control. It has been programmed to allow as much flexibility as possible while still establishing useful guidelines. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The City budget is adopted by department within each fund and by project in the capital funds. In addition, the full-time equivalent (FTE) position count is adopted by department within each fund. Changes to the adopted budget must be made in accordance with the City's Budget Amendment Policy. This policy specifies the approval levels required for various types of budget amendments. During the fiscal year, amendment requests are submitted to the Finance Department for preparation and processing. Changes can be made pursuant to the policy only if funds are unencumbered and available.



S U R P R I S E

A R I Z O N A



FINANCIAL SECTION - OTHER SUPPLEMENTARY INFORMATION



S U R P R I S E

A R I Z O N A

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

General Capital Projects Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 25,338,200	\$ 25,338,200	\$ 28,201,935	\$ 2,863,735
Interest revenue	2,247,400	2,247,400	8,327,682	6,080,282
Other revenue	223,000	223,000	10,150	(212,850)
Total revenues	<u>27,808,600</u>	<u>27,808,600</u>	<u>36,539,767</u>	<u>8,731,167</u>
EXPENDITURES				
Current:				
General government:				
Information technology	9,170,680	9,123,780	595,337	8,528,443
Marketing and communications	330,800	299,100	31,573	267,527
General operations	1,143,200	1,139,500	27,576	1,111,924
Total general government	<u>10,644,680</u>	<u>10,562,380</u>	<u>654,486</u>	<u>9,907,894</u>
Public safety:				
Police	1,130,500	704,000	39,507	664,493
Fire-Medical	350,000	350,000	85,062	264,938
Total public safety	<u>1,480,500</u>	<u>1,054,000</u>	<u>124,569</u>	<u>929,431</u>
Public works and transportation:				
Public works	-	-	2,265	(2,265)
Transportation	1,211,500	1,000,000	125,331	874,669
Total public works and transportation	<u>1,211,500</u>	<u>1,000,000</u>	<u>127,596</u>	<u>872,404</u>
Community development:				
Economic development	224,300	215,000	210,695	4,305
Total community development	<u>224,300</u>	<u>215,000</u>	<u>210,695</u>	<u>4,305</u>
Culture and recreation:				
Human service and community vitality	43,300	39,300	23,097	16,203
Parks and recreation	3,746,300	2,832,300	1,900,156	932,144
Sports and tourism	4,997,700	4,282,700	2,574,773	1,707,927
Total culture and recreation	<u>8,787,300</u>	<u>7,154,300</u>	<u>4,498,026</u>	<u>2,656,274</u>
Total current	<u>22,348,280</u>	<u>19,985,680</u>	<u>5,615,372</u>	<u>14,370,308</u>
Debt service:				
Principal retirement	655,570	655,570	655,574	(4)
Interest	14,250	14,250	14,249	1
Bond issuance costs	-	257,700	257,632	68
Total debt service	<u>669,820</u>	<u>927,520</u>	<u>927,455</u>	<u>65</u>
Capital outlay	224,796,600	227,097,600	73,842,917	153,254,683
Total expenditures	<u>247,814,700</u>	<u>248,010,800</u>	<u>80,385,744</u>	<u>167,625,056</u>
Excess/(deficiency) of revenues over expenditures	<u>(220,006,100)</u>	<u>(220,202,200)</u>	<u>(43,845,977)</u>	<u>176,356,223</u>
OTHER FINANCING SOURCES/(USES)				
Transfers in	22,591,100	22,591,100	53,629,100	31,038,000
Transfers out	(1,060,300)	(1,060,300)	(1,060,300)	-
Issuance of debt	51,566,400	51,566,400	27,065,000	(24,501,400)
Premium on debt issuance	-	-	3,113,023	3,113,023
Lease/SBITA arrangements	-	-	663,996	663,996
Total other financing sources/(uses)	<u>73,097,200</u>	<u>73,097,200</u>	<u>83,410,819</u>	<u>10,313,619</u>
Net change in fund balances	<u>\$ (146,908,900)</u>	<u>\$ (147,105,000)</u>	<u>\$ 39,564,842</u>	<u>\$ 186,669,842</u>



SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Debt Service Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 6,690,400	\$ 6,690,400	\$ 6,609,737	\$ (80,663)
Interest revenue	-	-	155,906	155,906
Total revenues	<u>6,690,400</u>	<u>6,690,400</u>	<u>6,765,643</u>	<u>75,243</u>
EXPENDITURES				
Debt service:				
Administrative charges	12,000	12,000	2,279	9,721
Principal retirement	6,260,000	6,260,000	6,505,000	(245,000)
Interest	3,004,300	3,004,300	2,752,569	251,731
Total debt service	<u>9,276,300</u>	<u>9,276,300</u>	<u>9,259,848</u>	<u>16,452</u>
Total expenditures	<u>9,276,300</u>	<u>9,276,300</u>	<u>9,259,848</u>	<u>16,452</u>
Excess/(deficiency) of revenues over expenditures	<u>(2,585,900)</u>	<u>(2,585,900)</u>	<u>(2,494,205)</u>	<u>91,695</u>
OTHER FINANCING SOURCES/(USES)				
Transfers in	1,587,600	1,587,600	1,583,108	(4,492)
Total other financing sources/(uses)	<u>1,587,600</u>	<u>1,587,600</u>	<u>1,583,108</u>	<u>(4,492)</u>
Net change in fund balances	<u>\$ (998,300)</u>	<u>\$ (998,300)</u>	<u>\$ (911,097)</u>	<u>\$ 87,203</u>

Special Revenue Funds - These funds account for specific non-capital revenues that are restricted in their allowable use.

Grants Fund – This fund has been established to account for revenues and expenditures from the various grants received by the City.

LTAI II/ALF Fund — This fund has been established to account for revenues and expenditures received by the City from the State of Arizona. These funds are a portion of lottery money collected and can be used to fund transit operations, facilities, and equipment purchases.

Municipal Court Enhancement Fund — Established in FY2003, this fund tracks revenue associated with fines dedicated to Municipal Court technology improvements. City policy restricts the use of these funds.

Municipal Court FARE Fund — This fund is used to discretely track funds received by the City that are restricted to use on projects which enhance the fine collections process. FARE - Fare/fees and restitution enforcement.

Municipal Court JCEF Fund — This fund is used to discretely track funds received by the City that are restricted to use on technology improvements in the Municipal Court. JCEF - Judicial court enhancement fund.

Municipal Court MFTG Fund — This fund is used to discretely track funds received by the City that are restricted to use on projects which aid in the processing of criminal cases. MFTG - Municipal Fill The Gap.

Neighborhood Revitalization Fund — This fund is used to track all revenues and expenditures associated with the City's neighborhood revitalization program. This program is funded through a combination of federal, state and local funds. City policy, grant agreements, and contractual obligations restrict the use of these funds.

Net Premium Seating Fund — This fund was established to account for the revenues and expenditures for a ticket surcharge on the sale of spring training tickets for premium seats.

SB1398 Fines Fund — This fund was established to account for funds the City receives from the State of Arizona for penalties charged on certain violations. These revenues are limited to the purchase of officer safety equipment.

SPD DEA Fund — This fund is used to discretely track funds received from the participation on DEA task forces in the Greater Phoenix area. The use of these funds is limited to approval by the disbursing program manager and is generally related to purchase and maintenance of department equipment not included in the general budget. SPD - Surprise Police Department. DEA - Drug Enforcement Activity.

SPD RICO Fund — This fund is used to discretely track funds received from participation in the Maricopa County Attorney's Office Anti-Racketeering Influenced and Corrupt Organizations (RICO) task force.

SPD Towing Fund — This fund is used to track activity in the Police Department for vehicle impounds. The use of these funds is limited to administrative management of the vehicle impound program.

Sports & Tourism Fund — This fund is used to track all revenues and expenditures from a \$1 per ticket surcharge on the sale of spring training tickets. These revenues are limited to operational improvements to stadium facilities.

Smart & Safe Police Fund — This fund is used to track Police revenues and expenditures related to Prop 207.

Smart & Safe Fire-Medical Fund — This fund is used to track Fire revenues and expenditures related to Prop 207.

Tourism Fund — This fund is used to track all revenues and expenditures associated with the City's 2.52% bed tax. The funds are used to support tourism within the City. City policy and state statute restrict the use of these funds.

Fire Development Fee Fund — This fund was established to account for the inflow of Fire and EMS development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing and furnishing of new capital or one-time items directly related to the increased demand on Fire and EMS services caused by growth.

Parks and Recreation Development Fee Fund — This fund was established to account for the inflow of parks and recreation development fees levied on new residential construction. This fee can only be used for the purchase, construction, financing and furnishing of new items directly related to the increased demand on parks and recreation services caused by growth.

Police Development Fee Fund — This fund was established to account for the inflow of police development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction financing and furnishing of new capital or one-time items directly related to the increased demand of police services caused by growth.

Street Lighting District Fund — 168 Street Light Improvement Districts (SLIDs) have been established by ordinance to provide a centralized location for the collection of taxes from properties located in the district. These proceeds are legally restricted to the payment of expenses to operate the street lights within the district.

Marley Park Community Facility District Fund — This fund was established to provide a location to process operating expenditures and for the collection of the related portion of the property taxes from properties located in the district. These proceeds are legally restricted to the payment of operations expenses and debt service within the district.

CITY OF SURPRISE, ARIZONA

Combining Balance Sheet

NonMajor Special Revenue Funds

June 30, 2025

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
ASSETS					
Cash and investments	\$ 2,392,659	\$ -	\$ 540,823	\$ 25,357	\$ 154,576
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowances):					
Accounts	-	-	-	-	-
Taxes and franchise fees	-	-	-	-	-
Grants	3,109,074	-	-	-	-
Leases	-	-	-	-	-
Other	-	-	-	-	-
Prepaid items and other assets	2,218	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 5,503,951</u>	<u>\$ -</u>	<u>\$ 540,823</u>	<u>\$ 25,357</u>	<u>\$ 154,576</u>
LIABILITIES					
Accounts payable	\$ 1,468,853	\$ -	\$ 51,653	\$ -	\$ -
Accrued payroll and related taxes	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	4,352,925	-	-	-	-
Contracts payable	-	-	-	-	-
Other liabilities	-	-	-	-	-
Matured bond interest payable	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Total liabilities	<u>5,821,778</u>	<u>-</u>	<u>51,653</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - unavailable revenue	1,062,089	-	-	-	-
Deferred Inflows - leases	-	-	-	-	-
Total deferred inflows of resources	<u>1,062,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>6,883,867</u>	<u>-</u>	<u>51,653</u>	<u>-</u>	<u>-</u>
FUND BALANCES/(DEFICITS)					
NonSpendable	2,218	-	-	-	-
Restricted	-	-	489,170	25,357	154,576
Committed	-	-	-	-	-
Unassigned	(1,382,134)	-	-	-	-
Total fund balances/(deficits)	<u>(1,379,916)</u>	<u>-</u>	<u>489,170</u>	<u>25,357</u>	<u>154,576</u>
Total liabilities and fund balances/(deficits)	<u>\$ 5,503,951</u>	<u>\$ -</u>	<u>\$ 540,823</u>	<u>\$ 25,357</u>	<u>\$ 154,576</u>

Municipal Court MFTG Fund	Neighborhood Revitalization Fund	Net Premium Seating Fund	SB1398 Fines Fund	SPD DEA Fund	SPD RICO Fund	SPD Towing Fund	Sports & Tourism Fund
\$ 79,714	\$ -	\$ 250,439	\$ 95,263	\$ 143,340	\$ -	\$ 5,365	\$ 595,916
-	-	-	-	-	996,621	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	81,670	-	-	-	-	-	-
-	-	-	-	-	-	-	2,304,338
-	-	-	-	22,664	11,565	-	1,029,094
-	-	-	-	-	-	-	19,406
-	-	-	-	-	-	-	42,550
<u>\$ 79,714</u>	<u>\$ 81,670</u>	<u>\$ 250,439</u>	<u>\$ 95,263</u>	<u>\$ 166,004</u>	<u>\$ 1,008,186</u>	<u>\$ 5,365</u>	<u>\$ 3,991,304</u>
\$ -	\$ 29,233	\$ -	\$ -	\$ -	\$ 42,322	\$ -	\$ 193,102
-	-	-	-	-	-	767	58,672
-	119,660	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	148,893	-	-	-	42,322	767	251,774
-	36,357	-	-	-	-	-	-
-	-	-	-	-	-	-	2,114,468
-	36,357	-	-	-	-	-	2,114,468
-	185,250	-	-	-	42,322	767	2,366,242
-	-	-	-	-	-	-	61,956
79,714	-	-	95,263	166,004	965,864	4,598	1,563,106
-	-	250,439	-	-	-	-	-
-	(103,580)	-	-	-	-	-	-
<u>79,714</u>	<u>(103,580)</u>	<u>250,439</u>	<u>95,263</u>	<u>166,004</u>	<u>965,864</u>	<u>4,598</u>	<u>1,625,062</u>
<u>\$ 79,714</u>	<u>\$ 81,670</u>	<u>\$ 250,439</u>	<u>\$ 95,263</u>	<u>\$ 166,004</u>	<u>\$ 1,008,186</u>	<u>\$ 5,365</u>	<u>\$ 3,991,304</u>

(continued)

CITY OF SURPRISE, ARIZONA

Combining Balance Sheet (continued)

NonMajor Special Revenue Funds

June 30, 2025

	Smart & Safe Police Fund	Smart & Safe Fire-Medical Fund	Tourism Fund	Fire Development Fee Fund	Parks and Recreation Development Fee Fund
ASSETS					
Cash and investments	\$ 128,256	\$ 550,366	\$ 1,032,971	\$ 5,241,976	\$ 6,422,952
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowances):					
Accounts	-	-	-	-	-
Taxes and franchise fees	-	-	-	-	-
Grants	-	-	-	-	-
Leases	-	-	-	-	-
Other	-	-	173,214	-	-
Prepaid items and other assets	-	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 128,256</u>	<u>\$ 550,366</u>	<u>\$ 1,206,185</u>	<u>\$ 5,241,976</u>	<u>\$ 6,422,952</u>
LIABILITIES					
Accounts payable	\$ -	\$ 55,328	\$ 24,947	\$ 14,838	\$ 49,070
Accrued payroll and related taxes	-	-	-	-	-
Due to other fund	-	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Contracts payable	-	-	-	-	228,236
Other liabilities	-	-	-	-	-
Matured bond interest payable	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Total liabilities	<u>-</u>	<u>55,328</u>	<u>24,947</u>	<u>14,838</u>	<u>277,306</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - unavailable revenue	-	-	-	-	-
Deferred Inflows - leases	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>-</u>	<u>55,328</u>	<u>24,947</u>	<u>14,838</u>	<u>277,306</u>
FUND BALANCES/(DEFICITS)					
NonSpendable	-	-	-	-	-
Restricted	128,256	495,038	-	5,227,138	6,145,646
Committed	-	-	1,181,238	-	-
Unassigned	-	-	-	-	-
Total fund balances/(deficits)	<u>128,256</u>	<u>495,038</u>	<u>1,181,238</u>	<u>5,227,138</u>	<u>6,145,646</u>
Total liabilities and fund balances/(deficits)	<u>\$ 128,256</u>	<u>\$ 550,366</u>	<u>\$ 1,206,185</u>	<u>\$ 5,241,976</u>	<u>\$ 6,422,952</u>

Police Development Fee Fund	Street Lighting Districts Fund	Marley Park CFD Fund	Total NonMajor Special Revenue Funds
\$ 8,863,520	\$ 117,869	\$ 1,589,776	\$ 28,231,138
-	-	-	996,621
-	-	-	-
-	21,913	26,365	48,278
-	-	-	3,190,744
-	-	-	2,304,338
-	-	-	1,236,537
-	-	-	21,624
-	-	-	42,550
\$ 8,863,520	\$ 139,782	\$ 1,616,141	\$ 36,071,830
\$ 215,209	\$ 194,241	\$ 211,300	\$ 2,550,096
-	-	-	59,439
-	-	-	119,660
-	462	-	462
-	-	-	4,352,925
-	-	-	228,236
-	-	-	-
-	-	593,240	593,240
-	-	825,000	825,000
215,209	194,703	1,629,540	8,729,058
-	3,400	11,489	1,113,335
-	-	-	2,114,468
-	3,400	11,489	3,227,803
215,209	198,103	1,641,029	11,956,861
-	-	-	64,174
8,648,311	-	-	24,188,041
-	-	-	1,431,677
-	(58,321)	(24,888)	(1,568,923)
8,648,311	(58,321)	(24,888)	24,114,969
\$ 8,863,520	\$ 139,782	\$ 1,616,141	\$ 36,071,830

CITY OF SURPRISE, ARIZONA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

NonMajor Special Revenue Funds

For the Year Ended June 30, 2025

	Grants Fund	<i>Formerly NonMajor Ground Ambulance Service Fund</i>	LTAI II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund
REVENUES					
Taxes	\$ -		\$ -	\$ -	\$ -
Intergovernmental revenue	-		364,134	-	-
Charges for services	-		-	-	-
Grants revenue	8,598,989		-	-	-
Fines	-		-	88,237	-
Rents	-		-	-	-
Development fees	-		-	-	-
Interest revenue	492		-	28,885	1,298
Other revenue	-		-	-	-
Total revenues	<u>8,599,481</u>		<u>364,134</u>	<u>117,122</u>	<u>1,298</u>
EXPENDITURES					
Current:					
General government	160,273		-	-	-
Public safety	938,514		-	-	-
Public works and transportation	99,675		365,381	-	-
Community development	-		-	-	-
Culture and recreation	2,118,976		-	-	-
Debt service:					
Administrative charges	-		-	-	-
Principal retirement	-		-	-	-
Interest	-		-	-	-
Capital outlay	5,334,594		-	158,663	-
Total expenditures	<u>8,652,032</u>		<u>365,381</u>	<u>158,663</u>	<u>-</u>
Excess/(deficiency) of revenues over expenditures	<u>(52,551)</u>		<u>(1,247)</u>	<u>(41,541)</u>	<u>1,298</u>
OTHER FINANCING SOURCES/(USES)					
Transfers in	18,093		-	-	-
Transfers out	-		-	-	-
Total other financing sources/(uses)	<u>18,093</u>		<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(34,458)</u>		<u>(1,247)</u>	<u>(41,541)</u>	<u>1,298</u>
Fund balances - June 30, 2024, as previously reported	-	2,578,122	1,247	530,711	24,059
Change within financial reporting entity	<u>(1,345,458)</u>	<u>(2,578,122)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - June 30, 2024, as adjusted	<u>(1,345,458)</u>		<u>1,247</u>	<u>530,711</u>	<u>24,059</u>
Increase/(decrease) in inventories	-		-	-	-
Fund balances - June 30, 2025	<u>\$ (1,379,916)</u>		<u>\$ -</u>	<u>\$ 489,170</u>	<u>\$ 25,357</u>

Municipal Court JCEF Fund	Municipal Court MFTG Fund	Neighborhood Revitalization Fund	Net Premium Seating Fund	SB1398 Fines Fund	SPD DEA Fund	SPD RICO Fund	SPD Towing Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	8,679	-	-	-	-	-	-
-	-	-	27,273	-	-	-	35,550
-	-	1,078,418	-	-	-	-	-
17,735	-	-	-	20,659	4,392	237,863	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7,330	3,764	-	8,009	4,300	5,637	42,100	358
-	-	-	-	-	-	-	-
25,065	12,443	1,078,418	35,282	24,959	10,029	279,963	35,908
-	-	-	-	-	-	-	-
-	-	-	-	-	-	147,524	37,895
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	998,382	107,702	-	-	-	-
-	-	-	-	-	-	-	-
-	-	96,619	-	-	-	-	-
-	-	19,775	-	-	-	-	-
-	-	-	-	-	22,664	40,530	-
-	-	1,114,776	107,702	-	22,664	188,054	37,895
25,065	12,443	(36,358)	(72,420)	24,959	(12,635)	91,909	(1,987)
-	-	-	121,794	-	178,639	-	-
-	-	-	-	-	(18,093)	(178,639)	-
-	-	-	121,794	-	160,546	(178,639)	-
25,065	12,443	(36,358)	49,374	24,959	147,911	(86,730)	(1,987)
129,511	67,271	(67,222)	201,065	70,304	18,093	1,052,594	6,585
-	-	-	-	-	-	-	-
129,511	67,271	(67,222)	201,065	70,304	18,093	1,052,594	6,585
-	-	-	-	-	-	-	-
\$ 154,576	\$ 79,714	\$ (103,580)	\$ 250,439	\$ 95,263	\$ 166,004	\$ 965,864	\$ 4,598

(continued)

CITY OF SURPRISE, ARIZONA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

NonMajor Special Revenue Funds

For the Year Ended June 30, 2025

	Sports & Tourism Fund	Smart & Safe Police Fund	Smart & Safe Fire-Medical Fund	Tourism Fund	Fire Development Fee Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 1,284,893	\$ -
Intergovernmental revenue	-	495,490	475,782	153,374	-
Charges for services	4,150,547	-	-	243,195	-
Grants revenue	-	-	-	-	-
Fines	-	-	-	-	-
Rents	522,041	-	-	-	-
Development fees	-	-	-	-	4,467,875
Interest revenue	48,648	-	-	78,884	372,308
Other revenue	38,864	-	-	-	-
Total revenues	<u>4,760,100</u>	<u>495,490</u>	<u>475,782</u>	<u>1,760,346</u>	<u>4,840,183</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	400,000	359,100	-	34,721
Public works and transportation	-	-	-	-	-
Community development	-	-	-	-	-
Culture and recreation	7,680,629	-	-	753,383	-
Debt service:					
Administrative charges	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	207,036	-	9,777,354
Total expenditures	<u>7,680,629</u>	<u>400,000</u>	<u>566,136</u>	<u>753,383</u>	<u>9,812,075</u>
Excess/(deficiency) of revenues over expenditures	<u>(2,920,529)</u>	<u>95,490</u>	<u>(90,354)</u>	<u>1,006,963</u>	<u>(4,971,892)</u>
OTHER FINANCING SOURCES/(USES)					
Transfers in	3,185,901	-	-	-	-
Transfers out	(25,589)	-	-	(963,670)	-
Total other financing sources/(uses)	<u>3,160,312</u>	<u>-</u>	<u>-</u>	<u>(963,670)</u>	<u>-</u>
Net change in fund balance	<u>239,783</u>	<u>95,490</u>	<u>(90,354)</u>	<u>43,293</u>	<u>(4,971,892)</u>
Fund balances - June 30, 2024, as previously reported	1,398,634	32,766	585,392	1,137,945	10,199,030
Change within financial reporting entity	-	-	-	-	-
Fund balances - June 30, 2024, as adjusted	1,398,634	32,766	585,392	1,137,945	10,199,030
Increase/(decrease) in inventories	(13,355)	-	-	-	-
Fund balances - June 30, 2025	<u>\$ 1,625,062</u>	<u>\$ 128,256</u>	<u>\$ 495,038</u>	<u>\$ 1,181,238</u>	<u>\$ 5,227,138</u>

Parks & Recreation Development Fee Fund	Police Development Fee Fund	Street Lighting Districts Fund	Marley Park CFD Fund	Total NonMajor Special Revenue Funds
\$ -	\$ -	\$ 1,562,970	\$ 1,933,895	\$ 4,781,758
-	-	-	-	1,497,459
-	-	6,955	-	4,463,520
-	-	-	-	9,677,407
-	-	-	-	368,886
-	-	-	-	522,041
4,153,337	2,000,244	-	-	10,621,456
449,881	451,468	37,240	-	1,540,602
-	-	-	-	38,864
<u>4,603,218</u>	<u>2,451,712</u>	<u>1,607,165</u>	<u>1,933,895</u>	<u>33,511,993</u>
641,405	-	-	-	801,678
-	967	-	-	1,918,721
-	-	-	-	465,056
-	-	2,555,048	-	2,555,048
-	-	-	211,300	11,870,372
-	-	-	900	900
-	-	-	825,000	921,619
-	-	-	1,186,480	1,206,255
6,784,078	1,468,490	-	-	23,793,409
<u>7,425,483</u>	<u>1,469,457</u>	<u>2,555,048</u>	<u>2,223,680</u>	<u>43,533,058</u>
<u>(2,822,265)</u>	<u>982,255</u>	<u>(947,883)</u>	<u>(289,785)</u>	<u>(10,021,065)</u>
-	-	-	-	3,504,427
-	-	-	-	(1,185,991)
-	-	-	-	2,318,436
<u>(2,822,265)</u>	<u>982,255</u>	<u>(947,883)</u>	<u>(289,785)</u>	<u>(7,702,629)</u>
8,967,911	7,666,056	889,562	264,897	35,754,533
-	-	-	-	(3,923,580)
8,967,911	7,666,056	889,562	264,897	31,830,953
-	-	-	-	(13,355)
<u>\$ 6,145,646</u>	<u>\$ 8,648,311</u>	<u>\$ (58,321)</u>	<u>\$ (24,888)</u>	<u>\$ 24,114,969</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Grants Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Grants revenue	\$ 24,948,300	\$ 29,102,900	\$ 8,598,989	\$ (20,503,911)
Interest revenue	-	-	492	492
Other revenue	-	-	-	-
Total revenues	<u>24,948,300</u>	<u>29,102,900</u>	<u>8,599,481</u>	<u>(20,503,419)</u>
EXPENDITURES				
Current:				
General government:				
General government	183,100	178,900	155,573	23,327
City attorney	-	4,700	4,700	-
Public safety:				
Police	355,900	1,431,700	717,189	714,511
Fire-Medical	382,400	862,200	221,325	640,875
Public works and transportation:				
Transportation	-	100,000	99,675	325
Culture and recreation:				
Human service and community vitality	1,719,300	3,457,200	1,916,496	1,540,704
Arts, culture, and library	-	20,400	20,340	60
Parks and recreation	229,500	411,700	182,140	229,560
Total current	<u>2,870,200</u>	<u>6,466,800</u>	<u>3,317,438</u>	<u>3,149,362</u>
Capital outlay	<u>22,080,300</u>	<u>21,310,300</u>	<u>5,334,594</u>	<u>15,975,706</u>
Total expenditures	<u>24,950,500</u>	<u>27,777,100</u>	<u>8,652,032</u>	<u>19,125,068</u>
Excess/(deficiency) of revenues over expenditures	<u>(2,200)</u>	<u>1,325,800</u>	<u>(52,551)</u>	<u>(1,378,351)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	18,093	18,093
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>18,093</u>	<u>18,093</u>
Net change in fund balances	<u>\$ (2,200)</u>	<u>\$ 1,325,800</u>	<u>\$ (34,458)</u>	<u>\$ (1,360,258)</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

LTAF II/ALF Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 364,200	\$ 364,200	\$ 364,134	\$ (66)
Interest revenue	-	-	-	-
Total revenues	<u>364,200</u>	<u>364,200</u>	<u>364,134</u>	<u>(66)</u>
EXPENDITURES				
Current:				
Public works and transportation	<u>366,300</u>	<u>366,300</u>	<u>365,381</u>	<u>919</u>
Total current	<u>366,300</u>	<u>366,300</u>	<u>365,381</u>	<u>919</u>
Total expenditures	<u>366,300</u>	<u>366,300</u>	<u>365,381</u>	<u>919</u>
Excess/(deficiency) of revenues over expenditures	<u>(2,100)</u>	<u>(2,100)</u>	<u>(1,247)</u>	<u>853</u>
Net change in fund balances	<u>\$ (2,100)</u>	<u>\$ (2,100)</u>	<u>\$ (1,247)</u>	<u>\$ 853</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Municipal Court Enhancement Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 74,400	\$ 74,400	\$ 88,237	\$ 13,837
Interest revenue	-	-	28,885	28,885
Total revenues	<u>74,400</u>	<u>74,400</u>	<u>117,122</u>	<u>42,722</u>
EXPENDITURES				
Current:				
Public safety:				
Court	40,000	40,000	-	40,000
Total current	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Capital outlay	<u>185,000</u>	<u>185,000</u>	<u>158,663</u>	<u>26,337</u>
Total expenditures	<u>225,000</u>	<u>225,000</u>	<u>158,663</u>	<u>66,337</u>
Excess/(deficiency) of revenues over expenditures	<u>(150,600)</u>	<u>(150,600)</u>	<u>(41,541)</u>	<u>109,059</u>
Net change in fund balances	<u>\$ (150,600)</u>	<u>\$ (150,600)</u>	<u>\$ (41,541)</u>	<u>\$ 109,059</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Municipal Court FARE Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Interest revenue	-	-	1,298	1,298
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>1,298</u>	<u>(702)</u>
EXPENDITURES				
Current:				
Public safety:				
Court	-	-	-	-
Total current	-	-	-	-
Total expenditures	-	-	-	-
Excess/(deficiency) of revenues over expenditures	<u>2,000</u>	<u>2,000</u>	<u>1,298</u>	<u>(702)</u>
Net change in fund balances	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 1,298</u>	<u>\$ (702)</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Municipal Court JCEF Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 16,000	\$ 16,000	\$ 17,735	\$ 1,735
Interest revenue	-	-	7,330	7,330
Total revenues	<u>16,000</u>	<u>16,000</u>	<u>25,065</u>	<u>9,065</u>
EXPENDITURES				
Current:				
Public safety:				
Court	-	-	-	-
Total current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess/(deficiency) of revenues over expenditures	<u>16,000</u>	<u>16,000</u>	<u>25,065</u>	<u>9,065</u>
Net change in fund balances	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ 25,065</u>	<u>\$ 9,065</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Municipal Court MFTG Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 9,400	\$ 9,400	\$ 8,679	\$ (721)
Interest revenue	-	-	3,764	3,764
Total revenues	<u>9,400</u>	<u>9,400</u>	<u>12,443</u>	<u>3,043</u>
EXPENDITURES				
Current:				
Public safety:				
Court	-	-	-	-
Total current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess/(deficiency) of revenues over expenditures	<u>9,400</u>	<u>9,400</u>	<u>12,443</u>	<u>3,043</u>
Net change in fund balances	<u>\$ 9,400</u>	<u>\$ 9,400</u>	<u>\$ 12,443</u>	<u>\$ 3,043</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Neighborhood Revitalization Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Grants revenue	\$ 1,934,500	\$ 1,979,100	\$ 1,078,418	\$ (900,682)
Total revenues	1,934,500	1,979,100	1,078,418	(900,682)
EXPENDITURES				
Current:				
Culture and recreation:				
Human service and community vitality	1,818,100	1,801,800	998,382	803,418
Total current	1,818,100	1,801,800	998,382	803,418
Debt service:				
Principal retirement	96,600	96,600	96,619	(19)
Interest	19,800	19,800	19,775	25
Total debt service	116,400	116,400	116,394	6
Total expenditures	1,934,500	1,918,200	1,114,776	803,424
Excess/(deficiency) of revenues over expenditures	-	60,900	(36,358)	(97,258)
Net change in fund balances	\$ -	\$ 60,900	\$ (36,358)	\$ (97,258)

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Net Premium Seating Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 30,000	\$ 30,000	\$ 27,273	\$ (2,727)
Interest revenue	900	900	8,009	7,109
Total revenues	<u>30,900</u>	<u>30,900</u>	<u>35,282</u>	<u>4,382</u>
EXPENDITURES				
Current:				
Culture and recreation:				
Sports and tourism	286,000	286,000	107,702	178,298
Total current	<u>286,000</u>	<u>286,000</u>	<u>107,702</u>	<u>178,298</u>
Total expenditures	<u>286,000</u>	<u>286,000</u>	<u>107,702</u>	<u>178,298</u>
Excess/(deficiency) of revenues over expenditures	<u>(255,100)</u>	<u>(255,100)</u>	<u>(72,420)</u>	<u>182,680</u>
OTHER FINANCING SOURCES/(USES)				
Transfers in	127,300	127,300	121,794	(5,506)
Total other financing sources/(uses)	<u>127,300</u>	<u>127,300</u>	<u>121,794</u>	<u>(5,506)</u>
Net change in fund balances	<u>\$ (127,800)</u>	<u>\$ (127,800)</u>	<u>\$ 49,374</u>	<u>\$ 177,174</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

SB1398 Fines Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 18,000	\$ 18,000	\$ 20,659	\$ 2,659
Interest revenue	200	200	4,300	4,100
Total revenues	<u>18,200</u>	<u>18,200</u>	<u>24,959</u>	<u>6,759</u>
EXPENDITURES				
Current:				
Public safety:				
Police	73,000	73,000	-	73,000
Total current	<u>73,000</u>	<u>73,000</u>	<u>-</u>	<u>73,000</u>
Total expenditures	<u>73,000</u>	<u>73,000</u>	<u>-</u>	<u>73,000</u>
Excess/(deficiency) of revenues over expenditures	<u>(54,800)</u>	<u>(54,800)</u>	<u>24,959</u>	<u>79,759</u>
Net change in fund balances	<u>\$ (54,800)</u>	<u>\$ (54,800)</u>	<u>\$ 24,959</u>	<u>\$ 79,759</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

SPD DEA Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ -	\$ -	\$ 4,392	\$ 4,392
Interest revenue	-	-	5,637	5,637
Total revenues	-	-	10,029	10,029
EXPENDITURES				
Current:				
Public safety:				
Police	17,300	17,300	-	17,300
Total current	17,300	17,300	-	17,300
Capital outlay	-	178,700	22,664	156,036
Total expenditures	17,300	196,000	22,664	173,336
Excess/(deficiency) of revenues over expenditures	(17,300)	(196,000)	(12,635)	183,365
OTHER FINANCING SOURCES/(USES)				
Transfers in	-	-	178,639	178,639
Transfers out	-	-	(18,093)	(18,093)
Total other financing sources/(uses)	-	-	160,546	160,546
Net change in fund balances	\$ (17,300)	\$ (196,000)	\$ 147,911	\$ 343,911

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

SPD RICO Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 268,000	\$ 268,000	\$ 237,863	\$ (30,137)
Interest revenue	-	-	42,100	42,100
Total revenues	<u>268,000</u>	<u>268,000</u>	<u>279,963</u>	<u>11,963</u>
EXPENDITURES				
Current:				
Public safety:				
Police	1,191,700	1,013,000	147,524	865,476
Total current	<u>1,191,700</u>	<u>1,013,000</u>	<u>147,524</u>	<u>865,476</u>
Capital outlay	-	-	40,530	(40,530)
Total expenditures	<u>1,191,700</u>	<u>1,013,000</u>	<u>188,054</u>	<u>824,946</u>
Excess/(deficiency) of revenues over expenditures	<u>(923,700)</u>	<u>(745,000)</u>	<u>91,909</u>	<u>836,909</u>
OTHER FINANCING SOURCES/(USES)				
Transfers out	-	-	(178,639)	(178,639)
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>(178,639)</u>	<u>(178,639)</u>
Net change in fund balances	<u>\$ (923,700)</u>	<u>\$ (745,000)</u>	<u>\$ (86,730)</u>	<u>\$ 658,270</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

SPD Towing Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 30,400	\$ 30,400	\$ 35,550	\$ 5,150
Interest revenue	200	200	358	158
Total revenues	<u>30,600</u>	<u>30,600</u>	<u>35,908</u>	<u>5,308</u>
EXPENDITURES				
Current:				
Public safety:				
Police	38,900	38,900	37,895	1,005
Total current	<u>38,900</u>	<u>38,900</u>	<u>37,895</u>	<u>1,005</u>
Total expenditures	<u>38,900</u>	<u>38,900</u>	<u>37,895</u>	<u>1,005</u>
Excess/(deficiency) of revenues over expenditures	<u>(8,300)</u>	<u>(8,300)</u>	<u>(1,987)</u>	<u>6,313</u>
Net change in fund balances	<u>\$ (8,300)</u>	<u>\$ (8,300)</u>	<u>\$ (1,987)</u>	<u>\$ 6,313</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Sports & Tourism Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 3,252,400	\$ 3,652,400	\$ 4,150,547	\$ 498,147
Rents	440,400	440,400	522,041	81,641
Interest revenue	6,000	6,000	48,648	42,648
Other revenue	16,100	16,100	38,864	22,764
Total revenues	<u>3,714,900</u>	<u>4,114,900</u>	<u>4,760,100</u>	<u>645,200</u>
EXPENDITURES				
Current:				
Culture and recreation:				
Sports and tourism	<u>7,700,300</u>	<u>8,050,500</u>	<u>7,680,629</u>	<u>369,871</u>
Total current	<u>7,700,300</u>	<u>8,050,500</u>	<u>7,680,629</u>	<u>369,871</u>
Total expenditures	<u>7,700,300</u>	<u>8,050,500</u>	<u>7,680,629</u>	<u>369,871</u>
Excess/(deficiency) of revenues over expenditures	<u>(3,985,400)</u>	<u>(3,935,600)</u>	<u>(2,920,529)</u>	<u>1,015,071</u>
OTHER FINANCING SOURCES/(USES)				
Transfers in	3,984,900	3,984,900	3,185,901	(798,999)
Transfers out	-	-	(25,589)	(25,589)
Total other financing sources/(uses)	<u>3,984,900</u>	<u>3,984,900</u>	<u>3,160,312</u>	<u>(824,588)</u>
Net change in fund balances	<u>\$ (500)</u>	<u>\$ 49,300</u>	<u>\$ 239,783</u>	<u>\$ 190,483</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Smart & Safe Police Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 400,000	\$ 400,000	\$ 495,490	\$ 95,490
Total revenues	400,000	400,000	495,490	95,490
EXPENDITURES				
Current:				
Public safety:				
Police	414,800	414,800	400,000	14,800
Total current	414,800	414,800	400,000	14,800
Total expenditures	414,800	414,800	400,000	14,800
Excess/(deficiency) of revenues over expenditures	(14,800)	(14,800)	95,490	110,290
Net change in fund balances	\$ (14,800)	\$ (14,800)	\$ 95,490	\$ 110,290

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Smart & Safe Fire-Medical Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 400,000	\$ 400,000	\$ 475,782	\$ 75,782
Total revenues	400,000	400,000	475,782	75,782
EXPENDITURES				
Current:				
Public safety				
Fire-Medical	359,100	359,100	359,100	-
Total current	359,100	359,100	359,100	-
Capital outlay	600,000	600,000	207,036	392,964
Total expenditures	959,100	959,100	566,136	392,964
Excess/(deficiency) of revenues over expenditures	(559,100)	(559,100)	(90,354)	468,746
Net change in fund balances	\$ (559,100)	\$ (559,100)	\$ (90,354)	\$ 468,746

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Tourism Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,277,800	\$ 1,277,800	\$ 1,284,893	\$ 7,093
Intergovernmental revenue	230,000	230,000	153,374	(76,626)
Charges for services	275,000	301,300	243,195	(58,105)
Interest revenue	-	-	78,884	78,884
Total revenues	<u>1,782,800</u>	<u>1,809,100</u>	<u>1,760,346</u>	<u>(48,754)</u>
EXPENDITURES				
Current:				
Culture and recreation:				
Sports and tourism	<u>960,000</u>	<u>1,525,000</u>	<u>753,383</u>	<u>771,617</u>
Total current	<u>960,000</u>	<u>1,525,000</u>	<u>753,383</u>	<u>771,617</u>
Total expenditures	<u>960,000</u>	<u>1,525,000</u>	<u>753,383</u>	<u>771,617</u>
Excess/(deficiency) of revenues over expenditures	<u>822,800</u>	<u>284,100</u>	<u>1,006,963</u>	<u>722,863</u>
OTHER FINANCING SOURCES/(USES)				
Transfers out	<u>(958,400)</u>	<u>(958,400)</u>	<u>(963,670)</u>	<u>(5,270)</u>
Total other financing sources/(uses)	<u>(958,400)</u>	<u>(958,400)</u>	<u>(963,670)</u>	<u>(5,270)</u>
Net change in fund balances	<u>\$ (135,600)</u>	<u>\$ (674,300)</u>	<u>\$ 43,293</u>	<u>\$ 717,593</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Fire Development Fee Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 2,547,400	\$ 2,547,400	\$ 4,467,875	\$ 1,920,475
Interest revenue	-	-	372,308	372,308
Total revenues	<u>2,547,400</u>	<u>2,547,400</u>	<u>4,840,183</u>	<u>2,292,783</u>
EXPENDITURES				
Current				
Public safety:				
Fire-Medical	4,500	4,764,200	34,721	4,729,479
Total current	<u>4,500</u>	<u>4,764,200</u>	<u>34,721</u>	<u>4,729,479</u>
Capital Outlay	<u>15,048,300</u>	<u>10,288,600</u>	<u>9,777,354</u>	<u>511,246</u>
Total expenditures	<u>15,052,800</u>	<u>15,052,800</u>	<u>9,812,075</u>	<u>5,240,725</u>
Excess/(deficiency) of revenues over expenditures	<u>(12,505,400)</u>	<u>(12,505,400)</u>	<u>(4,971,892)</u>	<u>7,533,508</u>
Net change in fund balances	<u>\$ (12,505,400)</u>	<u>\$ (12,505,400)</u>	<u>\$ (4,971,892)</u>	<u>\$ 7,533,508</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Parks & Recreation Development Fee Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 3,341,000	\$ 3,341,000	\$ 4,153,337	\$ 812,337
Interest revenue	-	-	449,881	449,881
Total revenues	<u>3,341,000</u>	<u>3,341,000</u>	<u>4,603,218</u>	<u>1,262,218</u>
EXPENDITURES				
Current:				
General government	3,558,800	4,220,000	641,405	3,578,595
Total current	<u>3,558,800</u>	<u>4,220,000</u>	<u>641,405</u>	<u>3,578,595</u>
Capital outlay	9,463,100	8,801,900	6,784,078	2,017,822
Total expenditures	<u>13,021,900</u>	<u>13,021,900</u>	<u>7,425,483</u>	<u>5,596,417</u>
Excess/(deficiency) of revenues over expenditures	<u>(9,680,900)</u>	<u>(9,680,900)</u>	<u>(2,822,265)</u>	<u>6,858,635</u>
Net change in fund balances	<u>\$ (9,680,900)</u>	<u>\$ (9,680,900)</u>	<u>\$ (2,822,265)</u>	<u>\$ 6,858,635</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Police Development Fee Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 1,205,700	\$ 1,205,700	\$ 2,000,244	\$ 794,544
Interest revenue	-	-	451,468	451,468
Total revenues	<u>1,205,700</u>	<u>1,205,700</u>	<u>2,451,712</u>	<u>1,246,012</u>
EXPENDITURES				
Current:				
Public safety:				
Police	1,300	188,500	967	187,533
Total current	<u>1,300</u>	<u>188,500</u>	<u>967</u>	<u>187,533</u>
Capital outlay	<u>8,074,900</u>	<u>7,887,700</u>	<u>1,468,490</u>	<u>6,419,210</u>
Total expenditures	<u>8,076,200</u>	<u>8,076,200</u>	<u>1,469,457</u>	<u>6,606,743</u>
Excess/(deficiency) of revenues over expenditures	<u>(6,870,500)</u>	<u>(6,870,500)</u>	<u>982,255</u>	<u>7,852,755</u>
Net change in fund balances	<u>\$ (6,870,500)</u>	<u>\$ (6,870,500)</u>	<u>\$ 982,255</u>	<u>\$ 7,852,755</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Street Lighting Districts Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,560,000	\$ 1,560,000	\$ 1,562,970	\$ 2,970
Charges for services	7,600	7,600	6,955	(645)
Interest revenue	-	-	37,240	37,240
Total revenues	<u>1,567,600</u>	<u>1,567,600</u>	<u>1,607,165</u>	<u>39,565</u>
EXPENDITURES				
Current:				
Community development	<u>2,737,900</u>	<u>2,863,800</u>	<u>2,555,048</u>	<u>308,752</u>
Total current	<u>2,737,900</u>	<u>2,863,800</u>	<u>2,555,048</u>	<u>308,752</u>
Total expenditures	<u>2,737,900</u>	<u>2,863,800</u>	<u>2,555,048</u>	<u>308,752</u>
Excess/(deficiency) of revenues over expenditures	<u>(1,170,300)</u>	<u>(1,296,200)</u>	<u>(947,883)</u>	<u>348,317</u>
Net change in fund balances	<u>\$ (1,170,300)</u>	<u>\$ (1,296,200)</u>	<u>\$ (947,883)</u>	<u>\$ 348,317</u>

CITY OF SURPRISE, ARIZONA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Marley Park Community Facilities District Fund

For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,963,000	\$ 1,963,000	\$ 1,933,895	\$ (29,105)
Total revenues	1,963,000	1,963,000	1,933,895	(29,105)
EXPENDITURES				
Current:				
Culture and recreation:				
Parks and recreation	235,300	235,300	211,300	24,000
Total current	235,300	235,300	211,300	24,000
Debt service:				
Administrative charges	4,000	4,000	900	3,100
Principal retirement	846,100	846,100	825,000	21,100
Interest	1,186,500	1,186,500	1,186,480	20
Total debt service	2,036,600	2,036,600	2,012,380	24,220
Total expenditures	2,271,900	2,271,900	2,223,680	48,220
Excess/(deficiency) of revenues over expenditures	(308,900)	(308,900)	(289,785)	19,115
Net change in fund balances	\$ (308,900)	\$ (308,900)	\$ (289,785)	\$ 19,115

Internal Service Funds – These funds are used to track those transactions relating to the City’s internal insurance activities.

Risk Management Fund — This fund was created to provide general insurance coverage as well as risk management, loss control, and safety programs city-wide.

Employee Healthcare Trust Fund — This fund was created to provide health insurance claims, plan administration, stop loss premiums, and fund reserves.

Workers’ Compensation Fund — This fund was created to account for expenses incurred for workers’ compensation claims, administration, coverage, and fund reserves.

CITY OF SURPRISE, ARIZONA

Combining Statement of Net Position

Internal Service Funds

June 30, 2025

	Risk Management Fund	Employee Healthcare Trust Fund	Workers' Compensation Fund	Total Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 11,162,861	\$ 9,813,531	\$ 4,627,029	\$ 25,603,421
Receivables (net of allowances):				
Other	-	456,145	-	456,145
Other assets	-	3,860	-	3,860
Total current assets	<u>11,162,861</u>	<u>10,273,536</u>	<u>4,627,029</u>	<u>26,063,426</u>
NonCurrent assets:				
Net OPEB asset	11,355	6,058	3,724	21,137
Total noncurrent assets	<u>11,355</u>	<u>6,058</u>	<u>3,724</u>	<u>21,137</u>
Total assets	<u>11,174,216</u>	<u>10,279,594</u>	<u>4,630,753</u>	<u>26,084,563</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	64,701	34,463	20,740	119,904
Deferred outflows related to OPEB	1,308	568	420	2,296
Total deferred outflows of resources	<u>66,009</u>	<u>35,031</u>	<u>21,160</u>	<u>122,200</u>
Total assets and deferred outflows of resources	<u>\$ 11,240,225</u>	<u>\$ 10,314,625</u>	<u>\$ 4,651,913</u>	<u>\$ 26,206,763</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 20,170	\$ 87,974	\$ 53,320	\$ 161,464
Accrued payroll and related taxes	8,280	4,169	2,787	15,236
Claims payable, current portion	1,262,306	3,458,232	298,961	5,019,499
Compensated absences payable, due in less than one year	18,237	11,688	6,111	36,036
Total current liabilities	<u>1,308,993</u>	<u>3,562,063</u>	<u>361,179</u>	<u>5,232,235</u>
NonCurrent liabilities:				
Compensated absences payable, due in more than one year	28,524	18,281	9,558	56,363
Claims payable, noncurrent portion	-	-	414,640	414,640
Net pension liability	294,062	156,636	94,260	544,958
Net OPEB liability	53	19	17	89
Total noncurrent liabilities	<u>322,639</u>	<u>174,936</u>	<u>518,475</u>	<u>1,016,050</u>
Total liabilities	<u>1,631,632</u>	<u>3,736,999</u>	<u>879,654</u>	<u>6,248,285</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	19,343	10,303	6,200	35,846
Deferred inflows related to OPEB	4,602	2,366	1,503	8,471
Total deferred inflows of resources	<u>23,945</u>	<u>12,669</u>	<u>7,703</u>	<u>44,317</u>
Total liabilities and deferred inflows of resources	<u>1,655,577</u>	<u>3,749,668</u>	<u>887,357</u>	<u>6,292,602</u>
NET POSITION				
Unrestricted	9,584,648	6,564,957	3,764,556	19,914,161
Total net position	<u>\$ 9,584,648</u>	<u>\$ 6,564,957</u>	<u>\$ 3,764,556</u>	<u>\$ 19,914,161</u>

CITY OF SURPRISE, ARIZONA

Combining Statement of Revenues, Expenses, and Changes in Net Position

Internal Service Funds

For the Year Ended June 30, 2025

	Risk Management Fund	Employee Healthcare Trust Fund	Workers' Compensation Fund	Total Internal Service funds
OPERATING REVENUES				
Charges for services	\$ 3,768,000	\$ 22,326,750	\$ 1,342,817	\$ 27,437,567
Other revenue	602,611	5,537	1,184	609,332
Total operating revenues	<u>4,370,611</u>	<u>22,332,287</u>	<u>1,344,001</u>	<u>28,046,899</u>
OPERATING EXPENSES				
Personnel services	408,298	254,871	97,363	760,532
Contractual services, materials, and supplies	94,492	239,056	157,651	491,199
Insurance claims, premiums, and administrative expenses	4,387,598	21,979,520	1,178,860	27,545,978
Total operating expenses	<u>4,890,388</u>	<u>22,473,447</u>	<u>1,433,874</u>	<u>28,797,709</u>
Operating income/(loss)	<u>(519,777)</u>	<u>(141,160)</u>	<u>(89,873)</u>	<u>(750,810)</u>
NONOPERATING REVENUES/(EXPENSES)				
Interest revenue	536,047	194,416	237,761	968,224
Total nonoperating revenues/(expenses)	<u>536,047</u>	<u>194,416</u>	<u>237,761</u>	<u>968,224</u>
Change in net position	<u>16,270</u>	<u>53,256</u>	<u>147,888</u>	<u>217,414</u>
Total net position - June 30, 2024, as previously reported	<u>9,569,593</u>	<u>6,512,373</u>	<u>3,619,783</u>	<u>19,701,749</u>
Change in accounting principle	(1,215)	(672)	(3,115)	(5,002)
Total net position - June 30, 2024, as restated	<u>9,568,378</u>	<u>6,511,701</u>	<u>3,616,668</u>	<u>19,696,747</u>
Total net position - June 30, 2025	<u>\$ 9,584,648</u>	<u>\$ 6,564,957</u>	<u>\$ 3,764,556</u>	<u>\$ 19,914,161</u>

CITY OF SURPRISE, ARIZONA

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2025

	Risk Management Fund	Employee Healthcare Trust Fund	Workers' Compensation Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from interfund services provided	\$ 3,768,000	\$ 21,979,704	\$ 1,342,817	\$ 27,090,521
Payments to employees	(395,364)	(199,578)	(127,162)	(722,104)
Payments to suppliers	(76,491)	(699,933)	(113,184)	(889,608)
Payments for insurance claims and expenses	(3,254,819)	(21,325,225)	(1,334,507)	(25,914,551)
Other receipts	1,486,598	242,270	1,184	1,730,052
Net cash provided/(used) by operating activities	<u>1,527,924</u>	<u>(2,762)</u>	<u>(230,852)</u>	<u>1,294,310</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income/(loss)	536,047	194,416	237,761	968,224
Net cash provided/(used) by investing activities	<u>536,047</u>	<u>194,416</u>	<u>237,761</u>	<u>968,224</u>
Net increase/(decrease) in cash and cash equivalents	<u>2,063,971</u>	<u>191,654</u>	<u>6,909</u>	<u>2,262,534</u>
Balances - beginning of year	\$ 9,098,890	\$ 9,621,877	\$ 4,620,120	\$ 23,340,887
Balances - end of the year	<u>\$ 11,162,861</u>	<u>\$ 9,813,531</u>	<u>\$ 4,627,029</u>	<u>\$ 25,603,421</u>
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:				
Operating income/(loss)	\$ (519,777)	\$ (141,160)	\$ (89,873)	\$ (750,810)
Adjustments to reconcile operating income/(loss) to net cash provided/(used) by operating activities:				
Changes in assets and liabilities:				
Other receivables	883,987	(110,313)	-	773,674
Other assets	-	(3,590)	-	(3,590)
Accounts payable	19,167	(457,287)	44,970	(393,150)
Accrued payroll and related taxes	892	729	2,787	4,408
Compensated absences	29,659	20,517	(28,156)	22,020
Net pension liability	(17,177)	35,966	(4,334)	14,455
Claims payable	1,132,779	654,295	(155,647)	1,631,427
Net OPEB asset/liability	(1,606)	(1,919)	(599)	(4,124)
Net cash provided/(used) by operating activities	<u>\$ 1,527,924</u>	<u>\$ (2,762)</u>	<u>\$ (230,852)</u>	<u>\$ 1,294,310</u>



STATISTICAL SECTION



SURPRISE

ARIZONA



STATISTICAL SECTION

This section provides detailed information, for purposes of providing a context for comprehending the information presented in the financial statements, note disclosures and required supplementary information, and gaining a better understanding of the financial shape of the City of Surprise, Arizona.

Contents:

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue sources, transaction privilege (sales) tax and property taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules of demographic and economic indicators help the reader understand the environment that the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

CITY OF SURPRISE, ARIZONA

Net Position by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Governmental activities				
Net investment in capital assets	\$ 405,111,110	\$ 392,458,485	\$ 393,984,378	\$ 399,420,150
Restricted	22,743,525	24,613,341	67,683,440	29,462,370
Unrestricted	(16,896,594)	(27,479,276)	(57,592,973)	1,815,847
Total governmental activities net position	<u>\$ 410,958,041</u>	<u>\$ 389,592,550</u>	<u>\$ 404,074,845</u>	<u>\$ 430,698,367</u>
Business-type activities				
Net investment in capital assets	\$ 270,081,565	\$ 279,249,380	\$ 277,989,957	\$ 274,750,943
Restricted	13,039,887	12,326,207	14,365,125	12,932,109
Unrestricted	29,979,759	22,570,204	31,396,601	43,938,146
Total business-type activities net position	<u>\$ 313,101,211</u>	<u>\$ 314,145,791</u>	<u>\$ 323,751,683</u>	<u>\$ 331,621,198</u>
Primary government				
Net investment in capital assets	\$ 675,192,675	\$ 671,707,865	\$ 671,974,335	\$ 674,171,093
Restricted	35,783,412	36,939,548	82,048,565	42,394,479
Unrestricted	13,083,165	(4,909,072)	(26,196,372)	45,753,993
Total primary government net position	<u>\$ 724,059,252</u>	<u>\$ 703,738,341</u>	<u>\$ 727,826,528</u>	<u>\$ 762,319,565</u>

Source: City financial records

2020	2021	2022	2023	2024	2025
\$ 435,144,710	\$ 502,976,390	\$ 557,077,466	\$ 635,129,381	\$ 693,013,470	\$ 741,754,521
21,821,951	39,557,045	39,307,858	40,382,529.00	41,067,127	62,996,331
28,238,342	75,855,018	141,847,579	193,259,901.00	270,926,964	309,945,640
<u>\$ 485,205,003</u>	<u>\$ 618,388,453</u>	<u>\$ 738,232,903</u>	<u>\$ 868,771,811</u>	<u>\$ 1,005,007,561</u>	<u>\$ 1,114,696,492</u>
\$ 282,360,332	\$ 320,299,739	\$ 331,988,392	\$ 359,266,161	\$ 390,227,565	\$ 426,182,440
13,735,679	9,425,177	12,408,370	19,561,463	29,531,878	37,066,474
52,259,316	67,556,649	78,863,705	89,533,789	102,591,695	114,175,871
<u>\$ 348,355,327</u>	<u>\$ 397,281,565</u>	<u>\$ 423,260,467</u>	<u>\$ 468,361,413</u>	<u>\$ 522,351,138</u>	<u>\$ 577,424,785</u>
\$ 717,505,042	\$ 823,276,129	\$ 889,065,858	\$ 994,395,542	\$ 1,083,241,035	\$ 1,167,936,961
35,557,630	48,982,222	51,716,228	59,943,992	70,599,005	100,062,805
80,497,658	143,411,667	220,711,284	282,793,690	373,518,659	424,121,511
<u>\$ 833,560,330</u>	<u>\$ 1,015,670,018</u>	<u>\$ 1,161,493,370</u>	<u>\$ 1,337,133,224</u>	<u>\$ 1,527,358,699</u>	<u>\$ 1,692,121,277</u>

CITY OF SURPRISE, ARIZONA

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	2016	2017	2018	2019
Expenses				
Governmental Activities:				
General government	\$ 18,906,430	\$ 27,733,034	\$ 24,693,086	\$ 18,847,192
Public safety	47,273,449	64,148,194	51,157,392	60,235,535
Public works and transportation	38,670,796	41,540,981	37,661,923	41,578,280
Community development	10,235,430	12,326,274	12,345,202	12,382,036
Culture and recreation	25,690,406	22,555,794	26,471,045	24,970,626
Interest on long-term debt	1,472,910	1,381,807	1,927,016	2,473,876
Total governmental activities expenses	<u>142,249,421</u>	<u>169,686,084</u>	<u>154,255,664</u>	<u>160,487,545</u>
Business-type Activities:				
Ground ambulance services	-	-	3,141,623	3,375,334
Water	11,823,538	15,013,661	10,926,918	11,690,946
Sewer	20,399,067	19,519,303	20,039,173	19,340,045
Sanitation	7,972,061	9,034,441	8,557,348	8,657,107
Stormwater	-	187,744	775,651	1,363,889
Total business-type activities	<u>40,194,666</u>	<u>43,755,149</u>	<u>43,440,713</u>	<u>44,427,321</u>
Total primary government expenses	<u>\$ 182,444,087</u>	<u>\$ 213,441,233</u>	<u>\$ 197,696,377</u>	<u>\$ 204,914,866</u>
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	\$ 5,041,335	\$ 5,863,856	\$ 7,171,091	\$ 6,744,068
Public safety	3,778,584	3,600,402	2,801,908	1,948,725
Public works and transportation	853,321	1,445,873	2,252,924	4,100,847
Community development	2,552,293	3,770,393	7,384,028	9,901,258
Culture and recreation	5,894,021	5,586,303	5,507,476	5,590,198
Operating grants and contributions	11,178,339	12,097,958	12,530,903	11,555,218
Capital grants and contributions	11,558,409	14,356,832	25,485,790	22,468,016
Total governmental activities program revenues	<u>40,856,302</u>	<u>46,721,617</u>	<u>63,134,120</u>	<u>62,308,330</u>
Business-type activities:				
Charges for services:				
Ground ambulance services	-	-	2,974,704	3,284,354
Water	12,195,621	14,048,726	14,227,502	16,125,842
Sewer	16,151,096	17,190,499	17,345,559	17,612,146
Sanitation	7,099,896	7,525,140	7,485,027	7,859,915
Stormwater	-	1,282,788	1,834,202	1,987,661
Operating grants and contributions	-	-	-	-
Capital grants and contributions	3,107,265	5,788,132	9,682,391	5,509,692
Total business-type activities program revenues	<u>38,553,878</u>	<u>45,835,285</u>	<u>53,549,385</u>	<u>52,379,610</u>
Total primary government program revenues	<u>\$ 79,410,180</u>	<u>\$ 92,556,902</u>	<u>\$ 116,683,505</u>	<u>\$ 114,687,940</u>

2020	2021	2022	2023	2024	2025
\$ 30,683,840	\$ 27,692,032	\$ 23,540,312	\$ 28,301,955	\$ 33,279,341	\$ 39,689,566
60,035,327	66,442,651	70,506,625	81,547,703	102,223,843	107,251,015
46,270,405	39,687,896	44,050,913	55,094,815	56,438,765	64,913,524
12,764,778	11,564,452	16,842,667	19,817,626	22,653,720	23,880,531
20,925,306	29,248,928	32,115,378	40,095,959	42,312,853	48,008,341
2,635,766	2,695,568	2,471,982	2,804,532	2,559,564	3,416,872
<u>173,315,422</u>	<u>177,331,527</u>	<u>189,527,877</u>	<u>227,662,590</u>	<u>259,468,086</u>	<u>287,159,849</u>
4,407,898	4,696,823	5,577,280	-	-	-
18,376,477	19,000,628	16,337,896	17,982,628	23,647,322	25,460,958
19,418,478	24,744,000	26,366,082	25,233,442	26,371,523	27,856,015
9,077,490	7,669,633	10,463,274	11,969,060	13,608,286	14,939,326
1,209,576	1,167,538	1,269,792	1,532,003	1,897,536	2,096,796
<u>52,489,919</u>	<u>57,278,622</u>	<u>60,014,324</u>	<u>56,717,133</u>	<u>65,524,667</u>	<u>70,353,095</u>
<u>\$ 225,805,341</u>	<u>\$ 234,610,149</u>	<u>\$ 249,542,201</u>	<u>\$ 284,379,723</u>	<u>\$ 324,992,753</u>	<u>\$ 357,512,944</u>
\$ 6,729,339	\$ 8,125,797	\$ 7,074,743	\$ 6,986,841	\$ 7,334,363	\$ 8,826,192
1,581,814	1,754,361	2,715,939	8,895,858	10,731,966	11,293,092
3,570,832	5,283,508	6,154,286	5,758,180	6,748,752	5,270,559
12,206,567	16,185,099	20,408,874	16,694,651	22,077,995	19,419,057
3,311,464	3,480,856	4,887,693	7,108,660	8,489,303	9,039,029
21,503,712	22,709,789	25,235,620	16,226,512	15,926,374	16,313,034
42,184,054	92,168,449	68,578,941	78,590,365	70,515,094	53,986,254
<u>91,087,782</u>	<u>149,707,859</u>	<u>135,056,096</u>	<u>140,261,067</u>	<u>141,823,847</u>	<u>124,147,217</u>
3,946,881	4,541,588	5,929,650	-	-	-
18,226,759	20,727,214	21,541,940	20,634,451	24,345,273	27,245,344
19,142,098	20,301,588	21,257,199	22,089,082	22,605,212	25,716,555
10,380,560	12,271,547	13,054,015	13,621,619	14,196,955	17,099,798
1,934,275	2,554,905	2,579,333	2,732,797	2,809,444	3,184,126
60,647	14,820	-	-	-	-
<u>15,030,201</u>	<u>46,935,506</u>	<u>22,872,999</u>	<u>41,854,478</u>	<u>51,397,525</u>	<u>45,847,230</u>
<u>68,721,421</u>	<u>107,347,168</u>	<u>87,235,136</u>	<u>100,932,427</u>	<u>115,354,409</u>	<u>119,093,053</u>
<u>\$ 159,809,203</u>	<u>\$ 257,055,027</u>	<u>\$ 222,291,232</u>	<u>\$ 241,193,494</u>	<u>\$ 257,178,256</u>	<u>\$ 243,240,270</u>

CITY OF SURPRISE, ARIZONA

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	2016	2017	2018	2019
Net revenue/expense:				
Governmental activities	\$ (101,393,119)	\$ (122,964,467)	\$ (91,121,544)	\$ (98,179,215)
Business-type activities	(1,640,788)	2,080,136	10,108,672	7,952,289
Total primary government net expense	<u>\$ (103,033,907)</u>	<u>\$ (120,884,331)</u>	<u>\$ (81,012,872)</u>	<u>\$ (90,226,926)</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
Property taxes	\$ 9,962,925	\$ 10,441,730	\$ 10,813,317	\$ 16,143,232
Sales taxes	46,807,817	49,416,383	54,419,572	61,596,634
Franchise taxes	5,062,719	5,674,974	5,643,876	5,609,625
Unrestricted state shared revenue	30,560,635	31,755,661	35,032,519	35,899,596
Unrestricted investment earnings	607,602	26,274	324,501	3,494,962
Other	407,445	3,129,094	(753,721)	517,587
Transfers	201,576	1,154,860	1,355,582	1,541,101
Total governmental activities	<u>93,610,719</u>	<u>101,598,976</u>	<u>106,835,646</u>	<u>124,802,737</u>
Business-type activities:				
Unrestricted investment earnings	319,068	119,304	141,108	1,458,327
Other	-	-	-	-
Transfers	(201,576)	(1,154,860)	(1,355,582)	(1,541,101)
Total business-type activities	<u>117,492</u>	<u>(1,035,556)</u>	<u>(1,214,474)</u>	<u>(82,774)</u>
Total primary government	<u>\$ 93,728,211</u>	<u>\$ 100,563,420</u>	<u>\$ 105,621,172</u>	<u>\$ 124,719,963</u>
Change in Net Position				
Governmental activities	\$ (7,782,400)	\$ (21,365,491)	\$ 15,714,102	\$ 26,623,522
Business-type activities	(1,523,296)	1,044,580	8,894,198	7,869,515
Prior period adjustments	-	-	(520,113)	-
Total primary government	<u>\$ (9,305,696)</u>	<u>\$ (20,320,911)</u>	<u>\$ 24,088,187</u>	<u>\$ 34,493,037</u>

Source: City financial records

Note 1: GASB Statement No. 75 was implemented in fiscal year 2018. Prior year's financial statements were not restated.

Note 2: Ground Ambulance Service Fund converted from a Business-Type fund to a Special Revenue Governmental fund in fiscal year 2023.

2020	2021	2022	2023	2024	2025
\$ (82,227,640)	\$ (27,623,668)	\$ (54,471,781)	\$ (87,401,523)	\$ (117,644,239)	\$ (163,012,632)
16,231,502	50,068,546	27,220,812	44,215,294	49,829,742	48,739,958
<u>\$ (65,996,138)</u>	<u>\$ 22,444,878</u>	<u>\$ (27,250,969)</u>	<u>\$ (43,186,229)</u>	<u>\$ (67,814,497)</u>	<u>\$ (114,272,674)</u>
\$ 17,015,618	\$ 17,675,230	\$ 19,263,163	\$ 21,294,443	\$ 22,107,325	\$ 19,913,529
70,904,612	90,643,310	103,406,232	124,293,240	134,984,846	158,810,347
5,514,602	5,654,379	6,424,278	6,676,257	7,500,528	7,276,776
38,379,519	44,122,121	45,691,294	57,757,239	71,703,348	65,880,035
3,403,862	228,665	(2,591,655)	5,759,229	15,420,973	19,510,547
418,161	1,040,102	1,420,878	838,040	545,304	538,468
1,097,902	1,443,311	702,041	1,563,726	1,617,665	1,612,836
<u>136,734,276</u>	<u>160,807,118</u>	<u>174,316,231</u>	<u>218,182,174</u>	<u>253,879,989</u>	<u>273,542,538</u>
1,556,564	115,514	(821,961)	1,959,742	5,053,685	6,805,188
43,965	185,489	282,092	247,893	723,963	1,241,812
(1,097,902)	(1,443,311)	(702,041)	(1,563,726)	(1,617,665)	(1,612,836)
<u>502,627</u>	<u>(1,142,308)</u>	<u>(1,241,910)</u>	<u>643,909</u>	<u>4,159,983</u>	<u>6,434,164</u>
<u>\$ 137,236,903</u>	<u>\$ 159,664,810</u>	<u>\$ 173,074,321</u>	<u>\$ 218,826,083</u>	<u>\$ 258,039,972</u>	<u>\$ 279,976,702</u>
\$ 54,506,636	\$ 133,183,450	\$ 119,844,450	\$ 130,780,651	\$ 136,235,750	\$ 110,529,906
16,734,129	48,926,238	25,978,902	44,859,203	53,989,725	55,174,122
-	-	-	-	-	-
<u>\$ 71,240,765</u>	<u>\$ 182,109,688</u>	<u>\$ 145,823,352</u>	<u>\$ 175,639,854</u>	<u>\$ 190,225,475</u>	<u>\$ 165,704,028</u>

CITY OF SURPRISE, ARIZONA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General fund				
NonSpendable	\$ 1,287,510	\$ 1,262,361	\$ 1,602,598	\$ 2,197,168
Restricted	-	501,278	480,554	454,024
Committed	-	-	-	-
Assigned	542,821	338,555	338,167	393,622
Unassigned	37,385,696	38,436,548	41,763,040	42,252,127
Total general fund	<u>\$ 39,216,027</u>	<u>\$ 40,538,742</u>	<u>\$ 44,184,359</u>	<u>\$ 45,296,941</u>
All other governmental funds				
NonSpendable	\$ 368,126	\$ 618,466	\$ 638,371	\$ 664,672
Restricted	23,064,256	24,112,063	67,202,886	61,562,397
Committed	40,246,190	40,005,619	3,483,301	6,446,528
Assigned	469,830	1,109,942	2,912,343	19,690,585
Unassigned	(47,671,784)	(46,064,773)	(8,258,667)	(5,888,966)
Total all other governmental funds	<u>\$ 16,476,618</u>	<u>\$ 19,781,317</u>	<u>\$ 65,978,234</u>	<u>\$ 82,475,216</u>

Source: City financial records.

2020	2021	2022	2023	2024	2025
\$ 2,563,831	\$ 3,565,902	\$ 1,606,366	\$ 1,469,470	\$ 2,518,358	\$ 2,696,030
491,526	525,607	419,863	303,801	156,631	200,425
-	-	25,185,400	43,210,100	51,571,900	58,627,300
490,732	16,732,161	27,234,620	29,737,690	40,013,117	42,804,546
73,973,321	91,303,747	66,180,747	60,941,871	52,139,431	40,501,047
<u>\$ 77,519,410</u>	<u>\$ 112,127,417</u>	<u>\$ 120,626,996</u>	<u>\$ 135,662,932</u>	<u>\$ 146,399,437</u>	<u>\$ 144,829,348</u>
\$ 415,537	\$ 405,327	\$ 582,565	\$ 3,618,463	\$ 3,328,353	\$ 5,629,433
29,864,806	39,031,439	38,819,236	37,715,188	37,179,035	58,911,438
9,115,539	14,406,518	19,835,271	29,800,917	37,606,919	30,663,405
17,786,146	38,853,060	81,506,299	106,547,453	146,208,832	155,331,490
(4,903,347)	(4,669,172)	(3,781,399)	(3,515,299)	(4,081,004)	(3,485,820)
<u>\$ 52,278,681</u>	<u>\$ 88,027,172</u>	<u>\$ 136,961,972</u>	<u>\$ 174,166,722</u>	<u>\$ 220,242,135</u>	<u>\$ 247,049,946</u>

CITY OF SURPRISE, ARIZONA

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2016	2017	2018	2019
Revenues				
Taxes	\$ 56,908,903	\$ 59,749,360	\$ 65,257,328	\$ 77,739,476
Licenses and permits	5,121,719	5,811,255	5,817,956	5,991,243
Intergovernmental revenue	39,209,688	40,430,400	44,773,004	45,774,226
Charges for services	11,363,453	13,127,359	15,186,099	19,189,262
Grants revenue	3,060,620	1,856,830	2,691,930	1,581,233
Fines	1,214,978	1,052,366	2,281,998	1,788,745
Rents	630,514	621,033	601,628	724,073
Development fees	3,297,082	4,413,714	5,306,365	6,482,159
Interest revenue	607,602	24,449	310,038	3,299,929
Donations	228,316	160,706	183,307	125,872
Indirect charges	4,884,443	4,768,960	5,249,200	5,481,600
Other revenue	392,199	2,908,665	522,745	726,564
Total revenues	<u>126,919,517</u>	<u>134,925,097</u>	<u>148,181,598</u>	<u>168,904,382</u>
Expenditures				
Current:				
General government	16,306,183	16,675,593	16,965,220	17,358,137
Public safety	44,433,546	47,036,287	51,471,894	51,993,630
Public works and transportation	20,492,467	20,116,384	19,858,787	20,580,186
Community development	10,080,446	12,225,155	11,890,816	12,141,786
Culture and recreation	18,416,339	17,998,257	19,540,944	19,613,758
Debt Service:				
Principal	2,361,425	2,613,738	2,776,050	5,352,900
Interest	1,749,568	1,587,151	1,578,092	3,271,455
Other charges	19,762	724,982	472,877	4,851
Capital outlay	36,511,052	17,501,271	18,067,055	22,824,600
Total expenditures	<u>150,370,788</u>	<u>136,478,818</u>	<u>142,621,735</u>	<u>153,141,303</u>
Excess of revenues over/(under) expenses	(23,451,271)	(1,553,721)	5,559,863	15,763,079
Other financing sources/(uses)				
Proceeds from sale of assets	336,821	368,156	136,426	276,091
Transfers in/(out)	1,150,009	354,860	974,136	1,607,973
Proceeds from bonds	-	11,696,218	43,211,107	-
Insurance recoveries	-	-	-	-
Payments to refunded bond escrow agent	-	(6,500,617)	-	-
Leases	-	-	-	-
Total other financing sources /(uses)	<u>1,486,830</u>	<u>5,918,617</u>	<u>44,321,669</u>	<u>1,884,064</u>
Net change in fund balances	<u>\$ (21,964,441)</u>	<u>\$ 4,364,896</u>	<u>\$ 49,881,532</u>	<u>\$ 17,647,143</u>
Debt service as a percentage of noncapital expenditures				
	3.6%	3.5%	3.5%	6.6%

Source: The source of this information is the City's financial records.

	2020	2021	2022	2023	2024	2025
\$	87,768,923	\$ 108,394,703	\$ 122,672,859	\$ 145,599,915	\$ 157,004,877	\$ 178,742,774
	5,944,921	6,168,794	6,954,398	7,217,312	7,898,928	7,632,584
	48,421,077	55,052,905	58,674,186	71,745,446	86,252,002	80,856,115
	18,680,847	24,318,166	30,676,826	35,086,455	42,828,478	40,375,951
	11,165,982	11,476,297	13,620,067	3,733,991	7,397,939	9,811,841
	1,340,263	1,441,835	1,504,375	1,159,299	1,223,590	1,645,500
	620,862	621,198	1,117,625	1,109,330	1,136,238	1,187,353
	5,321,641	6,892,441	9,835,523	6,867,622	9,947,501	11,421,737
	3,169,797	207,335	(2,267,135)	5,592,714	14,780,321	18,678,260
	103,910	52,791	87,490	94,899	69,635	138,874
	5,591,100	6,348,174	6,254,474	6,455,301	6,710,286	8,010,013
	670,836	855,497	1,250,978	1,211,618	944,976	4,693,733
	188,800,159	221,830,136	250,381,666	285,873,902	336,194,771	363,194,735
	18,294,432	28,780,110	22,825,368	25,076,415	29,538,496	33,850,301
	53,778,182	56,880,732	70,479,294	78,398,666	96,819,051	102,075,046
	20,721,301	20,287,785	21,719,917	32,529,112	33,842,357	35,945,948
	12,024,962	6,745,974	16,795,933	19,645,774	22,472,677	23,451,189
	19,275,188	18,980,135	26,406,812	31,612,059	34,475,026	39,472,639
	6,003,700	6,429,038	6,781,238	8,046,984	9,155,629	9,424,837
	3,015,280	3,227,799	3,126,841	3,465,736	3,234,949	4,024,520
	453,307	222,909	3,004	510,933	748,470	260,811
	62,975,337	31,142,540	26,917,801	50,508,267	54,346,218	123,263,940
	196,541,689	172,697,022	195,056,208	249,793,946	284,632,873	371,769,231
	(7,741,530)	49,133,114	55,325,458	36,079,956	51,561,898	(8,574,496)
	205,824	159,875	235,226	213,945	160,005	554,106
	951,667	1,174,545	266,662	1,563,726	1,617,665	1,612,836
	8,511,093	19,625,309	-	13,092,551	-	30,178,023
	7,249	-	-	-	-	-
	-	-	-	-	-	-
	-	-	1,225,337	56,124	3,174,137	1,728,309
	9,675,833	20,959,729	1,727,225	14,926,346	4,951,807	34,073,274
\$	1,934,303	\$ 70,092,843	\$ 57,052,683	\$ 51,006,302	\$ 56,513,705	\$ 25,498,778
	6.8%	6.8%	5.9%	5.8%	5.4%	5.4%



SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

Governmental Activities Tax Revenues by Source

Last Ten Fiscal Years

(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
2016	\$ 9,962,925	\$ 46,807,817	\$ 5,062,719	\$ 61,833,461
2017	10,441,730	49,416,383	5,674,974	65,533,087
2018	10,813,317	54,419,572	5,643,876	70,876,765
2019	16,143,232	61,596,634	5,609,625	83,349,491
2020	17,015,618	70,904,612	5,514,602	93,434,832
2021	17,675,230	90,643,310	5,654,379	113,972,919
2022	19,263,163	103,406,232	6,424,278	129,093,673
2023	21,294,443	124,293,240	6,676,257	152,263,940
2024	22,107,325	134,984,846	7,500,528	164,592,699
2025	19,913,529	158,810,347	7,276,776	186,000,652

Source: City financial records.

CITY OF SURPRISE, ARIZONA

Major Sources of Municipal Sales Tax

Last Ten Fiscal Years

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Description of Payers Business				
Construction	\$ 8,429,076	\$ 7,444,202	\$ 9,424,657	\$ 13,938,324
Retail trade	18,608,256	20,578,048	24,170,542	25,309,922
Communications and utilities	5,609,855	5,682,238	5,010,541	4,873,454
Restaurant and bar	5,933,745	6,543,214	7,673,195	8,226,189
Real estate, rental and leasing	4,246,757	4,790,722	4,858,025	5,495,101
Other	4,109,905	4,377,959	3,282,612	3,753,644
Total	<u>\$ 46,937,594</u>	<u>\$ 49,416,383</u>	<u>\$ 54,419,572</u>	<u>\$ 61,596,634</u>

Source: City of Surprise "Sales, Use, and Bed Tax Report" as of June 30, 2025.

When NAICS reporting began, many businesses checked the "Other" category due to uncertainty. This problem is being remedied and therefore, the "Other" category will decrease as more businesses will be classified under their proper category.

State and local laws prohibit the disclosure of individual taxpayer information.

2020	2021	2022	2023	2024	2025
\$ 17,529,115	\$ 24,116,467	\$ 26,833,113	\$ 39,935,328	\$ 46,859,053	\$ 47,430,527
30,133,931	39,817,504	45,163,884	48,855,932	50,886,947	67,863,825
4,804,402	5,218,205	5,465,416	6,156,707	7,021,536	8,533,261
8,368,795	9,966,480	12,102,740	13,436,032	15,083,085	16,688,004
6,013,853	6,798,088	7,662,985	9,238,151	9,355,857	10,596,942
4,054,516	4,726,566	6,178,094	6,671,090	5,778,368	7,697,788
\$ 70,904,612	\$ 90,643,310	\$ 103,406,232	\$ 124,293,240	\$ 134,984,846	\$ 158,810,347



SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year		Real Property		Exemptions	Total		Ratio of Total	
		Assessed Value Residential Property	Assessed Value Commercial Property	Real Property	Net Assessed Valuation	Direct Tax Rate	Estimated Actual Taxable Full Cash Value	Assessed Value to Total Estimated Actual Value
2016	P	\$ 659,032,840	\$ 359,978,533	\$ (129,767,780)	\$ 889,243,593	0.7591	\$ 8,723,777,883	10.19%
2016	S	775,338,584	403,053,294	(146,482,133)	1,031,909,745	-	10,151,951,511	10.16%
2017	P	703,447,546	353,382,997	(127,933,738)	928,896,805	0.7591	9,188,106,400	10.11%
2017	S	832,582,676	418,393,201	(151,461,223)	1,099,514,654	-	10,888,981,453	10.10%
2018	P	742,214,719	372,303,716	(136,482,015)	978,036,420	0.7591	9,704,804,426	10.08%
2018	S	883,909,865	470,218,102	(164,602,354)	1,189,525,613	-	11,739,266,942	10.13%
2019	P	786,977,862	394,591,418	(132,661,610)	1,048,907,670	0.7591	10,275,630,683	10.21%
2019	S	979,109,102	501,184,044	(163,680,703)	1,316,612,443	0.4200	12,872,480,509	10.23%
2020	P	844,245,064	406,984,939	(141,141,959)	1,110,088,044	0.7591	10,927,509,235	10.16%
2020	S	1,064,787,961	529,620,552	(185,022,186)	1,409,386,327	0.3880	13,911,798,083	10.13%
2021	P	911,365,696	443,779,946	(149,135,143)	1,206,010,499	0.7591	11,823,893,218	10.20%
2021	S	1,192,185,322	601,386,798	(197,101,947)	1,596,470,173	0.3880	15,624,599,329	10.22%
2022	P	990,350,177	482,829,467	(158,793,354)	1,314,386,290	0.7591	12,850,915,016	10.23%
2022	S	1,326,558,965	687,137,725	(224,417,986)	1,789,278,704	0.3880	17,496,518,302	10.23%
2023	P	1,091,571,186	510,365,131	(168,208,242)	1,433,728,075	0.7591	14,077,385,223	10.18%
2023	S	1,503,503,120	724,998,192	(237,855,457)	1,990,645,855	0.3880	19,563,322,605	10.18%
2024	P	1,181,547,666	543,672,090	(172,408,029)	1,552,811,727	0.7591	15,236,224,808	10.19%
2024	S	1,984,491,524	881,286,405	(267,828,844)	2,597,949,085	0.3880	25,428,497,783	10.22%
2025	P	1,419,071,832	644,440,882	(190,962,959)	1,872,549,755	0.5693	18,362,776,406	10.20%
2025	S	2,492,281,490	1,104,323,116	(318,341,317)	3,278,263,289	0.3880	32,093,717,955	10.21%

Source: Maricopa County Assessor's Office State Abstract

Direct Tax Rate is From the Maricopa County Finance Department's "Tax Levy Book for the City of Surprise" for the applicable tax year.

CITY OF SURPRISE, ARIZONA

Property Tax Rates

Direct and Overlapping Governments

Last Ten Fiscal Years

Fiscal Year	City of Surprise			Overlapping Rates				
	City of Surprise			Maricopa County				
	Operating (Primary) Tax Rate	Debt Service (Secondary) Tax Rate	Total City Tax Rate	Operating Tax Rate	County Library	Flood Control	Fire District Assistance	Total County Tax Rate
2016	0.7591	-	0.7591	1.4009	0.0556	0.1792	0.0112	1.6469
2017	0.7591	-	0.7591	1.4009	0.0556	0.1792	0.0102	1.6459
2018	0.7591	0.4200	1.1791	1.4009	0.0556	0.1792	0.0107	1.6464
2019	0.7591	0.3880	1.1471	1.4009	0.0556	0.1792	0.0095	1.6452
2020	0.7591	0.3880	1.1471	1.4009	0.0556	0.1792	0.0090	1.6447
2021	0.7591	0.3880	1.1471	1.3459	0.0556	0.1792	0.0086	1.5893
2022	0.7591	0.3880	1.1471	1.3459	0.0556	0.1792	0.0086	1.5893
2023	0.7591	0.3880	1.1471	1.2473	0.0505	0.1592	0.0082	1.4652
2024	0.7591	0.3880	1.1471	1.2044	0.0488	0.1536	0.0081	1.4149
2025	0.5693	0.3880	0.9573	1.1591	0.0470	0.1470	0.0080	1.3611

Source: Maricopa County Finance Department's "Maricopa County 2025 Tax Levy" report.

Note: Prior to fiscal year 2018, the Maricopa County Flood Control District tax rate was included in the other column.

Overlapping Rates				
Dysart School District				
Operating Tax Rate	Debt Service Tax Rate	Total School District Tax Rate	Other	Total Direct & Overlapping Rates
4.2197	2.9085	7.1282	2.495	12.030
4.1562	2.8032	6.9594	2.500	11.865
4.1089	2.7859	6.8948	2.433	12.153
3.9117	2.6680	6.5797	2.422	11.794
3.8251	2.6201	6.4452	2.341	11.578
3.8026	2.3794	6.1820	2.247	11.165
3.8026	2.3794	6.1820	2.247	11.165
3.5443	2.3467	5.8910	2.092	10.595
3.4138	2.1511	5.5649	1.731	9.858
3.4935	2.0170	5.5105	1.694	9.523

CITY OF SURPRISE, ARIZONA

Principal Property Taxpayers

June 30, 2025 and nine years prior

Taxpayer	2025			2016		
	Net Limited Assessed Valuation	Rank	Percentage of Total	Primary Assessed Valuation	Rank	Percentage of Total
Arizona Public Service Company	\$ 107,807,168	1	6.94%	\$ 22,299,212	1	2.40%
Route 14 Investment Partners LLC	12,197,377	2	0.79%			
Southwest Gas Corporation (T&D)	8,538,853	3	0.55%	5,510,783	2	0.59%
RPC Mohr West Summit LLC	6,502,380	4	0.42%			
Toll Prasada LLC	6,287,678	5	0.40%			
Epcor (Agua Fria Water Division)	5,389,617	6	0.35%	3,721,769	4	0.40%
Epcor (Agua Fria Wastewater Division)	5,389,617	7	0.35%			
SH UTE LLC	4,167,993	8	0.27%			
Smiths Food & Drug Centers Inc	4,167,494	9	0.27%			
TI Investors of Arizona Apartments LLC	4,136,636	10	0.27%			
Arizona Public Service Company (CWIP)				3,995,534	3	0.43%
CCD Real Estate Holdings LLC				3,159,970	5	0.34%
Surprise Industrial NCP LLC				2,739,288	6	0.29%
Wal-Mart Stores Inc				2,626,731	7	0.28%
MCI Communications Services Inc.				2,547,137	8	0.27%
G&I VII Stadium Village LLC				2,477,373	9	0.27%
Harmony at Surprise LLC				2,312,146	10	0.25%
Total	\$ 164,584,813		10.61%	\$ 51,389,943		5.53%
 Total City Valuation	 \$ 1,552,811,727			 \$ 928,896,805		

Source: Maricopa County Assessor's Office.

CITY OF SURPRISE, ARIZONA

Primary Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year		Tax Collections in Subsequent Years	Total Collections to Date	
		Current Tax Collections	Percentage of Levy		Tax Collections	Percentage of Levy
2016	6,754,752	6,661,068	98.6%	\$ 13,518	\$ 6,674,586	98.8%
2017	7,037,842	6,947,745	98.7%	7,984	6,955,729	98.8%
2018	7,424,272	7,321,178	98.6%	(1,937)	7,319,241	98.6%
2019	12,369,233	12,219,247	98.8%	(171,012)	12,048,235	97.4%
2020	12,735,513	12,539,853	98.5%	(10,020)	12,529,833	98.4%
2021	13,835,935	13,663,445	98.8%	(75,613)	13,587,832	98.2%
2022	15,079,386	14,897,120	98.8%	(104,865)	14,792,255	98.1%
2023	16,448,765	16,165,481	98.3%	(101,127)	16,064,354	97.7%
2024	17,816,718	17,508,227	98.3%	(71,891)	17,436,336	97.9%
2025	16,273,663	16,057,202	98.7%	-	16,057,202	98.7%

Source: Maricopa County Assessor's Office.

Note: Collections have been adjusted for the impact of Qasimyar v. Maricopa County for fiscal years 2016 through 2025.

CITY OF SURPRISE, ARIZONA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Special (CFD) Assessment Bonds and Notes	Pledged Revenue Obligations	Leases and Subscriptions*
2016	\$ -	\$ 6,885,000	\$ 31,770,034	\$ -
2017	-	12,105,285	29,249,876	-
2018	40,211,105	14,619,352	24,166,587	-
2019	37,322,019	14,143,419	23,963,088	-
2020	34,285,598	21,966,935	21,192,968	-
2021	50,304,950	21,249,359	18,347,512	-
2022	46,567,591	20,591,782	15,373,818	6,026,793
2023	42,588,618	33,005,654	12,264,910	9,355,984
2024	38,399,644	32,266,975	9,017,302	10,860,681
2025	62,798,042	31,418,296	7,651,085	10,494,153

Source: City financial records

*Note: The provisions of Governmental Accounting Standards Board (GASB) Statement Nos. 87 and 96 were adopted in Fiscal Year 2022 and 2023, respectively

Business-Type Activities							
Property Corp. Bonds	Utility Revenue Obligations	Pledged Revenue Obligations	Loans Payable	Leases and Subscriptions*	Total Primary Government	Percentage of Personal Income	Per Capita
\$ 37,585,000	\$ -	\$ 5,903,844	\$ -	\$ -	\$ 82,143,878	3.0%	\$ 640
35,720,000	-	5,249,430	-	-	82,324,591	2.8%	620
33,770,000	-	4,103,413	-	-	116,870,457	3.9%	872
-	28,164,675	3,877,076	-	-	107,470,277	3.4%	778
-	26,993,224	3,157,623	-	-	107,596,348	3.2%	760
-	25,776,772	2,418,508	-	-	118,097,101	3.2%	798
-	24,510,321	1,647,630	-	-	114,717,935	2.9%	769
-	23,193,870	841,965	-	83,106	121,334,107	2.8%	786
-	21,822,418	-	3,214,135	-	115,581,155	2.2%	721
-	20,395,967	-	15,689,271	632,286	149,079,100	2.9%	931

CITY OF SURPRISE, ARIZONA

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2016	\$ -	\$ -	\$ -	0.000%	\$ -
2017	-	-	-	0.000%	-
2018	37,730,000	5,857	37,724,143	3.171%	281
2019	35,215,000	483,319	34,731,681	2.638%	251
2020	32,350,000	544,112	31,805,888	2.257%	225
2021	46,625,000	158,771	46,466,229	0.393%	314
2022	43,225,000	104,285	43,120,715	0.276%	289
2023	39,615,000	703,573	38,911,427	0.249%	261
2024	35,795,000	824,661	34,970,339	0.138%	218
2025	31,750,000	-	31,750,000	0.173%	198

Source: City financial records.

CITY OF SURPRISE, ARIZONA

Direct and Overlapping Governmental Activities Debt
As of June 30, 2025

Overlapping Jurisdiction		Proportion Applicable to the City	
		Approximate Percent	Net Debt Amount
Maricopa County	None	2.95%	None
Maricopa County Community College District	\$ 54,758,400	2.95%	\$ 1,615,373
Maricopa County Special Health Care District	512,560,000	2.95%	15,120,520
Western Maricopa Education Center	65,830,000	7.65%	5,035,995
Dysart Unified School District No. 89	38,715,000	75.79%	29,342,099
Peoria Unified School District No. 11	124,430,000	0.37%	460,391
Nadaburg Unified School District No. 81	1,964,000	41.70%	818,988
Wickenburg Unified School District No. 9	2,490,000	1.60%	39,840
Subtotal, overlapping debt	<u>\$ 800,747,400</u>		<u>\$ 52,433,206</u>
City of Surprise	\$ 80,943,280	100.00%	\$ 80,943,280
Marley Park Community Facilities District	31,418,296	100.00%	31,418,296
Subtotal, direct debt	<u>\$ 112,361,576</u>		<u>\$ 112,361,576</u>
Total Direct and Overlapping General Obligation Bonded Debt			<u><u>\$ 164,794,782</u></u>

Source: The various jurisdictions.

Proportion applicable to City of Surprise, Arizona is computed on the ratio of net limited property valuation for fiscal year 2024/2025.

Excludes various other non-property tax supported debt such as Public Finance Corporation lease revenue bonds, Stadium District revenue bonds, Stadium District loans, Housing Authority loans and capital leases.

CITY OF SURPRISE, ARIZONA

Legal Debt Margin Information Unrestricted and Restricted Last Ten Fiscal Years

	2016	2017	2018	2019
Unrestricted				
Debt limit 6%	\$ 61,914,585	\$ 65,970,879	\$ 71,371,537	\$ 78,996,747
Unrestricted legal debt margin	\$ 61,914,585	\$ 65,970,879	\$ 71,371,537	\$ 78,996,747
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%
	2016	2017	2018	2019
Restricted				
Debt limit 20%	\$ 206,381,949	\$ 219,902,931	\$ 237,905,123	\$ 263,322,489
Total net debt applicable to limit	-	-	39,987,500	37,322,019
Restricted legal debt margin	\$ 206,381,949	\$ 219,902,931	\$ 197,917,623	\$ 226,000,470
Total net debt applicable to the 20% limit as a percentage of the 20% debt limit	0.00%	0.00%	16.81%	14.17%

Source: City financial records

2020	2021	2022	2023	2024	2025
\$ 84,563,180	\$ 95,788,210	\$ 107,356,722	\$ 119,438,751	\$ 155,876,945	\$ 199,468,328
\$ 84,563,180	\$ 95,788,210	\$ 107,356,722	\$ 119,438,751	\$ 155,876,945	\$ 199,468,328
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2020	2021	2022	2023	2024	2025
\$ 281,877,265	\$ 319,294,035	\$ 357,855,740	\$ 398,129,171	\$ 519,589,818	\$ 664,894,428
34,285,598	50,304,950	46,567,591	38,399,644	38,399,644	62,798,042
\$ 247,591,667	\$ 268,989,085	\$ 311,288,149	\$ 359,729,527	\$ 481,190,174	\$ 602,096,386
12.16%	15.76%	13.01%	9.65%	7.39%	9.44%

CITY OF SURPRISE, ARIZONA

Demographic and Economic Statistics

Last Ten Fiscal Years

Year	Population	Personal Income	Median Household Income	Median Age	Unemployment Rate
2016	128,422	\$ 2,779,842,369	59,094	38.7	9.4%
2017	132,677	2,911,895,653	59,916	39.0	4.5%
2018	134,085	2,997,757,500	61,035	39.9	4.6%
2019	138,161	3,184,636,354	62,927	41.3	3.7%
2020	141,664	3,381,255,033	65,160	41.2	5.4%
2021	147,966	3,743,919,200	69,076	41.4	6.8%
2022	149,191	3,890,551,528	71,192	41.9	6.9%
2023	154,198	4,327,880,349	76,623	41.7	4.3%
2024	160,273	5,151,984,391	87,756	41.5	3.8%
2025	160,176	5,148,866,321	87,756	41.5	3.6%

Sources: Office of Economic Opportunity.
 Maricopa Association of Governments.
 US Department of Labor, Bureau of Labor Statistics.
 US Census Bureau.

CITY OF SURPRISE, ARIZONA

Principal Employers

June 30, 2025 and Nine Years Prior

Employer	2025 ¹			2016 ²		
	Employees	Rank	% of Total	Employees	Rank	% of Total
Dysart School District (Surprise Schools Only)	1,740	1	5.84%	1,800	1	9.31%
City of Surprise	1,440	2	4.84%	1,020	2	5.27%
Walmart	870	3	2.92%	770	3	3.98%
Sun Health Foundation Inc.	590	4	1.98%			
Fry's Food Stores	550	5	1.85%	500	4	2.59%
Costco Wholesale	390	6	1.31%			
Home Depot	270	7	0.91%	190	8	0.98%
McDonalds	270	8	0.91%	270	5	1.40%
Maricopa County	250	9	0.84%	210	6	1.09%
Safeway	220	10	0.74%			
Kohl's Department Store				170	9	0.88%
Sun City Grand Community Association				200	7	1.03%
Sam's Club				160	10	0.83%
Total	6,590		22.14%	5,290		27.35%
Total City Employment	29,770			19,340		

Sources: ¹ Maricopa Association of Governments, as of June 30, 2025 (based on 2023 data).

² City previous ACFR.



SURPRISE

ARIZONA

CITY OF SURPRISE, ARIZONA

Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Function										
General government	134	140	142	146	150	150	156	167	178	182
Public safety:										
Police:										
Officers	139	158	159	159	155	154	161	165	175	187
Civilians	49	43	42	45	55	55	65	70	70	77
Fire:										
Firefighters and officers	113	128	127	126	132	138	144	160	172	198
Ambulance	-	-	19	26	32	32	36	39	36	15
Civilians	8	8	7	7	7	9	10	11	14	17
Public works and transportation:										
All others	84	84	80	84	90	92	96	110	109	112
Community development	40	41	41	42	43	43	49	52	54	58
Economic development	8	8	8	7	9	9	9	10	9	9
Parks and recreation	118	117	116	120	105	84	90	99	101	140
Sports and tourism	-	-	-	-	18	39	41	40	41	42
Human service and community vitality	9	15	16	18	24	25	26	26	29	31
Arts, culture, & library	-	-	-	-	-	-	-	-	33	33
Water	29	33	36	35	42	43	44	47	47	50
Sewer	39	50	45	45	47	49	48	46	53	59
Sanitation	33	35	37	37	41	41	44	53	49	50
Stormwater	-	-	6	5	6	6	7	8	8	9
Total	<u>803</u>	<u>860</u>	<u>881</u>	<u>902</u>	<u>956</u>	<u>969</u>	<u>1,026</u>	<u>1,103</u>	<u>1,178</u>	<u>1,269</u>

Source: Fiscal year 2025 Adopted Budget

CITY OF SURPRISE, ARIZONA

Operating Indicators by Function

Last Ten Fiscal Years

Function	2016	2017	2018	2019
Public safety:				
Police:				
Calls- incidents responded to	39,511	40,909	41,806	40,541
Citations issued	5,971	6,358	5,136	8,602
Officers per 1,000 residents	1.0	1.0	1.0	1.0
Fire-Medical:				
Number of responses	16,896	16,546	17,435	10,865
Inspections	2,745	2,407	1,810	1,595
Public works and transportation:				
Sq. ft. of buildings to maintain	855,774	855,774	855,774	855,774
Vehicles/equipment maintained per month	334	375	397	415
Number of street lights repaired	44	38	79	52
Street miles maintained	627	627	627	629
Community development:				
Building safety inspections performed	20,320	22,407	31,063	34,598
Annual new residential starts	486	600	1,288	1,303
Parks and recreation:				
Organized recreation program participants	160,535	163,580	162,012	141,189
Special events/open facility participants	307,475	306,714	343,868	120,114
Sports and Tourism				
Special events/open facility participants	N/A	N/A	N/A	253,823
Water:				
Water service connections	15,362	15,499	16,331	16,729
Water main breaks	N/A	N/A	4	2
Average daily consumption (thousands of gallons)	N/A	N/A	7,322	7,416
Sewer:				
Sewage treated (million gallons per day)	8.4	8.4	8.4	9
Sewer service connections	47,273	48,196	50,303	48,451
Sanitation:				
Refuse collected (tons/annually)	32,787	33,671	34,979	36,757
Number of routes	56	56	57	59
Total services	35,366	36,421	36,657	35,510
Stormwater:				
Customers	-	49,429	50,594	47,235

Sources: Various government departments

N/A - This information is not available.

2020	2021	2022	2023	2024	2025
42,306	41,430	45,634	44,805	43,403	45,737
6,350	6,098	7,550	7,476	9,348	9,913
1.0	1.0	1.0	0.5	1.0	1.1
18,195	19,493	21,677	22,286	22,832	23,111
2,391	1,781	2,614	2,024	1,230	622
973,187	1,016,276	1,016,276	1,066,317	1,067,060	1,092,012
425	353	415	479	530	524
71	68	180	45	38	32
630	665	688	700	682	779
45,750	51,542	60,013	62,769	63,184	58,943
2,076	2,856	2,873	2,039	3,267	2,867
85,362	70,873	135,632	160,783	170,133	161,214
78,548	22,935	105,284	67,800	105,828	106,680
240,065	143,728	270,962	405,902	458,753	481,245
17,886	19,705	21,283	22,167	23,833	25,791
6	15	11	4	4	5
7,402	7,776	7,787	7,815	8,986	9,796
9	9.1	9.2	9.5	10.2	10.8
53,164	55,796	58,568	60,300	63,071	65,800
48,905	56,781	58,354	59,516	56,328	49,053
55	58	59	74	76	82
39,676	41,212	42,964	45,206	47,600	50,049
51,199	54,177	56,781	58,413	61,030	63,698

CITY OF SURPRISE, ARIZONA

Capital Asset Statistics by Function

Last Ten Fiscal Years

	2016	2017	2018	2019
Function				
Public safety:				
Police:				
Stations	2	2	2	2
Patrol units	72	90	73	87
Fire:				
Fire stations	7	7	7	7
Fire engines and ladder trucks	12	12	13	13
Ambulances	1	3	4	5
Public works and transportation:				
Street miles	627	627	627	629
Street lighting improvement districts	107	123	132	146
Traffic Signals	50	50	50	52
Bridges	19	19	19	19
Community development:				
Inspection vehicles	10	11	11	11
Parks and recreation:				
Parks acreage	393	393	393	393
Parks	12	12	12	12
Swimming pools	2	2	2	2
Softball fields	11	11	11	11
Baseball fields	21	21	21	21
Libraries	2	2	2	2
Water:				
Well production maximum daily capacity (millions of gallons)	32	33	33	33
Sewer:				
Sewer treatment plants	2	2	2	2
Maximum daily treatment capacity	18	18	18	18
Sanitation:				
Collection trucks	27	27	27	27

Sources: Various government departments.

2020	2021	2022	2023	2024	2025
2	2	2	2	2	2
87	87	74	83	77	80
7	7	8	8	8	9
13	13	15	14	14	15
5	5	5	6	6	6
630	665	688	700	682	779
155	156	159	161	168	172
58	61	61	65	67	74
21	21	21	21	21	21
11	13	14	15	17	18
393	393	393	406	406	421
12	12	12	13	13	14
2	2	2	2	2	5
11	11	11	11	11	11
21	21	21	21	21	21
3	3	3	3	3	3
34	30	30	30	30	30
2	3	3	3	4	4
18	20	20	20	21	21
27	28	28	35	35	35



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The City of Surprise Finance Department strives to be a professional, proactive leader, identifying issues and offering innovative solutions while providing high quality customer service.



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FINANCE DEPARTMENT

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623.222.1002 TTY



City of Surprise, Arizona
Annual Expenditure Limitation Report
Year Ended June 30, 2025

**Annual Expenditure Limitation Report
Year Ended June 30, 2025**

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Independent Accountant's Report

The Auditor General of the State of Arizona

The Honorable Mayor and City Council
of the City of Surprise, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the City of Surprise, Arizona for the year ended June 30, 2025, and the related notes to the report. The City's management is responsible for presenting this report in accordance with the Uniform Expenditure Reporting System as described in Note 1. Our responsibility is to express an opinion on this report based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether this report is presented in accordance with the Uniform Expenditure Reporting System, in all material respects. An examination involves performing procedures to obtain evidence about the amounts and disclosures in the report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the report, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, the Annual Expenditure Limitation Report referred to above is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System as described in Note 1.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
February 4, 2026

City of Surprise, Arizona
Annual Expenditure Limitation Report
Year ended June 30, 2025

Economic Estimates Commission expenditure limitation	\$	1,572,829,021	
Amount subject to the expenditure limitation (total amount from Part II, line C)	\$	<u>375,280,949</u>	
Amount under (in excess of) the expenditure limitation			\$ <u>1,197,548,072</u>

If excess expenditures are reported, provide an explanation here.

Delete all line item descriptions not used.

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the Uniform Expenditure Reporting System.

Signature of chief fiscal officer: Andrea Davis

Name and title: Andrea Davis, City Manager

Telephone number: (623)222-1335

Date: February 5, 2026

See accompanying notes to report.

City of Surprise, Arizona
 Annual Expenditure Limitation Report
 Year ended June 30, 2025

Description	Governmental funds	Enterprise funds	Internal service funds	Fiduciary funds	Total
A. Amounts reported on the Reconciliation, line D	\$ 365,262,194	\$ 89,453,138	\$ 27,899,659	\$ 867,069	\$ 483,482,060
B. Less exclusions claimed:					
Debt proceeds	4,667,899	15,091,061	-	-	19,758,960
Debt service requirements	9,257,569	5,681,883	-	-	14,939,452
Dividends, interest, and gains on the sale or redemption of investment securities	18,006,017	6,805,188	968,224	-	25,779,429
Trustee or custodian	-	-	-	867,069	867,069
Grants and aid from the federal government	8,433,070	-	-	-	8,433,070
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	470,684	-	-	-	470,684
Amounts received from the State of Arizona	2,225,911	-	-	-	2,225,911
Quasi-external interfund transactions	-	-	21,289,283	-	21,289,283
Highway user revenues in excess of those received in fiscal year 1979-80	9,582,482	-	-	-	9,582,482
Contracts with other political subdivisions	2,724,711	19,096	-	-	2,743,807
Refunds, reimbursements, and other recoveries	183,979	825,827	3,471	-	1,013,277
Prior years carryforward	-	-	1,097,687	-	1,097,687
Total exclusions claimed	<u>55,552,322</u>	<u>28,423,055</u>	<u>23,358,665</u>	<u>867,069</u>	<u>108,201,111</u>
C. Amounts subject to the expenditure limitation	<u>\$ 309,709,872</u>	<u>\$ 61,030,083</u>	<u>\$ 4,540,994</u>	<u>\$ -</u>	<u>\$ 375,280,949</u>

If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.

Delete all exclusion line item descriptions not used.

See accompanying notes to report.

City of Surprise, Arizona
Annual Expenditure Limitation Report
Year ended June 30, 2025

Description	Governmental funds	Enterprise funds	Internal service funds	Fiduciary funds	Total
<u>A.</u> Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 371,769,231	\$ 70,356,856	\$ 28,797,709	\$ 867,069	\$ 471,790,865
<u>B.</u> Subtractions:					
<u>1.</u> Items not requiring use of current financial resources:					
<u>a.</u> Depreciation and amortization	-	19,246,740	-	-	19,246,740
<u>d.</u> Pension and other postemployment benefits (OPEB) expense	-	1,602,038	73,555	-	1,675,593
<u>e.</u> Claims incurred but not reported (IBNR)	-	-	2,825,860	-	2,825,860
<u>g.</u> Compensated absences	-	1,593,709	92,397	-	1,686,106
<u>2.</u> Expenditures of separate legal entities established under Arizona Revised Statutes	4,778,728	-	-	-	4,778,728
<u>3.</u> Required fees paid to the Industrial Commission of Arizona	-	-	398,674	-	398,674
<u>4.</u> Present value of net minimum lease, financed purchase, and subscription-based information technology arrangement (SBITA) contract payments recorded as expenditures at the agreements' inception	1,728,309	-	-	-	1,728,309
<u>6.</u> Total subtractions	<u>6,507,037</u>	<u>22,442,487</u>	<u>3,390,486</u>	<u>-</u>	<u>32,340,010</u>
<u>C.</u> Additions:					
<u>1.</u> Principal payments on long-term debt	-	3,810,925	-	-	3,810,925
<u>2.</u> Amortization of bond premiums	-	231,452	-	-	231,452
<u>4.</u> Capital asset acquisitions	-	34,575,938	-	-	34,575,938
5. Amounts paid in the current year but reported as expenses in previous years:					
<u>a.</u> Claims previously recognized as IBNR	-	-	2,363,900	-	2,363,900
<u>c.</u> Compensated absences	-	1,413,861	65,378	-	1,479,239
<u>6.</u> Pension and OPEB contributions paid in the current year	-	1,506,593	63,158	-	1,569,751
<u>8.</u> Total additions	<u>-</u>	<u>41,538,769</u>	<u>2,492,436</u>	<u>-</u>	<u>44,031,205</u>
<u>D.</u> Amounts reported on Part II, line A	<u>\$ 365,262,194</u>	<u>\$ 89,453,138</u>	<u>\$ 27,899,659</u>	<u>\$ 867,069</u>	<u>\$ 483,482,060</u>

Delete all subtraction and addition line item descriptions not used.

See accompanying notes to report.

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2025

Note 1 - Summary of significant accounting policies

The Annual Expenditure Limitation Report (AELR) is presented as prescribed by the Uniform Expenditure Reporting System (UERS), as required by Arizona Revised Statutes §41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS, a note to the AELR is presented below for any exclusion claimed on part II and each subtraction or addition in the reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the statement of revenues, expenditures, and changes in fund balances for the governmental funds; statement of revenues, expenses, and changes in fund net position for the proprietary funds; the statement of cash flows for the proprietary funds and the statement of changes in fiduciary net position for the Fiduciary Funds.

Note 2

The exclusion claimed for debt service requirements on bonded indebtedness of \$9,257,569 in the governmental funds consists of principal and interest payments of \$6,505,000 and \$2,752,569, respectively. The exclusion claimed for debt service requirements on bonded indebtedness of \$5,681,883 in the enterprise funds consists of principal and interest payments of \$3,810,925 and \$1,378,856, respectively, and \$492,102 in miscellaneous administrative expenses.

Note 3

The exclusions claimed for dividends, interest, and gains on the sale or redemption of investment securities in the governmental, enterprise and internal service funds includes investment earnings expensed of \$18,006,017, \$6,805,188, and \$968,224, respectively, which are recorded as Interest Revenue in the fund financial statements.

Note 4

The following schedule presents revenues from which exclusions have been claimed for grants and aid from the federal government in the governmental and enterprise funds.

Federal Agency	
U.S. Department of Housing and Urban Development	\$ 1,114,775
U.S. Department of Justice	77,521
U.S. Department of Transportation	332,692
U.S. Department of the Treasury	5,996,777
U.S. Department of Energy	178,140
U.S. Department of Health and Human Services	609,571
U.S. Department of Homeland Security	123,594
Total	\$ <u>8,433,070</u>

An additional \$12,621,080 from the U.S. Environmental Protection Agency were excluded as debt proceeds as these funds were issued under a loan agreement.

Note 5

The exclusion claimed for amounts received from the State of Arizona in the governmental funds consist of intergovernmental revenues received in the following funds:

Governmental Funds	
Local Transportation Assistance II / Arizona	\$ 364,134
Smart & Safe - Police	400,000
Smart & Safe - Fire-Medical	359,100
Grants	592,489
Tourism	510,188
	\$ <u>2,225,911</u>

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2025

Note 6

There are certain transactions that are recorded between the City’s funds as if the transaction was with an entity external to the City. The Employee Healthcare Fund charged other funds \$16,510,577 in order to meet the costs of providing health insurance claims coverage, plan administration, stop loss premiums and reserves. The Risk Management Fund charged other funds \$3,768,000 to provide risk management, loss control and safety programs citywide. The Worker’s Compensation Fund charged other funds \$1,307,100. in order to meet the costs of providing worker’s compensation claims coverage, plan administration, stop loss premiums and reserves. Only \$1,010,706 of those charges were excludable in the current year. Excludable revenues expended in the current fiscal year for the Risk Management Fund totaled \$4,852,274, resulting in the use of the prior year carryforward balance of \$983,653. Excludable revenues expended in the current fiscal year for the Worker’s Compensation Fund totaled \$1,125,924, which is more than current year revenues by \$114,034 resulting in the use of prior year carryforward

Note 7

The \$2,743,807 exclusion claimed for contracts with other political subdivisions is made up of charges for services expended.

Note 8

The \$470,684 exclusion claimed for grants, aid, contributions, or gifts from private agency is made up of charges for services expended.

Note 9

Highway user revenues for the current fiscal year were \$11,820,291 which is \$11,757,860 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled \$9,582,482, which is less than current excludable revenues by \$2,175,378, increasing the carryforward balance to \$6,770,550.

Note 10

The exclusions claimed for refunds, reimbursements, and other recoveries includes recovery of prior year expenses of \$126,474, \$595,683, and \$3,471 in the governmental, enterprise and internal service funds, respectively; miscellaneous refunds and reimbursements of \$57,505 and \$230,144 in the governmental and enterprise funds, respectively.

Note 11

The \$1,602,038 and \$73,555 subtraction amounts for pension and other post employment benefit (OPEB) expense in the enterprise funds and internal service funds, respectively, consists of changes in the net pension and OPEB assets and liabilities, and changes in deferred inflows and outflows related to pensions and OPEB recognized in the current year in the enterprise funds and internal service funds. The \$1,506,593 and \$63,158 addition amounts for pension and OPEB contributions paid in the current year consists of the required pension and OPEB contributions made to the Arizona State Retirement System from the enterprise funds and internal service funds.

	Enterprise funds	Internal service funds
Subtractions - Pension/OPEB Expense		
Pension expense	\$ 1,667,584	\$ 69,920
OPEB expense	(65,546)	3,635
Total	<u>\$ 1,602,038</u>	<u>\$ 73,555</u>
Additions - Pension/OPEB Contributions		
Pension contributions	\$ 1,479,737	\$ 62,041
OPEB contributions	26,856	1,117
Total	<u>\$ 1,506,593</u>	<u>\$ 63,158</u>

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2025

Note 12

The subtraction of \$2,825,860 for claims incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the internal service funds. The addition of \$2,363,900 for claims paid in the current year, but reported as expenses incurred but not reported in previous years, consists of cash payments in the current year for claims recognized as an expense in previous years in the internal service funds.

Note 13

The subtraction in the governmental funds of \$4,778,728 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts included within the City’s reporting entity, but not included in the Economic Estimates Commission base limit calculations, and are reported in the governmental funds category in the fund financial statements:

Street Lighting Districts Fund			
Community development			\$ 2,555,048
	Subtotal		<u>\$ 2,555,048</u>
 Marley Park Community Facility District Fund			
Culture and recreation		\$ 211,300	
Administrative charges		900	
Principal payments on debt		825,000	
Interest payments on debt and other charges		<u>1,186,480</u>	
	Subtotal		<u>\$ 2,223,680</u>
Total separate legal entities			<u><u>\$ 4,778,728</u></u>

Note 14

The addition of \$34,575,938 for the acquisition of capital assets in the enterprise funds is comprised of total capital asset increases of \$71,211,713 less \$35,869,613 in capital contributions and \$766,162 in other non-cash items.

Note 15

The subtraction for required fees State law required the City to pay that are excluded from the city expenditure limitation consists of payments to the Industrial Commission of Arizona pursuant to A.R.S. §23-1703 for the Municipal Firefighter Cancer Reimbursement Fund, which were recorded as a \$398,674 expenditure.

Note 16

The subtraction of \$1,728,309 is the result of subscription-based IT arrangements at their inception.

Note 17

Revenues that are constitutionally excludable that were not spent in the year of receipt may be accumulated and excluded in future years when spent. A summary of the accumulated revenue sources and their balances is shown in the table below:

Description	Balance 6/30/2024	Carryforward Added/(Used)	Balance 6/30/2025
Debt proceeds	\$ -	\$ 22,397,101	\$ 22,397,101
Quasi-external interfund transactions	1,190,157	(1,097,687)	92,470
Highway user revenues in excess of those received in fiscal year	<u>4,595,172</u>	<u>2,175,378</u>	<u>6,770,550</u>
Total carryforward	<u>\$ 5,785,329</u>	<u>\$ 23,474,792</u>	<u>\$ 29,260,121</u>



**CITY OF SURPRISE
Audit Committee**

Council Meeting Date: March 11, 2026
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Presentation, discussion, and possible action pertaining to the Capital Improvement Plan Audit Report.

Motion:

I move to approve and distribute the Capital Improvement Plan Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY 2024-2025 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY 2024-2025 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. SECURED Capital Improvement Plan Projects Audit Report
-



S U R P R I S E

A R I Z O N A

Capital Improvement Plan Audit Report

June 30, 2025

Angela Hanson, Internal Auditor

City Auditor Department

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
Executive Summary

As part of the City Auditor Department’s (CAD) fiscal year 2025 Annual Audit Plan, we conducted an audit of the City of Surprise’s (City) Capital Improvement Plan (CIP) projects for fiscal year 2023. The general purpose of the audit was to determine whether CIP projects were managed effectively and efficiently in compliance with best practices, City policies and procedures, municipal code, and applicable laws and regulations. In fiscal year 2023, the Adopted Budget Book presented 219¹ capital projects, of which, 100 were funded, 59 were planned, and 60 were unfunded. As part of this audit, two funded projects were judgmentally sampled.

Consistent with best practices, the City’s Finance Department prepares and reports the annual CIP and operating budget. Overall, we found that the Finance Department implemented some but not all of the capital planning practices recommended by the Government Finance Officers Association (GFOA). Specifically, the City’s capital planning policies did not include guidance for monitoring and evaluating projects after approval, and documentation across procurement and change order processes was incomplete.

Finance Department has areas of achievement and opportunities for improvement

-  Annual CIP reporting
-  Informal CIP monitoring
-  No formal CIP monitoring policy
-  Incomplete CIP supporting documentation

 Area of achievement  Area of improvement

Although we observed informal efforts by staff to monitor project progress and discuss lessons learned, the absence of a formal policy limits the City’s ability to apply a framework to assess project outcomes and ensure accountability. Further, we identified undocumented procurement method determinations and a change order that did not have the effective date of a project oversight change.

As a result, this report documents opportunities for improvement and makes recommendations to the Finance Department to develop a formal monitoring and evaluation policy for CIP projects and to strengthen documentation procedures.

Refer to Appendix A for more information about CIP.

¹ Project G51730 is listed in the fiscal year 2023 Adopted Budget Book as G51730A and G51730B to distinguish different funding sources. Because the project represents one project, it is counted once in the total capital project count and once in the funded project count.

Observations Summary and Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix B.

- 1. The Finance Department’s capital planning policies did not include project monitoring and evaluation.
- 2. The Finance Department did not have sufficient controls to ensure complete capital project documentation.



Detailed Observations

1. Moderate Risk – The Finance Department’s capital planning policies did not include project monitoring and evaluation.

The GFOA recommends that governments develop and adopt capital planning policies. These policies are intended to provide consistent guidance throughout the capital planning process. Specifically, GFOA recommends that capital planning policies include a component for monitoring and evaluating CIP projects.

The Finance Department’s fiscal year 2023 Adopted Budget Book (Budget Book) does not include guidance on how CIP projects should be monitored and evaluated after approval. As a result, the Finance Department’s capital planning policies partially reflect the practices recommended by GFOA. The Budget Book includes policies related to prioritization, funding, and long-range planning, but it does not describe how project performance should be tracked or reviewed once a project is in progress or completed.

Although the Finance Department does not have a formal policy for monitoring and evaluating CIP projects, we observed evidence of informal monitoring during the audit. Additionally, according to staff, project managers often debrief with their teams to discuss lessons learned, challenges encountered, and opportunities for improvement. However, these practices are not required or documented through formal policy.

According to management, a monitoring and evaluation policy has not been established due to the varying nature of CIP projects, where the specific steps in the process are driven by the type of purchase, dollar value, funding source, and project scope. Although this explanation reflects the complexity of capital projects, GFOA best practices emphasize that a high-level policy framework can still provide structured monitoring and evaluation across all projects. Standardized components—such as reporting requirements, progress tracking, variance analysis, and post-project assessment—can be scaled and tailored based on the project, while providing the consistent oversight and accountability that a policy is intended to ensure.

Risk

Without a formal monitoring and evaluation policy for CIP projects, the Finance Department has no consistent framework to measure and assess whether projects meet their intended scope and schedule. This increases the risk of delays and cost overruns. Further, when monitoring practices are not standardized, transparency and accountability in capital spending may be reduced, which can hinder the City’s ability to make informed decisions for future projects. Although some informal monitoring practices are in place, they are not formally documented, limiting verifiability.

Recommendations

The Finance Department should:

1A. Develop and implement a formal policy for monitoring and evaluating CIP projects after approval.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 9/30/2025

Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update our Capital Management Policy accordingly.

1B. Include guidance in the policy that establishes oversight expectations and allows the level of monitoring and evaluation to be scaled based on project size, complexity, and risk.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 9/30/2025

Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update the policy accordingly to include oversight expectations and evaluation based on size, complexity and risk.

2. Moderate Risk – The Finance Department did not have sufficient controls to ensure complete capital project documentation.

Effective procurement and change order processes rely on comprehensive and standardized documentation to ensure regulatory compliance and maintain accountability. City policy and best practices from authoritative sources provide guidance on how these processes should be documented and managed, including:

- Procurement method selection: The City's Procurement Guideline 503(B)(1) states that, before using the formal competitive proposal process, a written determination must be made that an Invitation for Bid (IFB) is not practicable or advantageous to the City. The guideline identifies conditions under which an IFB may not be suitable, including when it is necessary to compare multiple factors—such as price, quality, and contractual terms—across vendor proposals.
- Change order documentation: According to Project Management Institute best practices, it is a reasonable management expectation—and a standard internal control—that changes affecting project oversight, such as the assignment of a new project superintendent, be clearly documented, including the effective date of change. This helps to avoid uncertainty about responsibilities and helps to ensure accountability throughout the project.

However, the Finance Department did not have sufficient controls to ensure complete capital project documentation. We identified the following documentation issues:

- Procurement method documentation: For two sampled capital projects procured using methods other than IFB, the Finance Department could not provide the required written determination that an IFB was not practicable or advantageous.
- Change order documentation: One signed change order approving a new project superintendent did not document the effective date of the transition.

These situations occurred for two different reasons. For the procurement method determinations, the Finance Department did not follow its existing procedure that requires a written determination when an IFB is deemed not practicable or advantageous to the City. The Department stated that selecting and documenting a procurement method under Procurement Guideline 503(B)(1)(d) serves as evidence of that determination. However, the guideline states that the determination must be made in writing. Without a written determination, the Finance Department cannot demonstrate that the requirement was met.

For the change order documentation, the omission of an effective date occurred because the Finance Department has not developed or enforced standardized procedures to ensure the completeness of contract documentation. Although the change order in question was valid without an explicit effective date, best practices recommend including such dates to document the timing of key project personnel changes and strengthen accountability.

Risk

Incomplete documentation—such as missing written determinations when an IFB is not practicable or advantageous—limits the City's ability to demonstrate compliance with procurement requirements, maintain transparency, and defend the appropriateness of

procurement decisions. Although the absence of an explicit effective date in the change order does not appear to present a legal issue in this instance, omitting such information reduces clarity in the project record. Best practices in project management recommend including effective dates for changes in key project personnel to establish the timing of transitions and maintain accountability.

Recommendation

The Finance Department should:

- 2A. Resolve the procurement and change order issues identified in the audit, as applicable, and strengthen and implement procedures to ensure that:
- Written determinations document when an IFB is not practicable or advantageous in accordance with the Procurement Guidelines; and
 - Change order amendments include effective dates in line with best practices.

Management Response: Management partially concurs with the audit recommendation.

- Recommendation Completion Date: 11/30/2025

The Procurement Team determined during the procurement process that an IFB was not practicable for the two sampled projects and the team moved forward with the method most practicable and advantageous to the City. The guidelines will be updated to reflect that the procurement method most practicable and advantageous to the City will be selected based on the scope of work and that the selected method will be documented electronically.

Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

The City's CIP is a long-term plan for capital expenditures. Capital expenditures include:

- The purchase of land, machinery, and equipment;
- The purchase or construction of buildings, structures, and facilities of all types; and
- The acquisition of a fixed asset or expenditures that increase the capacity, efficiency, lifespan, or economy of operating an existing fixed asset.

The CIP communicates the City's plan for investing in physical and technological infrastructure over five fiscal years. The Council adopts the plan's first year as part of its annual budget adoption process; the remaining four years of the CIP are for planning purposes.

CIP projects have a useful life of three years and a cost of at least \$100,000. CIP projects include asset replacement projects, even if they do not meet the useful life and cost threshold. Asset replacement projects are included in the CIP to avoid service disruptions from asset failures, ensure public and employee safety, minimize operations and maintenance costs, and ensure compliance with regulatory and contractual requirements.

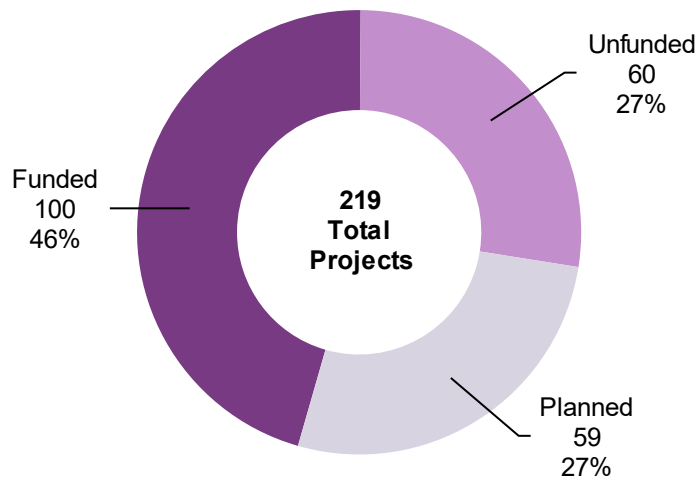
The CIP is developed and prioritized using needs assessments, financial analysis, the City's Strategic Plan, master plans, and other planning documents.

As shown in Figure 1, in fiscal year 2023, the City's CIP plan included 100² funded projects, 59 planned projects, and 60 unfunded projects. CIP projects are assigned as funded, planned, or unfunded and are defined as follows:

- Funded projects are approved for the budget book year or have a carryforward appropriation from prior fiscal years.

Figure 1

Funded projects account for 46 percent of all projects in the fiscal year 2023 CIP plan



Source: City Auditor Department staff analysis of fiscal year 2023 Adopted Budget Book.

² Project G51730 is listed in the fiscal year 2023 Adopted Budget Book as G51730A and G51730B to distinguish different funding sources. Because the project represents one project, it is counted once in the funded project count.

- Planned projects are not funded, but these projects are included in the five-year forecast.
- Unfunded projects are project requests during the budget process that do not have a funding source for initial and/or ongoing operating expenses.

In fiscal year 2024, the CIP division moved from the Public Works Department to the Finance Department.

Objectives, Scope, and Methodology

We conducted a performance audit of CIP pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on two funded CIP projects, and evaluated whether staff managed CIP projects effectively and efficiently in compliance with best practices, City policies and procedures, municipal code, and applicable laws and regulations.

Specifically, the CAD evaluated whether, in fiscal year 2023:

- CIP projects were effectively planned and prioritized.
- Procurement policies and procedures were followed.
- Ongoing maintenance and operational costs were effectively planned.

The CAD used various methods to review the specific objectives of this audit. Because the two judgmentally sampled projects from the fiscal year 2023 CIP extended beyond that fiscal year, some procedures covered activities occurring through March 2025. Methods included:

- Reviewing applicable City policies, municipal code, laws, and regulations;
- Sampling, judgmentally, two CIP projects and reviewing their supporting documentation;
- Interviewing City staff;
- Reviewing sampled projects workflow history for Purchase Order Change Order Approvals from June 2023 to March 2025; and
- Using Caseware IDEA data analytical software.

Appendix B: Data Reliability and Audit Observation Risk Rating

Data Reliability

The data utilized for the work performed was obtained from Munis, the City’s financial system of record. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed by the City’s external auditor.

The CAD judgmentally selected audit samples to provide sufficient evidence to support our findings and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

The CAD determined the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:



- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate-risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated with the process being audited. Low-risk observations should be implemented to improve the efficiency and effectiveness of operations.

Appendix C: Audit Standards and Acknowledgments

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, the CAD verified that the audit objectives and related controls identified address the five internal control components of the COSO framework. Although some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Citywide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction related to CIP. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgments

The CAD appreciates the time City staff contributed to this review. The City Auditor would like to take this opportunity to thank the City departments and individuals involved in the CIP Audit for their considerable cooperation and assistance, including the:

- Finance Department;
- Parks and Recreation Department; and
- Police Department.

Surprise City Auditor Department

- **Vision**—The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.
- **Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact the City Auditor Department: <https://surpriseaz.gov/166/City-Auditor>.



**CITY OF SURPRISE
Audit Committee**

Council Meeting Date: March 11, 2026
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Presentation, discussion, and possible action pertaining to the Fire-Medical Payroll Audit Report.

Motion:

I move to approve and distribute the Fire-Medical Payroll Audit Report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY 2025-2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY 2025-2026 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. SECURED Fire-Medical Payroll Audit Report
-



S U R P R I S E

A R I Z O N A

Fire-Medical Payroll Audit Report

January 14, 2026

Melissa Moreno, Internal Auditor Sr.

City Auditor Department

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Executive Summary

As part of the City Auditor’s Department (CAD) Fiscal Year (FY) 2026 Annual Audit Plan, an audit of the City of Surprise (City) Fire-Medical payroll for July 1, 2024, through June 30, 2025, was performed. The purpose of the audit was to assess whether payroll transactions were correctly calculated, reported, and documented.

Overall, auditors found some areas for improvement related to Fire-Medical payroll. Auditors reviewed payroll transactions for all 247 staff employed in the Fire-Medical Department during FY2025. During the audit, the Fire-Medical Department and the Payroll Division maintained

Fire-Medical and Payroll have areas of achievement and opportunities for improvement

- ✓ Maintaining documentation on payroll and hours
- ✓ Having a proactive system to identify and correct most pay
- ✗ Updating language in policies and MOU to reflect actual process
- ✗ Ensuring accurate pay and distributions in limited circumstances

✓ Area of achievement ✗ Area of improvement

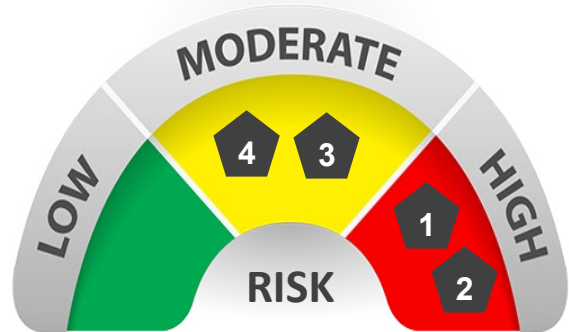
documentation necessary to review payroll and hours, and each Department also had its own system used to identify potential errors to minimize any errors in payroll. However, auditors identified inconsistencies between the City's Employee Policy Manual (EPM), the Memorandum of Understanding between the City of Surprise and the United Phoenix Fire Fighters Association, Local 493 Surprise Chapter, effective July 1, 2024 – June 30, 2026 (MOU), and the administration of floating holiday pay for both sworn and civilian Fire-Medical staff. In addition, some payroll discrepancies were identified for the 247 staff reviewed for FY2025. Specifically, four employees who were reported with a move-up pay code were not paid the increased pay rate. In addition, longevity payments were not properly calculated for two employees due to a system error, and three manual longevity adjustments were applied incorrectly. Finally, there was an error in the calculation of the distribution made related to Post Employment Health Plans (PEHP) affecting two employees enrolled in Deferred Retirement Options Plans (DROP).

As a result, this report documents opportunities for improvement and makes recommendations to the respective Departments to ensure language is updated to reflect how pay is distributed, and to correct and update the system for pay or deductions that were not calculated correctly.

Observations Summary and Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix B.

1. Floating holiday pay language is inconsistent with how pay is distributed.
2. Some employees were not paid appropriately when using a move-up pay code.
3. Longevity pay and adjustments were not always paid correctly.
4. Contributions to PEHP were not properly calculated for employees enrolled in DROP.



Detailed Observations

1. High Risk – Floating holiday pay language is inconsistent with how pay is distributed.

The MOU states that employees' wages, hours, benefits, and working conditions are governed exclusively by the MOU. It further states that sworn and civilian employees, including Paramedics (PM) and Emergency Medical Technicians (EMT), receive 12 hours of holiday pay. However, auditors found that the language in the MOU is inconsistent with the pay provided to both sworn and civilian staff for floating holidays.

Prior to inclusion in the MOU, PMs and EMTs were paid in compliance with the EPM Section 5.1, which provides 24 hours of pay for floating holidays. After the MOU began including PMs and EMTs, the MOU language did not reflect this pay difference; however, PMs and EMTs continued to receive 24 hours of holiday pay in accordance with the EPM rather than the 12 hours specified in the MOU.

In addition, when sworn staff use their floating holiday and do not work the day, they are paid 24 hours to compensate them for their regular 24-hour shift, in addition to the 12 hours of holiday pay they receive. While this pay practice was implemented to meet Departmental operational needs, the language in the MOU related to floating holidays did not clearly define this additional pay, which differs from that of a designated holiday.

Risk

When the documentation is inconsistent with how pay is being distributed, it increases the likelihood that pay will not be calculated according to management's intent, and transparency in the pay calculation process is lacking.

Recommendations

The Fire-Medical Department should:

- 1A. Review the policies around pay for floating holidays to determine what the intent of the policy is.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 3/31/2026
The Fire-Medical Department will review the Employee Policy Manual (EPM) and the Memorandum of Understanding (MOU) to clarify the intent of the floating

holiday provisions and ensure a clear understanding of how floating holiday pay is intended to be distributed for both sworn and civilian Fire-Medical employees.

- 1B. Bring this in the next MOU negotiation and update the language specific to how floating holidays will be paid to staff, with input from Payroll to ensure it will be implemented correctly.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 5/22/2026

The Fire-Medical Department will bring the issue of floating holiday pay language forward during the current MOU negotiation cycle and work collaboratively with the Payroll Division to update and clarify language specific to how floating holidays are paid, ensuring the agreed-upon language can be implemented accurately and consistently.

The Payroll Division, Human Resources Department, should:

- 1C. Review the EPM and determine if any updates are needed to be made to either remove unnecessary language or ensure it is consistent with the MOU.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2026

The Payroll Division will update applicable policies and procedures in EPM to ensure language refers to the MOU for application of pay.

- 1D. Implement a policy to ensure the EPM is reviewed and updated anytime there is an updated MOU.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 6/30/2026

At the completion of MOU negotiations, impacted EPM changes will be updated by the following fiscal year.

2. High Risk – Some employees were not paid appropriately when using a move-up pay code.

According to the MOU, sworn employees who are temporarily assigned to a position of a higher rank and serve in that position shall have an increase in pay of 5% or the minimum step for the higher position, whichever is greater.

Of the 19 instances in which the “Move-Up 2” pay code was used, four employees were paid their base rate rather than the increased pay for the temporary assignment. These employees were engineers who were reported with the code used for moving up two positions, which is only allowed for firefighters. Due to recent promotions, these codes were applied inappropriately by Fire-Medical staff. Since this was not an allowable code, the system did not have a pay increase amount set, so it defaulted to the employee’s base pay.

Risk

Employees were not paid appropriately in accordance with City policies.

Recommendations

The Payroll Division, Human Resources Department, should:

- 2A. Review these employees’ pay to determine what they should have received and correct the pay for these employees.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

The Move-Up pay discrepancy was caused by Fire staff using an incorrect Vector code. This issue occurred to only four employees and was corrected immediately on the following payroll after it was discovered by the Payroll Division.

- 2B. Ensure that in the future, engineers reported with the “Move-Up 2” code are identified and corrected before payroll is processed.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Payroll identified this issue around the same time as the audit and at that time implemented a review of the move up codes as part of our payroll processing checklist, but was still in process of correcting prior instances where this occurred.

The Fire-Medical Department should:

- 2C. Include in their department review a check that this code is not used when reporting engineers for payroll.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 1/27/2026

The Fire-Medical Department has enhanced its biweekly payroll review process to include a verification step to ensure the appropriate move-up pay codes are used and that the “Move-Up 2” pay code is not applied to engineers prior to payroll submission. This enhanced review is performed by the Department’s Financial Management Analyst Senior as part of the regular payroll audit process.

3. Moderate Risk – Longevity pay and adjustments were not always paid correctly.

EPM 4.9 states that employees who have worked for eight years of City service will receive 2% longevity pay, and after 10 years of service, they will receive 4% longevity pay.

A review of longevity pay for 120 Fire-Medical Department employees identified:

- Two employees who were underpaid a total of \$5.64; and
- Three out of five longevity adjustments applied inappropriately resulted in a total overpayment of \$12.24.

The initial longevity errors were due to a bug in the Munis system that was not identified due to the low impact of the errors. The inappropriate adjustments to longevity were made because a staff member was unaware of what was already included in the system calculations, resulting in the manual adjustment of the same amounts a second time.

Risk

Employees are not being funded appropriately in accordance with the City's policies.

Recommendations

The Payroll Division, Human Resources Department, should:

- 3A. Review these employees' pay to determine what they should have received and correct the pay for these employees.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025
Payroll identified a system glitch that calculated longevity pay incorrectly for two employees. Staff immediately submitted a help desk ticket to the system vendor to correct this system error. The pay error was corrected by staff when it was identified on 11/28/25. Payroll has implemented an audit each pay period to ensure longevity is accurately paid.

3B. Train all applicable staff on how longevity is applied and when adjustments to it are necessary.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Payroll staff have been trained on proper retro pay calculations impacting longevity pay to ensure accuracy. Additionally, the Payroll Manager reviews all retro pay calculations.

4. Moderate Risk – Contributions to PEHP were not properly calculated for employees enrolled in DROP.

The MOU states that employees who enter the DROP have 8% of their PSPRS eligible earnings added to the employee's PEHP. According to the PSPRS Member Handbook (November 2024), for the purposes of calculating a member's benefit, lump sum payments are not to be considered as part of the compensation when calculating the PSPRS eligible earnings.

Of the 28 employees eligible for the PEHP DROP benefit, two employees received a lump-sum payout of their Paid Time Off (PTO), which was incorrectly included in the compensation used to calculate their PEHP contribution. The reports in Munis that are used to determine which compensation should be included in each retirement calculation are done manually. As only one person in the Payroll Division was trained in what needed to be input, there was no available secondary review person to check the data, and so this income was accidentally left out of the list when it was created. This resulted in the City overpaying a total of \$575.15 during FY2025.

Risk

Including ineligible compensation in the calculations results in an overpayment of City funds.

Recommendations

The Payroll Division, Human Resources Department, should:

- 4A. Update Munis to ensure that PEHP DROP does not include lump sum payouts as part of the eligible compensation.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 11/28/2025

Once the error was identified, the payroll system was corrected immediately. Management acknowledges the audit findings and agrees that the payroll errors identified were primarily the result of extensive manual configuration and processing with the payroll system. The existing system lacks sufficient automation, intuitive workflows, and system controls, which increases the risk of human error and results in inefficient, labor intensive processing for payroll staff. The Payroll Division is currently in contract negotiations with a new Human Capital Management (HCM) Payroll vendor that provides the items lacking in current system.

- 4B. Review current exception reports for retirement codes to determine if they are complete and updated with current requirements, and ensure a second person is trained to offer a secondary review in the future.

Management Response: Management concurs with the audit recommendation.

- Recommendation Completion Date: 2/15/2026

Exceptions for retirement codes have been reviewed and updated with current requirements. Training payroll staff will be completed by the 2/15/26.

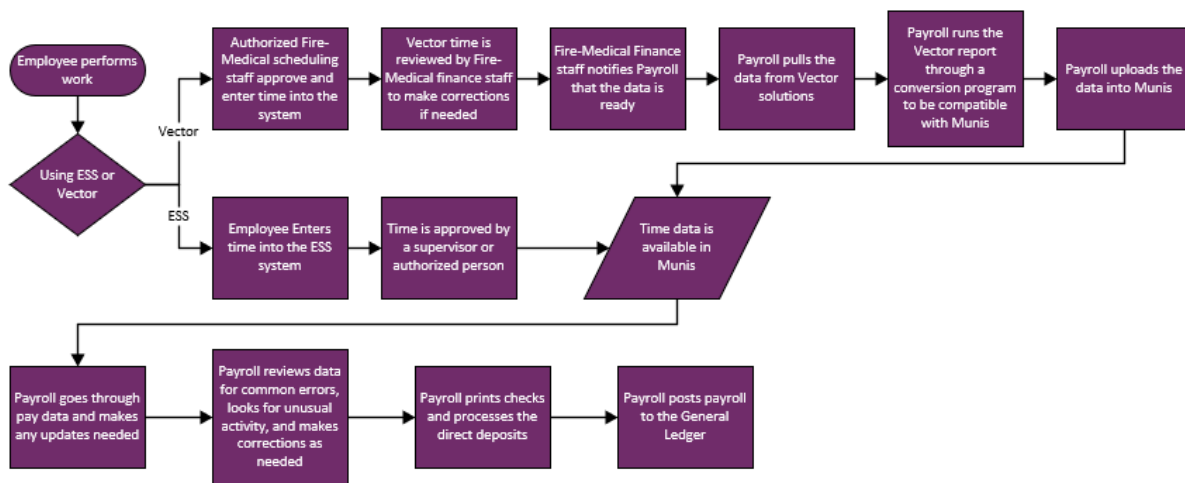
Appendices

Appendix A: Background, Objectives, Scope, and Methodology

Background

The pay for FY2025 for the Fire-Medical Department staff was just over \$28 million, which includes regular pay, overtime, additional shifts, holidays, other leave, allowances, and other forms of compensation. Additionally, employees paid out just over \$2.3 million for retirement benefits, while the City paid just over \$6.8 million for employee retirement benefits.

Fire-Medical Payroll Process Flowchart



The data used to determine payroll data for the Fire-Medical Department is processed partly by staff in the Fire-Medical Department and then by the Payroll Division, under the Human Resources Department. Staff hours and pay type are entered into either the Employee Self Service (ESS) system or the Fire-Medical system. The Fire-Medical Department previously used Telestaff but switched to the Vector Solutions system (Vector) in May 2025 for time entry. ESS time is approved and is available in Munis. Hours entered through Vector are reviewed internally for accuracy by Fire-Medical staff and made available to the Payroll Division. This is then uploaded to Munis for processing. The Payroll Division then calculates all pay, processes the payments, and posts them to the General Ledger.

Objectives, Scope, and Methodology

We conducted a performance audit of Fire-Medical Payroll pursuant to Ordinance No. 2016-26, which grants the City's internal audit program authority to conduct City internal audits. This audit focused on payroll transactions from July 1, 2024, to June 30, 2025.

Specifically, the CAD evaluated whether:

- Payroll amounts were calculated and applied appropriately.
- Retirement amounts paid by employees and the City were calculated correctly.
- Calculations and pay are processed in compliance with City policies and procedures.

The CAD used various methods to review the specific objectives of this audit. These methods included:

- Interviewing Fire-Medical Department staff and Payroll Division staff.
- Reviewing City and Department policies on payroll.
- Reviewing the MOU between the City and the United Phoenix Fire Fighters Association, Local 493 Surprise Chapter.
- Analyzing payroll records and transactions for the Fire-Medical Department from FY2025.
- Evaluating ASRS and PSPRS reports for calculations used to determine adjustments for retirement pay.
- Working with an external consultant to run IDEA testing on retirement data to compare amounts paid to ensure compliance with ASRS and PSPRS.
- Comparing calculations for payments to the MOU and City rates.

Appendix B: Data Reliability and Audit Observation Risk Rating

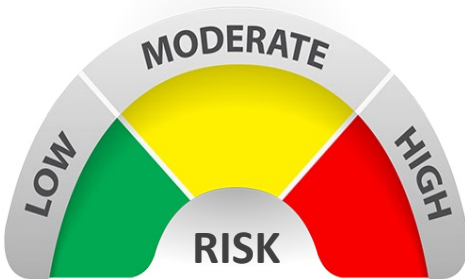
Data Reliability

The data utilized for the work performed was obtained from Munis, the City’s financial system of record. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Annual Comprehensive Financial Report (ACFR) performed by the City’s external auditor.

The CAD determined that the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:



- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.

- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited.

Moderate-risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.

- Low – Represents an observation for consideration by management for correction or implementation associated with the process being audited. Low-risk observations should be implemented to improve the efficiency and effectiveness of operations.

Appendix C: Audit Standards and Acknowledgments

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, the CAD verified that the audit objectives and related controls identified address the five internal control components of the COSO framework. Although some control weaknesses were identified and included in this report's Detailed Observations section, none rose individually or cumulatively to the level of a Citywide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction related to payroll. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgments

The CAD appreciates the time City staff contributed to this review. The City Auditor would like to take this opportunity to thank the City Departments and individuals involved in the Fire-Medical Payroll Audit for their considerable cooperation and assistance, including the:

- Fire-Medical Department
- Payroll Division, Human Resources Department

Surprise City Auditor Department

- **Vision**—The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.
- **Mission**—To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

Contact the City Auditor Department for more information:
<https://surpriseaz.gov/166/City-Auditor>.



**CITY OF SURPRISE
Audit Committee**

Council Meeting Date: March 11, 2026
Submitting Department: City Auditor
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to the summary of the Audit Recommendations Status Report as of February 3, 2026.

Motion:

N/A - Informational only

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2025-2026 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to the city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the city auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the city auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs, and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Summary Audit Recommendations Status Report 2Feb2026
 2. Qrtly Audit CMTE 11Mar2026
-



Audit Recommendations Status Report

February 3, 2026

Carol Holley, City Auditor

Contents

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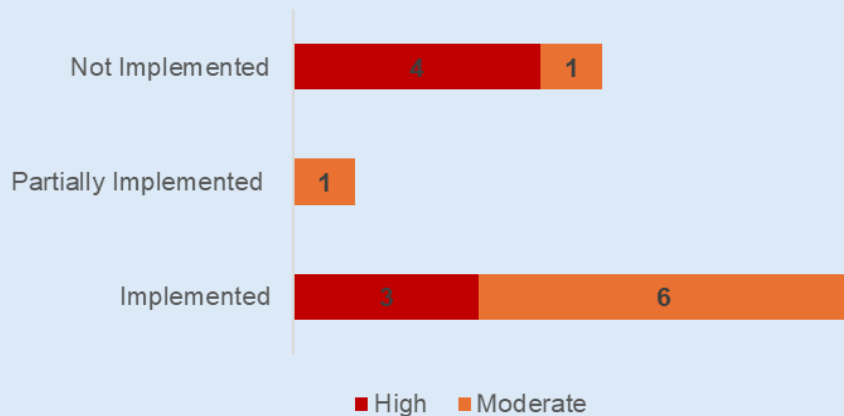
Summary

Periodically, the City Auditor Department (CAD) reports to the City of Surprise (City) Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff from 10/7/2025 to 2/3/2026.

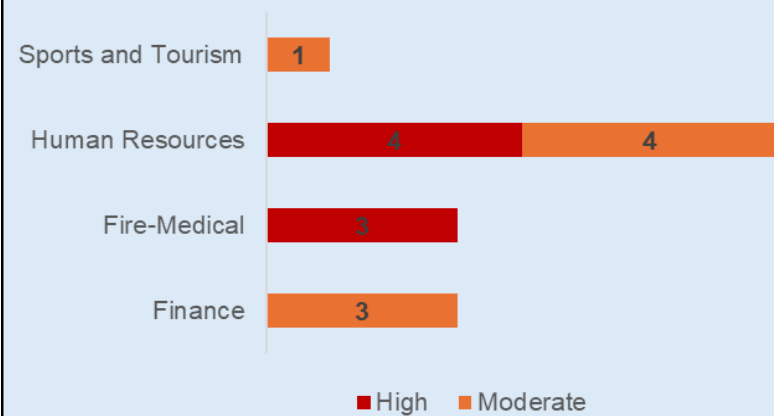
During the period, the CAD tracked and monitored 15 audit recommendations: 60% (9 out of 15) were implemented; 7% (1 out of 15) were partially implemented; and 33% (5 out of 15) are pending completion. Exhibit A summarizes the eight audit recommendations tracked and monitored for the period.

The CAD appreciates the time and resources allocated by City departments to develop action plans to address identified risks to City assets and information.

15 Audit Recommendations Tracked and Monitored Between 10/7/2025 to 2/2/2026 by Status



15 Audit Recommendations Tracked and Monitored Between 10/7/2025 to 2/2/2026 by Department



Purpose and Standards

The recommendations referenced in each audit report were designed to decrease the risk to City assets and improve the efficiency and effectiveness of operations. In response to each audit recommendation, management developed an action plan to address identified risks.

The purpose of performing audit follow-up procedures is to determine the status of management action plans. *Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing* reference the need for audit follow-up procedures:

Governmental Auditing Standards:

GAGAS 8.30 – *“Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.”*

International Standards for the Professional Practice of Internal Auditing:

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

“Internal auditors must confirm that management has implemented internal auditors’ recommendations or management’s action plans following an established methodology, which includes:

- *Inquiring about progress on the implementation.*
- *Performing follow-up assessments using a risk-based approach.*
- *Updating the status of management’s actions in a tracking system.*

The extent of these procedures must consider the significance of the finding.”

Methodology

After completing each audit, the CAD tracks observations and recommendations in SharePoint. Periodically, the CAD performs follow-up procedures on the status of audit recommendations with the appropriate City departments.

Departments self-report the status of management action plans via SharePoint. The CAD obtains and reviews testimonial or documentary evidence. In some cases, the CAD will go beyond the standard process, perform more in-depth verification of the extent to which specific audit recommendations have been implemented, and issue a separate report on this work.

All recommendations reviewed were categorized as follows:

Implemented – City staff partially concurred or concurred with the audit recommendation. Management action plan has been completed, and when appropriate, supporting documentation was provided to the CAD for review. **(See Exhibit A.)**

Ongoing or Partially Implemented – City staff partially concurred or concurred with the audit recommendation. Staff is currently working on implementing the audit recommendation by the management-assigned completion date. **(See Exhibit A.)**

Not Implemented – City staff concurred with audit recommendations and are in the process of implementing a management action plan to address the identified risk to City assets and information. **(See Exhibit A.)**

Exhibit A

Audit ID	Section ID	Title	Department	Report Date	Recommendation	Current Status	Latest Mgt Comments	Risk Level	Estimated Completion	Completed Date
2025-01	1A	Tourism Fund	Sports and Tourism	9/30/2024	Review the written process to ensure that it reflects the current needs of the Tourism Fund.	Partially Implemented	Sports and Tourism staff will review and update the application process and bring it to the Tourism Fund Subcommittee and City Council for approval.	Moderate	6/30/2025	
2025-04	1A	Capital Improvement Plan Audit Report	Finance	6/30/2025	Develop and implement a formal policy for monitoring and evaluating CIP projects after approval.	Implemented	Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update our Capital Management Policy accordingly.	Moderate	9/30/2025	10/17/2025
2025-04	1B	Capital Improvement Plan Audit Report	Finance	6/30/2025	Include guidance in the policy that establishes oversight expectations and allows the level of monitoring and evaluation to be scaled based on project size, complexity, and risk.	Implemented	Management agrees that the CIP team and City management are monitoring and evaluating CIP projects, but that the monitoring and evaluation process is not documented in a formal policy. It is understood that documenting these processes is a best practice recommendation and will update the policy accordingly to include oversight expectations and evaluation based on size, complexity and risk.	Moderate	9/30/2025	10/17/2025
2025-04	2A	Capital Improvement Plan Audit Report	Finance	6/30/2025	Resolve the procurement and change order issues identified in the audit, as applicable, and strengthen and implement procedures to ensure that: Written determinations document when an IFB is not practicable or advantageous in accordance with the Procurement Guidelines; and Change order amendments include effective dates in line with best practices.	Implemented	Updated Management Response: The Procurement Team determined during the procurement process that an IFB was not practicable for the two sampled projects and the team moved forward with the method most practicable and advantageous to the City. The guidelines will be updated to reflect that the procurement method most practicable and advantageous to the City will be selected based on the scope of work and that the selected method will be documented electronically.	Moderate	11/30/2025	10/20/2025
2026-01	1A	Fire-Medical Payroll	Fire - Medical	1/14/2026	Review the policies around pay for floating holidays to determine what the intent of the policy is.	Not Implemented	The Fire-Medical Department will review the Employee Policy Manual (EPM) and the Memorandum of Understanding (MOU) to clarify the intent of the floating holiday provisions and ensure a clear understanding of how floating holiday pay is intended to be distributed for both sworn and civilian Fire-Medical employees.	High	3/31/2026	

Exhibit A

Audit ID	Section ID	Title	Department	Report Date	Recommendation	Current Status	Latest Mgt Comments	Risk Level	Estimated Completion	Completed Date
2026-01	1B	Fire-Medical Payroll	Fire - Medical	1/14/2026	Bring this in the next MOU negotiation and update the language specific to how floating holidays will be paid to staff, with input from Payroll to ensure it will be implemented correctly.	Not Implemented	The Fire-Medical Department will bring the issue of floating holiday pay language forward during the current MOU negotiation cycle and work collaboratively with the Payroll Division to update and clarify language specific to how floating holidays are paid, ensuring the agreed-upon language can be implemented accurately and consistently.	High	5/22/2026	
2026-01	1C	Fire-Medical Payroll	Human Resources	1/14/2027	Review the EPM and determine if any updates are needed to be made to either remove unnecessary language or ensure it is consistent with the MOU.	Not Implemented	The Payroll Division will update applicable policies and procedures in EPM to ensure language refers to the MOU for application of pay.	High	6/30/2026	
2026-01	1D	Fire-Medical Payroll	Human Resources	1/14/2027	Implement a policy to ensure the EPM is reviewed and updated anytime there is an updated MOU.	Not Implemented	At the completion of MOU negotiations, impacted EPM changes will be updated by the following fiscal year.	High	6/30/2026	
2026-01	2A	Fire-Medical Payroll	Human Resources	1/14/2027	Review these employees' pay to determine what they should have received and correct the pay for these employees.	Implemented	Corrected MR: The Move-Up pay discrepancy was caused by Fire staff using an incorrect Vector code. This issue occurred to only four employees and was corrected immediately on the following payroll after it was discovered by the Payroll Division.	High	11/28/2025	11/28/2025
2026-01	2B	Fire-Medical Payroll	Human Resources	1/14/2027	Ensure that in the future, engineers reported with the "Move-Up 2" code are identified and corrected before payroll is processed.	Implemented	Updated MR: Payroll identified this issue around the same time as the audit and at that time implemented a review of the move up codes as part of our payroll processing checklist, but was still in process of correcting prior instances where this occurred.	High	11/28/2025	11/28/2025
2026-01	2C	Fire-Medical Payroll	Fire - Medical	1/14/2026	Include in their Department review a check that this code is not used when reporting engineers for payroll.	Implemented	The Fire-Medical Department has enhanced its biweekly payroll review process to include a verification step to ensure the appropriate move-up pay codes are used and that the "Move-Up 2" pay code is not applied to engineers prior to payroll submission. This enhanced review is performed by the Department's Financial Management Analyst Senior as part of the regular payroll audit process.	High	1/27/2026	1/27/2026

Exhibit A

Audit ID	Section ID	Title	Department	Report Date	Recommendation	Current Status	Latest Mgt Comments	Risk Level	Estimated Completion	Completed Date
2026-01	3A	Fire-Medical Payroll	Human Resources	1/14/2027	Review these employees' pay to determine what they should have received and correct the pay for these employees.	Implemented	Payroll identified a system glitch that calculated longevity pay incorrectly for 2 employees. Staff immediately submitted a help desk ticket to the system vendor to correct this system error. The pay error was corrected by staff when it was identified on 11/28/25. Payroll has implemented an audit each pay period to ensure longevity is accurately paid.	Moderate	11/28/2025	11/28/2025
2026-01	4A	Fire-Medical Payroll	Human Resources	1/14/2027	Update Munis to ensure that PEHP DROP does not include lump sum payouts as part of the eligible compensation.	Implemented	Once the error was identified, the payroll system was corrected immediately. Management acknowledges the audit findings and agrees that the payroll errors identified were primarily the result of extensive manual configuration and processing with the payroll system. The existing system lacks sufficient automation, intuitive workflows, and system controls, which increases the risk of human error and results in inefficient, labor intensive processing for payroll staff. The HR/Payroll team is currently in contract negotiations with new HCM/Payroll vendor that provides the items lacking in current system.	Moderate	11/28/2025	11/28/2025
2026-01	3B	Fire-Medical Payroll	Human Resources	1/14/2027	Train all applicable staff on how longevity is applied and when adjustments to it are necessary.	Implemented	Payroll staff have been trained on proper retro pay calculations impacting longevity pay to ensure accuracy. Additionally, the Payroll Manager reviews all retro pay calculations.	Moderate	11/28/2025	11/28/2025
2026-01	4B	Fire-Medical Payroll	Human Resources	1/14/2026	Review current exception reports for retirement codes to determine if they are complete and updated with current requirements, and ensure a second person is trained to offer a secondary review in the future.	Not Implemented	Exceptions for retirement codes have been reviewed and updated with current requirements. Training payroll staff will be completed by the 2/15/26.	Moderate	2/15/2026	

Audit observation risk rating:

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets
Moderate	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.

WELCOME

Quarterly Audit Committee Meeting

February 11, 2025
4:15 P.M.



SURPRISE

ARIZONA

STAFFING UPDATE

- Audit Committee Member Term Expiration Dates
- City Auditor Position



SURPRISE

ARIZONA

CAPITAL IMPROVEMENT PLAN AUDIT

Objective:

- Evaluate whether CIP projects were managed effectively, efficiently, and in compliance with City policies, best practices, and laws.

Background:

- FY2023 CIP included 219 projects (100 funded, 59 planned, 60 unfunded).
- Finance Department oversees annual capital planning and reporting.
- Audit reviewed two funded projects.

Magnitude:

- Findings rated Moderate Risk (no high-risk issues).

Key Opportunities:

- Develop a formal policy for project monitoring and evaluation.
- Strengthen procurement and change order documentation to ensure completeness and accountability.



FIRE-MEDICAL PAYROLL AUDIT

Objective:

- To assess whether payroll transactions were correctly calculated, reported, and documented.

Background:

- Employee hours worked were tracked through both ESS and Telestaff for the first part of FY2025, and then Vector Solutions for the remainder of FY2025.
- The Fire-Medical Department does an internal review of data before sending it to the Payroll Division.
- The Payroll Division then calculates pay and processes staff payments.

Magnitude:

- FY2025 Fire-Medical Payroll was just over \$28 million paid to employees.
- Retirement included about \$6.8 million paid by the City and \$2.3 million paid by employees.
- Reviewed payroll transactions for 247 Fire-Medical employees for FY2025.

Key Opportunities:

- Updating language in the MOU and EPM related to how floating holidays will be paid.
- Ensure the Move-Up 2 code is applied appropriately to ensure accurate staff pay.
- Review Longevity payments and train staff to ensure accurate staff pay.
- Update PEHP DROP payments to ensure they capture eligible pay in the calculation.



AUDIT RECOMMENDATIONS STATUS REPORT

Period Monitored: 10/7/2025 to 2/3/2026

- Tracked and monitored 15 audit recommendations
 - 60% (9 out of 15) - Implemented
 - 7% (1 out of 15) - Partially implemented
 - 33% (5 out of 15) - Pending completion



SURPRISE

ARIZONA

Questions or Comments?

THANK YOU



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