

City of Scottsdale, Arizona



**Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2004**

Prepared by:

Financial Services Department

Craig Clifford, CPA
Chief Financial Officer

Lisa Murphy, CPA
Accounting Director

City of Scottsdale, Arizona

Comprehensive Annual Financial Report For the Fiscal Year ended June 30, 2004

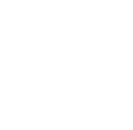
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Transmittal Letter

For the Fiscal Year
Ended June 30, 2004

City of Scottsdale
Scottsdale, Arizona

September 9, 2004

The Honorable Mayor, City Council,
and Citizens of the City of Scottsdale, Arizona:

The Comprehensive Annual Financial Report of the City of Scottsdale (the City), Arizona, for the fiscal year ended June 30, 2004, is submitted in accordance with Article 6, Section 14, of the City Charter. This report was prepared by the City's Accounting and Budget Divisions, in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Scottsdale. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City of Scottsdale has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Scottsdale's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Scottsdale's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and belief that this financial report is complete and reliable in all material respects.

The City of Scottsdale's financial statements have been audited by Cronstrom & Trbovich, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Scottsdale for the fiscal year ended June 30, 2004, 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. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Scottsdale's financial statements for the fiscal year ended June 30, 2004 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 independent audit of the financial statements of the City of Scottsdale was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Scottsdale's separately issued Single Audit Report.

GAAP requires that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Scottsdale's MD&A can be found immediately following the report of the independent auditors.

CITY OF SCOTTSDALE PROFILE

Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing an area approximately 184.6 square miles. Lying at an elevation of 1,260 feet above sea level, the City averages 314 days of sunshine and 7.74 inches of rainfall per year, with the average minimum and maximum temperatures ranging from 55.7 degrees to 84.6 degrees, respectively. The City is bordered to the west by Phoenix, the state capital, by Tempe to the south, and by the Salt River/Pima Maricopa Indian Community to the east. Scottsdale, together with its neighboring cities, forms the greater Phoenix metropolitan area, which is the economic, political, and population center of the state.

Scottsdale was founded in the 1800's when retired Army Chaplain Major Winfield Scott homesteaded what is now the center of the City. The City incorporated in 1951 and the City Charter, under which it is presently governed, was adopted in 1961. The City has experienced significant increases in population, with the 1950 census reporting 2,032 residents, the City's 1990 census reporting 130,069 residents and the 2000 census reporting 202,705 residents. The City's population is estimated to be approximately 222,600 by July 2004 and an estimated 224,320 by January 2005.

Scottsdale operates under a council-manager form of government as provided by its Charter. The Mayor and six City Council members are elected at

large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City Manager, in turn, appoints City employees and department General Managers under service procedures specified by Charter. City service departments provide a full range of services including police and fire protection, sanitation/solid waste service, water and sewer services, construction and maintenance of streets, recreational activities, and cultural events.

The annual budget serves as the foundation for Scottsdale's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Fuel Tax Special Revenue Fund, Preserve Privilege Tax Special Revenue Fund, Transportation Privilege Tax Special Revenue Fund, Debt Service Funds (except for the Community Facilities Districts Debt Service Funds), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. At the first regular Council meeting in June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During FY 2003/04, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year. Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another. Management control of budgets is further maintained at a line item level within the department.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITION

At the time of writing this transmittal letter, the national and state economies were in the midst of a modest recovery compared to the relatively anemic performances from the past few years. Gains in productivity, retail sales, tourism, housing, and the gross domestic product all point to a continued resurgence in the economy. However, some economists have labeled the economic rebound as a "soft" recovery due to the weak job market, the lack of new jobs, and minimal increases in workers' wages. Looking ahead, there are several key factors that will determine the strength and duration of the current economic recovery, including inflation, rising interest rates, the upcoming presidential election, acts of terrorism and the geopolitical instability in the Middle East.

The City of Scottsdale continues to benefit from favorable conditions, including a stable, diversified economic base and a desirable location for work, destination, and living. Low commercial vacancy rates, current low mortgage interest rates, and the attractive developments within Scottsdale continue to bring high-end residential growth and commercial development. Commercial successes can be expected to continue because of the City's commitment to targeted recruitment efforts that focus on industry segments that complement the existing business mix, including: corporate headquarter and regional offices; high-tech, research and development; bio-med; and business and professional services.

From a long-term perspective, the nation's economy may be significantly affected by many factors, including geopolitical instability, a growing national debt and demands on Social Security as baby-boomers near retirement. On the local front, the City of Scottsdale will face critical decisions regarding redevelopment and in-fill projects as the City reaches build out and a gradual decline in population growth, which will impact distributions of state-shared revenues. The City will experience a shifting of the City's economic base, as ample tax revenues derived from new growth will no longer be available, and intense competition from other communities in the region for quality of place. The following categories represent key factors affecting Scottsdale's economic and financial success.

Local Economy

Retail Sales - Scottsdale's largest revenue source is sales tax generated from a well-balanced variety of business categories

including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. After two consecutive years of negative year-over-year sales tax growth, the City of Scottsdale sales tax receipts posted a 9.5 percent gain in FY 2003/04; respectable, but still well below the City's double-digit growth that was common in prior decades. Factors contributing to a brighter economic outlook for retailers included rising consumer confidence, continued low interest rates, a red-hot housing market, increased factory orders and productivity, and tax refunds from President Bush's economic stimulus package.

Residential Activity - Residential property value in Scottsdale increased to \$23.7 billion in FY 2003/04, up approximately 23.4 percent from \$19.2 billion in FY 2002/03. The number of dwelling units for residential construction increased to 2,903 in FY 2003/04, up approximately 41.9 percent from 2,046 in FY 2002/03; respective residential construction value increased to \$426.2 million in FY 2003/04, up approximately 6.4 percent from \$400.5 million in FY 2002/03.

Commercial Activity - Commercial property value in Scottsdale decreased slightly to \$7.2 billion in FY 2003/04, down approximately 1.4 percent from \$7.3 billion in FY 2002/03. The number of commercial construction permits increased to 2,512 in FY 2003/04, up approximately 13.4 percent from 2,215 in FY 2002/03; respective commercial construction value increased to \$252.3 million in FY 2003/04, up approximately 26.7 percent from \$199.2 million in FY 2002/03.

Vacancy Rates - Scottsdale's citywide vacancy rate was 15.9 percent at the end of FY 2003/04, which was below the Valley-wide average. The weighted average rent was 13.3 percent higher than the Valley-wide average, evidence that Scottsdale remains an attractive city to conduct business. The forecasted vacancy rate for FY 2004/05 indicates improvement, in line with a more positive economic outlook.

Job Growth - The City of Scottsdale recruited over five new targeted firms and secured six expansions resulting in over 1,800 new jobs in FY 2003/04 with an average annual salary of \$55,000. The City benefited from population growth as well as higher income levels due to higher wage jobs. Major new employers to

announce moves to Scottsdale in FY 2003/04 included TD2, Scottsdale Mitsubishi and Liberty Mutual. The City also benefited from the expansions of Nautilus Insurance, Taser International, MicroSemi and McKesson.

Employment - Scottsdale is creating jobs faster than it is adding to its labor force and thus remains a net importer of labor. This creates employment opportunities for Scottsdale residents and creates a significant business component to the local tax base. Scottsdale's current unemployment rate of 3.1 percent is lower than state and metropolitan Phoenix area levels and is lower than its 2003 unemployment rate of 3.7 percent.

Tourism - Tourism is one of Scottsdale's largest industries and is a significant contributor to the City's economy. Numerous resorts, country clubs and convention facilities, as well as many hotels and motels, provide nearly 10,000 guest rooms and offer recreational facilities including golf courses, tennis courts and swimming pools. The number of rooms is expected to remain stable through 2006. More than 2,500 retail shops, boutiques, and galleries are located throughout the City and a selection of almost 400 restaurants is available. These services and facilities, complemented by the mild winter climate, have made Scottsdale a popular vacation spot for tourists and winter visitors.

Hotel occupancy tax receipts increased by approximately 7.0 percent in FY 2003/04 compared to only a 0.1 percent increase in FY 2002/03. The current assessment for FY 2004/05 is that tourism will continue to experience a modest recovery from its post September 11, 2001 levels, reflected by gradual increases in occupancy and room rates. The local tourism industry continues to exhibit signs of moderate recovery as leisure and business travelers return to Scottsdale; however, hotel room rates remain relatively low compared to historic levels as hoteliers offer discounts to spur demand. Therefore, while the long-term outlook for local tourism remains cautiously optimistic, slower hotel occupancy tax growth is expected relative to historic levels.

Long-term Financial Planning

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Scottsdale's fiscal health. Fiscal conservatism, a streamlined

budget, and operating efficiencies have resulted in a solid financial position for the City at the close of FY 2003/04. The Mayor and City Council have co-created a mission statement as well as six broad goal categories, which represent key interests and priorities of the Mayor, City Council, and reflect their constituency's suggestions and expectations for the future.

Approval by Council of these Mission and Goal statements allows staff to create strategic plans and a programmatic budget that directly responds to the Council's and community's goals and expectations. Plans articulated in the FY 2004/05 Adopted Budget and Five-Year Balanced Financial Plan continue to support basic government services (roads, water, sewer, solid waste management, public transit, parks and recreation, police, fire, etc.), while also addressing the City Council's broad goals and citizen expectations for the community. The following are the mission and broad goals identified by Scottsdale's Mayor and City Council:

Mission - It is the mission of the City of Scottsdale to build citizen trust by fostering/practicing open, accountable, and responsive government; to provide quality services; to provide long-term prosperity; to preserve Scottsdale's unique southwestern character; to plan and manage growth in harmony with its desert surroundings; and to promote livability by enhancing and protecting its neighborhoods. Quality of life for residents and visitors shall be the paramount consideration.

Broad Goals

- A. Enhance and protect a diverse, family-oriented community where neighborhoods are safe, protected from adverse impacts, and well maintained.
- B. Preserve the character and environment of Scottsdale.
- C. Provide for the safe, efficient, and affordable movement of people and goods.
- D. Position Scottsdale for short- and long-term economic prosperity by stabilizing, promoting, strengthening, stimulating, expanding, and diversifying our economic resources.
- E. Ensure Scottsdale is fiscally responsible and fair in its management of taxpayer money and city assets, and coordinates land use and infrastructure planning within the context of financial demands and available resources.

F. Make government accessible, responsive, and accountable so that pragmatic decisions reflect community input and expectations.

Strategic Financial Plan

Scottsdale’s financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, Scottsdale’s financial forecast includes modest revenue growth, potential for State reductions of revenue sharing due to population shifts, and continued increases in demand for City services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance financial plan elements and ensure the continued financial stability for the City of Scottsdale.

Financial Resource Planning -

Strategic financial planning begins with determining the City’s fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal well being of Scottsdale. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning - Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of planned capital projects), which are linked to community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Scottsdale builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project

Planning - Scottsdale Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required capital project plans are sized to conform to existing debt management policies. The table below estimates the operating costs attributable to the Five Year Capital Improvement Plan:

Estimated Operating Impacts Attributable to Capital Projects For the Five Years Ending June 30, 2009 (in thousands of dollars)	
Community Facilities	\$17,682.0
Preservation	248.4
Public Safety	7,696.6
Service Facilities	2,830.4
Transportation Improvements	9,329.9
Water Resources	13,838.0
Total Estimated Operating Impacts	<u><u>\$51,625.3</u></u>

Debt Management - Scottsdale has a financial policy, which prohibits the issuance of debt for operating expenses. With that as a governing framework all debt issuances are for the purposes of financing capital infrastructure (or long-lived costly assets). Each debt issuance is evaluated against multiple additional policies addressing debt service as a percent of operating expenditures; tax and revenue bases for the repayment of debt; the overall debt burden on the community; statutory limitations and market factors affecting tax-exempt interest costs. In all cases a long-term analysis is made considering the financial (debt) capacity that fits the wherewithal (and willingness) of our community to pay for the capital projects. The annual debt service operating cost for each additional \$1 million dollars in new debt ranges from \$75,000 to \$80,000, based on a current interest rate of 4.5% when amortized over 20 years. Sizing of the City’s Capital Improvement Project Plan based on debt capacity in conjunction with conservatively estimated pay-as-you-go revenues will help stabilize per capita debt and lower annual debt service costs to the City over the long-term.

Cash Management Policies and Practices

Cash temporarily idle during the year, excluding that of the Municipal Property Corporation (MPC), and the Community Facilities Districts, was invested primarily in obligations of the U.S. Treasury and its agencies. Cash needed for normal operations was also invested in the State Treasurer's Local Government Investment Pool and mutual funds whose portfolios consist solely of U.S. Government Treasury and Agency securities. The City utilizes a pooled cash concept in order to invest greater amounts of cash at one time and; therefore, receives more favorable interest rates. The average yield on pooled investments for the FY 2003/04 was 2.46% and the average balance was \$434,759,423.

Scottsdale's investment policy is to invest all of the City funds at the highest available interest rate, assuring that all monies are fully secured with emphasis on safety of principal, liquidity and financial return on principal, in that order.

Risk Management

The City of Scottsdale is exposed to various risks of loss related to public, property and airport operator's liability, as well as employee workers' compensation exposures. Public liability includes public officials' errors and omissions, automobile, and general liability areas of coverage. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property insurance, and the first \$600,000 of workers' compensation claims. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance.

For the fiscal year ending June 30, 2004, the global property-casualty insurance marketplace eased slightly from the September 11th terrorist attack downturn allowing the City to purchase an additional \$10.0 million of liability insurance (\$40.0 million total limits) at the same approximate cost as the previous year.

As for claim expenditures, settlements for each of the past five fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

Scottsdale has an aggressive safety program that promotes on-the-job safety practices focusing on risk control techniques designed to minimize accident-related losses. In addition to

preventative practices geared to work unit functions, the Risk Management division reviews every claim in order to develop and implement prevention techniques that minimize the City's exposures to similar incidents.

Post-Employment Benefits

The City participates in the Arizona State Retirement System, the Public Safety Personnel Retirement System, and the Elected Officials' Retirement Plan. In addition, the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at one hundred percent cash value at current rate of pay. Employees hired before July 1, 1982 can elect to receive cash equal to fifty percent of the first five hundred twenty hours of unused medical leave plus twenty-five percent of all hours in excess of five hundred twenty. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. Any retiring employee with 300 or more hours of accumulated medical leave, who chooses to remain on the city medical plan, may elect to apply the value of the sick leave to the employee's portion of the health care premiums, up until age 65. The value of the accumulated medical leave is calculated at the employee's hourly rate of pay at the time of retirement. The number of participants at the end of fiscal year 2003/04 was 96 and is expected to grow as more employees reach retirement age. The projected liability for this benefit was actuarially determined on January 1, 2004 and was used to calculate the liability recorded in the financial statements. (See Note V of the Notes to the Financial Statements for additional information on this benefit)

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2003/04 Scottsdale continued to invest in basic government service programs and amenities that define the special character of the City. These programs and amenities will assist in maintaining Scottsdale as a "livable" community for future generations.

Service efforts to shape and maintain Scottsdale as a sustainable community that were made in the past

year included enhancements to the quality citizen services, contributions to environmentally and fiscally-sound infrastructure and contributions toward building and maintaining a sustainable economic base.

The following are some department service efforts and accomplishments for FY 2003/04.

Police

Developed a Police Department Strategic Plan to chart the course for the next five years. The plan addresses issues of department development and public safety response. A review mechanism has also been developed to ensure the plan components are tracked and progress is reported and communicated to the organization, City leadership, and the community.

Cleared 15% of reported burglary cases in calendar year 2003 (State average was 6.9%). Arrested 80 career offenders and used the Maricopa County Attorney Repeat Offender Program for enhanced prosecution.

Conducted undercover operations on activity in, and relating to, Scottsdale nightclubs. The operation targeted multiple suspects operating in an “open market” environment selling crack cocaine, cocaine, and methamphetamine. Over 32 arrests were made and \$570,000 of drugs were seized.

Conducted training for all first responders in weapons of mass destruction response and completed several scenario drills. Over 450 City personnel were trained in first responder guidelines.

Fire

Completed the construction and occupied the new permanent airport fire station at 14970 North 78th Way.

Completed design and began construction of a new permanent fire station at Ranch and Pima Roads.

Awarded federal funding from the fiscal year 2003 Assistance to Firefighter Grant program.

Completed the process of obtaining all the large fire apparatus during fiscal year 2003/04.

Financial Services

Awarded ratings of “AAA”, “Aaa”, and “AAA”, from the three major credit rating agencies, Fitch Ratings, Moody’s Investors Service, and

Standard and Poor’s Ratings Services, respectively, on outstanding general obligation bonds. These are the highest possible ratings.

Defeased (retired) \$12.5 million of General Obligation bonds, \$29.3 million of Excise Tax Refunding Bonds and \$3 million of taxable Municipal Property Corporation bonds. Refunded (re-financed) \$16.3 million of General Obligation, \$18.89 million of Water/Sewer Excise Tax Revenue, and \$22.77 million of Scottsdale Preserve Authority bonds to take advantage of low interest rates and the City’s high credit ratings, resulting in \$2.7 million debt service savings. Sold \$48 million of General Obligation bonds, \$65.4 million of Preservation General Obligation bonds, and \$75 million of Municipal Property Corporation water/sewer bonds to fund a variety of capital infrastructure projects.

Implemented web-based requests for utility billing service. The E-Government platform allows customers to request their service started, stopped, or changed for Water, Sewer, and Solid Waste, removing the need to call and schedule activities related to move-in/move-outs.

Upgraded sales tax and subsidiary systems to handle the new sales and use tax rates approved by Scottsdale voters May 18, 2004.

Developed web-based graphics requisition system that replaces paper forms process for requesting business cards, document reproduction, and creation from the Graphics department. The system is a complete request management solution that tracks requests from inception to completion.

Transportation

Completed a \$650,000 security improvement project at the Scottsdale Airport, including hardwiring all Airport access locations and installing 16 security cameras and a new security access control system.

Reorganized the Transportation Department as the City formed a new Downtown Group partly comprised of Department staff.

Completed and published a strategic plan for Scottsdale Intelligent Transportation Systems operation, the first in the region for an arterial management organization.

Inaugurated the new trolleys on the Downtown Trolley routes and had the busiest season of its tenure. Trolleys were used on the Giants

Shuttle for the first time and ridership was also the highest it has ever been.

Achieved adoption of a new Scottsdale Streets Master Plan by City Council in October 2003.

Installed new turn lanes at the Frank Lloyd Wright/Greenway-Hayden, Chaparral/Hayden and Camelback/Hayden intersections.

Completed a new bridge at the Deer Valley/Hayden-Miller intersection.

Community Services

Awarded the National Gold Medal Award for Excellence in Parks and Recreation Management. This prestigious national award gives recognition to communities for excellence in management of the agency, its professional staff, its dedication to serving the needs of its citizens, creative financing, use of volunteers, serving the disabled and disadvantaged, and diversity of program/activity opportunities. Also awarded "Sports Illustrated" Magazine's Arizona Sportstown USA for Scottsdale Parks and Recreation. The magazine and the National Recreation and Park Association featured this award as part of the magazine's 50th anniversary.

Obtained a grant for a new youth sports complex on a school/park site in central Scottsdale, through partnership with the Arizona Tourism and Sports Authority and three youth sports organizations.

Completed the final phase of La Mirada Desert Park by adding a lighted basketball court, additional storage and turf area.

Completed the Community Services Facilities Plan, updating the Parks Master Plan 2010.

Completed a study of youth sports fields maintenance issues and made recommendations that will result in safer, better playing surfaces for the City's youth and that will strengthen the partnership between the City, the Scottsdale Unified School District, and the community organizations providing youth sports activities.

Information Systems

Reached agreement with Qwest on the construction schedule for their cable TV system. The negotiations culminated with an increase in Community Contributions to the City – Qwest is providing the City with data transmission circuits for a period of ten years. The cost savings to the City is over \$950,000.

Developed and implemented an automated Pavement Management System. This system assists with long-term pavement maintenance planning and budgeting by simplifying retrieval of historical data, calculation of quantity and cost estimates, and expediting customer service. It meets federal requirements that keep the City eligible for federal transportation funds, as well as meets GASB 34 accounting requirements.

Completed the Network Upgrade Project replacing the City's network communications infrastructure that supports most of the computers, servers and applications used in the City. The new equipment has improved overall network performance ten-fold, as well as provided increased manageability and security.

Completed key infrastructure upgrades. Replaced production servers for several key systems. Replaced the primary production laser printer – doubling the print speed while adding enhancements that will reduce the need for custom forms resulting in lower costs. Upgraded the software on 2,200 desktop and laptop computers to provide increased security, a vendor supported platform, and a more intuitive user interface.

Completed the mapping of natural wash corridors with a measuring flow of 50 cubic feet/second (cfs), which is a requirement for the new Environmental Sensitive Land Ordinance. This will allow City staff to review and to assure wash modifications result in an equal or enhanced quality of open space, restoration of vegetation occurs, adjacent properties are not impacted, and the integrity of upstream or downstream corridors will be reduced.

Planning and Development Services

Provided After-Hours Inspections and an Expedited Review process to enhance customer service. Revenues from the After-Hours Inspections totaled \$19,475 and revenues from the Expedited Review process totaled \$238,900. These revenues offset the Department's entire overtime expenses for the fiscal year, with the remaining funds going directly to the City's General Fund to support other General Fund activities.

Initiated a new on-line building permit system enabling customers to enter application information from their home/office, thereby reducing processing time at the One Stop Shop. Also, opened a new customer service satellite

office at the City's Corporation Yard to service customers in the northern area.

Coordinated review of 405 public hearing cases and focused on character and quality to meet community expectations.

Conducted 154,300 inspections, performed 900 green building inspections, and issued over 3,000 Certificates of Occupancy.

Preservation

Completed negotiations for acquisition of all remaining private land in the Preserve boundary.

Completed plans and initiated building of first access area in the Preserve.

Managed process for developing partnership between the City and the owner of the Hotel Valley Ho for revitalization of the historic hotel.

Water Resources

Reaffirmed the importance of water conservation as a high priority through targeted public education and community awareness programs, such as the "Water-Use It Wisely" advertising campaign. Scottsdale's total potable water use decreased approximately 5 percent for 2003. This decrease can be partially attributed to increased customer awareness of drought conditions and the importance of water conservation in the desert.

Completed a vulnerability assessment of the water system with the assistance of a Federal EPA grant and identified potential areas for improvement. The City of Scottsdale has initiated an action plan to make these improvements. Projects currently in progress include the installation of additional access controls at Water Resources office buildings and utilization of advanced detection and surveillance technology at Water Resources facilities.

Began design and construction of the Chaparral Water Treatment Plant at Hayden and McDonald in 2003, with a January 2006 completion date. This plant will utilize advanced membrane technology to provide high quality drinking water to portions of Original Scottsdale. Also completed design of Phase III of the Water Campus Wastewater Treatment Plant to accommodate increased sewer flows and effluent reuse. Construction will take place during FY 2004/05.

Awarded an 'A' grade on the "Making the Grade: The Valley's Environmental Report Card" from The Valley Forward Association, a unique public interest group that has influenced the quality of life and environmental decisions in the Valley since 1969. The Association stated, "Scottsdale can be used as a model for solid and comprehensive water resources planning." The City of Scottsdale continues to reduce reliance on groundwater by using more renewable surface water (67 percent) than groundwater (33 percent).

Surpassed or equaled all Federal and State drinking water standards for Scottsdale's city water supply, as reported in the 2003 Water Quality Report sent to all customers. To ensure continued compliance with Federal Water Quality standards, design and construction of treatment facilities for arsenic removal from the water supply has been initiated and will be in place by January 2006 when the Environmental Protection Agency requires water providers to meet the new standard for arsenic.

Municipal Services

Purchased approximately \$3.5 million in Fire department equipment to be added to the City's Fleet inventory, in preparation for the City transitioning to a municipal Fire department in July 2005. Also supported implementation of the Transportation department's downtown trolley route by providing a dedicated bio-diesel fuel tank at the Angus fuel site; issuing fuel cards and training Transportation employees on the proper use of the fuel system; and monitoring tank levels to ensure availability of bio-diesel fuel. The Scottsdale Trolleys are the first vehicles in the City to use this type of fuel, which is a clean-burning, environmentally friendly alternative fuel.

Negotiated an extension of the intergovernmental agreement with the Salt River Pima Maricopa Indian Community through 2015 for solid waste services, including landfill, recyclables processing, green waste recovery and transfer hauling services. Also diverted 29,926 tons of recycling material from the containerized residential waste stream through curbside recycling. This represents 30 percent of the waste generated and helped avoid almost \$600,000 in landfill tipping fees, while generating over \$200,000 in revenue. Solid Waste completed this fourth straight year without requiring an increase to residential

collection rates. Solid Waste has aggressively supported the south Scottsdale revitalization effort – providing two roll-offs for neighborhood cleanups and spearheaded efforts to address alley issues, among others.

Successfully completed the Stack 40's drainage plan and the Stormwater Management Plan, including implementation of the Severe Weather Warning and Response plan with secure satellite and Internet communications, 24/7 availability of qualified meteorologist, automatic electronic notification system, and identification of alternative dedicated funding sources outside of the General Fund.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scottsdale for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the 31st consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. 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 CAFR 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.

The City of Scottsdale received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2003 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning July 1, 2004. In addition, the City's triple-A ratings from all three rating agencies on uninsured general obligation bonds as provided above were affirmed by the Rating Agencies in April 2004 in conjunction with the issuance of general obligation refunding bonds. (See the Management Discussion and Analysis for additional information on the bond ratings by bond type.)

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Accounting and Budget divisions, the assistance of administrative personnel in the various departments, and through the competent service of our independent auditors. I also wish to express my sincere appreciation to the City Council, the City Manager, and the Assistant City Managers for their interest and support in planning and conducting the financial affairs of the City of Scottsdale in a responsible and progressive manner.

Respectfully submitted,



Craig Clifford, CPA, CGFM
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Scottsdale,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



**Comprehensive
Annual
Financial
Report**

For the Fiscal Year
Ended June 30, 2004

City of Scottsdale
Scottsdale, Arizona

**City of Scottsdale, Arizona
List of Elected and Appointed Officials**

City Council

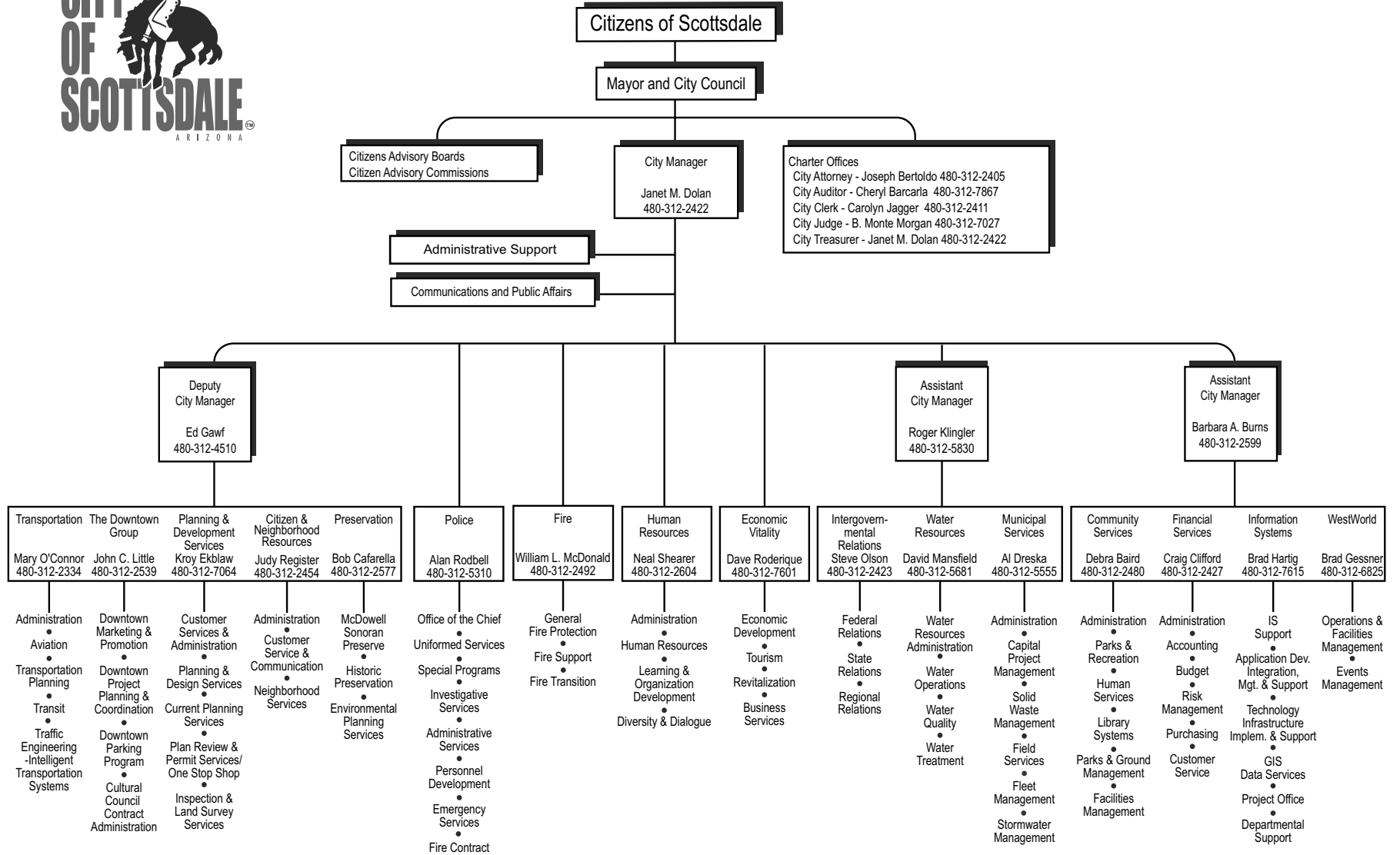
Mary Manross, Mayor
Robert W. Littlefield, Vice Mayor
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Ron McCullagh
Kevin J. Osterman

Charter Offices

Joseph Bertoldo, City Attorney
Cheryl Barcala, City Auditor
Carolyn Jagger, City Clerk
B. Monte Morgan, City Judge
Janet M. Dolan, City Treasurer

Administrative Staff

Janet M. Dolan, City Manager
Barbara A. Burns, Assistant City Manager
Ed Gawf, Deputy City Manager
Roger Klingler, Assistant City Manager







CRONSTROM & TRBOVICH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council of the
City of Scottsdale, Arizona

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 the City of Scottsdale, Arizona (City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental, internal service, and fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Scottsdale, Arizona, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, internal service, and fiduciary fund of the City of Scottsdale, Arizona, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 through 32 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 91 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements and on the combining and individual fund statements. The accompanying introductory section, other supplementary information and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cronstrom & Trbovich, P.C.
Cronstrom & Trbovich, P.C.

September 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Scottsdale's (the City) Comprehensive Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal years ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the fiscal years 2004 and 2003 by \$2.8 billion and \$2.6 billion (net assets), respectively. Of these amounts, \$413.2 million and \$346.2 million (unrestricted net assets), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$179.3 million and \$96.0 million during fiscal years 2004 and 2003, respectively.

As of June 30, 2004 and 2003, the City's governmental funds reported combined ending fund balances of \$317.5 million and \$270.9 million, respectively. The increase is primarily due to new bond sales during fiscal year 2004. Approximately 96.5 percent of the fund balance at June 30, 2004, \$306.3 million, is unreserved fund balance available for spending at the government's discretion, compared to \$255.2 million at June 30, 2003. However, in fiscal year 2004 management has designated \$32.4 million of the unreserved fund balance for various uses and \$224.4 million is for capital projects.

At the close of the current fiscal year, unreserved fund balance for the General Fund was \$59.7 million or 34.3 percent of total General Fund expenditures of \$174.2 million. At the close of fiscal year 2003, unreserved fund balance for the General Fund was \$71.2 million or 42.0 percent of total General Fund expenditures of \$169.7 million.

Fund balance designated at June 30, 2003 for bonds payable in the amount of \$33.7 million was used to defease outstanding debt during fiscal year 2004.

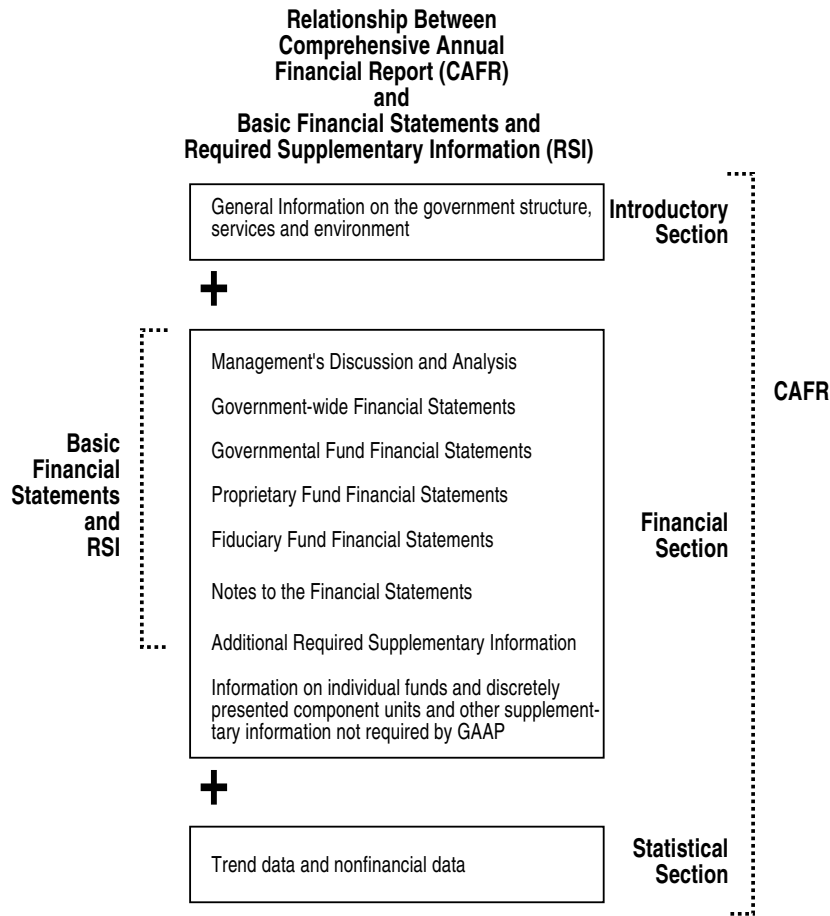
During fiscal year 2004, the City's total bonded debt increased by approximately \$111.6 million, in contrast to the decrease of approximately \$25.5 million in fiscal year 2003. Although the City reduced several bond payable balances, the key contributor to the increase was the sale of new bonds to fund capital projects in the amount of \$113.4 million during fiscal year 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- (1) **Government-wide** financial statements,
- (2) **Fund** financial statements, and
- (3) **Notes** to the financial statements.

This report also contains other **supplementary information** in addition to the basic financial statements themselves.



Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police, financial services, transportation, community services, information systems, planning and development, fire, municipal services, and citizen and neighborhood resources. The business-type activities of the City include water, sewer, solid waste, and airport operations.

The government-wide financial statements are for the City itself. However, included within the governmental activities of the government-wide financial statements are the operations of the City of Scottsdale Municipal Property Corporation (MPC), the Scottsdale Preserve Authority (SPA), and Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

Separate financial statements of the MPC, SPA and Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts may be obtained at the City's Financial Services Department, Accounting Division, 7447 East Indian School Road, Suite 210, Scottsdale, Arizona 85251.

The government-wide financial statements can be found on pages 34 and 35 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **Governmental Funds**, **Proprietary Funds**, and **Fiduciary Funds**.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Debt Service Fund, and General Capital Improvement Plan Construction Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation.

Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

Proprietary Funds are generally used to account for services for which the City charges customers—either outside customers, or internal units or departments of the City. Proprietary Funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of Proprietary Funds:

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for the operations of the Water, Sewer and Solid Waste operations of the City as well as the Airport. All Enterprise Funds are considered to be major funds of the City.

Internal Service Funds are used to report activities that provide supplies and services for certain City programs and activities. The City uses Internal Service Funds to account for its fleet of vehicles and self-insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The Internal Service Funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City. The City has two private-purpose trust funds and two agency funds, which are reported under the Fiduciary Funds. Fiduciary Funds are not reflected in the government-wide financial

statement because the resources of those funds are not available to support the City's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds, Internal Service Funds, and Fiduciary Funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$2.8 billion and \$2.6 billion at the close of the fiscal years 2004 and 2003, respectively.

The largest portion of the City's net assets reflects its investment of \$2.20 billion (78.2 percent) and \$2.15 billion (81.7 percent) in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets, for the fiscal years 2004 and 2003, respectively. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets

June 30, 2004 and 2003 (in thousands of dollars)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$ 436,905	\$ 384,223	\$ 324,954	\$ 227,423	\$ 761,859	\$ 611,646
Capital Assets *	2,090,682	1,999,825	820,530	754,640	2,911,212	2,754,465
Total Assets	2,527,587	2,384,048	1,145,484	982,063	3,673,071	3,366,111
Liabilities						
Long-term Liabilities Outstanding *	568,936	528,302	168,710	96,855	737,646	625,157
Other Liabilities	83,381	75,161	30,150	23,210	113,531	98,371
Total Liabilities	652,317	603,463	198,860	120,065	851,177	723,528
Net Assets						
Invested in Capital Assets, Net of Related Debt *	1,548,486	1,497,575	653,351	659,130	2,201,837	2,156,705
Restricted	199,767	117,801	20,842	16,721	220,609	134,522
Unrestricted *	127,017	165,209	272,431	186,147	399,448	351,356
Total Net Assets	\$ 1,875,270	\$ 1,780,585	\$ 946,624	\$ 861,998	\$ 2,821,894	\$ 2,642,583

*Adjustment made to 2003 ending balance related to capital asset and debt removal, see Changes in Accounting Principle note.

An additional portion of the City's net assets, \$220.6 million (7.8 percent) for fiscal year 2004 and \$134.5 million (5.1 percent) for fiscal year 2003 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2004 and 2003, \$413.2 million (14.6 percent) and \$346.3 million (13.2 percent), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of both the current and previous fiscal years, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for the business-type activities.

Analysis of Changes in Net Assets

The City's total net assets increased by \$179.3 million and \$96.0 million during the fiscal years 2004 and 2003, respectively. These increases are explained in the government and business-type activities discussion herein, and are primarily a result of contributions from developers of infrastructure assets.

Changes in Net Assets

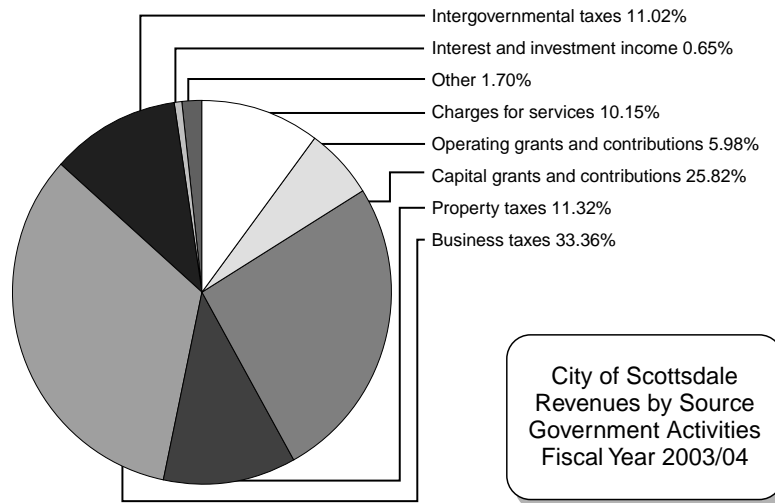
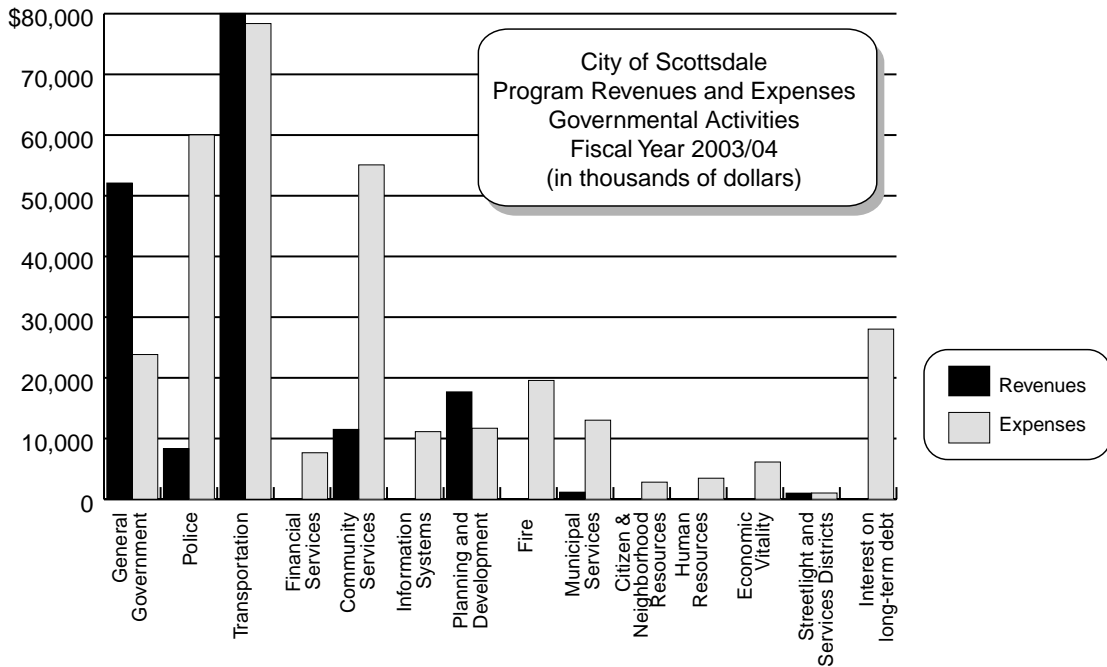
For the Years Ended June 30, 2004 and 2003 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for Services	\$ 41,575	\$ 35,501	\$ 115,624	\$ 110,616	\$ 157,199	\$ 146,117
Operating Grants and Contributions	24,508	21,219	-	-	24,508	21,219
Capital Grants and Contributions	105,794	70,369	71,709	28,487	177,503	98,856
General Revenues:						
Property Taxes	46,371	42,218	-	-	46,371	42,218
Business Taxes	136,668	124,935	-	-	136,668	124,935
Intergovernmental Taxes	45,163	46,971	-	-	45,163	46,971
Interest and Investment Income	2,655	4,108	973	1,493	3,628	5,601
Other	6,981	4,718	699	1,672	7,680	6,390
Total Revenues	<u>409,715</u>	<u>350,039</u>	<u>189,005</u>	<u>142,268</u>	<u>598,720</u>	<u>492,307</u>
Expenses						
General Government *	23,839	22,776	-	-	23,839	22,776
Police	60,027	54,469	-	-	60,027	54,469
Financial Services	7,655	7,883	-	-	7,655	7,883
Transportation	78,373	71,837	-	-	78,373	71,837
Community Services	55,087	52,222	-	-	55,087	52,222
Information Systems	11,135	11,901	-	-	11,135	11,901
Fire	19,570	18,127	-	-	19,570	18,127
Municipal Services	13,024	12,290	-	-	13,024	12,290
Citizen and Neighborhood Resources	2,812	2,433	-	-	2,812	2,433
Human Resources	3,462	3,601	-	-	3,462	3,601
Economic Vitality	6,130	6,421	-	-	6,130	6,421
Planning and Development	11,697	11,908	-	-	11,697	11,908
Streetlight and Services Districts	1,024	1,099	-	-	1,024	1,099
Interest on Long-term Debt	28,028	27,786	-	-	28,028	27,786
Water Utility	-	-	51,095	50,406	51,095	50,406
Sewer Utility	-	-	24,678	22,862	24,678	22,862
Airport	-	-	2,622	2,476	2,622	2,476
Solid Waste	-	-	15,153	13,783	15,153	13,783
Total Expenses	<u>321,863</u>	<u>304,753</u>	<u>93,548</u>	<u>89,527</u>	<u>415,411</u>	<u>394,280</u>
Increase in Net Assets Before Special Items and Transfers	87,852	45,286	95,457	52,741	183,309	98,027
Gain/(Loss) on Sale of Capital Asset	(240)	42	206	(917)	(34)	(875)
Special Item - Defeasance of Debt	(3,964)	-	-	-	(3,964)	-
Transfers	11,037	10,955	(11,037)	(10,955)	-	-
Increase in Net Assets	<u>94,685</u>	<u>56,283</u>	<u>84,626</u>	<u>40,869</u>	<u>179,311</u>	<u>97,152</u>
Net Assets at Beginning of Year *	<u>1,780,585</u>	<u>1,724,302</u>	<u>861,998</u>	<u>821,129</u>	<u>2,642,583</u>	<u>2,545,431</u>
Net Assets at End of Year	<u>\$ 1,875,270</u>	<u>\$ 1,780,585</u>	<u>\$ 946,624</u>	<u>\$ 861,998</u>	<u>\$ 2,821,894</u>	<u>\$ 2,642,583</u>

*Adjustment made to 2003 ending balance related to capital asset and debt removal, see Changes in Accounting Principle note.

Governmental activities. Governmental activities increased the City's net assets by \$94.7 million in fiscal year 2004 and \$55.1 million in fiscal year 2003, thereby accounting for 52.8 percent and 57.4 percent, respectively, of the total growth in the net assets of the City. The key factor of this increase is as follows:

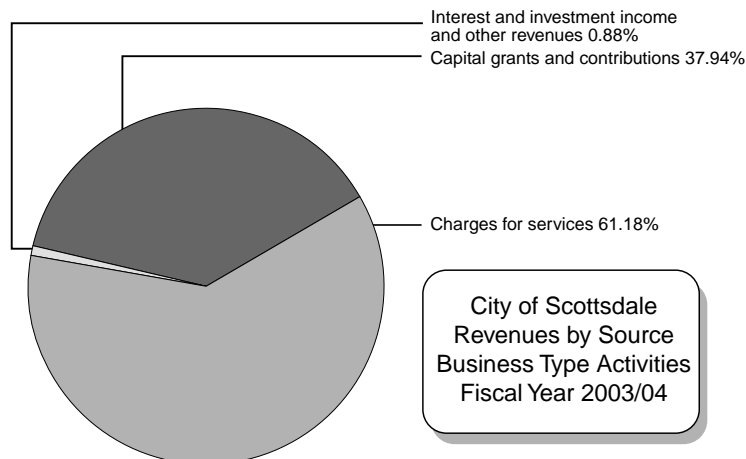
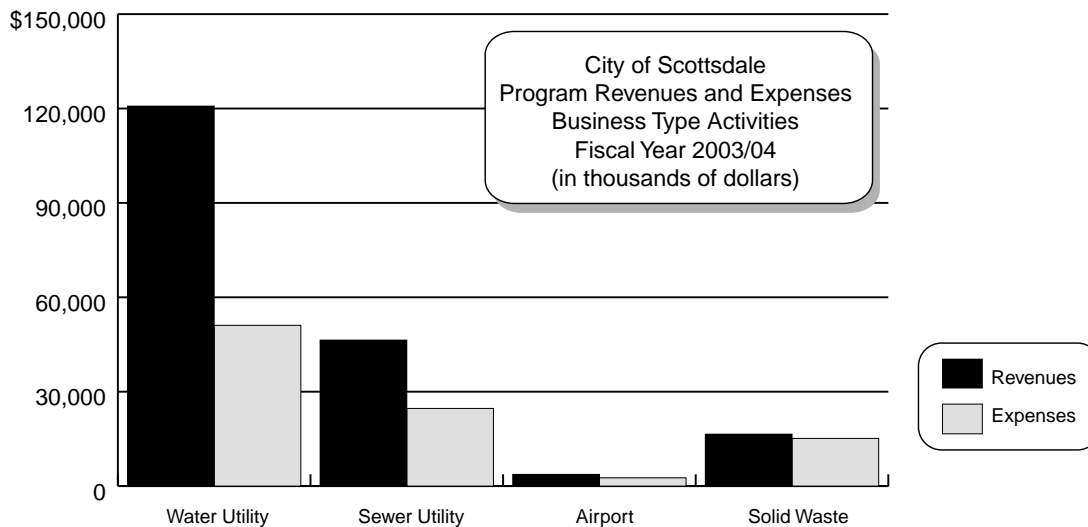
- For the first time in three years, City sales tax posted a year-over-year growth in the 2004 fiscal year of 9.5 percent. Although the property tax rate decreased for the fiscal year 2004 and was held constant for the fiscal year 2003, property tax revenues rose 9.8 percent and 6.9 percent, respectively, over the previous year due to increases in assessed valuation.



As shown in the "Program Revenues and Expenses for Governmental Activities" chart and the "Revenues by Source for Governmental Activities" chart, transportation is the largest function in expense (24.3 percent), followed by police (18.6 percent), and community services (17.1 percent). General revenues such as property, business, and privilege taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, business taxes are the largest single source of funds (33.4 percent), followed by capital grants and contributions (25.8 percent), and property taxes (11.3 percent).

Business-type activities. Business-type activities increased the City's net assets in fiscal years 2004 and 2003 by \$84.6 million and \$40.9 million, respectively, accounting for 47.2 percent and 42.6 percent, respectively, of the total growth in the City's net assets. The key factor of this increase is as follows:

- The Water and Sewer Utility Fund had capital contributions from developers and grantors resulting in \$70.9 million and \$26.8 million in revenue for fiscal years 2004 and 2003, respectively. The majority of this amount is from infrastructure donated from developers and development fees received as development continues throughout the City.



As shown in "Program Revenues and Expenses for Business Type Activities" and the "Revenues by Source for Business Type Activities" charts, the largest of Scottsdale's business-type activities, Water and Sewer utilities, each had expenses of \$51.1 million and \$24.7 million, respectively, in fiscal year 2004, followed by Solid Waste with operating expenses of \$15.2 million. For the fiscal year, revenues exceeded expenses in all four areas of business activity. Fees provided the largest share of revenues (61.2 percent) followed by capital grants and contributions (37.9 percent), which are largely developer contributions and development fees, for all of the business-type activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$317.5 million, an increase of \$46.6 million in comparison to the combined ending fund balances for fiscal year 2003 of \$270.9 million. The increase in the current year's fund balance is primarily due to the sale of new bonds during fiscal year 2004. Approximately \$306.3 million of the total for fiscal year 2004 and \$255.2 million of the total for fiscal year 2003 constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to pay

debt service (\$9.1 million and \$13.7 million for fiscal years 2004 and 2003, respectively); (2) for the repayment of a long-term loan from another fund (\$1.3 million and \$1.2 million for fiscal years 2004 and 2003, respectively) or; (3) to pay for the ongoing cost of the streetlight and services districts (\$891,000 and \$801,000 for fiscal years 2004 and 2003, respectively).

Revenues for governmental functions overall totaled approximately \$307.1 million in fiscal year 2004, an increase of 7.7 percent (\$22.0 million) over the previous year total of \$285.1 million. In fiscal year 2004 expenditures for governmental functions, totaled \$337.7 million, an increase by 3.3 percent (\$10.7 million) over the fiscal year 2003 total of \$327.0 million. In the fiscal years ended June 30, 2004 and 2003 expenditures for governmental functions exceeded revenues by approximately \$30.6 million (10.0 percent) and \$41.9 million (14.7 percent), respectively. The deficit in both years was due to the City financing some capital projects with debt proceeds. Decreases in the deficit from 2003 to 2004 were mainly due to increased revenues from taxes, fines and fees as well a decrease in expenditures for several City departments. A portion of this year's deficit was offset by transfers in from other funds.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$59.7 million, while total fund balance was \$61.9 million. The unreserved and total balances for the General Fund at the end of fiscal year 2003 were \$71.2 million and \$73.2 million, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 34.3 percent of the total General Fund expenditures of \$174.2 million in fiscal year 2004 and 42.0 percent of the total General Fund expenditures of \$169.7 million in fiscal year 2003. The total fund balance represents 35.5 percent and 43.1 percent of those same amounts for fiscal years 2004 and 2003, respectively. In fiscal year 2004 management has designated \$32.4 million of the General Fund unreserved fund balance for various uses.

For the third consecutive year the fund balance in the City's General Fund decreased. The decrease in fiscal year 2004 by \$11.4 million is mainly due

to the defeasance of outstanding debt and increases in expenditures for police, fire and interest on debt service, which were partially offset by increases in property and sales tax revenues. Fund balance designated at June 30, 2003 for bonds payables in the amount of \$33.7 million was used to defease outstanding debt during fiscal year 2004. Overall, the General Fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2004, of \$34.1 million, an increase of 24.9 percent over the comparable figure from the prior year of \$27.3 million.

The General Obligation Bond Debt Service fund is used to account for the accumulation of resources for, and the payment of, general obligation long-term debt principal, interest and related costs. At the end of the current fiscal year, the fund balance of the General Obligation Bond Debt Service Fund was \$3.5 million, a decrease of \$5.5 million from the \$9.0 million at the end of fiscal year 2003. The City used fund balance designated for debt service to defease \$5.5 million of General Obligation Bonds. The bonds were defeased to reduce the total debt service payments over the next seven years by \$7.2 million.

The General CIP Construction Capital Project fund accounts for the resources used to acquire, construct and improve major capital facilities, other than those financed by proprietary funds. At the end of the current fiscal year, the fund balance of the General CIP Construction Capital Project Fund was \$88.9 million. The fund balance at the end of fiscal year 2003 was \$81.2 million. The increase in fund balance is primarily due to amounts transferred from the General Fund to fund the pay-as-you-go Capital Improvement Plan as well as a decrease in spending for capital projects. Capital Improvement expenditures in 2004 and 2003 were \$25.0 million and \$32.3 million, respectively, a decrease of 22.6 percent.

Proprietary Funds

The City's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal years 2004 and 2003, the unrestricted net assets for the Water and Sewer Utility were \$265.4 million and \$181.5 million,

respectively; Scottsdale Airport were \$1.2 million and \$100,000, respectively; and the Solid Waste Utility Fund \$5.8 million and \$4.5 million, respectively. The Internal Service Funds, which are used to account for certain governmental activities also had unrestricted net assets of \$15.6 million and \$16.6 million, respectively.

The total growth in net assets for the Enterprise Funds was \$84.6 million and \$40.9 million for fiscal years 2004 and 2003, respectively. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. In particular, the Scottsdale Water and Sewer net assets increased by \$82.0 million due to capital contributions of \$70.9 million as well as increased revenues and reduced interest expense.

Fiduciary Funds

The City maintains Fiduciary Funds for the assets of the Family Self-Sufficiency Agency Fund, the Retainage Escrow Agency Fund, the Handicap Scholarship Private Purpose Trust Fund, and the Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund. The Hospital Trust Fund manages the investment of monies held in trust for the redevelopment of the Scottsdale Memorial Hospital. As of the end of fiscal year 2004, the net assets of the Scottsdale Memorial Hospital Trust Fund totaled \$364,000, representing a decrease of \$331,000 in total net assets since June 30, 2003. The change is primarily related to increased expenses directly related to the redevelopment area. Changes to the other Fiduciary Funds were immaterial for the fiscal year.

General Fund Budgetary Highlights

The City's final budget differs from the original budget due to adjustments that were made during the fiscal year. In fiscal year 2004, there was a slight increase in expenditure budgets; however, the City maintained an excess of revenues over expenditures and did not exceed the total appropriations for the year. Net budget increases for expenditures by department totaled \$434,000 and \$1.1 million for fiscal years 2004 and 2003, respectively. The net increase is defined as follows:

\$279,000	.....	General Government
(\$31,000)	.....	Financial Services
\$102,000	.....	Police
(\$17,000)	.....	Community Services
\$11,000	.....	Information Systems
\$100,000	.....	Fire
(\$14,000)	.....	Citizen & Neighborhood Resources
\$2,000	.....	Human Resources
(\$50,000)	.....	Economic Vitality
(\$48,000)	.....	Planning and Development
\$100,000	.....	Streetlight and Service District

During the year, actual revenues and other resources exceeded budgetary estimates by \$18.9 million compared to a shortage of \$3.6 million in fiscal year 2003.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2004 and 2003, amount to \$2.9 billion and \$2.8 billion, respectively (net of accumulated depreciation). Capital assets include land, buildings and improvements, water and sewer systems, water rights vehicles, machinery and equipment, furniture and fixtures, and construction in progress. The total increase in the City's capital assets (net of accumulated depreciation) for the fiscal years 2004 and 2003 was 5.7 percent as shown in the table below.

Capital Assets, Net of Depreciation
June 30, 2004 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 413,520	\$ 349,826	\$ 24,162	\$ 13,916	\$ 437,682	\$ 363,742
Buildings and Land Improvements *	135,751	133,460	10,757	9,295	146,508	142,755
Streets and Storm Drains	1,433,989	1,404,787	-	-	1,433,989	1,404,787
Machinery and Equipment	17,807	21,280	3,388	3,656	21,195	24,936
Water Rights	-	-	64,688	64,688	64,688	64,688
Water System	-	-	406,412	343,606	406,412	343,606
Sewer System	-	-	258,737	250,282	258,737	250,282
Motor Vehicles and Maintenance by Fleet	23,450	22,956	-	-	23,450	22,956
Furniture, Fixtures and Office Equipment	-	-	178	234	178	234
Construction in Progress	66,165	67,516	52,208	68,963	118,373	136,479
Total	\$ 2,090,682	\$ 1,999,825	\$ 820,530	\$ 754,640	\$ 2,911,212	\$ 2,754,465

*Adjustment made to 2003 ending balance related to capital asset removal, see Changes in Accounting Principle note.

Major capital asset events during the current fiscal year included the following:

- Construction in progress on the Chaparral Water Treatment Plant – A multiple construction contract project accounting for \$13.8 million in budgeted funds. The City's water and sewer 5-year capital improvement plan includes significant cost impacts from "unfunded" federal water quality mandates for treatment of arsenic and disinfection by-product requirements, in addition to plant and infrastructure expansion to accommodate growth. The most significant CIP cash expenditures forecasted in the 5-year plan include: the Chaparral Water Treatment Plant construction (\$56 million), Arsenic Mitigation Treatment (\$56 million), the CAP Water Treatment Plant Expansion (\$53 million), the 91st Avenue Wastewater Treatment Plant expansion and improvements (\$51 million), Water Rights Acquisition (\$25 million), and the Water Reclamation Plant Phase 3 Expansion (\$20 million).
- The acquisition of an additional 251 acres, totaling \$21.3 million, for inclusion in the McDowell Sonoran Preserve.
- Construction continued on Scottsdale Road from Indian Bend to Gold Dust Road totaling \$8.7 million this year.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Section IV in the Notes to the Financial Statements for further information regarding capital assets.

Debt Administration

At the end of the fiscal years 2004 and 2003, the City had total long-term obligations outstanding of \$737.6 million and \$659.0 million, respectively. Of these amounts, \$400.2 million and \$319.3 million, respectively, are general obligation bonds backed by the full faith and credit of the City. The remainder includes revenue bonds, certificates of participation, and other obligations of \$337.4 million and \$339.7 million, respectively.

Outstanding Debt (in thousands of dollars)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 389,598	\$ 305,003	\$ 10,651	\$ 14,323	\$ 400,249	\$ 319,326
Revenue Bonds	8,475	10,990	68,365	71,230	76,840	82,220
Municipal Property Corporation Bonds	4,850	41,955	83,365	10,010	88,215	51,965
Scottsdale Preserve Authority Bonds	85,980	88,270	-	-	85,980	88,270
Special Assessments Bonds	8,755	11,140	-	-	8,755	11,140
Community Facilities Districts General						
Obligation Bonds	44,950	46,355	-	-	44,950	46,355
Add Deferred Issuance Premiums	8,741	6,864	6,617	188	15,358	7,052
Less Deferred Amounts on Refunding	(9,153)	(8,327)	(1,819)	(241)	(10,972)	(8,568)
Total Bonds Payable	542,196	502,250	167,179	95,510	709,375	597,760
Contracts Payable *	13,702	14,557	-	-	13,702	14,557
Capital Lease *	-	-	-	-	-	-
Compensated Absences	13,038	11,495	1,531	1,345	14,569	12,840
Total Long-term Liabilities	\$ 568,936	\$ 528,302	\$ 168,710	\$ 96,855	\$ 737,646	\$ 625,157

*Adjustment made to 2003 ending balance related to contract payable and capital lease removal, see Changes in Accounting Principle note.

During fiscal year 2004 the City took advantage of the historic low interest rates and refunded or defeased the following:

Refunded Bonds (in thousands of dollars)

Type of Debt	Amount Refunded	Average Interest Rate	Reduction in Total Debt Service Payments
1993 GO Bonds	\$ 16,260	4.77%	\$ 1,082
1998 Excise Tax Revenue Bonds	22,770	5.13%	744
1989 Water and Sewer Excise Tax Revenue Bonds	18,885	4.37%	843
	<u>\$ 57,915</u>		<u>\$ 2,669</u>

Defeased Bonds (in thousands of dollars)

Type of Debt	Amount Defeased	Average Interest Rate	Reduction in Total Debt Service Payments
2002 Excise Tax Revenue Delivery Refunding Bonds	\$ 29,310	5.50%	\$ 39,277
2002 & 2001 GO Bonds	7,000	5.15%	7,616
1995 Taxable Excise Revenue Bonds	2,270	5.00%	2,551
1993 GO Bonds	5,505	5.20%	7,169
	<u>\$ 44,085</u>		<u>\$ 56,613</u>

Costs related to the defeasances were considered a special item for the governmental activities.

During fiscal year 2004, the City's total bonded debt increased by approximately \$111.6 million, in contrast to the decrease of approximately \$25.5 million in fiscal year 2003. Although the City reduced several bonds payable balances, the key contributor to the increase was the sale of new bonds during fiscal year 2004 in the amount of \$113.4 million.

The City also determined that due to unforeseen economic circumstances, an obligation formerly classified as a capital lease was more appropriately classified as a contingent operating lease for financial purposes. Because the payments under the agreement are based on the sales tax collections on a certain site and subject to accrual by the City once the sales tax collection and remittance has occurred, minimum payments cannot be determined at this time. The parking asset related to this agreement and the related debt of \$28.8 million were removed from the Statement of Net Assets because title of the asset does not transfer for 150 years.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2004 and 2003 is \$163.5 million and \$139.9 million, respectively, in the 6% capacity and \$475.3 million and \$467.9 million, respectively, in the 20% capacity. Additional information on the debt limitations and capacities may be found in Section IV of the Notes to the financial statements and also in Table XV in the statistical section of this report.

The City's ratings on uninsured General Obligation Bonds as provided above were affirmed by the Rating Agencies in April 2004 in conjunction with the issuance of General Obligation Refunding Bonds. Rating Agencies also reviewed and confirmed several of the revenue based bond ratings at various times throughout the year.

Subsequent to June 30, 2004 the following events related to debt occurred:

On July 6, 2004, the City entered into a Development Agreement with the Arizona State University Foundation. The agreement will facilitate the development of an area of the City known as Los Arcos. Under the terms of the agreement, the City will acquire the Los Arcos property for \$41.5 million, plus closing costs, for a total investment estimated at no more than \$42.0 million. The City will also provide demolition, environmental remediation (if any), and grading for the property, and construction or installation of streets, landscaping, utilities, street lighting, parking, public art, plazas, and other identified improvements (collectively referred to as "Infrastructure"). The total cost of the infrastructure to be borne by the City shall not exceed \$45.0 million. The City's total expenditure for land acquisition and improvements is thus capped at approximately \$87.0 million (exclusive of financing costs), of which approximately \$81.4 million is allocable to the leased premises (37 acres out of the total 42 acres). The land was purchased on August 9, 2004. In order to finance the purchase of the land the City sold \$40.76 Million in MPC bonds on September 15, 2004. These bonds are for a 30-year term and are interest only for the first 5 years.

On July 14, 2004, the City completed a purchase of 383 acres of land for preservation purposes in the northern portion of the City. The purchase totaled \$46 million. This purchase was financed with General Obligation Bonds specified for the purchase of preservation land and is supported by a separate sales tax rate.

Additional information in the City's long-term debt can be found in Section IV of the Notes to the Financial Statements.

City of Scottsdale Bonded Debt Ratings
As of June 30, 2004

	Moody's Investors Service	Standard and Poor's Rating Group	Fitch Investors Service, Inc.
General Obligation (GO)	Aaa	AAA	AAA
Municipal Property Corp (MPC)	Aa1	AA+	AA+
Water and Sewer Revenue (W&S)	Aa1	AA+	AA+
Highway User Revenue Fund (HURF)	Aa3	AA	Not Rated
Scottsdale Preserve Authority (SPA)	Aa3	AA-	AA-

Economic Factors and Next Year's Budget and Rates

The City of Scottsdale's fiscal year 2005 budget reflects the early stages of an apparent recovery in the national, statewide and local economy after an unprecedented three years of declining revenues for the City. The fiscal year 2005 budget is based on more optimistic economic forecast than the City has seen since fiscal year 2001. However, the optimism is guarded. The magnitude and timing of the economic recovery is uncertain. The City is past a historic period of expansion. Its economy is maturing and moving to a slower – and more sustainable – level of growth.

The projected modest improvements in the City's revenues and savings carried over from the 2003/04 fiscal year will allow Scottsdale to meet its most pressing needs for the 2004/05 fiscal year. These needs include the transition to a municipal fire department, an increased focus on code enforcement and property maintenance in the mature portions of the City, and continued emphasis on economic vitality and redevelopment.

On May 18, 2004 the citizens of Scottsdale voted to increase the transaction privilege (sales) tax rate from 1.4% to 1.65%. The additional privilege (sales) tax will be used to fund the preservation of the McDowell Mountains and for Police/Fire and Public Safety.

All of the above factors were considered in preparing the City's budget for fiscal year 2005. For the 2004/05 budget year:

- The City continued to use a zero based, "program budget" approach, which focuses on the quality of each service citizens receive from the City, whether the service is provided by one department or several. The staff also continued to develop a more realistic and precise plan for continued investment in the City's basic infrastructure and public facilities, combined with a more comprehensive analysis of maintenance and operating costs.
- Under the proposed budget, General Fund expenditures, debt payments and transfers-out to other funds will increase from \$194.9 million in the current fiscal year to \$214.1 million. The largest single factor in the increase is the transition to a municipal fire department, including one-time capital costs for new equipment. From a historic perspective, while General Fund expenditures, debt payments and transfers-out are increasing over last year, they remain below the \$218.2 million budget adopted in fiscal year 2002.
- Because of the new public safety revenue, the adopted operating budget includes approximately \$4.2 million to address high priority public safety needs such as traffic enforcement, additional police officers for the southern area encompassed by District 1, computer crimes investigations, upgrades to the police records system, enhancements to the crime laboratory, increased security at public buildings, upgrades to the photo radar program and the formation of a park and preserve police patrol unit.
- The proposed budget includes \$5.8 million for equipment and other capital costs associated with the planned transition to a municipal fire department by July 2005. It also includes 13.5 new positions in other departments, such as Fleet Management and Human Resources, which will be phased in throughout the year to support the transition to a new municipal department. The estimated cost of the support positions is about \$520,000. The City's ongoing costs for these positions will be partially offset next fiscal year, when the City no longer is continuing to pay for the Rural/Metro contract. The proposed budget also includes additional firefighter positions to staff a new station at Jomax and Scottsdale roads.
- The budget proposes adding the equivalent of 8.84 positions at an estimated cost of \$440,000. These are the first new staff positions (unrelated to the fire transition) added to the General Fund budget since the FY 2002/03 budget. They include two code enforcement positions, two added positions in Economic Vitality focusing on job-creation, revenue enhancement and economic research, an administrative support position for the new Downtown Group, an additional technician for building maintenance needs, a position in the mailroom to help with increased security and screening, an added "K-9" police officer to enhance building security, and added part-time after-school recreation program leaders.
- A 2.5 percent cost-of-living pay adjustment for City personnel. Employees have not received a cost-of-living adjustment since January of 2003, and many are paying higher costs for health care and higher retirement system deductions. The total cost for the adjustment is \$2.7 million.
- The draft budget also reflects Scottsdale's effort to continue fostering economic vitality in the downtown area. It includes approximately \$465,000 for an Enhanced Maintenance Services Pilot Program to provide a higher level of maintenance, especially litter and refuse pick-up, for the downtown area.
- The proposed budget continues the practice of setting aside a reserve equal to 10 percent of the General Fund and Highway User Fund program budgets to ensure the City can provide basic services in the event of major emergencies.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Scottsdale
Financial Services Department
Accounting Division
7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251
(480) 312-2437
Or visit our website at:
<http://www.scottsdaleaz.gov/finance/>

Basic Financial Statements

Statement of Net Assets

June 30, 2004 (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Investments	\$ 339,444	\$ 127,800	\$ 467,244
Cash with Fiscal Agent	49,491	83,764	133,255
Receivable (net of uncollectible amounts of \$11,495):			
Property Taxes and Penalties	5,046	-	5,046
Other Local Taxes	16,604	-	16,604
Intergovernmental	6,116	405	6,521
Charges for Services	-	12,600	12,600
Interest and Other	18,031	1,385	19,416
Supplies Inventory	548	-	548
Total Current Assets	<u>435,280</u>	<u>225,954</u>	<u>661,234</u>
Restricted Assets:			
Restricted Cash, Cash Equivalents, and Investments:			
Water and Sewer System Replacement	-	17,237	17,237
Acquisition and Construction Reserve Development Fees	-	3,605	3,605
Customer Advances/Deposits and Deferred Revenue	-	6,396	6,396
Total Restricted Assets	<u>-</u>	<u>27,238</u>	<u>27,238</u>
Noncurrent Assets:			
Equity in Joint Venture	-	71,290	71,290
Deferred Charges	1,625	472	2,097
Capital Assets:			
Land, Water Rights, and Construction in Progress	479,685	141,058	620,743
Facilities, Infrastructure, and Equipment (net of depreciation)	1,610,997	679,472	2,290,469
Total Capital Assets (net of accumulated depreciation)	<u>2,090,682</u>	<u>820,530</u>	<u>2,911,212</u>
Total Noncurrent Assets	<u>2,092,307</u>	<u>892,292</u>	<u>2,984,599</u>
Total Assets	<u>2,527,587</u>	<u>1,145,484</u>	<u>3,673,071</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	13,895	11,771	25,666
Accrued Payroll and Benefits	7,675	859	8,534
Accrued Compensated Absences	2,086	239	2,325
Claims Payable	14,678	-	14,678
Due to Other Governments	28	-	28
Matured Bonds, Loans, Other Payables	28,665	9,050	37,715
Matured Bonds, Loans, Other Interest Payable	10,625	1,835	12,460
Unearned Revenue	1,778	-	1,778
Guaranty and Other Deposits	3,745	-	3,745
Other Liabilities	206	-	206
Total Current Liabilities	<u>83,381</u>	<u>23,754</u>	<u>107,135</u>
Liabilities Payable from Restricted Assets:			
Customer Advances and Deposits	-	1,319	1,319
Deferred Revenue	-	5,077	5,077
Total Liabilities Payable from Restricted Assets	<u>-</u>	<u>6,396</u>	<u>6,396</u>
Noncurrent Liabilities:			
Accrued Compensated Absences	13,038	1,531	14,569
Bonds, Loans, and Other Payables-Due within One Year	28,402	7,128	35,530
Bonds, Loans, and Other Payables-Due in More Than One Year	527,496	160,051	687,547
Total Noncurrent Liabilities	<u>568,936</u>	<u>168,710</u>	<u>737,646</u>
Total Liabilities	<u>652,317</u>	<u>198,860</u>	<u>851,177</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,548,486	653,351	2,201,837
Restricted:			
Debt Service	11,745	-	11,745
Transportation and Preserve Privilege Tax Activities	96,420	-	96,420
Capital Projects	90,315	-	90,315
Grants	396	-	396
Streetlight and Service District	891	-	891
Water and Sewer System Replacement	-	17,237	17,237
Acquisition and Construction	-	3,605	3,605
Unrestricted	127,017	272,431	399,448
Total Net Assets	<u>\$ 1,875,270</u>	<u>\$ 946,624</u>	<u>\$ 2,821,894</u>

The notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Year Ended June 30, 2004 (in thousands of dollars)

Function/Programs	Program Revenues				Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:							
General Government	\$ 23,839	\$ 12,337	\$ 216	\$ 39,541	\$ 28,255	\$ -	\$ 28,255
Police	60,027	6,760	1,558	7	(51,702)	-	(51,702)
Financial Services	7,655	-	-	-	(7,655)	-	(7,655)
Transportation	78,373	405	14,930	64,710	1,672	-	1,672
Community Services	55,087	3,759	7,747	-	(43,581)	-	(43,581)
Information Systems	11,135	-	-	-	(11,135)	-	(11,135)
Fire	19,570	-	-	-	(19,570)	-	(19,570)
Municipal Services	13,024	-	-	1,162	(11,862)	-	(11,862)
Citizen and Neighborhood Resources	2,812	-	-	-	(2,812)	-	(2,812)
Human Resources	3,462	-	7	-	(3,455)	-	(3,455)
Economic Vitality	6,130	-	50	-	(6,080)	-	(6,080)
Planning and Development	11,697	17,314	-	374	5,991	-	5,991
Streetlight and Services Districts	1,024	1,000	-	-	(24)	-	(24)
Interest on Long-term Debt	28,028	-	-	-	(28,028)	-	(28,028)
Total Governmental Activities	321,863	41,575	24,508	105,794	(149,986)	-	(149,986)
Business-Type Activities:							
Water Utility	51,095	70,613	-	50,139	-	69,657	69,657
Sewer Utility	24,678	25,587	-	20,799	-	21,708	21,708
Airport	2,622	2,936	-	771	-	1,085	1,085
Solid Waste	15,153	16,488	-	-	-	1,335	1,335
Total Business-Type Activities	93,548	115,624	-	71,709	-	93,785	93,785
Total Government	\$ 415,411	\$ 157,199	\$ 24,508	\$ 177,503	(149,986)	93,785	(56,201)
General Revenues:							
Taxes:							
Property Taxes					46,371	-	46,371
Sales and Use Taxes					128,258	-	128,258
Franchise Taxes					8,410	-	8,410
Intergovernmental:							
State Share Sales					17,054	-	17,054
State Revenue Sharing					18,278	-	18,278
Other					9,831	-	9,831
Interest and Investment Income					2,655	973	3,628
Other Revenue					6,981	699	7,680
Gain (Loss) on Sale of Capital Assets					(240)	206	(34)
Special Item - Defeasance of Debt					(3,964)	-	(3,964)
Transfers					11,037	(11,037)	-
Total General Revenues, Special Items, and Transfers					244,671	(9,159)	235,512
Change in Net Assets					94,685	84,626	179,311
Net Assets - Beginning (as restated)					1,780,585	861,998	2,642,583
Net Assets - Ending					\$ 1,875,270	\$ 946,624	\$ 2,821,894

The notes to the financial statements are an integral part of this statement.

Balance Sheet

Governmental Funds

June 30, 2004 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 61,619	\$ 3,227	\$ 91,220	\$ 152,232	\$ 308,298
Cash with Fiscal Agent	-	23,746	-	25,745	49,491
Receivables (net of allowance for uncollectibles):					
Interest	372	-	347	362	1,081
Privilege Tax	7,755	-	-	3,028	10,783
Hotel/Motel Tax	365	-	-	-	365
Property Tax	453	681	-	200	1,334
State Shared Sales Tax	1,457	-	-	-	1,457
Franchise Fee	1,932	-	-	-	1,932
Court Receivable	3,694	-	-	-	3,694
Highway User Tax	-	-	-	1,213	1,213
Auto Lieu Tax	854	-	-	-	854
Intergovernmental	-	-	-	5,293	5,293
Grants	-	-	-	823	823
Special Assessments	-	-	-	7,932	7,932
Note	4,000	-	-	-	4,000
Miscellaneous	3,354	-	-	971	4,325
Due from Other Funds	314	-	-	-	314
Supplies Inventory	207	-	-	-	207
Advances to Other Funds	1,262	-	942	-	2,204
Total Assets	\$ 87,638	\$ 27,654	\$ 92,509	\$ 197,799	\$ 405,600

(continued)

Balance Sheet

Governmental Funds

June 30, 2004 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 2,910	\$ 1	\$ 3,602	\$ 5,956	\$ 12,469
Accrued Payroll and Benefits	9,101	-	29	433	9,563
Due to Other Funds	-	-	-	314	314
Matured Bond Interest Payable	-	7,117	-	3,508	10,625
Matured Bonds Payable	-	16,775	-	11,890	28,665
Deferred Revenue					
Property Tax	202	293	-	128	623
Special Assessments	-	-	-	7,932	7,932
Court	3,694	-	-	-	3,694
Tax Audit	2,228	-	-	-	2,228
Intergovernmental	-	-	-	1,542	1,542
Other	4,236	-	-	-	4,236
Advances From Other Funds	-	-	-	2,204	2,204
Due to Other Governments	-	-	28	-	28
Guaranty and Other Deposits	3,234	-	-	511	3,745
Other	173	-	-	33	206
Total Liabilities	<u>25,778</u>	<u>24,186</u>	<u>3,659</u>	<u>34,451</u>	<u>88,074</u>
Fund Balances:					
Reserved for:					
Advances	1,262	-	-	-	1,262
Streetlight and Services Districts	891	-	-	-	891
Debt Service	-	3,468	-	5,654	9,122
Unreserved, reported in:					
General Fund - Designated	32,407	-	-	-	32,407
General Fund - Undesignated	27,300	-	-	-	27,300
Capital Projects Funds	-	-	88,850	135,572	224,422
Special Revenue Funds	-	-	-	22,122	22,122
Total Fund Balances	<u>61,860</u>	<u>3,468</u>	<u>88,850</u>	<u>163,348</u>	<u>317,526</u>
Total Liabilities and Fund Balances	<u>\$ 87,638</u>	<u>\$ 27,654</u>	<u>\$ 92,509</u>	<u>\$ 197,799</u>	<u>\$ 405,600</u>

The notes to the financial statements are an integral part of this statement.

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

June 30, 2004 (in thousands of dollars)

Fund Balances -Total Governmental Funds	\$ 317,526
Amounts reported for governmental activities in the statement of net assets are different because (see Section II A):	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds.	2,065,310
Bond issuance costs are not financial resources and, therefore, are not reported in the funds.	1,625
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(568,614)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	18,477
Internal Service Funds are used by management to charge the costs of certain activities, such as, insurance and vehicles to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.	<u>40,946</u>
Net Assets of Governmental Activities	<u>\$ 1,875,270</u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes - Local:					
Property	\$ 16,415	\$ 25,286	\$ -	\$ 4,387	\$ 46,088
Transaction Privilege	86,547	-	-	33,609	120,156
Transient Occupancy	7,227	-	-	-	7,227
Light and Power Franchise	5,488	-	-	-	5,488
Cable TV Franchise	2,740	-	-	-	2,740
Salt River Project In-Lieu	182	-	-	-	182
Fire Insurance Premium Tax	481	-	-	-	481
Taxes - Intergovernmental:					
State-Shared Sales	17,054	-	-	-	17,054
State Revenue Sharing	18,278	-	-	-	18,278
Auto Lieu Tax	8,214	-	-	-	8,214
Highway User Tax	-	-	-	14,034	14,034
Local Transportation Assistance Fund	-	-	-	1,136	1,136
Business and Liquor Licenses	1,813	-	-	-	1,813
Charges for Current Services:					
Building and Related Permits	17,291	-	-	23	17,314
Recreation Fees	2,440	-	-	852	3,292
Westworld Equestrian Facility Fees	1,795	-	-	-	1,795
Fines, Fees and Forfeitures:					
Court Fines	4,307	-	-	11	4,318
Parking	203	-	-	-	203
Photo Radar	1,265	-	-	-	1,265
Court Enhancement	-	-	-	668	668
Library	467	-	-	-	467
Special Assessments	-	-	-	2,558	2,558
Property Rental	3,052	-	-	160	3,212
Interest Earnings	907	-	831	647	2,385
Intergovernmental:					
Federal Grants	-	-	-	10,010	10,010
State Grants	-	-	-	443	443
Miscellaneous	523	-	444	390	1,357
Developer Contributions	374	-	281	107	762
Streetlight and Services Districts	1,000	-	-	-	1,000
Contributions and Donations	69	-	56	522	647
Reimbursements from Outside Sources	579	-	39	1,041	1,659
Indirect Costs	8,729	-	-	-	8,729
Other	825	-	1,172	113	2,110
Total Revenues	208,265	25,286	2,823	70,711	307,085

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
EXPENDITURES					
Current:					
General Government	15,522	-	-	599	16,121
Police	54,807	-	-	703	55,510
Financial Services	7,222	-	-	-	7,222
Transportation	-	-	-	9,399	9,399
Community Services	41,583	-	-	8,911	50,494
Information Systems	7,328	-	-	-	7,328
Fire	19,249	-	-	16	19,265
Municipal Services	499	-	-	8,275	8,774
Citizen and Neighborhood Resources	2,754	-	-	-	2,754
Human Resources	3,289	-	-	1	3,290
Economic Vitality	6,199	-	-	-	6,199
Planning and Development	11,199	-	-	19	11,218
Streetlight and Services Districts	1,024	-	-	-	1,024
Debt Service:					
Principal	210	16,775	-	14,920	31,905
Interest and Fiscal Charges	3,146	14,100	-	8,206	25,452
Bond Issuance Costs	-	188	-	398	586
Capital Improvements	141	-	25,017	55,991	81,149
Total Expenditures	174,172	31,063	25,017	107,438	337,690
Excess (Deficiency) of Revenues Over Expenditures					
	34,093	(5,777)	(22,194)	(36,727)	(30,605)
OTHER FINANCING SOURCES (USES)					
Transfers in	7,529	12,654	31,232	85,628	137,043
Transfers out	(52,990)	-	(1,425)	(71,854)	(126,269)
Refunding Bonds Issued	-	16,265	-	22,925	39,190
Long-term Capital-Related Debt Issued	-	-	-	113,400	113,400
Premium on Bonds Issued	-	1,583	-	2,846	4,429
Payment to Bond Refunding Escrow Agent	-	(30,263)	-	(60,271)	(90,534)
Total Other Financing Sources and (Uses)	(45,461)	239	29,807	92,674	77,259
Net Change in Fund Balances					
	(11,368)	(5,538)	7,613	55,947	46,654
Fund Balances - Beginning					
	73,228	9,006	81,237	107,401	270,872
Fund Balances - Ending					
	\$ 61,860	\$ 3,468	\$ 88,850	\$ 163,348	\$ 317,526

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2004 (in thousands of dollars)

Net Change in Fund Balances - Total Governmental Funds	\$	46,654
<p>Amounts reported for governmental activities in the statement of activities are different because (see Section II B):</p>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		(11,340)
Donations of capital assets are not reflected on the governmental fund statements but are shown in the statement of activities.		103,049
Some expenses reported in the statement of activities do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.		(1,499)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,365)
Bond issuance costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net assets. This is the amount by which current year bond issuance costs exceed amortization expense in the current period.		158
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction; however, has any effect on net assets. This is the amount by which bond proceeds exceeded principal retirement in the current period.		(38,544)
Additional accrued interest calculated on bonds and notes payable.		(2,148)
The net revenues of certain activities of internal service funds is reported with governmental activities.		<u>(280)</u>
Changes in Net Assets of Governmental Activities	\$	<u>94,685</u>

The notes to the financial statements are an integral part of this statement.

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local:						
Property	\$ 16,573	\$ 16,573	\$ 16,415	\$ -	\$ 16,415	\$ (158)
Transaction Privilege	77,378	77,378	86,547	-	86,547	9,169
Transient Occupancy	6,600	6,600	7,227	-	7,227	627
Light and Power Franchise	5,464	5,464	5,488	-	5,488	24
Cable TV Franchise	2,300	2,300	2,740	-	2,740	440
Salt River Project In-Lieu	203	203	182	-	182	(21)
Fire Insurance Premium Tax	335	335	481	-	481	146
Taxes - Intergovernmental:						
State-Shared Sales	15,415	15,415	17,054	-	17,054	1,639
State Revenue Sharing	18,017	18,017	18,278	-	18,278	261
Auto Lieu Tax	6,941	6,941	8,214	-	8,214	1,273
Business and Liquor Licenses	1,756	1,756	1,813	-	1,813	57
Charges for Current Services:						
Building and Related Permits	13,500	13,500	17,291	-	17,291	3,791
Recreation Fees	2,183	2,183	2,440	-	2,440	257
Westworld Equestrian Facility Fees	1,493	1,446	1,795	-	1,795	349
Fines, Fees and Forfeitures:						
Court Fines	3,714	3,714	4,307	-	4,307	593
Parking	142	142	203	-	203	61
Photo Radar	1,080	1,080	1,265	-	1,265	185
Library	454	454	467	-	467	13
Property Rental	3,280	3,327	3,052	-	3,052	(275)
Interest Earnings	750	750	1,743	(836)	907	993
Intergovernmental:						
Miscellaneous	-	-	-	523	523	-
Developer Contributions	-	-	-	374	374	-
Streetlight and Services Districts	1,163	1,163	1,000	-	1,000	(163)
Contributions and Donations	-	-	-	69	69	-
Reimbursements from Outside Sources	230	230	579	-	579	349
Indirect Costs	8,729	8,729	8,729	-	8,729	-
Other	1,500	1,500	825	-	825	(675)
Total Revenues	<u>189,200</u>	<u>189,200</u>	<u>208,135</u>	<u>130</u>	<u>208,265</u>	<u>18,935</u>
EXPENDITURES						
Current:						
General Government	16,134	16,413	15,395	127	15,522	1,018
Police	54,468	54,570	54,536	271	54,807	34
Financial Services	7,488	7,457	7,072	150	7,222	385
Community Services	42,816	42,799	41,324	259	41,583	1,475
Information Systems	7,536	7,547	7,234	94	7,328	313
Fire	19,469	19,569	19,247	2	19,249	322
Municipal Services	540	540	327	172	499	213
Citizen and Neighborhood Resources	2,872	2,858	2,758	(4)	2,754	100
Human Resources	3,182	3,184	3,157	132	3,289	27
Economic Vitality	6,514	6,464	6,198	1	6,199	266
Planning and Development	12,564	12,516	11,184	15	11,199	1,332
Streetlight and Services District	1,163	1,263	1,024	-	1,024	239
Debt Service						
Principal	1,586	500	210	-	210	290
Interest and Fiscal Charges	2,329	3,415	3,146	-	3,146	269
Capital Improvements	-	-	-	141	141	-
Total Expenditures	<u>178,661</u>	<u>179,095</u>	<u>172,812</u>	<u>1,360</u>	<u>174,172</u>	<u>6,283</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,539</u>	<u>10,105</u>	<u>35,323</u>	<u>(1,230)</u>	<u>34,093</u>	<u>25,218</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	7,869	7,869	7,529	-	7,529	(340)
Transfers Out	(18,408)	(17,974)	(52,990)	-	(52,990)	(35,016)
Total Other Financing Sources and (Uses)	<u>(10,539)</u>	<u>(10,105)</u>	<u>(45,461)</u>	<u>-</u>	<u>(45,461)</u>	<u>(35,356)</u>
Net Change in Fund Balance	-	-	(10,138)	(1,230)	(11,368)	(10,138)
Fund Balance - Beginning	-	-	73,228	-	73,228	73,228
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,090</u>	<u>\$ (1,230)</u>	<u>\$ 61,860</u>	<u>\$ 63,090</u>

The notes to the financial statements are an integral part of this statement.

General Fund

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2004 (in thousands of dollars)

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded for budget purposes:

Unrealized Loss on Investments	\$	(836)
Miscellaneous Items		966
		<hr/>
Total Revenue Reconciling Items:		130

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

Claims and Compensated Absences		1,168
Bad Debt Expense		51
Capital Improvement		141
		<hr/>
Total Expenditure Reconciling Items:		1,360

Net Decrease in Fund Balance - Budget to GAAP	\$	<u>(1,230)</u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets

Proprietary Funds

June 30, 2004 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	\$ 122,550	\$ 852	\$ 4,398	\$ 127,800	\$ 31,146
Cash with Fiscal Agent	83,471	-	293	83,764	-
Receivable (net of allowance for uncollectibles):					
Property Tax	-	-	-	-	18
Charges for Services	10,262	-	2,338	12,600	-
Intergovernmental	6	399	-	405	-
Interest	659	2	20	681	117
Miscellaneous	489	170	45	704	576
Supplies Inventory	-	-	-	-	341
Total Current Assets	217,437	1,423	7,094	225,954	32,198
Restricted Assets:					
Restricted Cash, Cash Equivalents, and Investments:					
Water and Sewer System Replacement	17,237	-	-	17,237	-
Development Fees	3,605	-	-	3,605	-
Customer Advances/Deposits and Deferred Revenue	6,338	58	-	6,396	-
Total Restricted Assets	27,180	58	-	27,238	-
Noncurrent Assets:					
Equity in Joint Venture	71,290	-	-	71,290	-
Deferred Charges	472	-	-	472	-
Capital Assets:					
Land	13,487	9,564	1,111	24,162	-
Water Rights	64,688	-	-	64,688	-
Water System	541,457	-	-	541,457	-
Sewer System	320,388	-	-	320,388	-
Buildings and Improvements	-	13,509	2,997	16,506	1,846
Motor Vehicles	-	-	-	-	49,892
Machinery and Equipment	3,853	73	2,017	5,943	438
Furniture and Fixtures	666	-	-	666	22
Construction in Progress	51,040	1,168	-	52,208	847
Less Accumulated Depreciation	(199,004)	(4,711)	(1,773)	(205,488)	(27,673)
Total Capital Assets (net of accumulated depreciation)	796,575	19,603	4,352	820,530	25,372
Total Noncurrent Assets	868,337	19,603	4,352	892,292	25,372
Total Assets	\$ 1,112,954	\$ 21,084	\$ 11,446	\$ 1,145,484	\$ 57,570

The notes to the financial statements are an integral part of this statement.

(continued on next page)

Statement of Net Assets

Proprietary Funds

June 30, 2004 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 11,408	\$ 67	\$ 296	\$ 11,771	\$ 1,426
Accrued Payroll and Benefits	617	38	204	859	146
Accrued Compensated Absences	163	11	65	239	52
Claims Payable	-	-	-	-	14,678
Matured Bonds Payable	8,805	-	245	9,050	-
Matured Bond Interest Payable	1,787	-	48	1,835	-
Total Current Liabilities	22,780	116	858	23,754	16,302
Current Liabilities Payable from Restricted Assets:					
Customer Advances and Deposits	1,261	58	-	1,319	-
Deferred Revenue	5,077	-	-	5,077	-
Total Current Liabilities Payable from Restricted Assets:	6,338	58	-	6,396	-
Noncurrent Liabilities:					
Accrued Compensated Absences	1,051	71	409	1,531	322
Bonds Payable - Due within One Year	6,873	-	255	7,128	-
Bonds Payable - Due in More Than One Year	158,566	-	1,485	160,051	-
Total Noncurrent Liabilities	166,490	71	2,149	168,710	322
Total Liabilities	195,608	245	3,007	198,860	16,624
NET ASSETS					
Invested in Capital Assets, Net of Related Debt Restricted for Water and Sewer System Replacement	631,136	19,603	2,612	653,351	25,372
Restricted for Acquisition and Construction Unrestricted	17,237	-	-	17,237	-
	3,605	-	-	3,605	-
	265,368	1,236	5,827	272,431	15,574
Total Net Assets	\$ 917,346	\$ 20,839	\$ 8,439	\$ 946,624	\$ 40,946

The notes to the financial statements are an integral part of this statement.

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

Proprietary Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Operating Revenues					
Charges for Sales and Services:					
Water Service Fees	\$ 66,539	\$ -	\$ -	\$ 66,539	\$ -
Sewer Service Fees	25,040	-	-	25,040	-
Proprietary - Non-Potable Water Fees	3,799	-	-	3,799	-
Groundwater Treatment Plant	822	-	-	822	-
Solid Waste Fees	-	-	16,488	16,488	-
Airport Fees	-	2,936	-	2,936	-
Other Services	-	-	-	-	24,586
Other	678	-	21	699	365
Total Operating Revenues	96,878	2,936	16,509	116,323	24,951
Operating Expenses					
Costs for Sales and Services:					
Water Operations	31,051	-	-	31,051	-
Sewer Operations	12,279	-	-	12,279	-
Solid Waste Operations	-	-	12,893	12,893	-
Airport Operations	-	1,560	-	1,560	-
Other Services	-	-	-	-	25,262
Indirect Costs	6,332	439	1,958	8,729	-
Depreciation and Amortization	22,730	623	202	23,555	5,366
Total Operating Expenses	72,392	2,622	15,053	90,067	30,628
Operating Income (Loss)	24,486	314	1,456	26,256	(5,677)
Non-Operating Revenues (Expenses)					
Property Tax	-	-	-	-	676
Investment Income	935	-	38	973	270
Interest Expense	(3,381)	-	(100)	(3,481)	-
Gain on Sale of Capital Assets	206	-	-	206	17
Net Non-Operating Revenues (Expenses)	(2,240)	-	(62)	(2,302)	963
Income (Loss) Before Contributions and Transfers	22,246	314	1,394	23,954	(4,714)
Capital Contributions	70,938	771	-	71,709	4,171
Transfers In	-	230	-	230	796
Transfers Out	(11,160)	(71)	(36)	(11,267)	(533)
Change in Net Assets	82,024	1,244	1,358	84,626	(280)
Total Net Assets - Beginning	835,322	19,595	7,081	861,998	41,226
Total Net Assets - Ending	\$ 917,346	\$ 20,839	\$ 8,439	\$ 946,624	\$ 40,946

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 97,672	\$ 2,939	\$ 16,470	\$ 117,081	\$ 24,160
Cash Paid to Suppliers	(31,826)	(1,417)	(10,486)	(43,729)	(15,575)
Cash Paid to Employees	(11,068)	(744)	(4,288)	(16,100)	(2,960)
Other Operating	421	(293)	24	152	365
Net Cash Provided by Operating Activities	55,199	485	1,720	57,404	5,990
Cash Flows from Non-Capital Financing Activities:					
Property Tax	-	-	-	-	683
Transfers In	-	230	-	230	796
Transfers Out	(11,160)	(71)	(36)	(11,267)	(533)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(11,160)	159	(36)	(11,037)	946
Cash Flows from Capital and Related Financing Activities:					
Bonds Proceeds	80,064	-	-	80,064	-
Capital Contributions from Other:					
Government Units	600	-	-	600	-
Water and Sewer Development Fees	21,574	-	-	21,574	-
Capital Grants	459	944	-	1,403	-
Acquisition and Construction of Property and Equipment	(53,192)	(731)	-	(53,923)	(2,034)
Principal Payments on Capital Debt	(9,159)	-	(230)	(9,389)	-
Interest Paid on Capital Debt	(3,088)	-	(106)	(3,194)	-
Sale of Capital Assets	263	-	-	263	107
Net Cash Provided by (Used for) Capital and Related Financing Activities	37,521	213	(336)	37,398	(1,927)
Cash Flows from Investing Activities:					
Proceeds from the Sale of Investments	-	-	15	15	-
Income Received on Investments	782	(2)	30	810	251
Net Cash Provided by (Used for) Investing Activities	782	(2)	45	825	251
Net Increase in Cash and Cash Equivalents	82,342	855	1,393	84,590	5,260
Cash and Cash Equivalents at Beginning of Year	150,859	55	3,156	154,070	25,886
Cash and Cash Equivalents at End of Year	\$ 233,201	\$ 910	\$ 4,549	\$ 238,660	\$ 31,146

The notes to the financial statements are an integral part of this statement.

(continued on next page)

Statement of Cash Flows

Proprietary Funds

(Continued)

For the Year Ended June 30, 2004 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash and Cash Equivalents at End of Year Includes:					
Cash and Investments	\$ 122,550	\$ 852	\$ 4,398	\$ 127,800	\$ 31,146
Deduction for Long-term Investments	-	-	(142)	(142)	-
Cash with Fiscal Agent	83,471	-	293	83,764	-
Restricted Cash and Investments	27,180	58	-	27,238	-
Total Cash and Cash Equivalents	\$ 233,201	\$ 910	\$ 4,549	\$ 238,660	\$ 31,146
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 24,486	\$ 314	\$ 1,456	\$ 26,256	\$ (5,677)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	22,730	623	202	23,555	5,366
Changes In Assets and Liabilities					
Sources (Uses) of Cash:					
Accounts Receivable	415	-	(18)	397	(426)
Miscellaneous Receivables	(257)	(34)	3	(288)	-
Supplies Inventory	-	-	-	-	41
Accounts Payable	6,522	(179)	(12)	6,331	771
Accrued Payroll and Benefits	246	17	89	352	76
Claims Payable	-	-	-	-	5,839
Deferred Revenue	991	-	-	991	-
Due to Other Funds	-	(152)	-	(152)	-
Advances From Other Funds	-	(107)	-	(107)	-
Other Liabilities	66	3	-	69	-
Total Adjustments	30,713	171	264	31,148	11,667
Net Cash Provided by Operating Activities	\$ 55,199	\$ 485	\$ 1,720	\$ 57,404	\$ 5,990
Supplemental Disclosure of Non-Cash Financing Activities:					
Additions to Property, Plant, and Equipment					
Contributions from Developers	\$ 48,497	\$ -	\$ -	\$ 48,497	\$ -
Contributions from Other Government Units	-	-	-	-	4,171
Amortization of Deferred Charges	(200)	-	-	(200)	-
Accretion on Capital Appreciation Bonds	873	-	-	873	-
Loss on Sale of Capital Assets	(57)	-	-	(57)	90
Total Non-Cash Financing Activities	\$ 49,113	\$ -	\$ -	\$ 49,113	\$ 4,261

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004 (in thousands of dollars)

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 374	\$ 1,597
Interest Receivable	2	-
	<hr/>	<hr/>
Total Assets	\$ 376	\$ 1,597
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	\$ 6	\$ 84
Designated Escrow Payable	-	1,513
	<hr/>	<hr/>
Total Liabilities	6	1,597
	<hr/>	<hr/>
NET ASSETS		
Held in Trust for Other Purposes	\$ 370	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private Donations	\$ 402
Investment Earnings:	
Interest	<u>10</u>
Total Additions	<u>412</u>
 DEDUCTIONS	
Scholarships	5
Redevelopment Expenses	<u>741</u>
Total Deductions	<u>746</u>
Change in Net Assets	(334)
Net Assets - Beginning	<u>704</u>
Net Assets - Ending	<u><u>\$ 370</u></u>

The notes to the financial statements are an integral part of this statement.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Scottsdale (City) was incorporated in 1951. The current City Charter was adopted in 1961, which established the Council/Manager form of government. The City provides basic government services to its citizens including roads, water, sewer, solid waste management, public transit, parks and recreation facilities, police and fire.

The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

The financial reporting entity presented in these financial statements consists of the City of Scottsdale (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

1. Individual Component Units - Blended

The City of Scottsdale Municipal Property Corporation (MPC), a nonprofit corporation, was created by the City in 1967 solely for the purpose of constructing, acquiring and equipping buildings, structures, or improvements on land owned by the City. The MPC is governed by a Board of Directors appointed by the City Council. For financial reporting purposes, transactions of the MPC are included as a governmental and proprietary fund type as if it were part of the City's operations.

The Scottsdale Preserve Authority (SPA), a nonprofit corporation, was created by the City in 1997 for the purpose of financing land acquisitions for the McDowell Sonoran Preserve. The City Council must approve the election of the SPA's Board of Directors. For financial reporting purposes, transactions of the SPA are included as a governmental fund type as if it were part of the City's operations.

Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts were formed by petition to the City Council in 1992, 1994, 1997, and 1998 respectively. The Districts' purposes are to acquire and improve public infrastructure in specified land areas. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the Districts. The City Council serves as the Board of Directors. The City has no liability for the Districts' debt. For financial reporting purposes, transactions of the Districts are combined together and included as a governmental fund type as if they were part of the City's operations.

Separate financial statements of the MPC, SPA and Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts may be obtained at the City's Financial Services Department, Accounting and Budget Division, 7447 East Indian School Road, Suite 210, Scottsdale, Arizona 85251.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or

segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Agency funds do not have a measurement focus. 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 have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims, and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government'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 Obligation Bond Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, long-term obligation debt principal, interest, and related costs.

The *General CIP Construction Capital Projects Fund* accounts for the resources used to acquire, construct and improve major capital facilities, other than those financed by proprietary funds. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied.

The government reports the following major proprietary funds:

The *Water and Sewer Utility, Airport and Solid Waste Funds* account for the operating revenues and expenses of the City's water and sewer utility systems, airport and sanitation services (solid waste, brush removal, container maintenance, etc.), respectively.

Additionally, the government reports the following fund types:

The *Internal Service Funds* account for fleet management and self-insurance services provided to other departments or units of the City, on a cost-reimbursement basis.

The *Agency Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are used to record the Family Self-Sufficiency activity and Retainage Escrow activity.

The *Private-Purpose Trust Funds* are used to account for assets held in a trustee capacity for scholarships and other purposes as designated by the donors or by legal restrictions. Both the principal and earnings of these expendable trust funds can be expended for the trusts' intended purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments-in-lieu of taxes, indirect costs and franchise fees and other charges between the City's Water and Sewer Utility Fund, Airport Fund, and Solid Waste Fund, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer, airport, and solid waste fees, vehicle purchase amounts and risk management charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash equivalents for purposes of the statements of cash flows are investments (including restricted assets) in the State of Arizona Local Government Investment Pool, mutual funds, demand deposits, repurchase agreements, and U.S. Treasury bills and notes with maturities of three months or less at acquisition date.

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The City has elected to report all investments at fair value. The City's policy is to invest in certificates of deposit, repurchase agreements, direct U.S. Treasury debt, securities guaranteed by the United States Government or any of its agencies, and the State of Arizona Local Government Investment Pool (LGIP). The LGIP is overseen by the State of Arizona. The fair value of each share in the LGIP is \$1.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All accounts, property tax and court receivables are shown net of an allowance for uncollectibles. All receivables in excess of one year comprise the allowance for uncollectibles at June 30, 2004.

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent.

Property taxes levied for current operation and maintenance expenses on residential property are limited to 1.0 percent of the primary full cash value of such property. In addition, taxes levied for current operation and maintenance expenses on all types of property are limited to a maximum increase of 2.0 percent over the prior year's levy, adjusted for new construction and annexations.

Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

3. Inventories

Inventories of the governmental funds are recorded under the consumption method as expenditures when consumed rather than when purchased. Inventories are valued at year-end based on cost, with cost determined using an average cost method.

4. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The revenue bond renewal and replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation and amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

Water System	10 to 75 Years
Sewer System	25 to 50 Years
Buildings and Improvements	25 Years
Land Improvements	25 Years
Machinery and Equipment	20 Years
Motor Vehicles	3 to 10 Years
Furniture, Fixtures, and Office Equipment	5 to 10 Years

The excess purchase price over fair market value of assets acquired in the Water and Sewer Utility Enterprise Fund is amortized on the straight-line method over 20 to 25 years.

When capital assets are disposed of, the cost and accumulated depreciation or amortization is removed from the accounts, and any resultant gain or loss is recognized in the government-wide and proprietary fund financial statements.

The City early implemented the provisions of GASB Statement No. 42, Impairment of Capital Assets and for Insurance Recoveries for the year ended June 30, 2004. This statement establishes accounting and financial reporting requirements related to impairment of capital assets.

6. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to a maximum number of hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount unused at year end are forfeited. The City's policy is to pay employees for unused accumulated vacation hours at termination or retirement. Sick leave time can be accumulated without limit. The City's policy, however, is that only those employees hired full-time before July 1, 1982 are paid for unused sick leave at death or retirement. Employees who retire on or after July 1, 1996, and who have accumulated 300 or more hours of sick leave, may elect to apply the value of the sick leave toward their City medical plan premiums.

All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30 in the Governmental and Proprietary funds. The current compensated absences amount in the governmental funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. The City calculates this current amount based on vacation taken and an actuarial valuation dated January 1, 2003, for medical leave conversion. There is no long-term liability for compensated absences in the governmental funds.

7. 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, Governmental Funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain difference between the governmental fund balance sheet and the government-wide statement of nets assets.

The fund balances of the City's governmental funds, \$317,526, differs from net assets of governmental activities, \$1,875,270, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

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

(in thousands of dollars)

	Total Governmental Funds	Long-Term Assets/ Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS					
Cash and Investments	\$ 308,298	\$ -	\$ 31,146	\$ -	\$ 339,444
Cash with Fiscal Agent	49,491	-	-	-	49,491
Receivables (net of allowance for uncollectibles)					
Interest	1,081	-	117	-	1,198
Privilege Tax	10,783	-	-	-	10,783
Hotel/Motel Tax	365	-	-	-	365
Property Tax	1,334	-	18	-	1,352
State Shared Sales Tax	1,457	-	-	-	1,457
Franchise Fee	1,932	-	-	-	1,932
Court Receivable	3,694	-	-	-	3,694
Highway User Tax	1,213	-	-	-	1,213
Auto Lieu Tax	854	-	-	-	854
Intergovernmental	5,293	-	-	-	5,293
Grants	823	-	-	-	823
Special Assessments	7,932	-	-	-	7,932
Note	4,000	-	-	-	4,000
Miscellaneous	4,325	-	576	-	4,901
Due from Other Funds/Internal Balances	314	-	-	(314)	-
Supplies Inventory	207	-	341	-	548
Advances to Other Funds/Internal Balances	2,204	-	-	(2,204)	-
Capital Assets (net of accumulated depreciation)	-	2,065,310	25,372	-	2,090,682
Deferred charges and other assets	-	1,625	-	-	1,625
Total Assets	<u>\$ 405,600</u>	<u>\$ 2,066,935</u>	<u>\$ 57,570</u>	<u>\$ (2,518)</u>	<u>\$ 2,527,587</u>
LIABILITIES					
Accounts Payable	\$ 12,469	\$ -	\$ 1,426	\$ -	\$ 13,895
Accrued Payroll and Benefits	9,563	-	146	(2,034)	7,675
Accrued Compensated Absences - Due Within One Year	-	-	52	2,034	2,086
Accrued Compensated Absences - Due in More Than One Year	-	12,716	322	-	13,038
Claims Payable	-	-	14,678	-	14,678
Due to Other Funds	314	-	-	(314)	-
Matured Bond Interest Payable	10,625	-	-	-	10,625
Matured Bonds Payable	28,665	-	-	-	28,665
Deferred Revenue					
Property Tax	623	(623)	-	-	-
Special Assessments	7,932	(7,932)	-	-	-
Court	3,694	(3,694)	-	-	-
Tax Audit	2,228	(2,228)	-	-	-
Intergovernmental	1,542	-	-	-	1,542
Other	4,236	(4,000)	-	-	236
Advances From Other Funds	2,204	-	-	(2,204)	-
Due to Other Governments	28	-	-	-	28
Guaranty and Other Deposits	3,745	-	-	-	3,745
Other	206	-	-	-	206
Bonds, Loans, Capital Leases, and Other Payables	-	555,898	-	-	555,898
Total Liabilities	<u>88,074</u>	<u>550,137</u>	<u>16,624</u>	<u>(2,518)</u>	<u>652,317</u>
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	317,526	1,516,798	40,946	-	1,875,270
Total Liabilities and Fund Balances/Net Assets	<u>\$ 405,600</u>	<u>\$ 2,066,935</u>	<u>\$ 57,570</u>	<u>\$ (2,518)</u>	<u>\$ 2,527,587</u>

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

Cost of capital assets	\$ 2,939,178
Accumulated depreciation	(873,868)
	<u>\$ 2,065,310</u>

Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.

Bond issuance costs @ 7/1/03	\$ 1,467
Bond issuance cost for FY 2004	586
Amortization of bond issuance costs	(428)
	<u>\$ 1,625</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent (\$42,084) to be placed in escrow for payment of the old debt (\$39,030) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was \$3,054 and will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. Balances at June 30, 2004 were:

Contract payables	\$ (13,702)
Bonds payable	(542,608)
Deferred charge on refunding	9,153
Deferred issuance premium	(8,741)
Accrued vacation and sick leave pay	(12,716)
	<u>\$ (568,614)</u>

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance. Deferred revenue for the long-term special assessment receivables shown on the governmental fund statements is not deferred on the statement of net assets. Certain tax and other revenues deferred under modified accrual for governmental fund statements, is recognized as revenue under accrual accounting for the government-wide statements.

Deferred special assessment revenue	\$ 7,932
Deferred court revenue	3,694
Deferred other	4,000
Deferred tax revenue	2,851
	<u>\$ 18,477</u>

- (2) Internal Service Funds are used by management to charge the costs of certain activities, such as fleet management and self insurance, to individual funds. The assets and liabilities of certain Internal Service Funds are included in governmental activities in the statement of net assets.

	<u>\$ 40,946</u>
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The net change in fund balances for governmental funds, \$46,654, differs from the change in net assets for the governmental activities, \$94,685, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
REVENUES:						
Taxes - Local:						
Property	\$ 46,088	\$ (393)	\$ -	\$ 676	\$ -	\$ 46,371
Transaction Privilege	120,156	875	-	-	-	121,031
Transient Occupancy	7,227	-	-	-	-	7,227
Light and Power Franchise	5,488	-	-	-	-	5,488
Cable TV Franchise	2,740	-	-	-	-	2,740
Salt River Project In-Lieu	182	-	-	-	-	182
Fire Insurance Premium	481	-	-	-	-	481
Taxes - Intergovernmental:						
State-Shared Sales	17,054	-	-	-	-	17,054
State Revenue Sharing	18,278	-	-	-	-	18,278
Auto Lieu Tax	8,214	-	-	-	-	8,214
Highway User Tax	14,034	-	-	-	-	14,034
Local Transportation Assistance Fund	1,136	-	-	-	-	1,136
Business and Liquor Licenses	1,813	-	-	-	-	1,813
Charges for Current Services:						
Building and Related Permits	17,314	-	-	-	-	17,314
Recreation Fees	3,292	-	-	-	-	3,292
Westworld Equestrian Facility Fees	1,795	-	-	-	-	1,795
Fines and Forfeitures:						
Court Fines	4,318	306	-	-	-	4,624
Parking	203	-	-	-	-	203
Photo Radar	1,265	-	-	-	-	1,265
Court Enhancement	668	-	-	-	-	668
Library	467	-	-	-	-	467
Special Assessments	2,558	(2,153)	-	-	-	405
Property Rental	3,212	-	-	-	-	3,212
Interest Earnings	2,385	-	-	270	-	2,655
Intergovernmental:						
Federal Grants	10,010	-	-	-	-	10,010
State Grants	443	-	-	-	-	443
Miscellaneous	1,357	-	-	-	-	1,357
Developer Contributions	762	-	-	-	-	762
Streetlight and Services Districts	1,000	-	-	-	-	1,000
Contributions and Donations	647	-	-	-	-	647
Reimbursements from Outside Sources	1,659	-	-	-	-	1,659
Indirect Costs	8,729	-	-	-	-	8,729
Other	2,110	-	-	-	-	2,110
Total	307,085	(1,365)	-	946	-	306,666

(continued)

**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes
in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
EXPENDITURES/EXPENSES						
Current:						
General Government	\$ 16,121	\$ 215	\$ 6,703	\$ 800	\$ -	\$ 23,839
Police	55,510	630	1,628	2,259	-	60,027
Financial Services	7,222	70	219	144	-	7,655
Transportation	9,399	(31)	68,656	349	-	78,373
Community Services	50,494	301	3,679	613	-	55,087
Information Systems	7,328	54	3,685	68	-	11,135
Fire	19,265	7	213	85	-	19,570
Municipal Services	8,774	72	3,104	1,074	-	13,024
Citizen and Neighborhood Resources	2,754	6	19	33	-	2,812
Human Resources	3,290	107	34	31	-	3,462
Economic Vitality	6,199	(76)	3	4	-	6,130
Planning and Development	11,218	144	118	217	-	11,697
Streetlight and Services Districts	1,024	-	-	-	-	1,024
Debt Service:						
Principal	31,905	-	-	-	(31,905)	-
Interest and Fiscal Charges	25,452	-	-	-	2,576	28,028
Bond Issuance Costs	586	-	-	-	(586)	-
Capital Improvements	81,149	-	(81,149)	-	-	-
Total Expenditures/Expenses	337,690	1,499	6,912	5,677	(29,915)	321,863
OTHER FINANCING USES/CHANGES IN NET ASSETS						
Net Transfers (to) From Other Funds	10,774	-	(4,171)	4,434	-	11,037
Capital Contributions	-	-	103,049	-	-	103,049
Sales of Capital Assets	-	-	(257)	17	-	(240)
Refunding Bonds Issued	39,190	-	-	-	(39,190)	-
Long-term Capital-Related Debt Issued	113,400	-	-	-	(113,400)	-
Premium on Bonds Issued	4,429	-	-	-	(4,429)	-
Payment to Bond Refunding Escrow Agent	(90,534)	-	-	-	90,534	-
Total	77,259	-	98,621	4,451	(66,485)	113,846
Special Item - Defeasance of Debt	-	-	-	-	(3,964)	(3,964)
Net Change for the Year	\$ 46,654	\$ (2,864)	\$ 91,709	\$ (280)	\$ (40,534)	\$ 94,685

**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes
in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

Reconciling Items Description:

- (3) Because some property taxes will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	\$ (393)
Court revenue	306
Tax audit revenue	875
Special Assessment revenue	(2,153)
	<u>\$ (1,365)</u>

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

Accrual for long-term compensated absences	<u>\$ (1,499)</u>
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- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures	\$ 69,412
Depreciation Expenses	(80,495)
Loss on disposal of capital assets	(257)
Difference	<u>\$ (11,340)</u>

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

Capital Contributions	<u>\$ 103,049</u>
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- (5) Internal Service funds are used by management to charge the costs of certain activities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. Capital assets contributed by the governmental funds (\$4,171) are treated as capital contribution revenue in the Internal Service fund statements and capital outlay expenditures in the governmental funds statements. For government-wide purposes, the capital contribution is reclassified as a transfer in in the Internal Service Fund column and a transfer out in the Capital Related Items column.

Change in Net Assets	<u>\$ (280)</u>
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Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)

(6) Bond issuance costs are reported as an expenditure in governmental funds in the year of bond issuance and thus, have the effect of reducing fund balance because current financial resources have been used. For the government-wide statements; however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Bond issuance costs for FY 2004	\$ 586
Amortization of bond issuance costs	(428)
Difference	\$ 158

Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's bonded debt was reduced in two ways; principal payments were made to bond holders and resources were sent to the bond paying agent for the advance refunding of outstanding bonds.

Transferred to the paying agent:	
For bond principal	\$ 90,534
Principal payments made	31,905
	\$ 122,439

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued and accreted interest was calculated for bonds and notes payable, and additional interest expense was recognized on the amortization of bond discount and premiums which are expended within the fund statements.

Amortization of deferred charges on refundings	\$ (3,051)
Interest accretion and amortization	(2,872)
Amortization of bond premium and discounts	3,775
	\$ (2,148)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:

General Obligation Bonds	\$ (113,400)
Refunding General Obligation Bonds	(16,265)
Refunding Revenue Bonds	(22,925)
Premium on Bonds	(4,429)
	\$ (157,019)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2003/04 on a cash basis and the appropriation for this is established and reflected in the financial statements as follows:

The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds (Highway User Fuel Tax, Preserve Privilege Tax, and Transportation Privilege Tax), Debt Service Funds (except for the Community Facilities Districts Debt Service Funds), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented.

The Community Development Block Grant, Home, Grants, Section 8, and Special Programs Special Revenue Funds, Community Facilities Districts Funds, Capital Projects Funds, Internal Service Funds, and Trust and Agency Funds have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds. Budgets for the Community Development Block Grant, Grants, and Section 8 Funds are established pursuant to the terms of the related grant awards. Budgets for the Community Facilities Districts are established in accordance with Arizona Revised Statutes, which do not require their inclusion in the City budget or adoption by the City Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized. Budgets for Internal Service Funds are established in order to help departments control operational costs. Budgets for Trust and Agency Funds are established in accordance with the trust/agency agreements.

On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments.

At the first regular Council meeting in June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During 2003/04, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year.

Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another.

Management control of budgets is further maintained at a line item level within the department.

All expenditure appropriations that have not been expended lapse at year end. Beginning July 1, 1998, the City discontinued the use of encumbrance accounting. As such, fund balance amounts are not reserved for purchase orders, contract or other commitments.

B. Excess of Expenditures over Appropriations

The Special Assessments Debt Service Fund exceeded its Debt Service Expenditures appropriation by \$15,000. This over expenditure was funded by available fund balance.

The Water and Sewer Utility Enterprise Fund exceeded its expense appropriation for Sewer operations by \$3,199,000. This over expenditure was funded by available fund balance.

The Airport Enterprise Fund exceeded its expense appropriation by \$206,000. This over expenditure was funded by available fund balance.

The Solid Waste Enterprise Fund exceeded its expense appropriation by \$108,000. This over expenditure was funded by available fund balance.

C. Deficit Fund Equity

The Section 8 Housing Fund had a deficit fund balance of \$6,000 caused by certain grant reimbursements due which may not be available in the upcoming period. Since these reimbursements are not assured, no revenue was accrued in the current fiscal year. These reimbursements due will be recognized as revenue when actually received. Since January 1998, the fund has generated a surplus. Program administrators expect this trend to continue and anticipate eliminating the fund deficit within one year.

D. Fund Balance/Net Assets Reservations and Designations

Only restrictions imposed by external sources are shown as Restricted Net Assets on the government-wide financial statements. Reservations or designations of fund balances are shown in aggregate on the governmental fund financial statements, but not on the proprietary fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government's intended use of those net assets. Designations are created by administrative policy. The following are the reservations and designations of fund balance/net assets included in the unreserved fund balance/net assets at June 30, 2004:

Fund Balance Reservations and Designations (in thousands of dollars)

General Fund	Major	Nonmajor
Designated for Economic Stabilization Reserve	\$ 22,588	
Designated for Economic Investment	9,819	
Total Designated	\$ 32,407	
 Debt Service		
Reserved for Debt Service	\$ 3,468	\$ 5,654

Restricted Net Asset and Unrestricted Net Asset Designations

Water and Sewer		
Restricted for Repair and Replacement	\$ 17,237	
Restricted for Acquisition and Construction	3,605	
Total Restricted	\$ 20,842	

The amounts presented below detail the City's planned use of the following Unrestricted Net Asset amounts:

Water and Sewer		
Designated for Operating Reserve	\$ 17,601	
 Solid Waste		
Designated for Operating Reserve	\$ 3,267	
 Airport		
Designated for Operating Reserve	\$ 458	
 Self-Insurance		
Designated for General Liability Claims	\$ 3,516	
Designated for Benefits	1,893	
	\$ 5,409	
 Fleet Management		
Designated for Capital Equipment Replacement	\$ 9,329	

IV. DETAILED NOTES ON ALL FUNDS

A. Change in Accounting Principle

The City entered into a sales tax repayment agreement with a local developer in 1998. Under the term of the contract the City is required to pay back in 30 annual installments the cost of a garage built for a local shopping center including 9.14% interest compounded annually. The agreement was recorded as a capital lease. Although there is a stated principal amount in the contract, the sales tax generated has never been sufficient to pay any principal amounts and based on our current projections, the City estimates that we will never pay any principal amounts. After the 30th payment, the City is free and clear of any obligations including accrued interest. The City does not acquire title to the garage until the 150th year.

Therefore, we are changing our accounting treatment during the fiscal year 2003-2004 for the Nordstrom Agreement from a capital lease to a contingent-operating lease and will review and record current and future agreements with the parameters listed above. Beginning Net Assets was restated to eliminate the capital asset amount (since we do not hold title to the Nordstrom garage until the 150th year), accumulated depreciation and the related debt (capital lease).

Additionally, beginning Net Assets was restated for two sales tax repayment contracts (Anchor National and Promenade) that fell within the above parameters.

Although this change is not material to the City's financial statements taken as a whole, we believe that changing the accounting treatment for sales tax repayment agreements from a capital lease payable and contract payables to contingent operating leases is a preferable reporting method for the users of our financial statements based on our current knowledge. We believe that disclosure of this change was necessary to demonstrate the spirit of full disclosure and to clearly communicate to the users of our financial statements.

Restatement of beginning net assets for governmental funds

(in thousands of dollars)

	Governmental Activities
Net Assets:	
Beginning Net Assets at June 30, 2003, as previously reported	\$ 1,770,819
Change in Accounting Principle	9,766
Beginning Net Assets at July 1, 2003, as adjusted	\$ 1,780,585

B. Cash and Investments

The City maintains a cash and investment pool for use by all funds except the Municipal Property Corporation and Community Facilities Districts Funds, which have investments held separately by a trustee.

The City adopted the provisions of GASB Statement No.40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2003. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosures on cash and investments are in conformity with the provisions of GASB Statement No. 40.

Deposits

At June 30, 2004, the carrying amount of the City's deposits was \$43,112,854, and the bank balance was \$41,610,707. The \$1,502,147 difference represents outstanding checks and other reconciling items.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2004, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than three years.

Credit Risk

City Charter, Ordinance, and Trust Agreements authorize the City to invest in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, commercial paper (A-1, P-1), repurchase agreements, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

The City's investment in the bonds of U.S. agencies was rated AAA by Standard & Poor's and Fitch Ratings, and Aaa by Moody's Investors Service.

Investments

The City's investments at June 30, 2004, are summarized below.

(in thousands of dollars)	Investment Type	Investment Maturities (in Years)			
		Fair Value	Less Than 1	1 - 2	2 - 3
	U.S. Treasuries	\$ 142	\$ 16	\$ 126	\$ -
	U.S. Agencies	407,312	105,642	138,028 *	163,642 **
	Local Government Investment Pool	2,596	2,596	-	-
	Guaranteed Investment				
	Contracts	475	475	-	-
	Money Market Funds	176,070	176,070	-	-
	Total Investments	\$ 586,595	\$ 284,799	\$138,154	\$ 163,642

*\$113,459 of these bonds are callable July 1, 2004 to November 27, 2004

**\$163,623 of these bonds are callable July 1, 2004 to May 18, 2005

Total City cash and investments at fair value are as follows (in thousands of dollars):

Carrying Amount of City Deposits	\$ 43,113
Investments	586,595
Total Cash and Investments	\$ 629,708

Total City cash and investments are reported as follows (in thousands of dollars):

Primary Government	
Cash and Investments	\$ 467,244
Cash Held with Fiscal Agent	133,255
Restricted Cash	27,238
Handicap Scholarship Private Purpose Trust Fund	6
Scottsdale Memorial Hospital Redevelopment	
Private Purpose Trust Fund	368
Family Self-Sufficiency Agency Fund	84
Retainage Escrow Agency Fund	1,513
Total Cash and Investments	\$ 629,708

Investment income comprises the following for the year ended June 30, 2004 (in thousands of dollars):

Net Interest and Dividends	\$ 11,030
Net Decrease in the Fair Value of Investments	(7,392)
Total Net Investment Income	\$ 3,638

The net decrease in the fair value of investments during fiscal year 2003/04 was \$7,391,699. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2004, was \$3,883,385.

In the previous year, the City reported a decrease in fair value of \$7,864,309 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants and other in May 2003. The case is presently pending in federal court in Ohio. Formal discovery in the case has yet to begin, so no reliable assessment of the litigation outcome is available.

C. Receivables

Receivables as of year end for the government’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

(in thousands of dollars)

Governmental Funds:

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Nonmajor and Other Funds	Total Governmental Funds
Receivables					
Property Taxes and Penalties:					
Property	\$ 453	\$ 681	\$ -	\$ 200	\$ 1,334
Court	12,671	-	-	-	12,671
Subtotal Property Taxes and Penalties	13,124	681	-	200	14,005
Other local taxes:					
Privilege	7,755	-	-	3,028	10,783
Hotel/Motel	365	-	-	-	365
State Shared Sales Tax	1,457	-	-	-	1,457
Franchise Fee	1,932	-	-	-	1,932
Auto Lieu	854	-	-	-	854
Highway User	-	-	-	1,213	1,213
Subtotal Other Local Taxes	12,363	-	-	4,241	16,604
Intergovernmental	-	-	-	6,116	6,116
Interest and Other:					
Interest	372	-	347	362	1,081
Special Assessments	-	-	-	7,932	7,932
Note (Sinclair Oil)	4,000	-	-	-	4,000
Miscellaneous	5,872	-	-	971	6,843
Subtotal Interest and Other	10,244	-	347	9,265	19,856
Gross Receivable	35,731	681	347	19,822	56,581
Less: Allowance for Uncollectibles	(11,495)	-	-	-	(11,495)
Net Total Receivables	\$ 24,236	\$ 681	\$ 347	\$ 19,822	\$ 45,086

Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total
Receivables				
Charges for services	\$ 10,262	\$ -	\$ 2,338	\$ 12,600
Intergovernmental	6	399	-	405
Interest	659	2	20	681
Miscellaneous	489	170	45	704
Gross Receivable	11,416	571	2,403	14,390
Net Total Receivables	\$ 11,416	\$ 571	\$ 2,403	\$ 14,390

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the Governmental funds were as follows:

(in thousands of dollars)	Unavailable	Unearned
Property Tax	\$ 623	\$ -
Special Assessments	7,932	-
Court	3,694	-
Tax Audit	2,228	-
Intergovernmental	-	1,542
Other		
Note Receivable	4,000	-
Community Services	-	236
	\$ 18,477	\$ 1,778

D. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows (in thousands of dollars):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 349,826	\$ 63,694	\$ -	\$ 413,520
Construction In Process	67,516	69,688	(71,039)	66,165
Total Capital Assets, Not Being Depreciated:	417,342	133,382	(71,039)	479,685
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	249,091	11,618	-	260,709
Streets and Storm Drains	2,055,270	95,161	-	2,150,431
Vehicles	41,581	5,825	(1,173)	46,233
Maintenance by Fleet	3,652	32	(24)	3,660
Machinery and Equipment	52,749	2,086	(3,329)	51,506
Total Capital Assets, Being Depreciated:	2,402,343	114,722	(4,526)	2,512,539
Less Accumulated Depreciation for:				
Buildings and Land Improvements	115,631	9,327	-	124,958
Streets and Storm Drains	650,483	65,959	-	716,442
Vehicles	20,506	4,900	(1,084)	24,322
Maintenance by Fleet	1,771	380	(30)	2,121
Machinery and Equipment	31,469	5,295	(3,065)	33,699
Total Accumulated Depreciation:	819,860	85,861	(4,179)	901,542
Total Capital Assets, Being Depreciated, Net:	1,582,483	28,861	(347)	1,610,997
Governmental Activities Capital Assets, Net:	\$ 1,999,825	\$ 162,243	\$ (71,386)	\$ 2,090,682

The City adjusted the beginning balance of Governmental Capital Assets, Buildings and Land Improvements to reflect a change in Accounting Principle, \$28,750,000, less accumulated depreciation of \$4,695,833.

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 13,916	\$ 10,246	\$ -	\$ 24,162
Water Rights	64,688	-	-	64,688
Construction In Process	68,963	37,208	(53,963)	52,208
Total Capital Assets, Not Being Depreciated:	<u>147,567</u>	<u>47,454</u>	<u>(53,963)</u>	<u>141,058</u>
 Capital Assets, Being Depreciated:				
Water System	464,513	77,227	(283)	541,457
Sewer System	303,614	16,774	-	320,388
Buildings and Land Improvements	14,306	2,200	-	16,506
Machinery and Equipment	5,963	11	(31)	5,943
Furniture, Fixtures and Office Equipment	698	-	(32)	666
Total Capital Assets, Being Depreciated:	<u>789,094</u>	<u>96,212</u>	<u>(346)</u>	<u>884,960</u>
 Less Accumulated Depreciation for:				
Water System	120,907	14,369	(231)	135,045
Sewer System	53,332	8,319	-	61,651
Buildings and Land Improvements	5,011	738	-	5,749
Machinery and Equipment	2,307	279	(31)	2,555
Furniture, Fixtures and Office Equipment	464	51	(27)	488
Total Accumulated Depreciation:	<u>182,021</u>	<u>23,756</u>	<u>(289)</u>	<u>205,488</u>
 Total Capital Assets, Being Depreciated, Net	 <u>607,073</u>	 <u>72,456</u>	 <u>(57)</u>	 <u>679,472</u>
 Business-Type Activities Capital Assets, Net	 <u>\$ 754,640</u>	 <u>\$ 119,910</u>	 <u>\$ (54,020)</u>	 <u>\$ 820,530</u>

During fiscal year 2003/04, the Water and Sewer Utility Enterprise Fund capitalized net interest costs of \$1,316,703. Total interest expense in this fund before capitalization was \$8,650,757.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands of dollars):

Governmental Activities	
General Government	\$ 5,226
Police	2,699
Financial Services	325
Transportation	64,257
Community Services	3,947
Information Services	3,450
Fire	665
Municipal Services	4,797
Citizen and Neighborhoods Resources	57
Human Resources	34
Economic Vitality	3
Planning and Development	166
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	<u>235</u>
Total Depreciation Expense - Government Activities	<u>\$ 85,861</u>

Business-Type Activities	
Water and Sewer System	\$ 22,926
Airport	623
Solid Waste	202
<hr/>	
Total Depreciation Expense - Business-Type Activities	<u>\$ 23,751</u>

Construction Commitments

The City has active construction projects as of June 30, 2004. At year-end the government’s commitments with contractors for specific projects are as follows (in thousands of dollars):

Construction Commitments	Spent to Date	Remaining Commitment
Streets	\$ 54,825	\$ 12,361
Traffic Improvement District	18,807	1,121
Fire	27,677	-
Police	5,962	460
Drain/Flood Control	10,659	315
Community	9,292	942
Parks/Recreation	316,164	12,233
Municipal Facilities	14,426	1,915
Technology	5,744	1,390
Libraries	10,630	778
Airport	658	447
Transit	2,932	238
Water System	5,951	1,372
Sewer System	165,311	62,739
	75,299	1,687
	<u>\$ 724,337</u>	<u>\$ 97,998</u>

The improvement district portion of the commitment is financed by improvement district bonds. The traffic commitments are being financed by the .2% Transportation Privilege (sales) Tax, which is reported in the Special Revenue fund financial statements. All water and sewer system improvement projects are being financed through the use of water or sewer development fees and water or sewer rates.

E. Interfund Balances and Interfund Transfers

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2004, is as follows:

Receivable Fund		Payable Fund	
(in thousands of dollars)	Amount	(in thousands of dollars)	Amount
General	\$ 314	Nonmajor Governmental Funds	\$ 314
<hr/>		<hr/>	
Total	<u>\$ 314</u>	Total	<u>\$ 314</u>

Individual funds having advances to and from other funds at June 30, 2004.

The advance to the Preserve Privilege Capital Projects fund from the General Fund is a result of a loan that was made in order to purchase a parcel of land outside of the area authorized for preservation sales tax funding in fiscal year 1999/00. The loan is required to be repaid in June 2005. The advance accrues interest at a rate of 6% compounded annually. The advance from the General CIP Capital Project Fund to the Preserve Privilege Tax Capital Project Fund was to provide cash in order to complete a purchase of a parcel of land outside of the area authorized for preservation sales tax funding in fiscal year 1999/00. The amounts will be repaid from the Preserve Privilege Tax Fund when it has sufficient cash to cover operations.

Advances To Other Funds:		Advances From Other Funds:	
(in thousands of dollars)	Amount	(in thousands of dollars)	Amount
General	\$ 1,262	Nonmajor Governmental Funds	\$ 1,262
Major Governmental Funds		Nonmajor Governmental Funds	
General CIP Construction	942		942
Total	\$ 2,204	Total	\$ 2,204

Interfund Transfers

Transfers are used to fund capital projects and debt service, reallocate special revenue funds to operating centers or other operations and for indirect administrative cost allocations (including in-lieu property tax and franchise fees) charges to Enterprise Funds. During the year \$32.3 million was transferred from the General Fund to the Municipal Property Corporation Non-major Debt Service Fund to defease outstanding debt. The amount had been previously set aside by management and reported as designated fund balance in the General Fund for bonds payable. The balance of this designation reported at June 30, 2004, was \$33.7 million.

Net transfers (in thousands of dollar):

Transfers Out		Transfers In	
From:		To:	
Major Governmental Funds		Major Governmental Funds	
General	\$ 52,990	Capital Projects	
		General CIP Construction	\$ 11,019
		Major Enterprise Funds	
		Airport	230
		Nonmajor Governmental Funds	
			40,945
		Internal Service Funds	
			796
Capital Projects		Nonmajor Governmental funds	
General CIP Construction	1,425		1,325
		General Fund	
			100
Total Major Governmental Funds	54,415	Total Major Governmental Funds	54,415

(continued)

Transfers Out		Transfers In	
From:		To:	
Major Enterprise Funds		Major Governmental Funds	
Water and Sewer	\$ 11,160	General Fund	\$ 7,302
		Capital Projects	
		General CIP Construction	1,339
		Nonmajor Governmental funds	2,519
Airport	71	Major Governmental Funds	
		General Fund	60
		Capital Projects	
		General CIP Construction	11
Solid Waste	36	Major Governmental Funds	
		General Fund	17
		Capital Projects	
		General CIP Construction	19
		Internal Service	
Total Major Enterprise Funds	<u>11,267</u>	Total Major Enterprise Funds	<u>11,267</u>
Nonmajor Governmental Funds	71,854	Major Governmental Funds	
		General Fund	50
		Debt Service	
		General Obligation Bond	12,654
		Capital Projects	
		General CIP Construction	18,311
		Nonmajor Governmental funds	40,839
Total Nonmajor Governmental Funds	<u>71,854</u>	Total Nonmajor Governmental Funds	<u>71,854</u>
Internal Service	533	Major Governmental Funds	
		Capital Projects	
		General CIP Construction	<u>533</u>
Total Internal Service Funds	<u>533</u>	Total Internal Service Funds	<u>533</u>
Total	<u>\$ 138,069</u>	Total	<u>\$ 138,069</u>

F. Operating Leases

The City has entered into rental agreements of retail and parking facilities. Rental payments on these facilities during the 2003/04 fiscal year were \$2,976,916. Payments are contingent upon sales tax revenues received on the properties; thus, future payments cannot be determined.

G. Bonds, Loans, and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2004. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2004.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

General Obligation Bonds

General obligation (GO) bonds are issued, after approval by City of Scottsdale voters at an authorized bond election, to finance the construction of water and sewer systems, artificial lighting, parks and open spaces, recreational facilities, and general purpose improvements. At June 30, 2004, the City had \$282,200,000 of unissued various purpose GO bonds, which were authorized in September 2000. The City had no unissued Preservation GO bonds from the September 1999 authorization. In May 2004 voters authorized \$500,000,000 of additional Preservation GO bonds, as well as an additional .15% sales tax increase to be used to finance Preserve land acquisitions. GO bonds are backed by the full faith and credit of the City, and are repaid through the City's levying of property (ad valorem) taxes. However, the Preservation GO bonds are repaid through the two-tenths of one percent City sales tax approved by voters in September 1996 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve. Additionally, a portion of the City's GO bonds are recorded in the Water Enterprise Fund as described below, and are repaid through revenues of that fund unless such revenues are insufficient.

HURF Revenue Bonds

Highway User Revenue Fee (HURF) bonds are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the Special Revenue Fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Municipal Property Corporation Bonds

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is

specifically prohibited by law. Most of these bonds are recorded as governmental long-term debt. The 1995 MPC Transfer Station bonds, however, are recorded in and paid out of revenues of the Solid Waste Enterprise Fund. The 2001 MPC Scottswater bonds are recorded in and paid out of the revenues of the Water Enterprise Fund. The 2004 MPC bonds are recorded in and paid out of the revenues of the Water and Sewer Enterprise Funds.

Scottsdale Preserve Authority Bonds

The Scottsdale Preserve Authority (SPA) is a nonprofit corporation created by the City in 1997 to finance land acquisitions for the McDowell Sonoran Preserve. The SPA issues its own bonds which are repaid through the two tenths of one percent City sales tax approved by voters in September 1996 to be used specifically for this purpose. In May 2004 voters approved an additional .15% sales tax increase SPA bonds are recorded as governmental long-term debt and are paid out of the SPA Debt Service Fund.

Water and Sewer Revenue Bonds

Water and sewer revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing and equipping of water and sewer facilities and related systems. At June 30, 2004, the City had \$3,340,000 authorized but unissued water and sewer revenue bonds. The City has no plans to issue the remaining portion of the unissued water and sewer revenue bonds authorized as all projects related to the authorization have been completed. The water and sewer revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water and sewer utility system, and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Water and sewer revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2004, the funds reserved for this purpose were \$17,236,893.

Special Assessment Bonds

Special assessment bonds are issued by the City on behalf of improvement districts created by property owners for a specific purpose, such as to finance local street, water or sewer improvements, or to acquire an existing water or sewer operation. Property owners in the designated districts agree to be assessed for the principal and interest costs of repaying the bonds. As trustee for improvement districts, the City is responsible for collecting the assessments levied

against the owners of property within the improvement districts and for disbursing these amounts to retire the bonds issued to finance the improvements. The receivables, revenues, and debt service expenses related to these bonds are recorded in the Special Assessments Debt Service Fund. At June 30, 2004, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, were adequate for the scheduled maturities of the bonds payable and the related interest.

These bonds are secured by a lien on the property and improvements of all parcels within each district. In the event of default by the property owner, the City may enforce auction sale to satisfy the debt service requirements of the improvement bonds. The City is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds.

The City Council's adopted policy is that special assessment improvement debt is permitted only when the ratio of the full cash value of the property (prior to improvements being installed) when compared to debt is a minimum of 3 to 1 prior to issuance of debt, and 5 to 1 or higher after construction of improvements. In addition, cumulative improvement district debt is not permitted to exceed 5 percent of the City's secondary assessed valuation.

At June 30, 2004, there were 4 separate series of special assessment improvement bonds outstanding, each series issued as serial bonds to be repaid over 10 years.

Community Facilities Districts General Obligation Bonds

Community Facilities District General Obligation Bonds are issued by community facilities districts (CFDs), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. CFD bonds are repaid by ad valorem taxes levied directly by the districts and collected by the county. Property owners in the districts are assessed for district taxes and thus for all costs associated with the districts. The City has no liability for community facilities district bonds.

CFDs are created only by petition to the City Council by property owners within the district areas. As board of directors for the CFDs, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the unimproved district property to the proposed district debt, is a minimum of 3 to 1, and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the CFD and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's secondary assessed valuation.

CFD Advance Refundings

There were no refundings during fiscal year 2003/04. In prior years, the McDowell Mountain Ranch CFD and the Scottsdale Mountain CFD refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The table reflects refunded debt outstanding at June 30, 2004, and net of any amounts to be paid or retired by the trustee on July 1, 2004 (in thousands of dollars).

	Refunded in Prior Year	
	(in thousands of dollars)	
McDowell Mountain Ranch CFD:		
General Obligation Series 1997	\$ 6,910	\$ 6,910
Scottsdale Mountain CFD:		
General Obligation Series Series 1993B	65	
General Obligation Series 1995	1,665	1,730
Total CFD Bonds Refunded in Prior Years	\$	8,640

Bonds payable at June 30, 2004, are comprised of the following:

Classified in Governmental activities on the government-wide financial statements:

	Bonds Outstanding (in thousands of dollars)
General Obligation Bonds	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water Fund. On June 15, 2004, \$2,505,000 due 2007 through 2009 were defeased. Of the total outstanding at June 30, 2004, \$5,499,577 bonds are capital appreciation bonds maturing in 2004 and 2005, of which \$3,572,813 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was \$45,015,000.	\$ 12,768
1989 Capital Improvement Project Serial Bonds (Series D issued 1993) due in annual installments of \$500,000 to \$1,475,000 through July 1, 2013; interest at 4.0 percent to 6.5 percent. On September 26, 2002, \$9,940,000 due 2002 through 2011 were refunded, and on September 24, 2003, an additional \$2,905,000 due 2012 through 2013 were refunded. Original issue amount, \$21,000,000.	-
1993A Refunding Bonds due in annual installments of \$475,000 to \$5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. \$1,315,000 of these bonds are recorded in and paid out of the Water Fund. On September 26, 2003, \$13,355,000 due 2004 and 2007 through 2011 were refunded. The original issue amount for the 1993A Refunding Bonds was \$24,265,000.	2,510
1989 Capital Improvement Project Serial Bonds (Series H issued January 1, 1997) due in annual installments of \$870,000 to \$2,115,000 through July 1, 2016; interest at 5.0 percent to 7.5 percent. On September 26, 2002, \$18,305,000 due 2006 through 2016 were refunded. Original issue amount, \$27,500,000.	1,235
1997 Refunding Bonds (issued September 3, 1997) due in annual installments of \$50,000 to \$3,510,000 through July 1, 2014, interest at 4.45 percent to 5.5 percent. Original issue amount \$19,900,000.	19,770
1989 Capital Improvement Project Serial Bonds (issued April 6, 1998) due in annual installments of \$445,000 to \$1,340,000 through July 1, 2018, interest at 4.3 percent to 6.5 percent. On September 26, 2002, \$8,180,000 due 2009 through 2015 were refunded. Original issue amount \$20,500,000.	8,090
1999A Transportation, Storm Sewer, Flood Protection and Pima Road Improvements Serial Bonds (issued June 29, 1999) due in annual installments of \$675,000 to \$1,900,000 through July 1, 2019; interest at 4.6 percent to 6.5 percent. On September 26, 2002, \$15,525,000 due 2010 through 2019 were refunded. Original issue amount \$25,200,000.	5,500
1999 Preservation Bonds (issued November 16, 1999) due in annual installments of \$800,000 to \$4,225,000 through July 1, 2024; interest at 7.5 percent to 5.0 percent. On July 18, 2001, \$32,375,000 due 2012 through 2022 were refunded, and on September 26, 2002, an additional \$4,125,000 due 2010 and 2011 were refunded. Original issue amount \$59,600,000.	16,925
2001 Preservation Bonds (issued March 29, 2001) due in annual installments of \$920,000 to \$2,455,000 through July 1, 2024; interest at 4.0 percent to 6.0 percent. On September 26, 2002, \$3,920,000 due 2010 through 2012 were refunded. Original issue amount \$35,000,000.	28,225

2001 Refunding Bonds (issued July 18, 2001) due in annual installments of \$70,000 to \$5,030,000 through July 1, 2022; interest at 3.875 percent to 5.375 percent. On April 15, 2004, \$5,490,000 due 2010 and 2014 through 2018 were defeased. Original issue amount \$51,155,000.	41,355
2002 Various Purpose Bonds (issued May 16, 2002) due in annual installments of \$1,740,000 to \$5,000,000 through July 1, 2024; interest at 4 percent to 5 percent. On June 15, 2004 due 2010 through 2011 were defeased. Original issue amount \$68,000,000.	61,295
2002 Refunding Bonds (issued September 26, 2002) due in annual installments of \$1,625,000 to \$8,795,000 through July 1, 2019; interest at 2 percent to 5 percent. On April 15, 2004, \$1,510,000 due 2010 were defeased. Original issue amount \$72,000,000.	63,505
2003 Refunding Bonds (issued September 24, 2003) due in annual installments of \$45,000 to \$5,515,000 through July 1, 2013; interest at 2 percent to 4.5 percent. Original issue amount \$16,265,000.	15,020
2004 Various Purpose Bonds (issued May 13, 2004) due in annual installments of \$1,600,000 to \$30,300,000 through July 1, 2025; interest at 3 percent to 5 percent. Original issue amount \$113,400,000.	113,400
	389,598
Total General Obligation Bonds Outstanding	\$ 389,598

The 1999 and 2001 Preservation Bonds of \$18,400,000 and \$29,210,000, respectively, and portions of the 2001 Refunding Bonds, 2002 Various Purpose Bonds, 2002 Refunding Bonds, and 2004 Various Purpose Bonds of \$33,235,000, \$40,000,000, \$8,100,000 and \$65,400,000, respectively, are paid from the .2% Preservation Sales Tax.

HURF Revenue Bonds

1993 Highway User Revenue Refunding Serial Bonds due in annual installments of \$405,000 to \$2,990,000 through July 1, 2007; interest at 4.25 percent to 5.5 percent. Original issue amount, \$26,690,000.	8,475
	\$ 8,475

Municipal Property Corporation Bonds

1993 Municipal Property Corporation Refunding Bonds due in annual installments of \$515,000 to \$4,170,000 through July 1, 2005; interest at 4.25 percent to 5.375 percent. Original issue amount, \$29,475,000.	\$ 4,170
1994 Municipal Property Corporation Refunding Bonds due in annual installments of \$775,000 to \$1,080,000 through July 1, 2004; interest at 4.3 percent to 5.15 percent. Original issue amount, \$9,295,000.	-
1995 Municipal Property Corporation TPC Land Taxable Excise Tax Revenue Bonds due in annual installments of \$70,000 to \$285,000 through July 1, 2015; interest at 7.7 percent to 9.0 percent. On May 25, 2004, \$2,270,000 due 2004 through 2015 were defeased. Original issue amount, \$2,950,000.	-
1996 Municipal Property Corporation Excise Tax Revenue Bonds for McCormick/Stillman Park, computers, and curbside recycling (issued July 1, 1996) due in annual installments of \$310,000 to \$1,570,000 through July 1, 2004; interest at 4.4 percent to 5.4 percent. The curbside recycling portion (2,800,000 issued, \$0 outstanding) of bonds are recorded in and paid out of the Solid Waste Enterprise Fund. Original issue amount, \$7,550,000.	-
1998 Municipal Property Corporation Excise Tax Revenue Bonds (issued December 2, 1998) due in annual installments of \$3,500,000 to \$180,000 through July 1, 2008; interest at 4.0 percent. Original issue amount, \$9,150,000.	680
2002 Municipal Property Corporation Refunding Bonds (issued August 7, 2002) due in annual installments of \$1,260,000 to \$3,505,000 through July 1, 2014; interest at 5.5 percent. On October 24, 2003, \$29,310,000 due 2004 through 2014 were defeased. Original issue amount, \$30,570,000.	-
Total MPC Bonds Outstanding	<u>\$ 4,850</u>

Scottsdale Preserve Authority Bonds

1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of \$170,000 to \$1,475,000 beginning July 1, 1998, through July 1, 2022; interest at 7.75 percent to 5.625 percent. On July 18, 2001, \$16,690,000 due 2006 through 2022 were refunded. Original issue amount \$20,500,000.	\$ 595
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of \$1,015,000 to \$6,585,000 beginning July 1, 1999, through July 1, 2024; interest at 6.0 percent to 4.75 percent. On March 30, 2004, \$22,770,000 due 2009 through 2016 were refunded. Original issue amount \$77,000,000.	45,155
2001 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued July 18, 2001, due in annual installments of \$60,000 to \$1,465,000 beginning July 1, 2002, through July 1, 2022; interest at 4.375 percent to 5.25 percent. Original issue amount \$17,495,000.	17,305
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of \$75,000 to \$3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$22,925,000.	<u>22,925</u>
Total Scottsdale Preserve Authority Bonds	<u>\$ 85,980</u>

Special Assessment Bonds

Special Assessment Bonds issued September 1, 1993, through December 20, 2001, maturing January 1, 2004, through January 1, 2013; due in annual installments of \$15,000 to \$1,575,000; interest at 4.5 percent to 5.7 percent. Total original issue amount, \$31,770,000. \$ 8,755

Community Facilities Districts General Obligation Bonds

1998 DC Ranch Community Facilities District General Obligation Bonds due in annual installments of \$155,000 to \$385,000 beginning July 15, 2005 through July 15, 2023; interest at 4.75% to 5.5%. Original issue amount \$4,750,000. \$ 4,750

1999 Via Linda Road Community Facilities District General Obligation Bonds due in annual installments of \$95,000 to \$255,000 beginning July 15, 2004 through July 15, 2023; interest at 5.0% to 5.75%. Original issue amount \$3,225,000. 3,130

1999 McDowell Mountain Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$320,000 to \$1,455,000 beginning July 15, 1999 through July 15, 2022; interest at 4.0% to 6.0%. Original issue amount \$20,245,000. 17,405

1999 DC Ranch Community Facilities District General Obligation Bonds (issued November 1, 1999) due in annual installments of \$85,000 to \$260,000 beginning July 15, 2005 through July 15, 2011. Interest at 5.45% to 6.50%. Original issue amount \$3,085,000. 3,085

2002 Scottsdale Mountain Community Facilities District General Obligation Refunding Bonds (issued May 15, 2002) due in annual installments of \$160,000 to \$455,000 beginning July 15, 2003 through July 15, 2018; interest at 3.0 percent to 4.7 percent. Original issue amount \$5,375,000. 4,885

2002 DC Ranch Community Facilities District General Obligation Bonds (issued December 17, 2002) due in annual installments of \$245,000 to \$1,395,000 beginning July 15, 2004 through July 15, 2027. Interest at 3% to 5%. Original issue amount \$12,165,000. 11,695

Total Community Facilities Districts General Obligation Bonds Outstanding \$ 44,950

Total Bonds Payable Recorded in Governmental Activities \$ 542,608

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

	Bonds Outstanding (in thousands of dollars)
General Obligation Bonds	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water Fund. Of the total outstanding at June 30, 2004, \$5,499,577 bonds are capital appreciation bonds maturing in 2004 and 2005, of which \$3,572,813 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was \$45,015,000.	\$ 9,336
1993A Refunding Bonds due in annual installments of \$475,000 to \$5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. \$1,315,000 of these bonds are recorded in and paid out of the Water Fund. The original issue amount for the 1993A Refunding Bonds was \$24,265,000.	1,315
	1,315
Total General Obligation Bonds Outstanding	\$ 10,651
 Water and Sewer Revenue Bonds	
1989 Water and Sewer Revenue Serial Bonds (Series B issued 1992) due in annual installments of \$165,000 to \$410,000 through July 1, 2012; interest at 5.0 percent to 7.5 percent. On March 30, 2004, \$2,660,000 due 2005 through 2012 were refunded. Original issue amount, \$5,000,000.	\$ -
1989 Water and Sewer Revenue Bonds (Series C issued 1994) due in annual installments of \$125,000 to \$240,000 through July 1, 2014; interest at 5.75 percent to 8.25 percent. \$3,005,000 of these bonds due 2006 through 2014 were refunded on March 1, 1996. On March 30, 2004, \$240,000 due 2005 were refunded. Original issue amount, \$5,000,000.	-
1996 Water and Sewer Revenue Refunding Serial Bonds (issued March 1, 1996) due in annual installments of \$325,000 to \$1,000,000 beginning July 1, 1997 through July 1, 2014; interest at 3.5 percent to 5.625 percent. Original issue amount, \$9,815,000.	6,175
1989 Water and Sewer Revenue Bonds (Series D issued November 1, 1997) due in annual installments of \$425,000 to \$1,375,000 through July 1, 2022; interest at 4.75 percent to 7.25 percent. On March 30, 2004, \$6,775,000 due 2009 through 2016 were refunded. Original issue amount \$20,000,000.	9,775
1989 Water and Sewer Revenue Bonds (Series E issued December 2, 1998) due in annual installments of \$1,015,000 to \$4,615,000 through July 1, 2023; interest at 4.5 percent to 7.0 percent. On March 30, 2004, \$9,210,000 due 2009 through 2013 were refunded. Original issue amount \$50,000,000.	33,535
2004 Water and Sewer Revenue Refunding Bonds (Series 2004 issued March 30, 2004) due in annual installments of \$80,000 to \$3,175,000 through July 1, 2016 ; interest at 2 percent to 5 percent. \$2,907,520 of these bonds are recorded in and paid out of the Water Enterprise Fund, and \$15,972,480 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount \$18,880,000.	18,880
	18,880
Total Water and Sewer Revenue Bonds Outstanding	\$ 68,365

Municipal Property Corporation Bonds

1995 Municipal Property Corporation Transfer Station Excise Tax Revenue Serial Bonds (issued November 1, 1995) due in annual installments of \$160,000 to \$330,000 through July 1, 2010; interest at 4.75 percent to 7.25 percent. These bonds are recorded in and paid out of the Solid Waste Enterprise Fund. Original issue amount, \$3,500,000.	\$ 1,740
2001 Municipal Property Corporation Scottswater Excise Tax Revenue Serial Bonds (issued October 10, 2001) due in annual installments of \$1,160,000 to \$1,835,000 through July 1, 2008; interest at 3.5 percent to 5 percent. These bonds are recorded in and paid out of the Water Enterprise Fund. Original issue amount, \$10,500,000.	6,625
2004 Municipal Property Corporation Excise Tax Revenue Bonds (Series 2004 issued May 13, 2004) due in annual installments of \$2,190,000 to \$5,435,000 through July 1, 2024; interest at 3.25 percent to 5.25 percent. \$55,000,000 of these bonds are recorded in and paid out of the Water Enterprise Fund, and \$20,000,000 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount \$75,000,000.	<u>75,000</u>
Total Municipal Property Corporation Bonds Outstanding	<u>\$ 83,365</u>
Total Bonds Payable Recorded in Business-type Activities	<u>\$ 162,381</u>
Total Long-term Portion of Bonds Payable	<u><u>\$ 704,989</u></u>

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, and open space purposes may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Accretion on capital appreciation bonds, which is included for GAAP purposes as outstanding debt, is excluded for this calculation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the City of Scottsdale's legal general obligation bonded debt borrowing capacity at June 30, 2004 (in thousands of dollars):

<u>General Obligation Bonds Issued to Provide Water, Sewer, Light,</u>		<u>General Obligation Bonds Issued for All Other Purposes</u>	
20% Constitutional Limit	\$ 795,104	6% Constitutional Limit	\$ 238,531
Less General Obligation 20% Bonds Outstanding	<u>(319,765)</u>	Less General Obligation 6% Bonds Outstanding	<u>(74,984)</u>
Available 20% Limitation Borrowing Capacity	<u><u>\$ 475,339</u></u>	Available 6% Limitation Borrowing Capacity	<u><u>\$ 163,547</u></u>

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City's outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2004.

Advance Refundings and Defeasances

During the year ended June 30, 2004, the City issued three series of refunding bonds.

The City issued \$16,265,000 of General Obligation Refunding Bonds, Series 2003, (advance refunding) dated September 24, 2003, with an average interest rate of 3.8%, to refund \$16,260,000 of Series 1993 Series D and 1993A General Obligation Bonds with an average interest rate of 4.77%. The City will reduce its total debt service payments over the next 10 years by approximately \$1,082,145, and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$920,151.

The City issued \$22,925,000 of Scottsdale Preserve Authority Refunding Bonds, Series 2004, (advance refunding) dated March 30, 2004, with an average interest rate of 4.85%, to refund \$22,770,000 of Series 1998 Excise Tax Revenue Bonds with an average interest rate of 5.13%. The City refunded the bonds to reduce its total debt service payments over the next 12 years by approximately \$744,293 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$683,174.

The City issued \$18,880,000 of Water and Sewer Revenue Refunding Bonds, Series 2004, (advance refunding) dated March 30, 2004, with an average interest rate of 4.69%, to refund \$18,885,000 of 1989 Series B, C, D, and E Water and Sewer Excise Tax Revenue Bonds with an average interest rate of 4.37%. The City refunded the bonds to reduce its total debt service payments over the next 12 years by approximately \$843,029 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$821,398.

The proceeds from the issuance of the bonds were used to purchase U.S. government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the City's financial statements.

During the year ended June 30, 2004, the City defeased the following debt:

On October 23, 2003, the City placed \$32,310,969 with an escrow agent to defease the entire outstanding amount of \$29,310,000 of the MPC Excise Tax Revenue Forward Delivery Refunding Bonds, Series 2002 having an average interest rate of 5.5%. The City defeased the bonds to reduce its total debt service payments over the next 10 years by \$39,276,825.

On April 15, 2004, the City placed \$7,694,036 with an escrow agent to defease \$7,000,000 of General Obligation Bonds, Series 2001 and 2002 having an average interest rate of 5.15%. The City defeased the bonds to reduce its total debt service payments over the next 14 years by \$7,615,913.

On May 26, 2004, the City placed \$2,506,780 with an escrow agent to defease the entire outstanding amount of \$2,270,000 of the MPC Taxable Excise Tax Revenue Bonds, Series 1995 having an average interest rate of 8%. The City defeased the bonds to reduce its total debt service payments over the next 11 years by \$2,551,220.

On June 15, 2004, the City placed \$5,937,862 with an escrow agent to defease \$5,505,000 of General Obligation Bonds, Series 1993 Refunding and 2002 having an average interest rate of 5.2%. The City defeased the bonds to reduce its total debt service payments over the next 7 years by \$7,169,178.

Costs in the amount of \$3,964,000 related to the defeasances were considered a special item for the governmental activities. In prior years, the City refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded.

The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The tables below reflect refunded debt outstanding at June 30, 2004, and net of any amounts to be paid or retired by the trustee on July 1, 2004 (in thousands of dollars).

Refunded in Year Ended June 30, 2004	
(in thousands of dollars)	
1993 GO Refunding Bonds	\$ 2,505
2001 GO Refunding Bonds	5,490
2002 GO Bonds	3,000
2002 GO Refunding Bonds	1,510
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds	22,770
1995 MPC Taxable Excise Tax Bonds	2,150
2002 MPC Refund Excise Tax Bonds	27,140
1997 Water and Sewer Revenue Bonds, Series D	6,775
1998 Water and Sewer Revenue Bonds, Series E	9,210
	<u>\$ 80,550</u>
Refunded in Prior Years	
(in thousands of dollars)	
1997 General Obligation Bonds	\$ 18,305
1998 General Obligation Bonds	8,180
1999A General Obligation Bonds	15,525
1999 General Obligation Bonds	32,375
1999 Preservation General Obligation Bonds	4,125
2001 Preservation General Obligation Bonds	3,920
1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds	16,690
	<u>\$ 99,120</u>

Contracts Payable

The City of Scottsdale has entered into various purchase contracts related to economic development, acquisition of water system facilities, acquisition of recreational facilities and patents. The contract for the acquisition of water system facilities is payable only from the operating revenue of the water and sewer utility system. The following is a summary of debt service to maturity for all long-term contracts payable at June 30, 2004.

Classified in Governmental activities on the government-wide financial statements:

	Contracts Payable (in thousands of dollars)
Contract payable to the U.S. Army Corps of Engineers for the construction of flood control and recreation facilities; due in annual installments through 2032; interest at 5.1 percent.	\$ 3,241
Contract payable for the construction of public infrastructure relating to completion of The Dial Corporation new corporate headquarters; due in annual installments beginning September 1998 through September 2007; non-interest bearing.	230
Contract payable for the maintenance of a federal patent; due in three year installments beginning January 1, 2001 through January 1, 2009; non-interest bearing.	5
Contract payable for the oversight and management of the Tournament Players Club Recreational Land Use Agreement; due in annual installments beginning March 1999 through June 2035; non-interest bearing.	1,705
Contract payable for the oversight and management of the Westworld Cost-share and Land Use Agreement; due in annual installments beginning December 2000 through December 2032; non-interest bearing.	1,595
Contract payables for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through; interest at 10.0 percent.	101
Contract payable for the purchase of a portion of 2,685 acres of land for the McDowell Sonoran Preserve; due in fifteen annual installments beginning July 1, 1999 through July 1, 2013; interest from 3.75 percent to 6.0 percent.	<u>6,825</u>
Total Contracts Payable Recorded in Governmental Activities	<u>\$ 13,702</u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2004 (in thousands of dollars).

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
General Obligation Bonds	\$ 305,003	\$ 130,135	\$ (45,540)	\$ 389,598	\$ 16,662
HURF Revenue Bonds	10,990	-	(2,515)	8,475	2,660
Municipal Property Corporation Bonds	41,955	-	(37,105)	4,850	4,330
Scottsdale Preserve Authority Bonds	88,270	22,925	(25,215)	85,980	-
Special Assessments Bonds	11,140	-	(2,385)	8,755	2,415
Community Facilities Districts General Obligation Bonds	46,355	-	(1,405)	44,950	1,470
Add Deferred Issuance Premiums	6,864	4,429	(2,552)	8,741	-
Less Deferred Amounts on Refunding	(8,327)	(3,054)	2,228	(9,153)	-
Total Bonds Payable	<u>502,250</u>	<u>154,435</u>	<u>(114,489)</u>	<u>542,196</u>	<u>27,537</u>
Contracts Payable (as restated)	14,557	-	(855)	13,702	865
Capital Lease (as restated)	-	-	-	-	-
Compensated Absences	11,495	8,536	(6,993)	13,038	2,086
Governmental Activity Long-term Liabilities	<u>\$ 528,302</u>	<u>\$ 162,971</u>	<u>\$ (122,337)</u>	<u>\$ 568,936</u>	<u>\$ 30,488</u>

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the year ended June 30, 2004, \$374,000 of accrued compensated absences is included in the above amount. For the governmental activities, the General Fund, Special Revenue Funds and Capital Projects Funds generally liquidate accrued compensated absences.

Business-type Activities:

Bonds Payable					
General Obligation Bonds	\$ 14,323	\$ 873	\$ (4,545)	\$ 10,651	\$ 563
Water and Sewer Revenue Bonds	71,230	18,880	(21,745)	68,365	2,630
Municipal Property Corporation Bonds	10,010	75,000	(1,645)	83,365	3,935
Add Deferred Issuance Premiums	188	6,986	(557)	6,617	-
Less Deferred Amounts on Refunding	(241)	(1,870)	292	(1,819)	-
Total Bonds Payable	<u>95,510</u>	<u>99,869</u>	<u>(28,200)</u>	<u>167,179</u>	<u>7,128</u>
Compensated Absences	1,345	1,006	(820)	1,531	239
Business-type Activity Long-term Liabilities	<u>\$ 96,855</u>	<u>\$ 100,875</u>	<u>\$ (29,020)</u>	<u>\$ 168,710</u>	<u>\$ 7,367</u>

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2004. Deferred issuance costs and deferred amounts on refunding are not included.

Governmental Activities
(in thousands of dollars)

Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			General Obligation Bonds Issued For All Other Purposes 6% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 6,476	\$ 17,907	\$ 24,383	\$ 10,185	\$ 3,556	\$ 13,741	\$ 16,661	\$ 21,463	\$ 38,124
2006	7,226	14,689	21,915	10,479	2,951	13,430	17,705	17,640	35,345
2007	8,315	14,315	22,630	11,575	2,444	14,019	19,890	16,759	36,649
2008	7,790	13,884	21,674	10,165	1,931	12,096	17,955	15,815	33,770
2009	10,595	13,487	24,082	8,220	1,492	9,712	18,815	14,979	33,794
2010-2014	88,465	56,756	145,221	11,360	4,038	15,398	99,825	60,794	160,619
2015-2019	76,555	37,218	113,773	13,000	881	13,881	89,555	38,099	127,654
2020-2024	76,965	18,642	95,607	-	-	-	76,965	18,642	95,607
2025-2029	30,300	1,439	31,739	-	-	-	30,300	1,439	31,739
Capital Appreciation **	1,927	(1,927)	-	-	-	-	1,927	(1,927)	-
Total	\$ 314,614	\$ 186,410	\$ 501,024	\$ 74,984	\$ 17,293	\$ 92,277	\$ 389,598	\$ 203,703	\$ 593,301

** For GAAP financial statement reporting, accretion of capital appreciation bonds is added to the principal balance outstanding.

Fiscal Year	Highway User Revenue Bonds			Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 2,660	\$ 459	\$ 3,119	\$ 4,330	\$ 251	\$ 4,581	\$ 2,595	\$ 4,430	\$ 7,025
2006	2,825	316	3,141	170	21	191	2,815	3,990	6,805
2007	2,990	165	3,155	170	14	184	2,965	3,836	6,801
2008	-	-	-	180	7	187	3,110	3,672	6,782
2009	-	-	-	-	-	-	3,260	3,500	6,760
2010-2014	-	-	-	-	-	-	18,215	15,238	33,453
2015-2019	-	-	-	-	-	-	23,180	10,311	33,491
2020-2024	-	-	-	-	-	-	29,840	4,185	34,025
2025-2029	-	-	-	-	-	-	-	-	-
Total	\$ 8,475	\$ 940	\$ 9,415	\$ 4,850	\$ 293	\$ 5,143	\$ 85,980	\$ 49,162	\$ 135,142

Fiscal Year	Special Assessment Bonds			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 2,415	\$ 349	\$ 2,764	\$ 1,470	\$ 2,193	\$ 3,663
2006	835	267	1,102	1,535	2,121	3,656
2007	835	229	1,064	1,615	2,045	3,660
2008	835	191	1,026	1,685	1,978	3,663
2009	835	154	989	1,760	1,907	3,667
2010-2014	3,000	270	3,270	10,255	8,261	18,516
2015-2019	-	-	-	12,160	5,579	17,739
2020-2024	-	-	-	10,480	2,455	12,935
2025-2029	-	-	-	3,990	406	4,396
Total	\$ 8,755	\$ 1,460	\$ 10,215	\$ 44,950	\$ 26,945	\$ 71,895

(continued)

Governmental Activities (concluded)

Fiscal Year	Contracts Payable			Total		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 853	\$ 500	\$ 1,353	\$ 30,984	\$ 29,645	\$ 60,629
2006	879	466	1,345	26,764	24,821	51,585
2007	912	432	1,344	29,377	23,480	52,857
2008	951	395	1,346	24,716	22,058	46,774
2009	1,063	357	1,420	25,733	20,897	46,630
2010-2014	4,430	1,123	5,553	135,725	85,686	221,411
2015-2019	1,146	560	1,706	126,041	54,549	180,590
2020-2024	1,315	391	1,706	118,600	25,673	144,273
2025-2029	1,476	174	1,650	35,766	2,019	37,785
2029-2033	622	9	631	622	9	631
2034-2035	55	-	55	55	-	55
Capital Appreciation	-	-	-	1,927	(1,927)	-
Total	\$ 13,702	\$ 4,407	\$ 18,109	\$ 556,310	\$ 286,910	\$ 843,220

Business-type Activities
(in thousands of dollars)

Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 563	\$ 4,352	\$ 4,915	\$ 563	\$ 4,352	\$ 4,915
2006	6,515	340	6,855	6,515	340	6,855
2007	-	-	-	-	-	-
2008	-	-	-	-	-	-
2009	-	-	-	-	-	-
2010-2014	-	-	-	-	-	-
2015-2019	-	-	-	-	-	-
2020-2024	-	-	-	-	-	-
2025-2029	-	-	-	-	-	-
Capital Appreciation **	3,573	(828)	2,745	3,573	(828)	2,745
Total	\$ 10,651	\$ 3,864	\$ 14,515	\$ 10,651	\$ 3,864	\$ 14,515

Fiscal Year	Water and Sewer Revenue Bonds			Municipal Property Corporation Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 2,630	\$ 3,570	\$ 6,200	\$ 3,935	\$ 4,725	\$ 8,660	\$ 7,128	\$ 12,647	\$ 19,775
2006	3,330	3,182	6,512	4,610	3,964	8,574	14,455	7,486	21,941
2007	3,475	2,997	6,472	4,815	3,757	8,572	8,290	6,754	15,044
2008	3,635	2,801	6,436	5,030	3,516	8,546	8,665	6,317	14,982
2009	3,785	2,598	6,383	3,290	3,284	6,574	7,075	5,882	12,957
2010-2014	16,930	10,445	27,375	16,850	13,947	30,797	33,780	24,392	58,172
2015-2019	17,385	6,454	23,839	19,990	9,478	29,468	37,375	15,932	53,307
2020-2024	17,195	2,021	19,216	24,845	3,953	28,798	42,040	5,974	48,014
2025-2029	-	-	-	-	-	-	-	-	-
Capital Appreciation **	-	-	-	-	-	-	3,573	(828)	2,745
Total	\$ 68,365	\$ 34,068	\$ 102,433	\$ 83,365	\$ 46,624	\$ 129,989	\$ 162,381	\$ 84,556	\$ 246,937

** For GAAP financial statement reporting, accretion of capital appreciation bonds is added to the principal balance outstanding.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to public, property, and aviation premises liability, self-insured benefits and workers compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property coverage, the first \$150,000 of health benefits claims and the first \$600,000 of workers compensation. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance. During the fiscal year ending June 30, 2004, the previous years' very severe global insurance market eased allowing the City to purchase an additional \$10 million of liability insurance raising the total to \$40 million. As for claim expenditures, settlements for each of the past three fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

The City reports its self-insurance activity in its Self-Insurance Internal Service Fund. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The claims liabilities amount recorded in the accompanying financial statements is based on reported pending claims; and an actuarial analysis and projection of the accrued liability amounts necessary to fund the claims. At June 30, 2004, the general liability claims payable totaled \$9,204,464 and the self-insured benefits claims payable totaled \$5,474,000. The City began to administer all self-insured health and dental plans in January of 2004.

	Years Ended June 30	
	2004	2003
(in thousands of dollars)		
Claims Payable, July 1	\$ 8,839	\$ 8,420
Current Year Claims Incurred	14,980	6,065
Current Year Claim Payments	(9,141)	(5,646)
Claims Payable, June 30	<u>\$ 14,678</u>	<u>\$ 8,839</u>

In addition, management has established a policy to retain a cash balance at the 90% confidence level for general risk claims and a corridor and premium stabilization reserve for the self-insured health benefits. At June 30, 2004, the 90% confidence level recommendation is \$13,346,473 for all lines of pending claims and the claims incurred, corridor reserve and premium stabilization reserve total \$8,473,000 for self-insured benefits.

B. Contingent Liabilities

The City is a party to several lawsuits incidental to its normal operations. Management, with concurrence of the City Attorney, and outside legal counsel, is of the opinion that settlement of these lawsuits will not have a material effect on the financial position of the City. Therefore, no specific provision has been reflected in the accompanying basic financial statements for these matters.

C. Commitments and Subsequent Events

On November 19, 2002, the City Council approved a development agreement with John Lund relating to a new automotive complex at the southeast corner of Scottsdale Rd. and Loop 101 Freeway. The terms of this agreement require the City to reimburse Lund for up to \$5.5 million in public benefits relating to the project including the acquisition of public lands, reimbursement of the City's water and sewer development fees, and reimbursement of the City's stormwater retention payment in lieu. The actual amount will be dependent upon actual costs. However, the reimbursement amount may not exceed \$5.5M even if actual costs are higher. The City has also agreed to pay interest costs on Lund's cost of borrowing on the unpaid balance beginning at 8.5% in the first year and dropping by .5% per year. The reimbursement of the costs listed above, will be

accomplished by paying Lund quarterly payments equal to 67% of the City's General Fund sales tax receipts received from the new dealership in that quarter, for a maximum of 10 years. The first payment is not due until the calendar quarter after the calendar quarter in which the first certificate of occupancy is issued.

In June 2002, the City Council approved a three-year agreement with Rural/Metro Corporation (Rural/Metro) whereby Rural/Metro will provide fire protection and related services to the City to June 30, 2005 with the option of two one-year extensions. Payments to Rural/Metro amounted to \$17,942,979 for the year ended June 30, 2004. The new contract requires 26 payments during the fiscal year 2004/05 for a total amount of \$19,203,955. In November 2003, Rural/Metro informed the City that it would not be extending the contractual relationship further than June 2005. The City plans to form a municipal fire department that will begin operations on July 1, 2005.

The City has a Service Agreement with the Scottsdale Cultural Council (Council) that provides that the Council will manage the arts and cultural affairs within the Scottsdale community for a ten-year period, automatically renewable for two five-year periods. In return, the City will pay service fees to the Council based on the Service Agreement between the City and the Council. Payments to Scottsdale Cultural Council amounted to \$2,780,596 for the year ended June 30, 2004. Annual amounts due in fiscal year 2004/05 will approximate \$2,864,014.

The City has a Service Agreement with the Scottsdale Convention and Visitors' Bureau (SCVB) that provides that SCVB will manage the tourism promotion within the Scottsdale community for a ten-year period. In return, the City will pay service fees to SCVB based on the Service Agreement with the City. Payments to SCVB amounted to \$5,025,358 for the year ended June 30, 2004. The annual amount due in fiscal year 2004/05 will be \$5,276,000.

The City has entered into several agreements whereby it will reimburse developers for construction costs of certain public infrastructure improvements. The funding source for the reimbursements will come from Water and Sewer development fees paid over the life of the development. Only amounts paid subsequent to January 13, 1997 are eligible for reimbursement. The City does not become liable under the agreements until the City has accepted the cost, a development fee has been paid and a water meter has been set. The City has limited its liability

to the lesser of the cost accepted by the City or the development fees paid. The City's maximum contingent liability at June 30, 2004, is \$6,150,385.

The City has entered into several agreements whereby it will reimburse developers a portion of the sales tax collected on their site for a time period up to a maximum dollar amount. The funding source for the reimbursements will come from sales tax collected on the site over the life of the agreement. The City does not become liable under the agreements until the developer has collected and remitted the tax to the City. The City's maximum contingent liability at June 30, 2004, is \$19,467,914.

On May 26, 2004, the City Council authorized an Amended and Restated Development Agreement with the Center for Translational Drug Development (TD2). TD2 is a subsidiary company of the Translational Genomics Research Institute (Tgen). The purpose of the new company is to create a new biomedical research facility on the Mayo Clinic Scottsdale Campus. The City's intent is to help to develop a biomedical research campus in order to provide for the future long-term economic sustainability of the community by attracting a highly desirable industry with high value jobs. Under the terms of the agreement the City will provide \$3 million to TD2. The payments are scheduled to be dispersed in two payments, the first at \$500,000 and the second for \$2.5 million based on space lease and ground lease requirements for the land being developed. Repayment of the amounts from TD2 to the City will begin the 25th month after the date the City pays the first installment of funds to TD2. TD2 is obligated to pay equal monthly installments prior to the end of the term of 84 months. All payments will include interest compounded at 2.5% per year. On July 2, 2004, the City made the first payment of \$500,000.

On July 6, 2004, the City entered into a Development Agreement with the Arizona State University Foundation. The agreement will facilitate the development of an area of the City known as Los Arcos. Under the terms of the agreement, the City will acquire the Los Arcos property for \$41.5 million, plus closing costs, for a total investment estimated at no more than \$42.0 million. The City will also provide demolition, environmental remediation (if any), and grading for the property, and construction or installation of streets, landscaping, utilities, street lighting, parking, public art, plazas, and other identified improvements (collectively referred to as "Infrastructure"). The

total cost of the infrastructure to be borne by the City shall not exceed \$45.0 million. The City's total expenditure for land acquisition and improvements is thus capped at approximately \$87.0 million (exclusive of financing costs), of which approximately \$81.4 million is allocable to the leased premises (37 acres out of the total 42 acres). The land was purchased on August 9, 2004. In order to finance the purchase of the land the City sold \$40.76 Million in MPC bonds on September 15, 2004. These bonds are for a 30-year term and are interest only for the first 5 years.

On July 14, 2004, the City completed a purchase of 383 acres of land for preservation purposes in the northern portion of the City. The purchase totaled \$46 million.

D. Joint Venture

The City participates with the cities of Phoenix, Glendale, Mesa, and Tempe in the multi-city Sub-Regional Operating Group (SROG). SROG was formed pursuant to the Joint Exercise of Powers Agreement (JEPA) in order to govern the construction, operation, and maintenance of jointly used sewage treatment and transportation facilities. The facilities include the 91st Avenue Wastewater Treatment Plant, the Salt River Outfall Sewer, the Southern Avenue Interceptor, and related transportation facilities. The City of Phoenix acts as lead agency and is responsible for the planning, budgeting, construction, operation, and maintenance of the facilities. In addition, the City of Phoenix provides all management, personnel, and financing arrangements and accepts federal grants on behalf of the participants. The JEPA requires each city to pay for its share of the actual cash costs of operating and maintaining the facilities based on relative sewage flows and strengths.

The City records its share of SROG's cash operating expenses, and its equity in the joint venture in the City's Water and Sewer Utility Fund. For the year ended June 30, 2003, (the latest audited information available from SROG), the City's net investment in SROG was \$48,651,000. SROG's net cash operating expenses for the year ended June 30, 2003, were \$24,443,022, of which the City's share was \$3,601,934, or 14.7 percent. For the year ended June 30, 2004, the City paid \$13,949,466 for SROG capital contributions, and \$4,688,459 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003 for the multi-city Sub-Regional Operating Group (the latest SROG CAFR available) may be obtained from the Arizona Municipal Water Users Association, 4041 N. Central Avenue, Suite 900, Phoenix, AZ 85012.

E. Related Organization

The Industrial Development Authority (Authority) is a nonprofit corporation established by the City in 1984 to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate and remain in Scottsdale. The Board of Directors of the Authority is appointed by the City Council; however, the City's accountability for the authority does not extend beyond making the appointments.

F. Retirement and Pension Plans

All full-time employees of the City, the Mayor, and City Council are covered by one of three pension plans. All full-time City employees, except public safety personnel, participate in the Arizona State Retirement System, a multiple-employer cost sharing pension plan. All public safety personnel participate in the Public Safety Personnel Retirement System, which is an agent multiple-employer pension plan. The Mayor and Council participate in the Elected Officials' Retirement Plan, a multiple-employer cost sharing pension plan. All three pension plans are administered by the State of Arizona.

Arizona State Retirement System

Plan Description

All full-time City employees (except public safety personnel) participate in the Arizona State Retirement System (System), a multiple-employer cost sharing defined benefit pension plan. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5, of the Arizona Revised Statutes. The System provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. The Arizona State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arizona State Retirement System, P. O. Box 33910, Phoenix, AZ 85067-3910, or by calling 1-800-621-3778.

Funding Policy

The Arizona Revised Statutes (ARS) provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate. The actuarially determined contribution rate for the years ended June 30, 2004, 2003, and 2002 were 5.70% (5.20% retirement and .50% long-term disability) 2.49% and 2.49%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2004, 2003, and 2002 were \$4,680,164, \$2,034,363, and \$2,057,262, respectively, equal to the required contributions for each year.

Public Safety Personnel Retirement System

Plan Description

All of the City's public safety personnel (police officers) participate in the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan. PSPRS was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes to provide pension benefits for public safety employees of certain state and local governments. The PSPRS is jointly administered by the fund manager and 171 local boards. PSPRS provides retirement benefits, as well as death and disability benefits. The Public Safety Personnel Retirement System of the State of Arizona issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Safety Personnel Retirement System, 1020 East Missouri Avenue, Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy

The System is funded through a member contribution of 7.65% of gross payroll, an employer contribution set by an actuarial valuation expressed as a percent of gross payroll, and a distribution of the net earnings of the Fund. The City's current contribution rate is 7.77% of annual covered payroll, consisting of 11.89% for normal cost and (4.12%) for amortization of unfunded actuarial accrued liability. Contribution rates for both 2003 and 2002 were 5.37%.

Annual Pension Cost

For 2004, the City's annual pension cost of \$1,793,540 for PSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the individual entry-age actuarial cost method.

The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% per year compounded annually, attributable to inflation and other across-the-board factors, and (c) additional projected salary increases ranging from 6.5% to 9.5% per year, attributable to seniority/merit. Included in (b) is an inflation component of 5.5%. The actuarial value of PSPRS assets was determined using techniques that smooth the market value of assets over a 4-year period. PSPRS's unfunded accrued liability is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period at July 1, 2004 was 20 years.

Elected Officials' Retirement Plan

Three-Year Trend Information for PSPRS
(in thousands of dollars)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 1,133	100%	-
2003	1,159	100%	-
2004	1,794	100%	-

Plan Description

The City's Mayor and Council participate in the Elected Officials' Retirement Plan (EORP), a multiple-employer cost sharing defined benefit pension plan. The EORP was established and is administered by the State of Arizona to provide pension benefits for state and county elected officials, judges, and certain City-elected officials. The fund manager of the PSPRS is also the administrator for the EORP. EORP provides retirement benefits, as well as death and disability benefits. The Elected Officials' Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for EORP. That report may be obtained by writing to Elected Officials' Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling (602) 255-5575.

Funding Policy

Covered employees are required by state statute to contribute an amount equal to 7.00% of gross salary. Incorporated city or town employers are required to contribute an amount sufficient to meet both the normal cost of a level-cost method attributable to the EORP, plus the amount required to amortize the unfunded accrued liability for the employer. Such amount is to be determined each year by actuarial valuation and paid as a level percent of compensation. The contribution requirements for plan members are established and may be amended by the Fund Manager, a five-member board. The City's rates for fiscal years ended June 30, 2004, 2003, and 2002 were 13.49%, 6.97%, and 6.97%, respectively. The City's contributions to EORP for the years ending June 30, 2004, 2003, and 2002 were \$19,658, \$10,036, and \$9,749, respectively, equal to the required contributions for each year.

G. Other Post-Employment Benefits

In addition to the pension benefits described in H (above) the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at one hundred percent cash value at current rate of pay. Employees hired before July 1, 1982 can elect to receive cash equal to fifty percent of the first five hundred twenty hours of unused medical leave plus twenty-five percent of all hours in excess of five hundred twenty. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. Any retiring employee with 300 or more hours of accumulated medical leave, who chooses to remain on the city medical plan, may elect to apply the value of the sick leave to the employee's portion of the health care premiums, up until age 65. The value of the accumulated medical leave is calculated at the employee's hourly rate of pay at the time of retirement.

The number of participants during fiscal year 2003/04 was 25. The projected liability, as of June 30, 2004, for medical conversion was \$7,079,000. Of this liability, \$6,491,000 is considered payable in greater than one year and is not reflected as a current expenditure in the governmental fund statements. The projected liability is based on a January 1, 2004, 'roll-forward' actuarial valuation, as adjusted, based on the actuarial projection that for every additional 100 participants, future normal costs increase by an additional 3% per annum. Significant actuarial assumptions of the January 1, 2004 actuarial valuation include a) mortality rates based on the 1983 Group Annuity Mortality Table set back 1 year for males and no set back for females, b) interest compounded 5.0 percent annually, c) salaries increase at a rate of 4.5% to 9.5% based on years of service per annum, d) projected unit credit cost method based on participant data as of January 1, 2004.

Required Supplementary Information

**Public Safety Personnel Retirement System
Schedule of Funding Progress**

(in thousands of dollars)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation June 30	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded (1)/(2)	Unfunded AAL (2) - (1)	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
1998	\$ 61,095	\$ 51,615	118.4%	\$ (9,480)	\$ 15,284	-
1999	72,177	57,828	124.8%	(14,349)	16,187	-
2000	84,435	65,021	129.9%	(19,414)	18,547	-
2001	93,684	73,216	128.0%	(20,468)	20,406	-
2002	94,784	80,997	117.0%	(13,787)	20,930	-
2003	98,287	91,841	107.0%	(6,446)	21,996	-



Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds are established to finance particular activities and are created out of receipts of specific taxes or other earmarked revenue. Such funds are authorized by statutory or charter provisions to pay for certain activities with some form of continuing revenue.

Highway User Fuel Tax Fund

This fund receives and expends the City's allocation of the Arizona Highway User Revenue tax and other transportation related revenue. The amount available to each city is allocated on a population basis, which is determined by the latest federal census. These monies must be used for street construction, reconstruction, maintenance or transit.

Community Development Block Grant Fund

This fund receives and expends the City's Community Development Block Grant revenues. The amount of the grant is awarded annually by the U.S. Department of Housing and Urban Development (HUD) upon application for funding by the City. Community Development Block Grant revenues may be used only for those projects approved in the grant budget and are subject to agency expenditure guidelines.

Home Fund

This fund receives and expends monies from the Maricopa County Home Consortium. Expenditures are made to provide affordable housing, expand the capacity of nonprofit housing providers, strengthen the ability of local governments to provide housing and leverage private-sector participation in housing.

Grants Fund

This fund receives and expends the City's grant revenues. The amount of grants received is generally based upon application to granting agencies by the City and upon availability of funding by the grantors. Grant revenues may be used only for the stated purpose in the approved grant agreement and are subject to grantor expenditure guidelines.

Section 8 Fund

This fund receives and expends the City's Section 8 Housing revenues. Assistance contracts are awarded by the U.S. Department of Housing and Urban Development (HUD) upon application by the City, and covers a five year period. Budgets are approved annually by HUD. Section 8 revenues may be used only for assistance approved by HUD and are subject to agency expenditure guidelines.

Preserve Privilege Tax Fund

This fund receives a 0.2 percent Preservation Privilege (Sales) Tax revenue approved by the voters to purchase property in the McDowell Sonoran Preserve. Revenues are transferred to Capital Projects Funds for land purchase or are used for debt service payments for land contracts.

Transportation Privilege Tax Fund

This fund receives a 0.2 percent Transportation Privilege (Sales) Tax approved by the voters for transportation purposes. Revenues are transferred to Capital Projects to fund transportation related improvements.

Special Programs Fund

This fund receives monies from a variety of sources. The monies are required to be expended for specific purposes related to the source of the revenue.

DEBT SERVICE FUNDS

These funds record the accumulation of resources for, and the payment of, long-term debt principal and interest not serviced by the proprietary funds.

Municipal Property Corporation Fund

This fund accounts for the principal and interest requirements of the City's Municipal Property Corporation (MPC) bonds. Financing is provided primarily by transaction privilege tax.

Special Assessments Fund

This fund accounts for the principal and interest requirements of special assessment bonds. Financing is provided by special assessment levies against the benefited property holders.

Community Facilities Districts Funds:

Scottsdale Mountain Community Facilities District Fund

McDowell Mountain Community Facilities District Fund

DC Ranch Community Facilities District Fund

Via Linda Road Community Facilities District Fund

These funds account for the principal and interest of general obligation bonds issued by community facilities districts. Although these bonds are *not* obligations of the City, generally accepted accounting principles indicate that the bonds should be disclosed herein.

Scottsdale Preserve Authority Fund

This fund accounts for the principal and interest requirements of excise tax revenue bonds issued by the Scottsdale Preserve Authority. Financing is provided by a 0.2 percent Preservation Privilege (Sales) Tax.

Preserve Privilege Tax Fund

Accounts for the May 23, 1995, voter-approved 0.2 percent Preserve Privilege (Sales) Tax and the expenditure of proceeds from the sale of 1999 voter-approved general obligation bonds dedicated to acquisition of land within the McDowell Sonoran Preserve.

Transportation Privilege Tax Fund

Accounts for the authorized 0.2 percent Transportation Privilege (Sales) Tax dedicated to transportation capital improvements. Voters approved the tax on November 7, 1989.

Community Facilities Districts Funds:

McDowell Mountain Community Facilities District Fund

DC Ranch Community Facilities District Fund

Accounts for the proceeds issued by community facilities districts to acquire and improve public infrastructure in specified areas.

CAPITAL PROJECTS FUNDS

Capital Projects Funds account for the resources used to acquire, construct and improve major capital assets, other than those financed by proprietary funds. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements regarding the use of the resources are fully satisfied.

General Obligation Bond Fund

Accounts for the proceeds of the sale of 1989, 1992 and 2000 voter-approved general obligation bonds that are used for authorized capital improvements.

Municipal Property Corporation Bond Fund

Accounts for the proceeds of Municipal Property Corporation bonds issued for acquisition or construction of capital improvements.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2004 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 18,782	\$ 1,276	\$ 132,174	\$ 152,232
Cash with Fiscal Agent	2,810	16,066	6,869	25,745
Receivables				
Interest	62	-	300	362
Privilege Tax	3,028	-	-	3,028
Property Tax	-	200	-	200
Highway User Tax	1,213	-	-	1,213
Intergovernmental	1,393	-	3,900	5,293
Grants	648	-	175	823
Special Assessments	-	7,932	-	7,932
Miscellaneous	34	937	-	971
Total Assets	<u>\$ 27,970</u>	<u>\$ 26,411</u>	<u>\$ 143,418</u>	<u>\$ 197,799</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 840	\$ 11	\$ 5,105	\$ 5,956
Accrued Payroll and Benefits	401	-	32	433
Due to Other Funds	298	-	16	314
Matured Bond Interest Payable	296	3,212	-	3,508
Matured Bonds Payable	2,515	9,375	-	11,890
Deferred Revenue:				
Property Tax	-	128	-	128
Special Assessments	-	7,932	-	7,932
Intergovernmental	1,462	80	-	1,542
Advances From Other Funds	-	-	2,204	2,204
Guaranty and Other Deposits	22	-	489	511
Other	14	19	-	33
Total Liabilities	<u>5,848</u>	<u>20,757</u>	<u>7,846</u>	<u>34,451</u>
Fund Balances				
Reserved for:				
Debt Service	-	5,654	-	5,654
Unreserved, undesignated	<u>22,122</u>	<u>-</u>	<u>135,572</u>	<u>157,694</u>
Total Fund Balances	<u>22,122</u>	<u>5,654</u>	<u>135,572</u>	<u>163,348</u>
Total Liabilities and Fund Balances	<u>\$ 27,970</u>	<u>\$ 26,411</u>	<u>\$ 143,418</u>	<u>\$ 197,799</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes - Local:				
Property	\$ -	\$ 4,387	\$ -	\$ 4,387
Transaction Privilege	33,609	-	-	33,609
Taxes - Intergovernmental:				
Highway User Tax	14,034	-	-	14,034
Local Transportation Assistance Fund	1,136	-	-	1,136
Charges for Current Services:				
Building and Related Permits	23	-	-	23
Recreation Fees	852	-	-	852
Fines, Fees and Forfeitures:				
Court Fines	11	-	-	11
Court Enhancement	668	-	-	668
Special Assessments	-	2,558	-	2,558
Property Rental	72	88	-	160
Interest Earnings (Loss)	738	46	(137)	647
Intergovernmental:				
Federal Grants	8,474	-	1,536	10,010
State Grants	443	-	-	443
Miscellaneous	387	3	-	390
Developer Contributions	-	-	107	107
Contributions and Donations	466	-	56	522
Reimbursements From Outside Sources	107	-	934	1,041
Other	37	-	76	113
Total Revenues	<u>61,057</u>	<u>7,082</u>	<u>2,572</u>	<u>70,711</u>

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
EXPENDITURES				
Current:				
General Government	278	321	-	599
Police	703	-	-	703
Transportation	9,399	-	-	9,399
Community Services	8,911	-	-	8,911
Fire	16	-	-	16
Municipal Services	8,275	-	-	8,275
Human Resources	1	-	-	1
Planning and Development	19	-	-	19
Debt Service:				
Principal	3,120	11,800	-	14,920
Interest and Fiscal Charges	944	7,262	-	8,206
Bond Issuance Costs	-	297	101	398
Capital Improvements	2,797	-	53,194	55,991
Total Expenditures	<u>34,463</u>	<u>19,680</u>	<u>53,295</u>	<u>107,438</u>
Excess (Deficiency) of Revenues Over Expenditures				
	<u>26,594</u>	<u>(12,598)</u>	<u>(50,723)</u>	<u>(36,727)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	8,274	48,088	29,266	85,628
Transfers Out	(37,299)	-	(34,555)	(71,854)
Refunding Bonds Issued	-	22,925	-	22,925
Long-term Capital-related Debt Issued	-	-	113,400	113,400
Premium on Bonds Issued	-	2,846	-	2,846
Premium on refunding debt	-	-	-	-
Payment to Bond Refunding Escrow Agent	-	(60,271)	-	(60,271)
Proceeds from Capital Lease	-	-	-	-
Sale of Capital Assets	-	-	-	-
Total Other Financing Sources and (Uses)	<u>(29,025)</u>	<u>13,588</u>	<u>108,111</u>	<u>92,674</u>
Net Change in Fund Balances				
	(2,431)	990	57,388	55,947
Fund Balances - Beginning				
	<u>24,553</u>	<u>4,664</u>	<u>78,184</u>	<u>107,401</u>
Fund Balances - Ending				
	<u>\$ 22,122</u>	<u>\$ 5,654</u>	<u>\$ 135,572</u>	<u>\$ 163,348</u>

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds

June 30, 2004 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Transportation Privilege Tax	Special Programs	Total
ASSETS									
Cash and Investments	\$ 2	\$ -	\$ -	\$ 347	\$ -	\$ 14,622	\$ -	\$ 3,811	\$ 18,782
Cash with Fiscal Agent	2,810	-	-	-	-	-	-	-	2,810
Receivables:									
Interest	-	-	-	-	-	44	7	11	62
Privilege Tax	-	-	-	-	-	1,532	1,496	-	3,028
Highway User Tax	1,213	-	-	-	-	-	-	-	1,213
Intergovernmental	-	-	-	-	-	-	-	1,393	1,393
Grants	-	281	2	170	195	-	-	-	648
Miscellaneous	-	-	-	7	1	-	-	26	34
Total Assets	\$ 4,025	\$ 281	\$ 2	\$ 524	\$ 196	\$ 16,198	\$ 1,503	\$ 5,241	\$ 27,970
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts Payable	\$ 524	\$ 150	\$ -	\$ 37	\$ -	\$ -	\$ -	\$ 129	\$ 840
Accrued Payroll and Benefits	333	15	2	9	20	-	-	22	401
Due to Other Funds	-	116	-	-	182	-	-	-	298
Matured Bond Interest Payable	296	-	-	-	-	-	-	-	296
Matured Bonds Payable	2,515	-	-	-	-	-	-	-	2,515
Deferred Revenue:									
Intergovernmental	-	-	-	76	-	-	-	1,386	1,462
Guaranty and Other Deposits	22	-	-	-	-	-	-	-	22
Other	-	-	-	-	-	-	-	14	14
Total Liabilities	3,690	281	2	122	202	-	-	1,551	5,848
Fund Balances									
Unreserved, Undesignated	335	-	-	402	(6)	16,198	1,503	3,690	22,122
Total Fund Balances (Deficit)	335	-	-	402	(6)	16,198	1,503	3,690	22,122
Total Liabilities and Fund Balances	\$ 4,025	\$ 281	\$ 2	\$ 524	\$ 196	\$ 16,198	\$ 1,503	\$ 5,241	\$ 27,970

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Governmental Funds
 For the Year Ended June 30, 2004 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Transportation Privilege Tax	Special Programs	Total
REVENUES									
Taxes - Local:									
Transaction Privilege	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,981	\$ 16,628	\$ -	\$ 33,609
Taxes - Intergovernmental:									
Highway User Tax	14,034	-	-	-	-	-	-	-	14,034
Local Transportation Assistance Fund	1,136	-	-	-	-	-	-	-	1,136
Charges for Current Services:									
Building and Related Permits	-	-	-	-	-	-	-	23	23
Recreation Fees	-	-	-	-	-	-	-	852	852
Fines, Fees and Forfeitures:									
Court Fines	-	-	-	-	-	-	-	11	11
Court Enhancement Fee	-	-	-	-	-	-	-	668	668
Property Rental	-	-	-	-	-	-	-	72	72
Interest Earnings (Loss)	-	-	-	1	4	321	(4)	416	738
Intergovernmental:									
Federal Grants	173	1,342	607	1,025	5,327	-	-	-	8,474
State Grants	282	-	-	123	-	-	-	38	443
Miscellaneous	-	-	-	8	-	-	-	379	387
Contributions and Donations	-	-	-	32	-	-	-	434	466
Reimbursements From Outside Sources	107	-	-	-	-	-	-	-	107
Other	9	-	-	-	3	-	-	25	37
Total Revenues	15,741	1,342	607	1,189	5,334	17,302	16,624	2,918	61,057
EXPENDITURES									
Current:									
General Government	-	-	-	36	-	1	-	241	278
Police	-	-	-	500	-	-	-	203	703
Transportation	9,399	-	-	-	-	-	-	-	9,399
Community Services	-	1,344	607	65	5,298	-	-	1,597	8,911
Fire	-	-	-	16	-	-	-	-	16
Municipal Services	8,275	-	-	-	-	-	-	-	8,275
Human Resources	-	-	-	-	-	-	-	1	1
Planning and Development	-	-	-	-	-	-	-	19	19
Debt Service:									
Principal	2,515	-	-	-	-	605	-	-	3,120
Interest and Fiscal Charges	592	-	-	-	-	352	-	-	944
Capital Improvements	2,559	-	-	130	-	-	-	108	2,797
Total Expenditures	23,340	1,344	607	747	5,298	958	-	2,169	34,463
Excess (Deficiency) of Revenues Over Expenditures	(7,599)	(2)	-	442	36	16,344	16,624	749	26,594
OTHER FINANCING SOURCES (USES)									
Transfers In	8,007	-	-	75	-	-	-	192	8,274
Transfers Out	(73)	-	-	(629)	-	(19,264)	(16,376)	(957)	(37,299)
Total Other Financing Sources and (Uses)	7,934	-	-	(554)	-	(19,264)	(16,376)	(765)	(29,025)
Net Change in Fund Balances	335	(2)	-	(112)	36	(2,920)	248	(16)	(2,431)
Fund Balances - Beginning	-	2	-	514	(42)	19,118	1,255	3,706	24,553
Fund Balances - Ending	\$ 335	\$ -	\$ -	\$ 402	\$ (6)	\$ 16,198	\$ 1,503	\$ 3,690	\$ 22,122

Highway User Fuel Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Intergovernmental:						
Highway User Tax	\$ 13,512	\$ 13,512	\$ 14,034	\$ -	\$ 14,034	\$ 522
Local Transportation Assistance Fund	1,146	1,146	1,136	-	1,136	(10)
Intergovernmental:						
Federal Grants	-	-	-	173	173	-
State Grants	-	-	-	282	282	-
Reimbursement From Outside Sources	-	-	-	107	107	-
Other	-	-	-	9	9	-
Total Revenues	<u>14,658</u>	<u>14,658</u>	<u>15,170</u>	<u>571</u>	<u>15,741</u>	<u>512</u>
EXPENDITURES						
Current:						
Transportation	10,143	10,239	9,396	3	9,399	843
Municipal Services	8,159	8,199	8,275	-	8,275	(76)
Debt Service:						
Principal	2,515	2,515	2,515	-	2,515	-
Interest and Fiscal Charges	592	592	592	-	592	-
Capital Improvements	<u>2,559</u>	<u>2,559</u>	<u>2,559</u>	<u>-</u>	<u>2,559</u>	<u>-</u>
Total Expenditures	<u>23,968</u>	<u>24,104</u>	<u>23,337</u>	<u>3</u>	<u>23,340</u>	<u>767</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(9,310)</u>	<u>(9,446)</u>	<u>(8,167)</u>	<u>568</u>	<u>(7,599)</u>	<u>1,279</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	9,384	9,520	8,007	-	8,007	(1,513)
Transfers Out	<u>(74)</u>	<u>(74)</u>	<u>(73)</u>	<u>-</u>	<u>(73)</u>	<u>1</u>
Total Other Financing Sources and Uses	<u>9,310</u>	<u>9,446</u>	<u>7,934</u>	<u>-</u>	<u>7,934</u>	<u>(1,512)</u>
Net Change in Fund Balance	-	-	(233)	568	335	(233)
Fund Balance - Beginning	-	-	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (233)</u>	<u>\$ 568</u>	<u>\$ 335</u>	<u>\$ (233)</u>
Explanation of Differences:						
The City does not budget for certain revenues:						
Grants				\$ 455		
Reimbursement From Outside Sources				107		
Other				9		
				<u>571</u>		
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:						
Compensated Absences				3		
Net Increase in Fund Balance - Budget to GAAP				<u>\$ 568</u>		

Preserve Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local:						
Transaction Privilege	\$ 16,118	\$ 16,118	\$ 16,981	\$ -	\$ 16,981	\$ 863
Interest Earnings	510	510	321	-	321	(189)
Total Revenues	<u>16,628</u>	<u>16,628</u>	<u>17,302</u>	<u>-</u>	<u>17,302</u>	<u>674</u>
EXPENDITURES						
Current:						
General Government	-	-	-	1	1	-
Debt Service:						
Principal	605	605	605	-	605	-
Interest and Fiscal Charges	352	352	352	-	352	-
Total Expenditures	<u>957</u>	<u>957</u>	<u>957</u>	<u>1</u>	<u>958</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>15,671</u>	<u>15,671</u>	<u>16,345</u>	<u>(1)</u>	<u>16,344</u>	<u>674</u>
OTHER FINANCING SOURCES (USES)						
Transfers Out	(15,671)	(15,671)	(19,264)	-	(19,264)	(3,593)
Total Other Financing Sources and Uses	<u>(15,671)</u>	<u>(15,671)</u>	<u>(19,264)</u>	<u>-</u>	<u>(19,264)</u>	<u>(3,593)</u>
Net Change in Fund Balance	-	-	(2,919)	(1)	(2,920)	(2,919)
Fund Balance - Beginning	-	-	19,118	-	19,118	19,118
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,199</u>	<u>\$ (1)</u>	<u>\$ 16,198</u>	<u>\$ 16,199</u>

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

Audit Expense	\$ 1
Net (Decrease) in Fund Balance - Budget to GAAP	<u>\$ (1)</u>

Transportation Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local:						
Transaction Privilege	\$ 15,522	\$ 15,522	\$ 16,628	\$ -	\$ 16,628	\$ 1,106
Interest Earnings (Loss)	510	510	13	(17)	(4)	(497)
Total Revenues	<u>16,032</u>	<u>16,032</u>	<u>16,641</u>	<u>(17)</u>	<u>16,624</u>	<u>609</u>
EXPENDITURES						
Current:						
Transportation	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>16,032</u>	<u>16,032</u>	<u>16,641</u>	<u>(17)</u>	<u>16,624</u>	<u>609</u>
OTHER FINANCING SOURCES (USES)						
Transfers Out	(16,032)	(16,032)	(16,376)	-	(16,376)	(344)
Total Other Financing Sources and Uses	<u>(16,032)</u>	<u>(16,032)</u>	<u>(16,376)</u>	<u>-</u>	<u>(16,376)</u>	<u>(344)</u>
Net Change in Fund Balance	-	-	265	(17)	248	265
Fund Balance - Beginning	-	-	1,255	-	1,255	1,255
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,520</u>	<u>\$ (17)</u>	<u>\$ 1,503</u>	<u>\$ 1,520</u>
Explanation of Differences:						
Items recorded as revenues for GAAP purposes:						
Unrealized Loss on Investments				\$ (17)		
Net (Decrease) in Fund Balance - Budget to GAAP				<u>\$ (17)</u>		

Combining Balance Sheet

Nonmajor Debt Service Governmental Funds
 June 30, 2004 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Scottsdale Preserve Authority	Total
ASSETS								
Cash and Investments	\$ 100	\$ 1,176	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,276
Cash with Fiscal Agent	5,794	206	857	1,987	2,377	771	4,074	16,066
Receivables (net of allowance for uncollectibles):								
Property Tax	-	-	28	52	106	14	-	200
Special Assessments	-	7,932	-	-	-	-	-	7,932
Miscellaneous	937	-	-	-	-	-	-	937
Total Assets	\$ 6,831	\$ 9,314	\$ 885	\$ 2,039	\$ 2,483	\$ 785	\$ 4,074	\$ 26,411
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ 5	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11
Matured Bond Interest Payable	269	206	108	433	496	89	1,611	3,212
Matured Bonds Payable	5,525	-	275	565	470	95	2,445	9,375
Deferred Revenue:								
Property Tax	-	-	16	31	74	7	-	128
Special Assessments	-	7,932	-	-	-	-	-	7,932
Intergovernmental	80	-	-	-	-	-	-	80
Other	-	19	-	-	-	-	-	19
Total Liabilities	5,879	8,163	399	1,029	1,040	191	4,056	20,757
Fund Balances								
Reserved for:								
Debt Service	952	1,151	486	1,010	1,443	594	18	5,654
Total Fund Balances	952	1,151	486	1,010	1,443	594	18	5,654
Total Liabilities and Fund Balances	\$ 6,831	\$ 9,314	\$ 885	\$ 2,039	\$ 2,483	\$ 785	\$ 4,074	\$ 26,411

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Debt Service Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Scottsdale Preserve Authority	Total
REVENUES								
Taxes - Local:								
Property	\$ -	\$ -	\$ 618	\$ 1,674	\$ 1,911	\$ 184	\$ -	\$ 4,387
Special Assessments	-	2,558	-	-	-	-	-	2,558
Property Rental	88	-	-	-	-	-	-	88
Interest Earnings	1	-	4	6	8	27	-	46
Intergovernmental:								
Miscellaneous	-	-	-	3	-	-	-	3
Total Revenues	89	2,558	622	1,683	1,919	211	-	7,082
EXPENDITURES								
Current:								
General Government	-	1	16	63	241	-	-	321
Debt Service:								
Principal	5,525	2,425	275	565	470	95	2,445	11,800
Interest and Fiscal Charges	687	492	219	867	993	179	3,825	7,262
Bond Issuance Costs	-	-	-	-	-	-	297	297
Total Expenditures	6,212	2,918	510	1,495	1,704	274	6,567	19,680
Excess (Deficiency) of Revenues Over Expenditures	(6,123)	(360)	112	188	215	(63)	(6,567)	(12,598)
OTHER FINANCING SOURCES (USES)								
Transfers In	41,774	47	-	-	-	-	6,267	48,088
Premium on Bonds Issued	-	-	-	-	-	-	2,846	2,846
Refunding Bonds Issued	-	-	-	-	-	-	22,925	22,925
Payment to Bond Refunding Escrow Agent	(34,818)	-	-	-	-	-	(25,453)	(60,271)
Total Other Financing Sources and (Uses)	6,956	47	-	-	-	-	6,585	13,588
Net change in Fund Balances	833	(313)	112	188	215	(63)	18	990
Fund Balances - Beginning	119	1,464	374	822	1,228	657	-	4,664
Fund Balances - Ending	\$ 952	\$ 1,151	\$ 486	\$ 1,010	\$ 1,443	\$ 594	\$ 18	\$ 5,654

General Obligation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local:						
Property	\$ 25,539	\$ 25,539	\$ 25,286	\$ -	\$ 25,286	\$ (253)
Total Revenues	<u>25,539</u>	<u>25,539</u>	<u>25,286</u>	<u>-</u>	<u>25,286</u>	<u>(253)</u>
EXPENDITURES						
Debt Service:						
Principal	14,483	14,483	16,775	-	16,775	(2,292)
Interest and Fiscal Charges	20,593	20,593	14,100	-	14,100	6,493
Bond Issuance Costs	-	-	188	-	188	(188)
Total Expenditures	<u>35,076</u>	<u>35,076</u>	<u>31,063</u>	<u>-</u>	<u>31,063</u>	<u>4,013</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(9,537)</u>	<u>(9,537)</u>	<u>(5,777)</u>	<u>-</u>	<u>(5,777)</u>	<u>3,760</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	9,537	9,537	12,654	-	12,654	3,117
Refunding Bonds Issued	-	-	16,265	-	16,265	16,265
Premium on Refunding Debt	-	-	1,583	-	1,583	1,583
Payment to Bond Refunding Escrow Agent	-	-	(30,263)	-	(30,263)	(30,263)
Total Other Financing Sources and Uses	<u>9,537</u>	<u>9,537</u>	<u>239</u>	<u>-</u>	<u>239</u>	<u>(9,298)</u>
Net Change in Fund Balance	-	-	(5,538)	-	(5,538)	(5,538)
Fund Balance - Beginning	-	-	9,006	-	9,006	9,006
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,468</u>	<u>\$ -</u>	<u>\$ 3,468</u>	<u>\$ 3,468</u>

Municipal Property Corporation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Property Rental	\$ -	\$ -	\$ 88	\$ -	\$ 88	\$ 88
Interest Earnings	-	-	1	-	1	1
Total Revenues	-	-	89	-	89	89
EXPENDITURES						
Debt Service:						
Principal	5,525	5,525	5,525	-	5,525	-
Interest and Fiscal Charges	2,041	2,041	687	-	687	1,354
Total Expenditures	7,566	7,566	6,212	-	6,212	1,354
Excess (Deficiency) of Revenues Over Expenditures	(7,566)	(7,566)	(6,123)	-	(6,123)	1,443
OTHER FINANCING SOURCES (USES)						
Transfers In	7,566	7,566	41,774	-	41,774	34,208
Payment to Bond Refunding Escrow Agent	-	-	(34,818)	-	(34,818)	(34,818)
Total Other Financing Sources and Uses	7,566	7,566	6,956	-	6,956	(610)
Net Change in Fund Balance	-	-	833	-	833	833
Fund Balance - Beginning	-	-	119	-	119	119
Fund Balance - Ending	\$ -	\$ -	\$ 952	\$ -	\$ 952	\$ 952

Special Assessments Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Special Assessments	\$ 2,903	\$ 2,903	\$ 2,558	\$ -	\$ 2,558	\$ (345)
Total Revenues	<u>2,903</u>	<u>2,903</u>	<u>2,558</u>	<u>-</u>	<u>2,558</u>	<u>(345)</u>
EXPENDITURES						
Current:						
General Government	-	-	1	-	1	(1)
Debt Service:						
Principal	2,404	2,404	2,425	-	2,425	(21)
Interest and Fiscal Charges	499	499	492	-	492	7
Total Expenditures	<u>2,903</u>	<u>2,903</u>	<u>2,918</u>	<u>-</u>	<u>2,918</u>	<u>(15)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(360)</u>	<u>-</u>	<u>(360)</u>	<u>(360)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In			47		47	47
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>47</u>	<u>-</u>	<u>47</u>	<u>47</u>
Net Change in Fund Balance	-	-	(313)	-	(313)	(313)
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>1,464</u>	<u>-</u>	<u>1,464</u>	<u>1,464</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,151</u>	<u>\$ -</u>	<u>\$ 1,151</u>	<u>\$ 1,151</u>

Scottsdale Preserve Authority Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES						
Debt Service:						
Principal	2,445	2,445	2,445	-	2,445	-
Interest and Fiscal Charges	4,419	4,419	3,825	-	3,825	594
Bond Issuance Costs	-	-	297	-	297	(297)
Total Expenditures	6,864	6,864	6,567	-	6,567	297
Excess (Deficiency) of Revenues Over Expenditures	(6,864)	(6,864)	(6,567)	-	(6,567)	297
OTHER FINANCING SOURCES (USES)						
Transfers In	6,864	6,864	6,267	-	6,267	(597)
Proceeds of refunding bonds	-	-	22,925	-	22,925	22,925
Premium on refunding debt	-	-	2,846	-	2,846	2,846
Payment to bond refunding escrow agent	-	-	(25,453)	-	(25,453)	(25,453)
Total other financing sources and uses	6,864	6,864	6,585	-	6,585	(279)
Net Change in Fund Balance	-	-	18	-	18	18
Fund Balance - Beginning	-	-	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ 18	\$ -	\$ 18	\$ 18

Combining Balance Sheet

Nonmajor Capital Projects Governmental Funds

June 30, 2004 (in thousands of dollars)

	General Obligations Bond	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
ASSETS							
Cash and Investments	\$ 49,228	\$ 661	\$ 40,366	\$ 41,919	-	-	\$ 132,174
Cash with Fiscal Agent	-	-	-	-	95	6,774	6,869
Receivables:							
Interest	111	3	-	186	-	-	300
Intergovernmental	-	-	-	3,900	-	-	3,900
Grants	-	-	-	175	-	-	175
Total Assets	<u>\$ 49,339</u>	<u>\$ 664</u>	<u>\$ 40,366</u>	<u>\$ 46,180</u>	<u>\$ 95</u>	<u>\$ 6,774</u>	<u>\$ 143,418</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ -	\$ -	\$ 213	\$ 4,889	\$ -	\$ 3	5,105
Accrued Payroll and Benefits	-	-	-	32	-	-	32
Due to Other Funds	-	-	-	-	-	16	16
Advances From Other Funds	-	-	2,204	-	-	-	2,204
Guaranty and Other Deposits	-	-	-	489	-	-	489
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,417</u>	<u>5,410</u>	<u>-</u>	<u>19</u>	<u>7,846</u>
Fund Balances							
Unreserved, Undesignated	49,339	664	37,949	40,770	95	6,755	135,572
Total Fund Balances	<u>49,339</u>	<u>664</u>	<u>37,949</u>	<u>40,770</u>	<u>95</u>	<u>6,755</u>	<u>135,572</u>
Total Liabilities and Fund Balances	<u>\$ 49,339</u>	<u>\$ 664</u>	<u>\$ 40,366</u>	<u>\$ 46,180</u>	<u>\$ 95</u>	<u>\$ 6,774</u>	<u>\$ 143,418</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Capital Projects Governmental Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	General Obligation Bond	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
REVENUES							
Interest Earnings (Loss)	\$ (17)	\$ 8	\$ (723)	\$ 542	\$ -	\$ 53	\$ (137)
Intergovernmental							
Federal Grants	-	-	-	1,536	-	-	1,536
Developer Contributions	-	-	-	107	-	-	107
Contributions and Donations	-	-	56	-	-	-	56
Reimbursements from Outside Sources	-	-	-	934	-	-	934
Other	-	-	-	76	-	-	76
Total Revenues	(17)	8	(667)	3,195	-	53	2,572
EXPENDITURES							
Debt Service							
Bond Issuance Costs	-	-	101	-	-	-	101
Capital Improvements	-	-	21,194	26,963	3	5,034	53,194
Total Expenditures	-	-	21,295	26,963	3	5,034	53,295
Excess (Deficiency) of Revenues Over Expenditures	(17)	8	(21,962)	(23,768)	(3)	(4,981)	(50,723)
OTHER FINANCING SOURCES (USES)							
Transfers In	46	-	1,621	27,599	-	-	29,266
Transfers Out	(29,910)	(100)	-	(4,545)	-	-	(34,555)
Long-term Capital-related Debt Issued	48,000	-	65,400	-	-	-	113,400
Total Other Financing Sources and (Uses)	18,136	(100)	67,021	23,054	-	-	108,111
Net Change in Fund Balances	18,119	(92)	45,059	(714)	(3)	(4,981)	57,388
Fund Balances - Beginning	31,220	756	(7,110)	41,484	98	11,736	78,184
Fund Balances - Ending	\$ 49,339	\$ 664	\$ 37,949	\$ 40,770	\$ 95	\$ 6,755	\$ 135,572

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
Revenues						
Charges for Sales and Services:						
Water Service Fees	\$ 68,084	\$ 68,084	66,539	\$ -	\$ 66,539	\$ (1,545)
Sewer Service Fees	25,853	25,853	25,040	-	25,040	(813)
Proprietary - Non-Potable Water Fees	3,897	3,897	3,799	-	3,799	(98)
Groundwater Treatment Plant	1,040	1,040	822	-	822	(218)
Investment Income	2,064	2,064	3,901	(2,966)	935	1,837
Capital Contributions	-	-	-	70,938	70,938	-
Gain on Sale of Capital Assets	-	-	-	(206)	206	-
Other	-	-	678	-	678	678
Total Revenues	100,938	100,938	100,779	67,766	168,957	(159)
Expenses						
Cost of Sales and Services:						
Water Operations	31,319	31,327	30,855	196	31,051	472
Sewer Operations	10,920	10,933	12,277	2	12,279	(1,344)
Debt Service and Reserves	13,997	13,997	12,186	(8,805)	3,381	1,811
Depreciation and Amortization	-	-	-	22,730	22,730	-
Indirect Costs	6,332	6,332	6,332	-	6,332	-
Transfers Out	7,434	7,434	11,160	-	11,160	(3,726)
Total Expenses	70,002	70,023	73,222	14,123	86,933	(3,199)
Change in Net Assets	\$ 30,936	\$ 30,915	\$ 27,557	\$ 53,643	\$ 82,024	\$ (3,358)

(continued on next page)

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2004 (in thousands of dollars)

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded as revenues for budget purposes:

Loss on Investments	\$	(2,966)
Capital Contributions		70,938
Gain on Sale of Capital Assets		(206)
Total Revenue Reconciling Items:		<u>67,766</u>

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis.

Compensated Absences		198
Debt Service Principal Payments		(8,805)
Depreciation and Amortization Expense		22,730
Total Expenditure Reconciling Items:		<u>14,123</u>

Net Increase in Net Assets - Budget to GAAP	\$	<u>53,643</u>
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Airport Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
Revenues						
Charges for Sales and Services:						
Airport Fees	\$ 2,853	\$ 2,853	\$ 2,936	\$ -	\$ 2,936	\$ 83
Investment Income	-	-	13	(13)	-	13
Capital Contributions	-	-	-	771	771	-
Transfers In	-	-	230	-	230	230
Total Revenues	2,853	2,853	3,179	758	3,937	326
Expenses						
Cost of Sales and Services:						
Airport Operations	1,335	1,335	1,552	8	1,560	(217)
Depreciation	-	-	-	623	623	-
Indirect Costs	439	439	439	-	439	-
Transfers Out	82	82	71	-	71	11
Total Expenses	1,856	1,856	2,062	631	2,693	(206)
Change in Net Assets	\$ 997	\$ 997	\$ 1,117	\$ 127	\$ 1,244	\$ 120

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded as revenues for budget purposes:

Loss on Investments	\$ (13)
Capital Contributions	771
Total Revenue Reconciling Items:	758

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis.

Compensated Absences	8
Depreciation Expense	623
Total Expenditure Reconciling Items:	631

Net increase in Net Assets - Budget to GAAP \$ 127

Solid Waste Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2004 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
Revenues						
Charges for Sales and Services:						
Solid Waste Fees	\$ 16,178	\$ 16,178	\$ 16,488	\$ -	\$ 16,488	\$ 310
Investment Income	49	49	102	(64)	38	53
Other	-	-	21	-	21	21
Total Revenues	<u>16,227</u>	<u>16,227</u>	<u>16,611</u>	<u>(64)</u>	<u>16,547</u>	<u>384</u>
Expenses						
Cost of Sales and Services:						
Solid Waste Operations	12,724	12,724	12,832	61	12,893	(108)
Debt Service and Reserves	345	345	345	(245)	100	-
Depreciation	-	-	-	202	202	-
Indirect Costs	1,958	1,958	1,958	-	1,958	-
Transfers Out	36	36	36	-	36	-
Total Expenses	<u>15,063</u>	<u>15,063</u>	<u>15,171</u>	<u>18</u>	<u>15,189</u>	<u>(108)</u>
Change in Net Assets	<u>\$ 1,164</u>	<u>\$ 1,164</u>	<u>\$ 1,440</u>	<u>\$ (82)</u>	<u>\$ 1,358</u>	<u>\$ 276</u>

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded as revenues for budget purposes:

Loss on Investments	\$ (64)
Total Revenue Reconciling Items:	<u>(64)</u>

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis.

Compensated Absences	61
Debt Service Principal Payments	(245)
Depreciation Expense	202
Total Expenditure Reconciling Items:	<u>18</u>

Net (Decrease) in Net Assets - Budget to GAAP \$ (82)

INTERNAL SERVICE FUNDS

Internal Services Funds are established to finance and account for services and/or commodities furnished by one department or unit to other departments or units within the City.

Fleet Management Fund

The Fleet Management Fund is responsible for the maintenance and operations of various automobiles and other equipment of the City. Revenue to this fund is derived from charges to user programs.

Self-Insurance Fund

The Self-Insurance Fund is responsible for the administration of the City's self-insurance program. Revenue to this fund is derived from charges to user programs and employee contributions for health and dental coverage. This fund provides coverage of unemployment, self-insured benefits, workmen's compensation, property, and liability claims.

Combining Statement of Net Assets

Internal Service Funds

June 30, 2004 (in thousands of dollars)

	<u>Fleet Management</u>	<u>Self- Insurance</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Investments	\$ 11,417	\$ 19,729	\$ 31,146
Receivables (net of allowance for uncollectibles)			
Property tax	-	18	18
Interest	42	75	117
Miscellaneous	8	568	576
Supplies Inventory	341	-	341
	<u>11,808</u>	<u>20,390</u>	<u>32,198</u>
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Buildings and Improvements	1,846	-	1,846
Motor Vehicles	49,892	-	49,892
Machinery and Equipment	438	-	438
Furniture and Fixtures	-	22	22
Construction in Progress	847	-	847
Less Accumulated Depreciation	(27,651)	(22)	(27,673)
	<u>25,372</u>	<u>-</u>	<u>25,372</u>
Total Capital Assets (net of accumulated depreciation)			
Total Noncurrent Assets	<u>25,372</u>	<u>-</u>	<u>25,372</u>
Total Assets	<u>37,180</u>	<u>20,390</u>	<u>57,570</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,234	192	1,426
Accrued Payroll and Benefits	122	24	146
Accrued Compensated Absences	39	13	52
Claims Payable	-	14,678	14,678
	<u>1,395</u>	<u>14,907</u>	<u>16,302</u>
Total Current Liabilities			
Noncurrent Liabilities:			
Accrued Compensated Absences	248	74	322
Total Noncurrent Liabilities	<u>248</u>	<u>74</u>	<u>322</u>
Total Liabilities	<u>1,643</u>	<u>14,981</u>	<u>16,624</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	25,372	-	25,372
Unrestricted	10,165	5,409	15,574
Total Net Assets	<u>\$ 35,537</u>	<u>\$ 5,409</u>	<u>\$ 40,946</u>

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	<u>Fleet Management</u>	<u>Self- Insurance</u>	<u>Total</u>
Operating Revenues			
Charges for Sales and Services:			
Billings To User Programs	\$ 11,180	\$ 11,888	\$ 23,068
Self Insurance Contributions-Employee	-	1,518	1,518
Other	152	213	365
Total Operating Revenues	<u>11,332</u>	<u>13,619</u>	<u>24,951</u>
Operating Expenses			
Costs of Sales and Services:			
Fleet Management Operations	6,920	-	6,920
Self-Insurance Administration	-	1,837	1,837
Self-Insurance Claims	-	4,342	4,342
Self-Insurance Benefits	-	10,638	10,638
Insurance and Bond Premiums	-	1,525	1,525
Depreciation	5,366	-	5,366
Total Operating Expenses	<u>12,286</u>	<u>18,342</u>	<u>30,628</u>
Operating Income (Loss)	<u>(954)</u>	<u>(4,723)</u>	<u>(5,677)</u>
Non-Operating Revenues			
Property Tax	-	676	676
Investment Income	93	177	270
Gain on Sale of Capital Assets	17	-	17
Total Non-Operating Revenues	<u>110</u>	<u>853</u>	<u>963</u>
Income (Loss) Before Contributions and Transfers	<u>(844)</u>	<u>(3,870)</u>	<u>(4,714)</u>
Capital Contributions	4,171	-	4,171
Transfers In	46	750	796
Transfers Out	(522)	(11)	(533)
Change in Net Assets	<u>2,851</u>	<u>(3,131)</u>	<u>(280)</u>
Total Net Assets - Beginning	<u>32,686</u>	<u>8,540</u>	<u>41,226</u>
Total Net Assets - Ending	<u>\$ 35,537</u>	<u>\$ 5,409</u>	<u>\$ 40,946</u>

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Fleet Management	Self- Insurance	Total
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 11,180	\$ 12,980	\$ 24,160
Cash Paid to Suppliers	(3,670)	(11,905)	(15,575)
Cash Paid to Employees	(2,439)	(521)	(2,960)
Other Operating	152	213	365
	<u>5,223</u>	<u>767</u>	<u>5,990</u>
Net Cash Provided by Operating Activities			
Cash Flows from Non-Capital Financing Activities:			
Property Tax	-	683	683
Transfers In	46	750	796
Transfers Out	(522)	(11)	(533)
	<u>(476)</u>	<u>1,422</u>	<u>946</u>
Net Cash Provided by (Used) for Non-Capital Financing Activities			
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Property and Equipment	(2,034)	-	(2,034)
Sale of Capital Assets	107	-	107
	<u>(1,927)</u>	<u>-</u>	<u>(1,927)</u>
Net Cash (Used) for Capital and Related Financing Activities			
Cash Flows from Investing Activities:			
Income Received on Investments	92	159	251
	<u>92</u>	<u>159</u>	<u>251</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,912	2,348	5,260
Cash and Cash Equivalents at Beginning of Year	8,505	17,381	25,886
	<u>8,505</u>	<u>17,381</u>	<u>25,886</u>
Cash and Cash Equivalents at End of Year	<u>\$ 11,417</u>	<u>\$ 19,729</u>	<u>\$ 31,146</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (954)	\$ (4,723)	\$ (5,677)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	5,366	-	5,366
Changes in Assets and Liabilities Sources (Uses) of Cash:			
Accounts Receivable	-	(426)	(426)
Supplies Inventory	41	-	41
Accounts Payable	708	63	771
Accrued Payroll and Benefits	62	14	76
Claims Payable	-	5,839	5,839
	<u>6,177</u>	<u>5,490</u>	<u>11,667</u>
Total Adjustments			
Net Cash Provided by Operating Activities	<u>\$ 5,223</u>	<u>\$ 767</u>	<u>\$ 5,990</u>
Supplemental Disclosure of Noncash Financing Activities:			
Additions to Property, Plant, and Equipment	\$ 4,171	\$ -	\$ 4,171
Contributions from Other Government Units	90	-	90
Loss on Sale of Capital Assets	-	-	-
	<u>\$ 4,261</u>	<u>\$ -</u>	<u>\$ 4,261</u>
Total Non-Cash Financing Activities			

FIDUCIARY FUNDS

Private Purpose Trust Funds and Agency Funds administer resources received and held by the City as the trustee or as the agent for others. Use of these funds facilitates the discharge responsibilities placed upon the governmental unit by virtue of law or other similar authority.

Handicap Scholarship Private Purpose Trust Fund

This fund accounts for monies received and expended for college scholarships for individual with handicaps.

Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund

This fund accounts for monies received and expended for the redevelopment of Scottsdale Memorial Hospital.

Family Self-Sufficiency Agency Fund

This fund accounts for monies in escrow for Section 8 Housing Program participants.

Retainage Escrow Agency Fund

This fund accounts for monies held in escrow for construction contract retainage payable.

Combining Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004 (in thousands of dollars)

	Private Purpose Trust Funds			Agency Funds		
	Handicap Scholarship Private Purpose Trust Fund	Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund	Total	Family Self-Sufficiency Agency Fund	Retainage Escrow Agency Fund	Total
ASSETS						
Cash and Cash Equivalents	\$ 6	\$ 368	\$ 374	\$ 84	\$ 1,513	\$ 1,597
Interest Receivable	-	2	2	-	-	-
Total Assets	6	370	376	84	1,513	1,597
LIABILITIES						
Accounts Payable	-	6	6	84	-	84
Designated Escrow Payable	-	-	-	-	1,513	1,513
Total Liabilities	-	6	6	84	1,513	1,597
NET ASSETS						
Held in Trust for Other Purposes	\$ 6	\$ 364	\$ 370	\$ -	\$ -	\$ -

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Handicap Scholarship Private Purpose Trust Fund	Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund	Total
ADDITIONS			
Contributions:			
Private Donations	\$ 2	\$ 400	\$ 402
Investment Earnings:			
Interest	-	10	10
Total Additions	2	410	412
DEDUCTIONS			
Scholarships	5	-	5
Redevelopment Expenses	-	741	741
Total Deductions	5	741	746
Change in Net Assets	(3)	(331)	(334)
Net Assets - Beginning	9	695	704
Net Assets - Ending	\$ 6	\$ 364	\$ 370

Combining Statement of Changes in Assets and Liabilities

Fiduciary Funds

For the Year Ended June 30, 2004 (in thousands of dollars)

	Family Self-Sufficiency				Retainage Escrow			
	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS								
Cash and Investments	\$ 70	\$ 57	\$ 43	\$ 84	\$ 464	\$ 1,513	\$ 464	\$ 1,513
Total Assets	\$ 70	\$ 57	\$ 43	\$ 84	\$ 464	\$ 1,513	\$ 464	\$ 1,513
LIABILITIES								
Accounts Payable	\$ 70	\$ 57	\$ 43	\$ 84	\$ -	\$ -	\$ -	\$ -
Designated Escrow Payable	-	-	-	-	464	1,513	464	1,513
Total Liabilities	\$ 70	\$ 57	\$ 43	\$ 84	\$ 464	\$ 1,513	\$ 464	\$ 1,513

OTHER SUPPLEMENTARY INFORMATION

Debt Requirements

The supplemental debt service schedule provides a comprehensive overview of the City's total debt. The Schedule of Changes in Long-Term Debt for the current fiscal year presents the City's debt by debt type without regard to fund classification.

Debt issued by community facilities districts is included for full disclosure although such debt is not legally an obligation of the City.

Schedule of Changes in Long-Term Debt*

For the Year Ended June 30, 2004 (in thousands of dollars)

	July 1, 2003	Issued	Retired	Refunding Bonds Issued	Bonds Deceased	Accretions, Amortizations & Contract Adjustments	June 30, 2004	Governmental Activities	Business Type-Activities	Final Payment Date
GENERAL OBLIGATION BONDS										
Governmental Fund Type:										
1993 Refunding	\$ 17,248	\$ -	\$ 2,445	\$ -	\$ 2,505	\$ 470	\$ 12,768	\$ 12,768	\$ -	07/01/09
1989 Series D (1993)	2,905	-	-	-	2,905	-	-	-	-	07/01/13
1993A GO Refunding	15,865	-	-	-	13,355	-	2,510	2,510	-	07/01/11
1997 Series H - Roads/ Strm Sew/ Pima	2,415	-	1,180	-	-	-	1,235	1,235	-	07/01/16
1997 GO Refunding	19,850	-	80	-	-	-	19,770	19,770	-	07/01/14
1989 Series I (1998)	8,910	-	820	-	-	-	8,090	8,090	-	07/01/18
1999A GO / Pima Road	6,450	-	950	-	-	-	5,500	5,500	-	07/01/19
1999 GO Preservation	18,400	-	1,475	-	-	-	16,925	16,925	-	07/01/24
2001 GO Preservation	29,210	-	985	-	-	-	28,225	28,225	-	07/01/24
2001 GO Refunding Various Purpose	21,277	-	2,725	-	1,490	-	17,062	17,062	-	07/01/24
2001 GO Refunding Preservation	28,293	-	-	-	4,000	-	24,293	24,293	-	07/01/24
2002 GO Various Purpose	26,260	-	1,965	-	3,000	-	21,295	21,295	-	07/01/24
2002 GO Preservation	40,000	-	-	-	-	-	40,000	40,000	-	07/01/24
2002 GO Refunding Various Purpose	59,820	-	2,905	-	1,510	-	55,405	55,405	-	07/01/19
2002 GO Refunding Preservation	8,100	-	-	-	-	-	8,100	8,100	-	07/01/19
2003 GO Refunding Various Purpose	-	-	1,245	16,265	-	-	15,020	15,020	-	07/01/13
2004 GO Various Purpose	-	48,000	-	-	-	-	48,000	48,000	-	07/01/25
2004 GO Preservation	-	65,400	-	-	-	-	65,400	65,400	-	07/01/25
2001 GO Refunding Series Deferred Issuance Premium	1,295	-	-	-	-	(115)	1,180	1,180	-	-
2001 GO Series Deferred Amount on Refunding	(2,112)	-	-	-	-	187	(1,925)	(1,925)	-	-
2002 GO Refunding Series Deferred Issuance Premium	4,128	-	-	-	-	(754)	3,374	3,374	-	-
2002 GO Series Deferred Amount on Refunding	(4,200)	-	-	-	-	767	(3,433)	(3,433)	-	-
2003 GO Series Deferred Amount on Refunding	-	-	-	(371)	-	59	(312)	(312)	-	-
2003 GO Refunding Series Deferred Issuance Premium	-	-	-	506	-	(80)	426	426	-	-
2004 GO Refunding Series Deferred Issuance Premium	-	1,077	-	-	-	(51)	1,026	1,026	-	-
Subtotal	304,114	114,477	16,775	16,400	28,765	483	389,934	389,934	-	-
Business Type - General Obligation Bonds										
1993 Refunding	13,008	-	4,545	-	-	873	9,336	-	9,336	07/01/06
1993 A GO Refunding	1,315	-	-	-	-	-	1,315	-	1,315	07/01/06
Subtotal	14,323	-	4,545	-	-	873	10,651	-	10,651	-
Total General Obligation Bonds	\$ 318,437	\$ 114,477	\$ 21,320	\$ 16,400	\$ 28,765	\$ 1,356	\$ 400,585	\$ 389,934	\$ 10,651	-
REVENUE BONDS										
Governmental Fund Type										
Highway User Revenue Fund Bonds										
1993 HURF Refunding	\$ 10,990	\$ -	\$ 2,515	\$ -	\$ -	\$ -	\$ 8,475	\$ 8,475	\$ -	07/01/07
Subtotal	10,990	-	2,515	-	-	-	8,475	8,475	-	-
Business Type - Revenue Bonds										
1989 Utility Series B (1992)	2,910	-	250	-	2,660	-	-	-	-	07/01/12
1989 Utility Series C (1994)	465	-	225	-	240	-	-	-	-	07/01/05
1996 Utility Revenue Series Refunding	6,700	-	525	-	-	-	6,175	-	6,175	07/01/14
1989 Utility Series D (1998)	17,100	-	550	-	6,775	-	9,775	-	9,775	07/01/22
1989 Utility Series E (1998)	44,055	-	1,310	-	9,210	-	33,535	-	33,535	07/01/23
2004 Utility Revenue Series Refunding	-	-	-	18,880	-	-	18,880	-	18,880	07/01/16
1996 Revenue Series Deferred Amount on Refunding	(241)	-	-	-	-	44	(197)	-	(197)	-
2004 Revenue Series Deferred Amount on Refunding	-	-	-	(1,870)	-	248	(1,622)	-	(1,622)	-
2004 Refunding Series Deferred Issuance Premium	-	-	-	2,061	-	(273)	1,788	-	1,788	-
Subtotal	70,989	-	2,860	19,071	18,885	19	68,334	-	68,334	-
Total Revenue Bonds	\$ 81,979	\$ -	\$ 5,375	\$ 19,071	\$ 18,885	\$ 19	\$ 76,809	\$ 8,475	\$ 68,334	-

*This exhibit includes both Governmental Activities and Business-Type Activities debt (paid out of Enterprise Funds).

Schedule of Changes in Long-Term Debt*

(continued here and on following page)

For the Year Ended June 30, 2004 (in thousands of dollars)

	July 1, 2003	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2004	Governmental Activities	Business Type-Activities	Final Payment Date
MUNICIPAL PROPERTY CORPORATION BONDS										
Governmental Fund Type:										
1993 Refunding	\$ 8,120	\$ -	\$ 3,950	\$ -	\$ -	\$ -	\$ 4,170	\$ 4,170	\$ -	07/01/05
1994 Refunding	1,080	-	1,080	-	-	-	-	-	-	07/01/04
1995 MPC Taxable Excise - TPC Land	2,270	-	-	-	2,270	-	-	-	-	07/01/15
1996 McCormick/Stillman Park	340	-	340	-	-	-	-	-	-	07/01/04
1998 Telephone, HR\Tech Bldg, Westworld	835	-	155	-	-	-	680	680	-	07/01/08
2002 Refunding	29,310	-	-	-	29,310	-	-	-	-	07/01/14
2002 Refunding Series Deferred Issuance Premium	1,223	-	-	-	-	(1,223)	-	-	-	-
2002 Series Deferred Amount on Refunding	(823)	-	-	-	-	823	-	-	-	-
Subtotal	42,355	-	5,525	-	31,580	(400)	4,850	4,850	-	-
Business Type - Municipal Property Corporation Bonds										
1995 Transfer Station	1,985	-	245	-	-	-	1,740	-	1,740	07/01/10
2001 Scottswater	8,025	-	1,400	-	-	-	6,625	-	6,625	07/01/08
2004 Water/Sewer	-	75,000	-	-	-	-	75,000	-	75,000	07/01/24
2001 Scottswater Deferred Issuance Premium	188	-	-	-	-	(37)	151	-	151	-
2004 Water/Sewer Deferred Issuance Premium	-	4,925	-	-	-	(247)	4,678	-	4,678	-
Subtotal	10,198	79,925	1,645	-	-	(284)	88,194	-	88,194	-
Total Municipal Property Corporation Bonds	\$ 52,553	\$ 79,925	\$ 7,170	\$ -	\$ 31,580	\$ (684)	\$ 93,044	\$ 4,850	\$ 88,194	-
SCOTTSDALE PRESERVE AUTHORITY BONDS										
Governmental Fund Type:										
1997 Excise Tax Revenue	\$ 1,160	\$ -	\$ 565	\$ -	\$ -	\$ -	\$ 595	\$ 595	\$ -	07/01/05
1998 Excise Tax Revenue	69,740	-	1,815	-	22,770	-	45,155	45,155	-	07/01/24
2001 Excise Tax Revenue	17,370	-	65	-	-	-	17,305	17,305	-	07/01/22
2004 Excise Tax Refunding	-	-	-	22,925	-	-	22,925	22,925	-	07/01/16
2001 Excise Tax Revenue Deferred Issuance Premium	116	-	-	-	-	(6)	110	110	-	-
2001 Excise Tax Revenue Deferred Amount on Refunding	(703)	-	-	-	-	37	(666)	(666)	-	-
2004 Excise Tax Revenue Deferred Issuance Premium	-	-	-	2,846	-	(316)	2,530	2,530	-	-
2004 Excise Tax Revenue Deferred Amount on Refunding	-	-	-	(2,683)	-	298	(2,385)	(2,385)	-	-
Total Scottsdale Preserve Authority Bonds	\$ 87,683	\$ -	\$ 2,445	\$ 23,088	\$ 22,770	\$ 13	\$ 85,569	\$ 85,569	\$ -	-
SPECIAL ASSESSMENT BONDS										
Governmental Fund Type:										
Craftsman Court Series 100	\$ 15	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	01/01/04
Bell Road Series 101	7	-	2	-	-	-	5	5	-	01/01/05
Desert Ranch Water Series 102	38	-	38	-	-	-	-	-	-	01/01/04
Desert Ranch Infrastructure Series 103	3,070	-	1,495	-	-	-	1,575	1,575	-	01/01/05
Pima Acres Paving & Drainage Series 105	510	-	85	-	-	-	425	425	-	01/01/09
Bell Road II Series 106	7,500	-	750	-	-	-	6,750	6,750	-	01/01/13
Total Special Assessment Bonds	\$ 11,140	\$ -	\$ 2,385	\$ -	\$ -	\$ -	\$ 8,755	\$ 8,755	\$ -	-

*This exhibit includes both Governmental Activities and Business-Type Activities debt (paid out of Enterprise Funds).

Schedule of Changes in Long-Term Debt*

(continued)

For the Year Ended June 30, 2004 (in thousands of dollars)

	July 1, 2003	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2004	Governmental Activities	Business Type-Activities	Final Payment Date
COMMUNITY FACILITIES DISTRICT BONDS										
Governmental Fund Type:										
McDowell Mtn Ranch Refunding Series 1999	\$ 17,970	\$ -	\$ 565	\$ -	\$ -	\$ -	\$ 17,405	\$ 17,405	\$ -	07/15/22
DC Ranch Series 1998	4,750	-	-	-	-	-	4,750	4,750	-	07/15/23
Via Linda Road Series 1999	3,225	-	95	-	-	-	3,130	3,130	-	07/15/23
DC Ranch Series 1999	3,085	-	-	-	-	-	3,085	3,085	-	07/15/24
Scottsdale Mountain Refunding Series 2002	5,160	-	275	-	-	-	4,885	4,885	-	07/15/18
DC Ranch Series 2002	12,165	-	470	-	-	-	11,695	11,695	-	07/15/27
Scottsdale Mountain 2002 Deferred Issuance Premium	36	-	-	-	-	(4)	32	32	-	-
Scottsdale Mountain 2002 Deferred Amount on Refunding	(489)	-	-	-	-	57	(432)	(432)	-	-
DC Ranch 2002 Deferred Issuance Premium	66	-	-	-	-	(3)	63	63	-	-
Total Community Facilities District Bonds	45,968	-	1,405	-	-	50	44,613	44,613	-	-
Total Bonds	\$ 597,760	\$ 194,402	\$ 40,100	\$ 58,559	\$ 102,000	\$ 754	\$ 709,375	\$ 542,196	\$ 167,179	-
CONTRACTS PAYABLE										
Governmental Fund Type:										
US Corps of Engineers	\$ 3,304	\$ -	\$ 62	\$ -	\$ -	\$ -	\$ 3,242	\$ 3,242	\$ -	2032
Dial Corporation	268	-	38	-	-	-	230	230	-	2008
US Patent Office	5	-	-	-	-	-	5	5	-	2009
McDowell Sonoran Preserve	7,430	-	605	-	-	-	6,825	6,825	-	2013
Bureau of Reclamation\Westworld	1,650	-	55	-	-	-	1,595	1,595	-	2032
Bureau of Reclamation\TPC	1,760	-	55	-	-	-	1,705	1,705	-	2035
Underground Improvement District Series 104	140	-	40	-	-	-	100	100	-	01/01/13
Anchor National Life/Portales (as restated)	-	-	-	-	-	-	-	-	-	-
Promenade (as restated)	-	-	-	-	-	-	-	-	-	-
Total Contracts	\$ 14,557	\$ -	\$ 855	\$ -	\$ -	\$ -	\$ 13,702	\$ 13,702	\$ -	-
CAPITAL LEASES										
Governmental Fund Type:										
Nordstrom Garage Lease (as restated)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
TOTAL BONDS AND CONTRACTS	\$ 612,317	\$ 194,402	\$ 40,955	\$ 58,559	\$ 102,000	\$ 754	\$ 723,077	\$ 555,898	\$ 167,179	-
Compensated Absences								13,038	1,531	
Total Long-Term Debt								\$ 568,936	\$ 168,710	

*This exhibit includes both Governmental Activities and Business-Type Activities debt (paid out of Enterprise Funds).

Government-wide Expenses by Function

Table I

Last Three Fiscal Years (in thousands of dollars)

Fiscal Year	General Government	Police	Financial Services	Transportation	Community Services	Information Systems	Fire	Municipal Services	Citizen & Neighborhood Resources
2002	\$ 26,982	\$ 52,719	\$ 7,464	\$ 72,159	\$ 53,325	\$ 10,821	\$ 16,494	\$ 11,482	\$ 2,484
2003	23,926	54,469	7,883	71,837	52,222	11,901	18,127	12,290	2,433
2004	23,839	60,027	7,655	78,373	55,087	11,135	19,570	13,024	2,812

Fiscal Year	Human Resources	Economic Vitality	Planning and Community Development	Streetlight Districts	Interest on Long-Term Debt	Water Utility	Sewer Utility	Airport	Solid Waste Utility	Total
2002	\$ -	\$ -	\$ 18,269	\$ 1,044	\$ 28,063	\$ 51,125	\$ 24,007	\$ 2,648	\$ 14,071	\$ 393,157
2003	3,601	6,421	11,908	1,099	27,786	50,406	22,862	2,476	13,783	395,430
2004	3,462	6,130	11,697	1,024	28,028	51,095	24,678	2,622	15,153	415,411

Source:
City of Scottsdale Financial Services Department

Note:
The City implemented GASB 34 for the fiscal year ended June 30, 2002. Prior statements have not been restated to comply with the new requirements. Amounts represent the results of operations for the primary government only. These amounts are presented on the accrual basis of accounting and include depreciation expense.

Government-wide Revenues

Table II

Last Three Fiscal Years (in thousands of dollars)

Fiscal Year	Program Revenues			General Revenues				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Intergovernmental	Unrestricted Investment Earnings	Miscellaneous	Total
2002	\$ 146,520	\$ 9,626	\$ 116,145	\$ 167,105	\$ 57,492	\$ 17,305	\$ 6,321	\$ 520,514
2003	146,117	21,219	98,856	167,153	46,971	5,601	5,515	491,432
2004	157,199	24,508	177,503	183,039	45,163	3,628	7,646	598,686

Source: City of Scottsdale Financial Services Department

Note:

The City implemented GASB 34 for the fiscal year ended June 30, 2002. Prior statements have not been restated to comply with the new requirements. Amounts represent the results of operations for the primary government only. These amounts are presented on the accrual basis of accounting.

General Governmental Expenditures by Function

Table III

General, Special Revenue, and Debt Service Funds
 Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	General Government	Police	Financial Services	Transportation	Community Services	Information Systems	Fire	Municipal Services	Citizen & Neighborhood Resources	Human Resources	Economic Vitality	Planning and Development	Streetlight Districts	Debt Service	Capital Outlay	Total
1995	\$ 13,977	\$ 24,226	\$ 4,496	\$ 3,878	\$ 18,256	\$ -	\$ 8,435	\$ 14,283	\$ -	\$ -	\$ -	\$ 14,002	\$ 458	\$ 31,221	\$ -	\$ 133,232
1996	16,797	27,253	4,967	4,870	19,937	-	10,132	16,405	-	-	-	16,553	486	36,440	-	153,840
1997	17,449	30,745	5,389	7,551	30,961	-	10,906	8,853	-	-	-	18,117	523	38,923	-	169,417
1998	13,209	35,093	5,983	5,763	36,316	6,118	11,817	7,602	-	-	-	17,090	449	44,725	-	184,165
1999	15,074	37,752	6,359	6,999	40,758	7,357	12,844	9,077	-	-	-	18,419	966	53,229	-	208,834
2000	16,104	41,392	6,448	7,335	41,790	6,681	14,338	9,695	-	-	-	19,903	942	59,106	-	223,734
2001	17,504	45,860	6,685	16,192	45,620	7,017	15,307	11,328	-	-	-	21,598	977	57,836	-	245,924
2002	19,175	49,362	7,135	10,016	49,276	7,380	16,281	11,214	2,235	-	-	18,040	1,044	56,214	3,770	251,142
2003	16,010	52,371	7,752	10,869	48,950	7,386	17,745	11,553	2,446	3,375	6,268	11,746	1,099	61,096	1,294	259,960
2004	16,121	55,510	7,222	9,399	50,494	7,328	19,265	8,774	2,754	3,290	6,199	11,218	1,024	57,842	2,938	259,378

Source: City of Scottsdale Financial Services Department

Note:

A departmental reorganization occurred in fiscal 1997/98. Prior years have not been recast.

The Citizen & Neighborhood Resources Department was established in fiscal year 2001/02.

Human Resources and Economic Vitality departments were established in fiscal year 2002/03.

General Governmental Revenues by Source

Table IV

General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Taxes ⁽¹⁾	Inter-Governmental Revenue	Special Assessments	Licenses	Charges For Services	Fines and Forfeitures	Property Rental and Interest Earnings	Streetlight and Services Districts	Miscellaneous	Total
1995	\$ 71,635	\$ 36,649	\$ 5,514	\$ 950	\$ 12,410	\$ 1,990	\$ 6,365	\$ 543	\$ 10,896	\$ 146,952
1996	81,389	40,434	7,896	1,055	12,587	2,748	6,813	474	11,590	164,986
1997	89,086	48,583	6,696	1,107	14,424	3,344	6,000	505	12,748	182,493
1998	102,138	49,635	4,927	1,107	17,229	4,274	7,664	558	15,091	202,623
1999	141,067	54,920	4,357	1,237	17,227	5,192	6,581	964	17,135	248,680
2000	156,017	58,626	3,740	1,717	19,711	5,105	7,721	968	14,345	267,950
2001	162,567	71,054	3,026	1,676	19,877	4,894	7,888	973	15,026	286,981
2002	164,459	70,044	2,339	1,815	20,038	5,234	8,464	1,012	10,176	283,581
2003	166,739	68,695	1,970	1,816	19,990	6,047	5,274	1,018	10,360	281,909
2004	181,881	68,546	2,558	1,813	22,401	6,921	4,903	1,000	11,667	301,690

Source: City of Scottsdale Financial Services Department

Tax Revenues by Source

Table V

General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Privilege & Use ⁽¹⁾	Transient Occupancy Tax	General Property	Franchise	In-Lieu Property	Total Taxes
1995	\$ 43,755	\$ 5,048	\$ 18,383	\$ 4,160	\$ 289	\$ 71,635
1996	49,476	5,702	21,396	4,533	282	81,389
1997	54,530	6,493	22,836	4,945	282	89,086
1998	61,771	7,096	27,663	5,332	276	102,138
1999	98,335	6,637	30,150	5,696	249	141,067
2000	110,069	7,235	32,591	5,891	231	156,017
2001	113,009	7,587	34,396	7,399	176	162,567
2002	111,698	6,691	38,413	7,461	196	164,459
2003	110,684	6,688	41,583	7,587	197	166,739
2004	120,156	7,227	46,088	8,228	182	181,881

Source: City of Scottsdale Financial Services Department

Note:

⁽¹⁾Beginning in 1999, Privilege Tax for Transportation and McDowell Mountain were recorded in Special Revenue Funds. Prior to 1999, they were recorded in Capital Projects Funds. Prior years have not been recast. See also Table VI.

Excise Tax Collections by Source

Table VI

General, Special Revenue, and Debt Service Funds

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Privilege & Use - General	Privilege & Use - Transportation	Privilege & Use - McDowell Mtn	Transient Occupancy Tax	State Shared Sales	State Revenue Sharing	Light & Power Franchise
1995	\$ 43,755	\$ 8,482	\$ -	\$ 5,048	\$ 10,020	\$ 9,375	\$ 3,004
1996	49,476	9,522	9,085	5,702	10,676	9,936	3,187
1997	54,530	10,545	10,663	6,493	11,870	12,734	3,484
1998	61,771	11,963	12,168	7,096	12,537	14,387	3,769
1999	70,735	13,673	13,927	6,637	13,439	16,795	3,972
2000	78,649	15,880	15,540	7,235	14,772	18,637	4,314
2001	81,108	15,831	16,070	7,587	15,514	19,560	4,979
2002	80,297	15,587	15,814	6,691	15,621	21,142	5,238
2003	79,704	15,335	15,645	6,688	15,853	21,574	5,147
2004	86,547	16,628	16,981	7,227	17,054	18,278	5,488

Fiscal Year	Cable TV Franchise	Fire Insurance Premium Tax	Business Licenses & Fees	Development Permits & Fees	Recreation Fees	Fines & Forfeitures	Total
1995	\$ 1,003	\$ 152	\$ 950	\$ 10,590	\$ 1,820	\$ 1,990	\$ 96,189
1996	1,175	171	1,055	10,918	1,669	2,748	115,320
1997	1,275	186	1,107	12,019	2,405	3,344	130,655
1998	1,406	157	1,107	15,595	2,734	4,274	148,964
1999	1,552	172	1,237	14,311	2,916	5,192	164,558
2000	1,376	201	1,717	16,641	3,070	5,105	183,137
2001	2,147	273	1,676	16,850	3,027	4,894	189,516
2002	2,223	316	1,815	15,764	2,806	5,234	188,548
2003	2,440	414	1,816	15,853	3,000	6,047	189,516
2004	2,740	481	1,813	17,291	2,440	6,921	199,889

Source: City of Scottsdale Financial Services Department

Note:

Beginning in 1999 Privilege Tax for Transportation and McDowell Mountain are recorded in Special Revenue Funds. Prior to 1999 they were recorded in Capital Projects Funds.

Privilege and Use Tax Collections by Category

Table VII

General, Special Revenue, and Debt Service Funds

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Automotive	Construction	Food	Hotel	Major Department Stores	Misc. Retail	Other Tax	Rentals	Restaurants	Utilities	License Fees, Penalties, Interest & Refunds	Total
1995	\$ 7,010	\$ 10,322	\$ 3,682	\$ 3,373	\$ 4,755	\$ 8,707	\$ 2,785	\$ 4,816	\$ 3,591	\$ 2,335	\$ 861	\$ 52,237
1996	9,403	14,010	4,803	4,459	5,688	11,437	4,174	5,922	4,632	3,026	529	68,083
1997	10,494	16,078	5,571	5,035	5,765	12,160	5,189	6,677	4,930	3,390	449	75,738
1998	12,426	19,183	5,968	5,371	6,580	13,519	5,594	7,788	5,322	3,674	477	85,902
1999	14,533	23,876	7,292	5,332	6,173	15,592	6,118	9,178	5,852	3,966	423	98,335
2000	18,025	24,377	7,899	5,710	7,815	16,562	6,472	10,290	6,471	4,805	1,643	110,069
2001	20,297	22,733	7,194	6,296	8,456	16,925	6,850	11,537	7,313	5,245	163	113,009
2002	20,862	21,948	7,202	5,430	8,737	15,538	6,104	12,248	7,282	5,501	846	111,698
2003	20,411	18,658	7,472	5,331	9,172	15,990	6,517	12,697	7,672	5,381	1,383	110,684
2004	20,808	21,789	8,075	5,767	9,761	17,768	7,283	13,730	8,345	5,317	1,513	120,156

Source: City of Scottsdale Financial Services Department

Privilege and Use Tax Collections by Source ⁽¹⁾**Table VIII****General, Special Revenue and Debt Service Funds**

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	General	Transportation ⁽²⁾	McDowell Preserve ⁽³⁾	Total
1995	\$ 43,755	\$ 8,482	\$ -	\$ 52,237
1996	49,476	9,522	9,085	68,083
1997	54,530	10,545	10,663	75,738
1998	61,771	11,963	12,168	85,902
1999	70,735	13,673	13,927	98,335
2000	78,649	15,880	15,540	110,069
2001	81,108	15,831	16,070	113,009
2002	80,297	15,587	15,814	111,698
2003	79,704	15,335	15,645	110,684
2004	86,547	16,628	16,981	120,156

Source: City of Scottsdale Financial Services Department

⁽¹⁾ Privilege Tax rates are 1 percent General, .2 percent for Transportation, and .2 percent for McDowell Reserve. Total City Privilege Tax rate is 1.4 percent.

⁽²⁾ Transportation Privilege Tax Legislation became effective in 1990 and is restricted to use for transportation capital projects only.

⁽³⁾ McDowell Preserve Privilege Tax Legislation became effective in 1996 and is restricted to use for acquisition of land for the McDowell Preserve.

Property Tax Levies and Collections

Table IX

Last Ten Fiscal Years (in thousands of dollars)

Tax Year	Fiscal Year	Total Tax Levy	Current Tax Collections	% of Levy Collected	Delinquent Tax Collections	Future Year Tax Collections	Total Tax Collections	Total Collections % of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent % of Current Levy
1994	1995	\$ 20,273	\$ 18,993	93.7%	\$ 637	\$ 9	\$ 19,639	96.9%	\$ 728	3.6%
1995	1996	21,475	20,960	97.6%	623	19	21,602	100.6%	706	3.3%
1996	1997	24,408	23,862	97.8%	533	21	24,416	100.0%	553	2.3%
1997	1998	28,202	27,433	97.3%	503	20	27,956	99.1%	657	2.3%
1998	1999	30,304	28,993	95.7%	625	1	29,619	97.7%	783	2.6%
1999	2000	32,747	30,896	94.3%	890	-	31,786	97.1%	879	2.7%
2000	2001	32,581	31,230	95.9%	978	-	32,208	98.9%	960	2.9%
2001	2002	36,166	34,895	96.5%	964	-	35,859	99.2%	952	2.6%
2002	2003	39,159	37,583	96.0%	999	-	38,582	98.5%	935	2.4%
2003	2004	42,756	40,739	95.3%	1,638	-	42,377	99.1%	1,143	2.7%

Source: Maricopa County Treasurer's Office 2004 Secured Tax Levy Report and City of Scottsdale Financial Services Department

Amounts represent property taxes recorded in the General, Debt Service and Self-Insurance Fund (beginning in 1995).

Assessed and Estimated Actual Value of Taxable Property

Table Xa

Last Ten Fiscal Years (in thousands of dollars)

COMPARATIVE ASSESSED VALUATION CLASSIFICATION

Fiscal Year	Real Estate	Improvements	Secured Personal	Unsecured Personal	Utilities Rails Wires	Gross Valuation	Exemptions	Net Taxable Valuation	Estimated Actual Valuation
1995 P	\$ -	\$ 1,175,121	\$ 32,826	\$ 93,393	\$ 70,031	\$ 1,371,372	\$ 456	\$ 1,370,916	\$ 9,913,549
S	537,114	666,182	32,826	93,393	70,058	1,399,573	447	1,399,126	10,081,538
1996 P	-	1,296,789	32,768	50,496	73,949	1,454,002	410	1,453,592	10,916,431
S	550,624	822,631	32,768	50,496	73,976	1,530,496	407	1,530,088	11,361,417
1997 P	-	1,484,460	39,384	45,358	101,115	1,670,317	122,496	1,547,821	11,615,286
S	625,326	909,635	39,384	45,358	101,143	1,720,846	129,045	1,591,801	11,869,943
1998 P	-	1,652,051	39,510	49,608	102,884	1,844,053	122,998	1,721,055	13,064,052
S	655,657	1,120,622	39,510	49,608	102,946	1,968,343	129,293	1,839,050	13,876,821
1999 P	-	1,867,600	41,123	50,270	99,765	2,058,758	120,569	1,938,189	14,824,243
S	786,999	1,257,665	41,123	50,270	99,825	2,235,882	133,530	2,102,352	14,875,966
2000 P	-	2,197,631	42,123	54,263	105,941	2,399,958	148,417	2,251,541	17,194,773
S	888,057	1,565,076	42,123	54,623	106,030	2,655,909	171,524	2,484,385	18,597,657
2001 P	-	2,505,879	41,290	75,333	110,584	2,733,086	126,116	2,606,970	19,705,159
S	-	2,831,301	41,290	75,333	110,715	3,058,639	143,258	2,915,381	21,770,704
2002 P	-	2,868,585	41,290	83,798	119,572	3,113,245	166,942	2,946,303	22,500,935
S	-	3,258,789	41,290	83,798	119,584	3,503,461	225,510	3,277,951	24,790,147
2003 P	-	3,182,885	30,258	88,982	130,305	3,432,430	200,976	3,231,454	24,690,513
S	-	3,581,204	30,258	88,982	130,305	3,830,749	304,144	3,526,605	26,456,051
2004 P	-	3,590,966	26,767	93,518	137,229	3,848,480	248,761	3,599,719	27,877,981
S	-	4,074,536	26,767	93,518	137,229	4,332,050	356,528	3,975,522	30,913,143

Source: AZ Department of Revenue/Property Tax Division, Abstract of the Assessment Roll 2003

Real estate and improvements are combined in the primary valuation.

Under Arizona law, there are two property valuation bases: PRIMARY (P) and SECONDARY (S). The primary (limited assessed valuation is used when levying for maintenance and operation of cities, school districts, community college districts, counties, and the state. The secondary (full cash) assessed valuation is used when levying for debt retirement, voter-approved budget overrides, and maintenance and operation of special service districts.

Beginning in 2001, Real Estate and Improvements are combined in the secondary valuation of the improvements total.

Assessed Values by Property Class

Table Xb

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Class 1 Mines, Utilities, Telecom., Comm. & Industrial	Class 2 Agricultural & Vacant Land	Class 3 Residential - Owner Occupied	Class 4 Residential - Leased & Common Areas	Class 5 Railroad, Private Car Co., & Airlines	Class 6 Historic, Non- commercial Special Use	Class 7 Commercial Historic	Class 8 Residential Historic	Class 9 Improvements on Possessory Interest	Total Net Full Cash Assessed Value
1995 P	\$ 510,175	\$ 186,548	\$ 597,708	\$ 76,428	\$ -	\$ 7	\$ -	\$ 49	\$ -	\$ 1,370,915
S	525,595	192,308	602,267	78,901	-	7	-	49	-	1,399,127
1996 P	506,734	170,989	688,356	87,279	-	174	-	-	59	1,453,591
S	549,166	186,704	694,908	98,650	-	600	-	-	59	1,530,087
1997 P	548,255	169,960	725,151	104,198	-	181	-	-	77	1,547,822
S	574,576	178,832	727,402	110,978	-	235	-	-	77	1,592,100
1998 P	588,375	161,690	859,920	110,800	-	195	-	-	77	1,721,057
S	639,829	176,979	900,682	121,287	-	195	-	-	77	1,839,049
1999 P	650,741	174,147	992,490	120,495	-	240	-	-	76	1,938,189
S	720,457	234,448	1,019,159	127,840	-	372	-	-	76	2,102,352
2000 P	763,432	198,745	1,132,548	156,291	-	525	-	-	-	2,251,541
S	875,189	269,034	1,172,250	166,530	-	1,382	-	-	-	2,484,385
2001 P	926,639	215,998	1,293,727	169,591	-	540	23	452	-	2,606,970
S	1,028,288	326,440	1,375,453	183,600	-	1,090	24	486	-	2,915,381
2002 P	1,014,713	233,757	1,515,221	182,336	-	277	-	-	-	2,946,304
S	1,111,891	352,574	1,618,041	195,031	-	414	-	-	-	3,277,951
2003 P	1,117,558	244,980	1,677,085	190,953	-	878	-	-	-	3,231,454
S	1,237,805	368,844	1,720,500	197,972	-	1,484	-	-	-	3,526,605
2004 P	1,187,749	266,173	1,936,764	208,388	68	577	-	-	-	3,599,719
S	1,258,911	345,899	2,146,689	223,040	87	896	-	-	-	3,975,522

The above classes were revised by Maricopa County for 2001 pursuant to HB 2634. Prior years were restated for comparison.

A statewide reappraisal program assesses property values by usage classification on varying percentages of actual cash value. These percentages are as follows:

Property Class:	
1. Mines, Utilities, Telecommunications, Comm. & Industrial	25%
2. Agricultural & Vacant Land	16%
3. Residential - Owner Occupied	10%
4. Residential - Leased & Common Areas	10%
5. Railroads, Private Car Cos., Airlines	21%
6. Historic, Non-commercial Special Use	5%
7. Commercial Historic	25%
8. Residential Historic	10%
9. Improvements on Gov Property	1%

Sources:

Arizona Department of Revenue/Property Tax
Division Abstract of the Assessment Roll 2003
Maricopa County Department of Finance.

Property Tax Rates - Direct and Overlapping Governments

Table XIa

Tax Rates Per \$100 Assessed Valuation
Last Ten Fiscal Years

Fiscal Year	School Districts											Total
	City of Scottsdale	Scottsdale Unified	Community College	Maricopa County	State of Arizona	Flood District	Central Arizona Project	Fire District	Library	EVIT	Education Equalization	
1995 P	0.5987	4.5296	0.8934	1.2394	0.4700	-	-	-	-	-	0.5300	8.2611
S	0.8623	1.4114	-	0.0032	-	0.3632	0.1400	0.0107	0.0417	0.0554	-	2.8879
Total	1.4610	5.9410	0.8934	1.2426	0.4700	0.3632	0.1400	0.0107	0.0417	0.0554	0.5300	11.1490
1996 P	0.5477	4.6058	0.9455	1.1580	0.4700	-	-	-	-	-	0.5300	8.2570
S	0.8832	1.4597	0.1675	0.1464	-	0.3332	0.1400	0.0108	0.0099	0.0693	-	3.2200
Total	1.4309	6.0655	1.1130	1.3044	0.4700	0.3332	0.1400	0.0108	0.0099	0.0693	0.5300	11.4770
1997 P	0.6480	4.3390	0.9772	1.1054	-	-	-	-	-	-	0.5300	7.5996
S	0.9032	1.5526	0.0704	0.1575	-	0.3425	0.1400	0.0109	0.0421	0.1616	-	3.3808
Total	1.5512	5.8916	1.0476	1.2629	-	0.3425	0.1400	0.0109	0.0421	0.1616	0.5300	10.9804
1998 P	0.5763	4.1859	0.9747	1.1265	-	-	-	-	-	-	0.5300	7.3934
S	0.9941	1.5365	0.1599	0.1364	-	0.3425	0.1400	0.0105	0.0421	0.1216	-	3.4836
Total	1.5704	5.7224	1.1346	1.2629	-	0.3425	0.1400	0.0105	0.0421	0.1216	0.5300	10.8770
1999 P	0.5477	4.2161	0.9866	1.1472	-	-	-	-	-	-	0.5300	7.4276
S	0.9365	1.5842	0.1259	0.1312	-	0.3270	0.1400	0.0103	0.0421	0.1320	-	3.4292
Total	1.4842	5.8003	1.1125	1.2784	-	0.3270	0.1400	0.0103	0.0421	0.1320	0.5300	10.8568
2000 P	0.5450	4.3726	0.9741	1.1884	-	-	-	-	-	-	0.5217	7.6018
S	0.8318	1.3965	0.1544	0.1085	-	0.2858	0.1400	0.0100	0.0421	0.1217	-	3.0908
Total	1.3768	5.7691	1.1285	1.2969	-	0.2858	0.1400	0.0100	0.0421	0.1217	0.5217	10.6926
2001 P	0.5289	4.0442	0.9691	1.1641	-	-	-	-	-	-	0.5123	7.2186
S	0.6577	1.4113	0.1503	0.1152	-	0.2534	0.1300	0.0096	0.0421	0.1186	-	2.8882
Total	1.1866	5.4555	1.1194	1.2793	-	0.2534	0.1300	0.0096	0.0421	0.1186	0.5123	10.1068
2002 P	0.4858	4.0781	0.9583	1.1832	-	-	-	-	-	-	0.4974	7.2028
S	0.6667	1.3597	0.1524	0.0876	-	0.2319	0.1300	0.0091	0.0421	0.1120	-	2.7915
Total	1.1525	5.4378	1.1107	1.2708	-	0.2319	0.1300	0.0091	0.0421	0.1120	0.4974	9.9943
2003 P	0.5073	3.9430	0.9634	1.2108	-	-	-	-	-	-	0.4889	7.1134
S	0.6456	1.3597	0.1493	0.0800	-	0.2119	0.1300	0.0076	0.0421	0.1117	-	2.7379
Total	1.1529	5.3027	1.1127	1.2908	-	0.2119	0.1300	0.0076	0.0421	0.1117	0.4889	9.8513
2004 P	0.4783	3.8852	0.9410	1.2108	-	-	-	-	-	-	0.4717	6.9870
S	0.6424	1.3026	0.1375	0.0700	-	0.2119	0.1200	0.0070	0.0521	0.0976	-	2.6411
Total	1.1207	5.1878	1.0785	1.2808	-	0.2119	0.1200	0.0070	0.0521	0.0976	0.4717	9.6281

Scottsdale residents residing outside Scottsdale Unified School District:

School District	2003/2004 Tax Rate Total
Balsz Elementary	\$12.35
Cave Creek	8.82
Fountain Hills	10.14
Paradise Valley	11.41
Tempe	11.92

Source: Maricopa County Department of Finance Publications On-Line "2003 County Tax Rates"

Property Tax Levies - Direct and Overlapping Governments

Table XIb

Tax Levies

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	School Districts											Total
	City of Scottsdale	Scottsdale Unified	Community College	Maricopa County	State of Arizona	Flood District	Central Arizona Project	Fire District	Library	East Valley Institute of Technology	Education Equalization	
1995 P	\$ 8,208	\$ 67,793	\$ 118,842	\$ 164,865	\$ 62,521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,502	\$ 492,731
S	12,064	21,559	-	428	-	35,319	18,930	1,447	5,638	2,864	-	98,249
TOTAL	20,272	89,352	118,842	165,293	62,521	35,319	18,930	1,447	5,638	2,864	70,502	590,980
1996 P	7,961	71,686	127,583	156,257	63,421	-	-	-	-	2,391	71,517	500,816
S	13,514	23,677	23,643	20,671	-	36,078	19,767	1,518	1,398	1,452	-	141,718
TOTAL	21,475	95,363	151,226	176,928	63,421	36,078	19,767	1,518	1,398	3,843	71,517	642,534
1997 P	10,031	71,235	136,570	154,487	-	-	-	-	-	3,232	74,071	449,626
S	14,378	26,054	10,100	22,590	-	38,118	20,080	1,567	6,038	6,120	-	145,045
TOTAL	24,409	97,289	146,670	177,077	-	38,118	20,080	1,567	6,038	9,352	74,071	594,671
1998 P	9,919	75,973	146,259	169,046	-	-	-	-	-	3,673	79,533	484,403
S	18,283	29,651	25,144	21,447	-	42,339	22,013	1,646	6,620	4,275	-	171,418
TOTAL	28,202	105,624	171,403	190,493	-	42,339	22,013	1,646	6,620	7,948	79,533	655,821
1999 P	10,615	82,281	158,026	183,750	-	-	-	-	-	4,247	84,892	523,811
S	19,689	32,607	21,174	22,059	-	44,670	23,537	1,737	7,078	5,130	-	177,681
TOTAL	30,304	114,888	179,200	205,809	-	44,670	23,537	1,737	7,078	9,377	84,892	701,492
2000 P	12,204	96,625	170,116	207,541	-	-	-	-	-	3,970	91,109	581,565
S	20,543	33,734	28,833	20,264	-	44,311	26,148	1,874	7,863	5,922	-	189,492
TOTAL	32,747	130,359	198,949	227,805	-	44,311	26,148	1,874	7,863	9,892	91,109	771,057
2001 P	13,653	99,482	187,643	225,397	-	-	-	-	-	4,786	99,193	630,154
S	18,928	38,232	31,377	24,051	-	44,309	27,141	1,997	8,790	6,155	-	200,980
TOTAL	32,581	137,714	219,020	249,448	-	44,309	27,141	1,997	8,790	10,941	99,193	831,134
2002 P	14,313	110,638	204,648	252,676	-	-	-	-	-	5,198	106,221	693,694
S	21,853	40,515	34,930	20,072	-	45,323	29,787	2,086	9,646	6,259	-	210,471
TOTAL	36,166	151,153	239,578	272,748	-	45,323	29,787	2,086	9,646	11,457	106,221	904,165
2003 P	16,393	114,544	221,157	277,949	-	-	-	-	-	6,120	112,231	748,394
S	22,766	42,133	36,526	19,566	-	44,868	31,805	1,859	10,297	6,176	-	215,996
TOTAL	39,159	156,677	257,683	297,515	-	44,868	31,805	1,859	10,297	12,296	112,231	964,390
2004 P	17,217	123,274	239,464	308,122	-	-	-	-	-	-	120,038	808,115
S	25,539	45,550	37,777	19,235	-	51,154	33,011	1,931	14,316	12,042	-	240,555
TOTAL	42,756	168,824	277,241	327,357	-	51,154	33,011	1,931	14,316	12,042	120,038	1,048,670

Source: Maricopa County Department of Finance Publications On-Line "Tax Levy 2003"

The primary (P) tax levy is for maintenance and operation of cities, school districts, community college districts, counties, and the state. The secondary (S) tax levy is for debt retirement, voter-approved budget overrides, and maintenance and operation of special state districts.

Principal Taxpayers

Table XII

June 30, 2004

Taxpayer	Type of Business	Assessed Valuation (in thousands of dollars)	% of Secondary Assessed Valuation
Arizona Public Service Company	Gas and Electric Utility	\$ 48,461	1.22%
Scottsdale Fashion Square	Shopping Center	44,415	1.12%
Qwest Communications, Inc.	Telecommunications	37,363	0.94%
First American Tax Valuation	Resort	24,345	0.61%
DC Ranch, LLC	Real Estate Development	22,805	0.57%
Gainey Drive Associates	Resort	18,572	0.47%
General Dynamics	Industrial Park	13,289	0.33%
Southwest Gas Corporation	Gas Utility	13,125	0.33%
Desert Mountain Properties, LP	Real Estate Development	12,697	0.32%
CMD Properties Inc.	Office Buildings	12,201	0.31%
		\$ 247,273	6.22%

Source: The City of Scottsdale's Property Tax Auditor, as obtained from the Arizona Department of Revenue, CVP Department and the 2003 Maricopa County Treasurer's Roll.

The Salt River Project Agricultural Improvement and Power District's (SRP) assessed valuation is not reflected in the total assessed valuation of the City. SRP is subject to a "voluntary contribution" in lieu of ad valorem taxation. The 2003/04 secondary assessed valuation of the Salt River Project within the City is \$20,073,212. The estimated secondary in lieu contribution is \$202,864.

Special Assessment Billings and Collections**Table XIII**

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Special Assessments Billed	Current Assessments Collected
1995	\$ 3,381	\$ 4,222
1996	5,438	5,696
1997	4,390	5,026
1998	3,373	3,755
1999	2,849	3,464
2000	2,675	3,056
2001	2,268	2,531
2002	1,690	1,989
2003	1,402	1,730
2004	1,579	2,151

Source: City of Scottsdale Financial Services Department

**Ratio of Net General Obligation Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita**

Table XIV

Last Ten Fiscal Years

Fiscal Year	Assessed Value	Population June 30	General Obligation Bonded Debt	Less Fund Balance Reserved for Debt Service	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995	\$ 1,399,126,179	168,176	\$ 121,915,000	\$ 342,402	\$ 121,572,598	8.7%	\$ 722.89
1996	1,530,088,317	172,820	131,340,000	829,933	130,510,067	8.5%	755.18
1997	1,591,801,942	180,240	152,235,000	588,100	151,646,900	9.5%	841.36
1998	1,839,050,044	189,060	165,140,000	2,270,562	162,869,438	8.9%	861.47
1999	2,102,351,943	197,250	182,200,000	4,305,508	177,894,492	8.5%	901.87
2000	2,484,385,416	202,705	237,609,000	1,993,643	235,615,357	9.5%	1,162.36
2001	2,877,733,056	210,770	262,484,000	5,158,963	257,325,037	8.9%	1,220.88
2002	3,277,950,767	215,320	319,657,000	8,448,962	311,208,038	9.5%	1,445.33
2003	3,526,604,612	218,940	305,003,000	9,006,329	295,996,671	8.4%	1,351.95
2004	3,975,522,083	222,600	389,598,000	3,468,780	386,129,220	9.7%	1,734.63

Source: City of Scottsdale Financial Services Department

Includes all General Obligation Bonds outstanding at June 30 except for the 1986 Water System Improvement General Obligation Bonds and all general obligation refunding bonds paid out of the Water Enterprise Fund. Excludes original issue premium. Also excludes all general obligation bonds of community facilities districts, since such bonds are not obligations of the City.

Includes the fund balance of the General Obligation Bond Debt Service Fund only.

Computation of Legal Debt Margins

Table XV

June 30, 2004 (in thousands of dollars)

Net Secondary Assessed Valuation as of June 30, 2004	\$	3,975,522
Debt Limit Equal to 20% of Assessed Valuation		795,104
<p>General Obligation Bonded Debt Subject to 20% Debt Limit (net of amounts available in Debt Service Funds for payment on July 1, 2004):</p>		
1993 Refunding	\$	6,681
1993A Refunding		2,374
1997 GO Refunding		17,405
1989 GO Series I (1998)		4,445
1999 Preservation GO		16,925
2001 Preservation GO		28,225
2001 Refunding		39,660
2002 GO Series		52,000
2002 Refunding		40,630
2003 Refunding		15,020
2004 GO Series		<u>96,400</u>
Net Outstanding Bonded Debt Subject to 20% Limit		<u>319,765</u>
Legal 20% Debt Margin (Available Borrowing Capacity)	\$	475,339
Debt Limit Equal to 6% of Assessed Valuation	\$	238,531
<p>General Obligation Bonded Debt Subject to 6% Debt Limit (net of amounts available in Debt Service Funds for payment on July 1, 2004):</p>		
1993 GO Refunding	\$	9,924
1993A Refunding		1,451
1997 Series H Roads		1,235
1997 Refunding		2,365
1989 Series I (1998)		3,645
1999A Streets		4,219
1999A Pima Road		1,280
2001 Refunding		1,695
2002 GO Series		9,295
2002 Refunding		22,875
2004 GO Series		<u>17,000</u>
Net Outstanding Bonded Debt Subject to 6% Limit		<u>74,984</u>
Legal 6% Debt Margin (Available Borrowing Capacity)	\$	163,547

⁽¹⁾ Under Arizona law, cities can issue general obligation bonds for purposes of water, sewer, light, parks, and open space purposes, but outstanding bonds issued for such purposes may not exceed 20 percent of the City's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of the city's net secondary assessed valuation.

⁽²⁾ The computation of legal debt margins excludes premium on capital appreciation bonds.

⁽³⁾ General obligation bonds of community facilities districts are not subject to or included in this computation since they are not bonds of the City of Scottsdale.

Source: City of Scottsdale Financial Services.

Summary of General Governmental Bond Expenditures and Debt Ratios

Table XVI

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Operating Expenditures	Ratio of Total Debt Service To Total Operating Expenditures
1995	\$ 5,050	\$ 6,860	\$ 11,910	\$ 134,366	8.86%
1996	5,575	7,493	13,068	153,841	8.49%
1997	6,605	8,064	14,669	169,417	8.66%
1998	8,140	8,394	16,534	184,165	8.98%
1999	8,140	9,099	17,239	211,051	8.17%
2000	10,400	12,555	22,955	223,734	10.26%
2001	11,150	13,038	24,188	245,924	9.84%
2002	12,850	15,407	28,257	251,142	11.25%
2003	15,885	17,664	33,549	259,960	12.91%
2004	16,775	16,188	32,963	259,378	12.71%

Source: City of Scottsdale Financial Services Department

Amounts exclude 1986 Water System Improvement General Obligation Bonds and all general obligation refunding bonds paid out of the Water Enterprise Fund. Also excluded are all general obligation bonds of community facilities districts, since such bonds are not obligations of the City.

Includes total expenditures of the General, Special Revenue, and Debt Service Funds.

Summary of Water and Sewer Utility Bond Expense and Debt Ratios

Table XVII

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Operating Revenue	Operating & Maintenance Expenses	Net Operating Revenue	Development Fee Revenue	Total Net Revenue	Revenue Bond Expense	General Obligation Bond Expense	Total Bond Expense
1995 ⁽¹⁾	\$ 56,900	\$ 31,738	\$ 25,162	\$ 14,934	\$ 40,096	\$ 3,216	\$ 3,927	\$ 7,143
1996	68,523	39,422	29,101	15,821	44,922	2,898	3,987	6,885
1997	74,708	41,621	33,087	18,896	51,983	3,231	3,402	6,633
1998	76,468	42,056	34,412	27,463	61,875	4,375	2,112	6,487
1999	85,411	49,264	36,147	32,723	68,870	7,951	3,527	11,478
2000	83,305	46,953	36,352	24,581	60,933	7,436	4,367	11,803
2001	87,417	53,421	33,996	26,361	60,357	6,538	5,290	11,828
2002	97,802	49,840	47,962	15,087	63,049	6,535	5,345	11,880
2003	95,064	46,991	48,073	17,648	65,721	6,510	5,402	11,912
2004	97,813	49,662	48,151	21,574	69,725	6,022	933	6,955

Fiscal Year	Ratio of Total Net Revenue to Total Bond Expense	Ratio of Net Operating Revenue to Total Bond Expense	Ratio of Net Operating Revenue to Revenue Bond Expense	Ratio of Total Net Revenue to Revenue Bond Expense	Revenue Bond Indenture Required Ratio
1995 ⁽¹⁾	5.61	3.52	7.82	12.47	1.20
1996	6.52	4.23	10.04	15.50	1.20
1997	7.84	4.99	10.24	16.09	1.20
1998	9.54	5.30	7.87	14.14	1.20
1999	6.00	3.15	4.55	8.66	1.20
2000	5.16	3.08	4.89	8.19	1.20
2001	5.10	2.87	5.20	9.23	1.20
2002	5.31	4.04	7.34	9.65	1.20
2003	5.52	4.04	7.38	10.10	1.20
2004	10.03	6.92	8.00	11.58	1.20

Source: City of Scottsdale Financial Services Department

Revenue - includes all operating revenues and interest earnings recorded in the Water and Sewer Utility Enterprise Fund.

Expenses - includes total operating expenses and interest expense of the Water and Sewer Utility Enterprise Fund, excluding depreciation and amortization.

⁽¹⁾1995 interest expense has been restated to reflect an accounting adjustment.

Total Direct and Overlapping General Obligation Debt

Table XVIII

(in thousands of dollars)

The City's proportionate share of general obligation debt of all local governmental units which provide services within the City's boundaries and which must be borne by properties in the City is summarized below:

Name of Governmental Unit	Net Bonds Outstanding	% Applicable within the City of Scottsdale	\$ Applicable within the City of Scottsdale
Maricopa County	\$ 20,165	14.4680%	\$ 2,917
Maricopa County Community College District	261,015	14.4680%	37,764
Tempe Elementary School District No. 3	66,645	0.0005%	-
Balsz Elementary School District No. 31	18,805	5.1282%	964
Scottsdale Unified School District No. 48	263,725	68.8066%	181,460
Paradise Valley Unified School District No. 69	334,110	31.0474%	103,732
Cave Creek Unified School District No. 93	56,480	72.4859%	40,940
Fountain Hills Unified School District No. 98	30,690	2.1664%	665
Phoenix Union High School District No. 210	170,935	0.3223%	551
East Valley Institute of Technology District No. 401	12,055	20.5302%	2,476
Scottsdale Mountain Community Facilities District	5,160	100.0000%	5,160
McDowell Mountain Community Facilities District	17,970	100.0000%	17,970
DC Ranch Community Facilities District	20,000	100.0000%	20,000
Via Linda Road Community Facilities District	3,225	100.0000%	3,225
Total Overlapping Debt			417,824
City of Scottsdale	389,598	100.0000%	389,598
Total Direct and Overlapping Debt			\$ 807,422

Source: Maricopa County Assessor's Office

Demographic Statistics

Table XIX

Last Ten Fiscal Years

Fiscal Year	Population ⁽¹⁾	Per Capita Income ⁽¹⁾	Median Age ⁽¹⁾	School Enrollment ⁽²⁾	Unemployment Rate (%) ⁽³⁾
1995	168,176	\$ 30,300	39.1	24,089	2.5
1996	172,820	31,900	39.1	24,467	2.6
1997	180,240	33,600	39.7	25,103	2.1
1998	189,060	35,400	39.7	26,011	1.9
1999	197,250	37,200	39.7	26,796	2.1
2000	202,705	39,158	41.0	25,985	1.9
2001	210,770	41,200	41.0	26,101	2.8
2002	215,320	43,400	41.0	26,051	3.8
2003	218,940	43,400	42.1	26,051	3.7
2004	222,600	45,500	40.4	25,488	3.6

Sources:

- ⁽¹⁾ City of Scottsdale Economic Vitality staff
- ⁽²⁾ Arizona Department of Education (Enrollment statistics are not available until six months after the close of the fiscal year. The numbers presented on each line represent the prior year's statistics.)
- ⁽³⁾ Arizona Department of Economic Security - Arizona Unemployment Statistics Program Special Unemployment Final Report

Property Value and Construction

Table XX

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	Property Value ⁽¹⁾			Commercial Construction ⁽²⁾		Residential Construction ⁽²⁾	
	Commercial	Residential	Nontaxable	Number of Permits	Value	Number of Dwelling Units	Value
1995	\$ 3,269,864	\$ 6,810,085	\$ 743,351	2,751	\$ 162,541	4,954	\$ 652,363
1996	3,345,470	8,024,934	735,698	2,923	152,488	4,449	607,708
1997	3,400,495	8,448,076	723,545	3,275	305,836	4,451	621,891
1998	3,658,231	10,217,960	806,235	3,512	595,530	5,102	792,477
1999	4,352,786	9,951,148	2,351,799	3,665	437,945	4,486	775,957
2000	5,209,857	13,386,035	923,343	3,296	294,157	4,134	743,286
2001	6,175,315	15,670,793	844,520	2,957	291,003	3,325	615,942
2002	6,651,152	18,219,402	1,307,018	2,464	247,372	2,019	453,430
2003	7,256,497	19,211,932	1,866,782	2,215	199,223	2,046	400,500
2004	7,197,862	23,715,210	2,243,314	2,512	252,328	2,903	426,203

Source:

(1) Arizona Department of Revenue 2003 Abstract of the Assessment Roll

(2) City of Scottsdale Planning and Development Services Department, Building Inspection Services

Schedule of Insurance

Table XXI

June 30, 2004

Carrier	Policy Description	Amount of Coverage
Allianz Insurance Company	Property Insurance Repair or Replace \$100,000 Deductible	Various Limits By Peril
AIG Group and various layers of coverage	Excess Liability Coverage \$2,000,000 Deductible Per Occurrence	\$50,000,000 Per Occurrence and Aggregate
ACE/Lloyds of London	Airport Premises and Hangarkeepers Liability	\$100,000,000 Per Occurrence and Aggregate
Midwest Employees Casualty Company	Excess Workers' Compensation Coverage \$600,000 Deductible each Occurrence	Statutory
Great American Insurance Company	Fidelity/Crime Insurance \$25,000 Deductible	\$5,000,000 Annual Maximum Amount
Sun Life Insurance Company	Excess Stop Loss Insurance for Self Insured Group Health Benefits Plan	\$150,000 Each Claim and a not to exceed annual plan aggregate calculated by plan enrollment population

Source: City of Scottsdale Financial Services Department, Risk Management Division and Human Resources Department

Salaries and Surety Bonds of Principal Officials

Table XXII

For Fiscal Year Ended June 30, 2004

Official Title	Salary	Bond
Mayor	\$ 36,000	\$ 1,000,000*
Councilmen (6)	18,000	included in above
City Manager/City Treasurer	153,941	included in above
City Clerk	79,997	included in above
City Attorney	145,018	included in above
City Judge	127,900	included in above
City Auditor	97,552	included in above

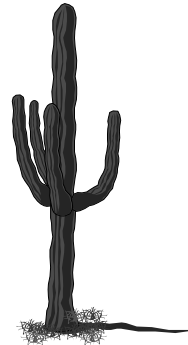
*annual maximum amount

Employee Dishonesty and Computer/Wire Fraud Coverage	
Employee Dishonesty Coverage - All City Employees	\$5,000,000 annual maximum amount
Computer/Wire Fraud Coverage - Accounting Staff With Wire Transfer Authority	\$5,000,000 annual maximum amount

Source: City of Scottsdale Financial Services Department

Date of Incorporation - **June 25, 1951**
Date Charter Adopted - **November 16, 1961**
Form of Government - **Council/Manager**

Population	
1950 Census	2,032
1960 Census	10,026
1965 Special Census	54,504
1970 Census	67,823
1975 Special Census	78,065
1980 Census	88,412
1985 Census	108,447
1990 Census	130,069
1995 Census	168,176
2000 Census	202,705
2002 Est. 6/30/02	215,320
2003 Est. 6/30/03	218,940
2004 Est. 6/30/04	222,600



Area (Square Miles)	
1951	.62
1961	8.80
1970	62.20
1975	85.80
1979	88.60
1982	113.60
1986	183.60
1987	184.00
1988	184.60
1990	184.60
2000	184.60
2001	184.60
2002	184.60
2003	184.60
2004	184.60

Miles of Sewers

Storm 137.7
 Sanitary..... 1,280.5

Fire Protection

Number of Stations 12

The City of Scottsdale has no fire employees but contracts with Rural/Metro Corporation to provide fire service to all residents.

Police Protection

Number of Employees 591
 Number of Traffic Charges (Excluding parking and Criminal) 34,777
 Number of Photo Radar Citations (Began Photo Radar in Jan. 1997) 36,021
 Number of Vehicles..... 286

The City jail is a holding facility. All long-term prisoners are incarcerated in the County jail.

Recreation

Parks - Developed parks acreage 849
 Number of Swimming Pools 3
 Number of Other Recreation Facilities 60

These include schools and school playgrounds in cooperation with Scottsdale Unified School District and Paradise Valley School District.

Water Enterprise

Number of Water Customers..... 83,359
 Annual Consumption (Gallons)..... 21,904,681,773
 System Capacity (Gallons Per Day) 146,609,280
 Miles of Distribution Lines 1,854.3

Number of Streetlights 10,500

Employees as of June 30, 2004

Full-Time..... 1,839
 Part-Time..... 406
 Grant and Trust funded – (# is included in full/part-time totals) 13
 Total 2,245

Elections

Number of registered voters as of last general election, March 2004 116,221
 % of registered voters voting in last general election, March 2004 31.28%

Population

Median Age of Residents (est. 6/30/04) 42.1
 Median Household Income (est. 6/30/04)..... \$66,600
 Median Home Value - Single Family (est. 6/30/04)..... \$278,800

Source: City of Scottsdale Financial Services Department