City of Scottsdale, Arizona

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2003

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Financial Services Department

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City of Scottsdale, Arizona

Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2003
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Transmittal Letter

For the Fiscal Year Ended June 30, 2003

City of Scottsdale
Scottsdale, Arizona

September 12, 2003

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, 2003, 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 of the 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 that, to the best of our knowledge and belief, 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, 2003, 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, 2003, 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 require 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 was 130,069. The population grew to 168,176 in October 1995 and is estimated to grow to approximately 216,640 by January 2003 and an estimated 221,033 by January 2004.

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 unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20. During 2002/03, 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 this transmittal letter was written, the national and state leading economic indicators continued to fluctuate, underscoring a tenuous economic recovery. Some factors hinting at the prospects of better economic growth include slowly rising consumer confidence, modest increases in retail sales, a $330 billion dollar federal tax stimulus package, low interest rates, and a weakened dollar creating enhanced opportunities for the export of US goods. However, factors suggesting a tepid economic recovery include a poor labor market, rising unemployment, declining factory orders, and a lack of pent-up consumer demand for big ticket items due to 30-year historic lows in mortgage rates and zero-percent financing incentives on motor vehicles.

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, declining mortgage interest rates and the attractive developments within Scottsdale continue to bring high-end residential growth and commercial development. Commercial successes, such as Scottsdale Airpark, 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, demands on Social Security as baby-boomers near retirement, and an upcoming presidential election. On the local front, the City of Scottsdale will face critical decisions regarding redevelopment and in-fill projects as the City reaches build out; a gradual decline in population growth, which will impact distributions of state-shared revenues; 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. 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. For the second consecutive year, the City of Scottsdale sales tax posted negative year-over-year growth in FY 2002/03, declining approximately 0.6 percent. This decline is approximately half a percent less than the 1.0 percent decrease in FY 2001/02. During FY 2002/03, shaky consumer confidence, rising unemployment, declining factory orders, and the Iraqi war all contributed to the continued economic doldrums. Of positive note, certain sales tax categories exhibited growth in FY 2002/03, including food stores up 3.2 percent, major department stores up 5.0 percent, and restaurants up 5.2 percent from the previous year.

Residential Activity - Residential property value in Scottsdale increased to $19.2 billion in FY 2002/03, up approximately 5.5 percent from $18.2 billion in FY 2001/02. The number of dwelling units for residential construction increased slightly to 2,046 in FY 2002/03, up approximately 1.3 percent from 2,019 in FY 2001/02; respective residential construction value decreased to $400.5 million in FY 2002/03, down approximately 11.7 percent from $453.4 million in FY 2001/02.

Commercial Activity - Commercial property value in Scottsdale increased to $7.3 billion in FY 2002/03, up approximately 9.0 percent from $6.7 billion in FY 2001/02. The number of commercial construction permits decreased to 2,215 in FY 2002/03, down approximately 10.1 percent from 2,464 in FY 2001/02; respective commercial construction value decreased to $199.2 million in FY 2002/03, down approximately 19.5 percent from $247.4 million in FY 2001/02.

Vacancy Rates - Scottsdale's citywide vacancy rate was 16 percent at the end of FY 2002/03, which was below the Valley-wide average. The weighted average rent was 8.6 percent higher than the Valley-wide average, evidence that Scottsdale remains an attractive city to conduct business. The forecasted vacancy rate for FY 2003/04 indicates improvement, in line with more positive economic outlook.

Job Growth - The City of Scottsdale recruited over 20 new target firms resulting in over 2,000 new jobs in FY 2002/03 with an average annual salary of $62,000. 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 FY2002/03 include DHL Worldwide Express, Spectrum Financial Group, National Bank of Arizona-Corporate Headquarters, Del Webb Group, Atronic Americas, and Centex Homes.

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 3.7 percent is lower than state and metropolitan Phoenix area levels and is lower than its 2002 unemployment rate of 4.0 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. 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 slightly by approximately 0.1 percent in FY 2002/03 compared to almost a 11.8 percent decrease in FY 2001/02. The current assessment is that tourism will remain flat during the remaining summer months with a modest recovery beginning during peak season. The local tourism industry continues to exhibit signs of moderate recovery as leisure and business travelers return to Scottsdale; however, hotel room rates remain soft 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 historical 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. Despite actual FY 2002/03 revenues that lagged behind adopted budget estimates, the City recognized the trend early enough to cut expenditures without affecting services. 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. Council's approvals of these Mission and Goal statements enable 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 2003/04 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, due to the tenuous economic recovery, Scottsdale's financial forecast includes very modest revenue growth, potential for State reductions of revenue sharing, 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, 2008 (In Thousands of Dollars)

Community Facilities	$ 11,048.0
Preservation	153.4
Public Safety	4,194.2
Service Facilities	3,160.3
Transportation Improvements	10,625.9
Water Resources	12,241.5
Total Estimated Operating Impacts	$ 41,423.3

Debt Management - Scottsdale has a financial policy that prohibits the issuance of debt for operating expenses. All debt issuances by the City; therefore, are used for financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated against multiple financial policies, including 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. For each debt issuance, a long-term analysis is performed of the financial (debt) capacity that fits the ability and willingness of the community to pay for the capital projects. Every additional $1 million in new debt costs just under $100,000 in annual debt service operating expenses when amortized over 20 years. Sizing of the City's Capital Improvement 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

Temporarily idle cash during the year, excluding the Municipal Property Corporation (MPC) and the Community Facilities Districts, was primarily invested in obligations of the United States Treasury and its agencies. Cash needed for normal operations was also invested in the State Treasurer's Local Government Investment Pool, as well as mutual funds consisting solely of United States 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 FY 2002/03 was 2.9 percent and the average balance was $454.6 million.

The City of Scottsdale's investment policy requires investment of the City funds at the highest available interest rate while 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. During the fiscal year ending June 30, 2003, there was significant reduction in excess liability insurance coverage limits due to a very restricted and expensive global insurance marketplace, due in large part to the terrorist attacks of September 11, 2001. As a result, overall liability coverage limits were reduced from a total of $75 million to $30 million to stay within budget. 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.

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 of Scottsdale 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 100 percent cash value of their current pay rate. Employees hired before July 1, 1982 can elect to receive cash equal to 50 percent of the first 520 hours of unused medical leave plus 25 percent of all hours in excess of 520 hours. The conversion rate is the employee's average hourly base pay rate for the 5 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 to 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 FY 2002/03 was 75 and is expected to grow as more employees reach retirement age. The projected liability for this benefit was actuarially determined on January 1, 2003 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 2002/03, 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 2002/03.

Police

Implemented a new photo enforcement contract with Digital Camera Systems in 4 speed enforcement vehicles and 6 red light camera systems, thereby continuing the Focus On Safety program to reduce vehicle accidents.

Opened the Family Advocacy Center to serve as a multidisciplinary facility for victims of child abuse, sexual assault, domestic violence, and elder abuse. The facility provides a place where victims in crisis receive a full spectrum of services in a victim friendly environment, thereby reducing victim trauma.

The Department's Crime Scene Unit was the first unit in Arizona to achieve national accreditation from the American Society of Crime Laboratory Directors' Laboratory Accreditation Board. Only about 12 other accredited crime scene units throughout the country have received this prestigious accreditation.

Implemented an Internet reporting system that offers victims of certain crimes with an easier and more efficient means of filing a police report.

Fire

Completed construction and manned two new City fire stations located at 16701 North 100th Street (Station 817) and 27777 North Alma School Road (Station 818). The new permanent facility for the Scottsdale Airport (Station 812) is under construction and will be open this fiscal year. Another fire station (Station 827) will be located on the northwest corner of Pima and Ranch Roads.

All first responding fire units were equipped with new portable thermal imaging cameras which are some of the most technologically advanced firefighting tools available. Thermal imaging cameras allow firefighters to "see" heat through walls and smoke-filled rooms making it much quicker and easier to find trapped persons or to locate the source of a hidden fire.

Financial Services

The three major credit rating agencies, Fitch Ratings, Moody's Investors Service, and Standard and Poor's Ratings Services, have assigned ratings of "AAA", "Aaa", and "AAA" respectively on outstanding general obligation bonds. These are the highest possible ratings.

Issued $72 million of General Obligation refunding bonds to take advantage of low interest rates and the City's high credit ratings. This resulted in $3.2 million debt service savings.

Transportation

Scottsdale's first Systematically Managed Arterial (SMART) roadway along Indian School Road became operational in August 2002.

Five Traffic Impact Mitigation Analyses were completed under the develop-funded/City-controlled program to uniformly assess the impact of development on the City's circulation system.

Community Services

Completed the renovation of Eldorado Aquatic and Fitness Center. This $5.4 million project added a new pool facility with slide, beach entry, therapy pool and 13 lap lanes. A 1,200 square foot fitness facility was also added to this southern neighborhood amenity.

Completed Sonoran Hills Neighborhood Park adjacent to Paradise Valley School District Pinnacle Peak School. Amenities include: tennis courts, one unlit ball field, playground, and picnic facilities.

Completed the Scottsdale Ranch Park Desert Garden, the last remaining parcel at Scottsdale Ranch Park. A $250,000 Arizona Heritage Grant and a $190,000 donation from the Scottsdale Ranch Community Association helped to fund this unique and welcomed project.

Installed PC Reservation System, an automated system for time management and reservation of public computers, in all four libraries. This system impartially manages and monitors usage and provides excellent statistics on computer usage for 125 public access computers in the library system, as well as freeing staff to work with library customers.

Information Systems

Completed an external evaluation of the City's current technology position and strategic plan.

Implementation of the Police Incident Reporting Program (PIRP) – This program utilizes a mobile police reporting system that facilitates electronic compilation of police reports, thereby replacing manual/paper processes. Benefits include improved data quality and simplified report editing. PIRP will be deployed in over 150 police vehicles.

Implementation of a mobile asset management system for Water Resources - This application automates processes surrounding water-related customer service requests, preventative maintenance, work scheduling, and map retrieval/display. Deployment will encompass over 50 Water Resources service vehicles.

Security Enhancements - This effort included migration of the City's computing environment to a new state-of-the-art suite of virus software. This new environment provides the City with three new levels of security against computer viruses. In addition, a number of new security enhancements were implemented, including strengthened passwords, increased desktop security, intrusion monitoring and alert systems, and ongoing organizational outreach with City staff regarding the importance of security.

Planning and Development Services

The 6-month Downtown Fee Reduction program resulted in 31 properties receiving fee discounts. This program was implemented to assist downtown property owners in financing renovation projects. Additionally, Staff proactively assisted 98 properties with researching and scheduling proposed revitalization and renovation projects. This focused approach is designed to provide downtown property owners with one-on-one support for any and all questions related to downtown reinvestment.

The Current Planning Division converted the Planning Commission agenda packets to an electronic format and posted them to the City's web site for greater community access. The Development Review Board and Board of Adjustment packets will also be making the transition to the electronic packet format, resulting in continued enhanced community awareness.

To further enhance customer service, the Department provided After-Hours Inspections and an Expedited Review process. Revenues from the After-Hours Inspections totaled $13,468 and revenues from the Expedited Review process totaled $321,693. 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.

Preservation

Acquired an additional 322 acres for inclusion in the McDowell Sonoran Preserve.

Applied to purchase 399 acres of State Trust land within the planned McDowell Sonoran Preserve. This property was reclassified by the State Land Commissioner as suitable for conservation under the Arizona Preserve Initiative. Acquisition is pending for FY 2003/04.

Water Resources

The City of Scottsdale increased the use of surface water used to meet potable water demands from slightly over half of demand (53%) to over two-thirds (67%) of water supplied in 2002 and reduced reliance on groundwater.

Design of the $60 million Chaparral Water Treatment Plant has been completed. Upon completion of the public bidding process, construction is expected to begin in November 2003, with completion scheduled for January 2006. This plant will utilize advanced technology to provide high quality drinking water to the southern neighborhoods of the City.

Water Resources completed the federally mandated Vulnerability Assessment of the water system in March 2003. This assessment identified potential areas for improving the security of the system. In order to complete the Assessment, the Department obtained a $115,000 grant from the USEPA which was used to retain a professional consultant who assisted in completing the assessment.

Municipal Services

Completed numerous capital improvement projects including: Pima Road Water Transmission Main – Pinnacle Peak Road to Cave Creek Road – a multiple construction

contract project involving the construction of large diameter potable water mains, pump station and reservoir expansions spanning a total length of nine miles and requiring a total budget of approximately $24 million. Completion of this project enables the City to distribute treated surface water to all northern areas and eliminates the need for constant pumping of dwindling groundwater resources.

Issued a contract to provide required data and collection services to complete the City's development of a state-of-the-art pavement management system. All commuter-class streets will be surveyed and analyzed for current condition and maintenance needs with information available through sophisticated technology, which will enable development of cost-effective, annual maintenance plans and budgets.

Fleet management completed deployment of a new fuel management system. The new system can calculate total cost per mile and miles per gallon for individual vehicles, provide exception reporting, initiate fuel reordering, and reconcile fuel usage with inventory levels. The final product is improved accountability and better environmental health reporting.

The Green Waste Pilot Program diverted 5,665 tons of green waste material from the landfill to a mulching program. This represents 38.3 percent of the brush and bulk items collected. A formal agreement for this program is anticipated in FY 2003/04.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada 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, 2002. This was the 30th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, which must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. This Certificate of Achievement is rewarded on a yearly basis. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting this year's CAFR to the GFOA to determine its eligibility for another Certificate of Achievement.

The City of Scottsdale received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2002 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, 2003. In addition the City's AAA ratings from all three rating agencies on uninsured general obligation bonds as provided above were affirmed by the rating agencies in September 2003 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, 2002

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, 2003

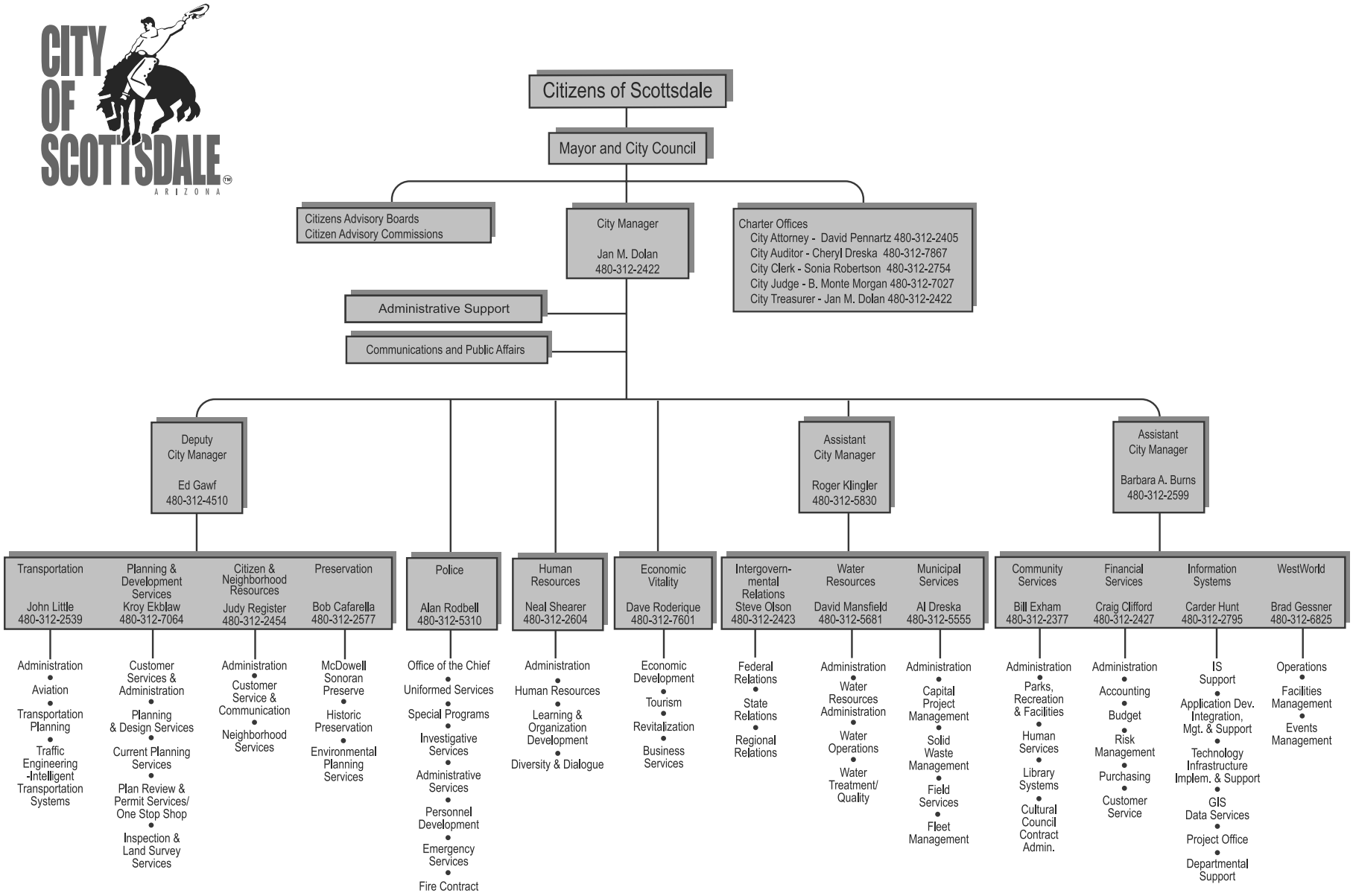
City of Scottsdale
Scottsdale, Arizona

City of Scottsdale, Arizona
List of Elected and Appointed Officials

City Council
Mary Manross, Mayor
Ned O'Hearn, Vice Mayor
Wayne Ecton
Robert W. Littlefield
Cynthia Lukas
David Ortega
Tom Silverman

Charter Offices
David Pennartz, City Attorney
Cheryl Dreska, City Auditor
Sonia Robertson, City Clerk
B. Monte Morgan, City Judge
Jan Dolan, City Treasurer

Administrative Staff
Jan Dolan, City Manager
Barbara A. Burns, Assistant City Manager
Ed Gawf, Deputy City Manager
Roger Klingler, Assistant City Manager


CITY OF SCOTTSDALE
ARIZONA
Citizens of Scottsdale
Mayor and City Council
Citizens Advisory Boards
Citizen Advisory Commissions
City Manager
Jan M. Dolan
480-312-2422
Charter Offices
City Attorney - David Pennartz 480-312-2405
City Auditor - Cheryl Dreska 480-312-7867
City Clerk - Sonia Robertson 480-312-2754
City Judge - B. Monte Morgan 480-312-7027
City Treasurer - Jan M. Dolan 480-312-2422
Administrative Support
Communications and Public Affairs
Deputy City Manager
Ed Gawf
480-312-4510
Assistant City Manager
Roger Klingler
480-312-5830
Assistant City Manager
Barbara A. Burns
480-312-2599
Transportation
John Little
480-312-2539
Planning & Development Services
Kroy Ekblaw
480-312-7064
Citizen & Neighborhood Resources
Judy Register
480-312-2454
Preservation
Bob Cafarella
480-312-2577
Police
Alan Rodbell
480-312-5310
Human Resources
Neal Shearer
480-312-2604
Economic Vitality
Dave Roderique
480-312-7601
Intergovern-mental Relations
Steve Olson
480-312-2423
Water Resources
David Mansfield
480-312-5681
Municipal Services
Al Dreska
480-312-5555
Community Services
Bill Exham
480-312-2377
Financial Services
Craig Clifford
480-312-2427
Information Systems
Carder Hunt
480-312-2795
WestWorld
Brad Gessner
480-312-6825
Administration • Aviation • Transportation Planning • Traffic Engineering -Intelligent Transportation Systems
Customer Services & Administration • Planning & Design Services • Current Planning Services • Plan Review & Permit Services/ One Stop Shop • Inspection & Land Survey Services
Administration • Customer Service & Communication • Neighborhood Services
McDowell Sonoran Preserve • Historic Preservation • Environmental Planning Services
Office of the Chief • Uniformed Services • Special Programs • Investigative Services • Administrative Services • Personnel Development • Emergency Services • Fire Contract
Administration • Human Resources • Learning & Organization Development • Diversity & Dialogue
Economic Development • Tourism • Revitalization • Business Services
Federal Relations • State Relations • Regional Relations
Administration • Water Resources Administration • Water Operations • Water Treatment/ Quality
Administration • Capital Project Management • Solid Waste Management • Field Services • Fleet Management
Administration • Parks, Recreation & Facilities • Human Services • Library Systems • Cultural Council Contract Admin.
Administration • Accounting • Budget • Risk Management • Purchasing • Customer Service
IS Support • Application Dev. Integration, Mgt. & Support • Technology Infrastructure Implem. & Support • GIS Data Services • Project Office • Departmental Support
Operations • Facilities Management • Events Management

July 2003