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

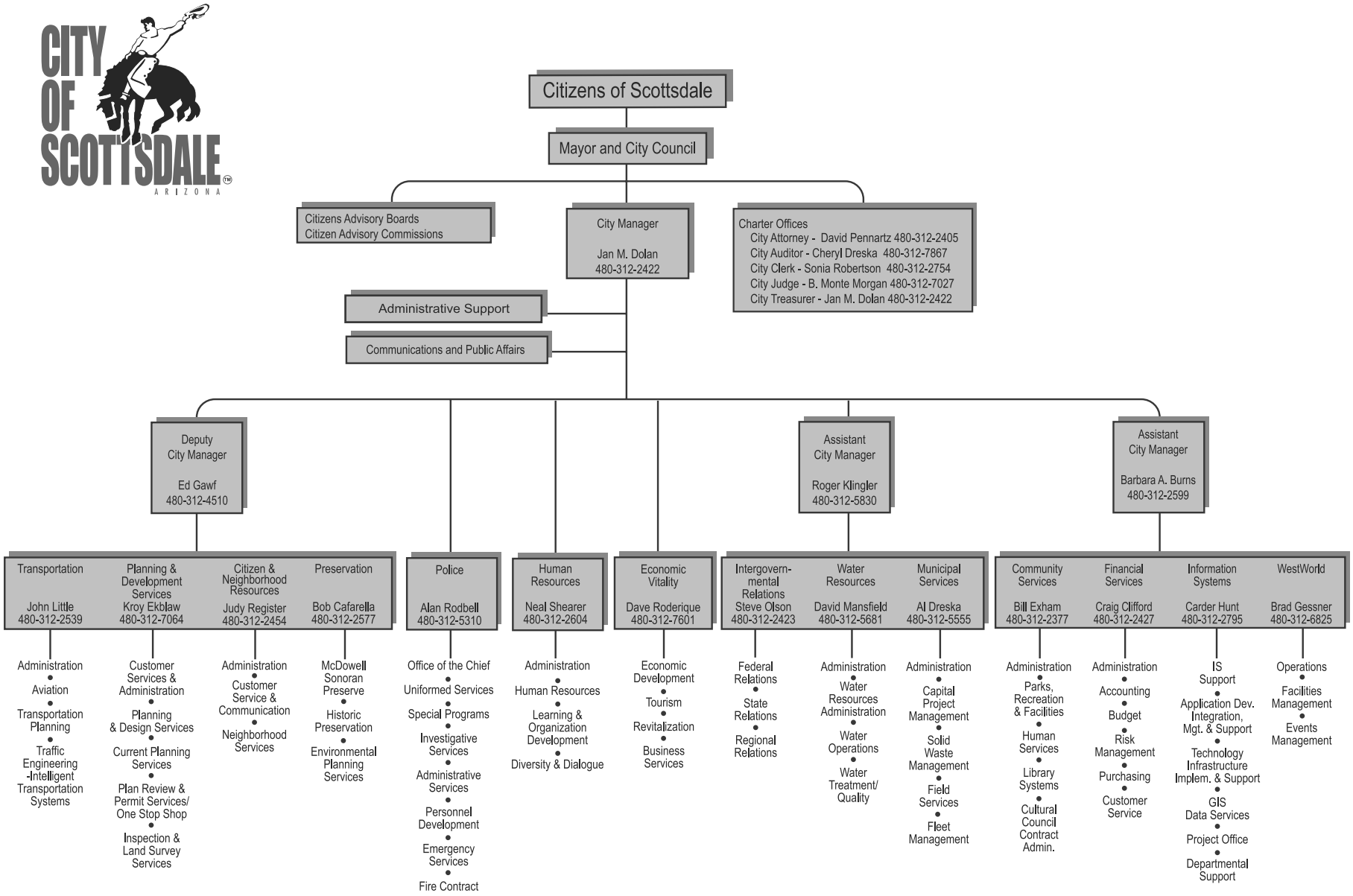
City of Scottsdale
Scottsdale, Arizona

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

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, 2003, 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, 2003, 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, 2003, 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. 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, 2003, 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.

8706 EAST MANZANITA DRIVE, SUITE 100 ▪ SCOTTSDALE, ARIZONA 85258 ▪ (480) 348-1102 ▪ FAX (480) 348-1104
A PROFESSIONAL CORPORATION

The management's discussion and analysis on pages 15 through 29 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 88 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 12, 2003 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 12, 2003

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, 2003 and 2002. 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 2003 and 2002 by $2.6 billion and $2.5 billion (net assets), respectively. Of these amounts, $346.2 million and $328.4 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 $96.0 million and $127.3 million during fiscal years 2003 and 2002, respectively.

As of June 30, 2003 and 2002, the City's governmental funds reported combined ending fund balances of $270.9 million and $283.6 million, respectively. The decrease is primarily due to the capital spending of bond proceeds received in fiscal year 2002. Approximately 94.2 percent of the fund balance at June 30, 2003, $255.2 million, is unreserved fund balance available for spending at the government's discretion, compared to $268.7 million at June 30, 2002. However, in fiscal year 2003 management has designated $58.4 million of the unreserved fund balance for various uses.

At the close of the current fiscal year, unreserved fund balance for the General Fund was $71.2 million or 42.0 percent of total General Fund expenditures of $169.7 million. At the close of fiscal year 2002, unreserved fund balance for the General Fund was $74.4 million or 45.1 percent of total General Fund expenditures of $164.0 million.

During fiscal year 2003, the City's total bonded debt decreased by approximately $25.5 million, in contrast to the increase of approximately $52.5 million in fiscal year 2002. Although the City completed several refunding transactions, the key contributor to the decrease was normal debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

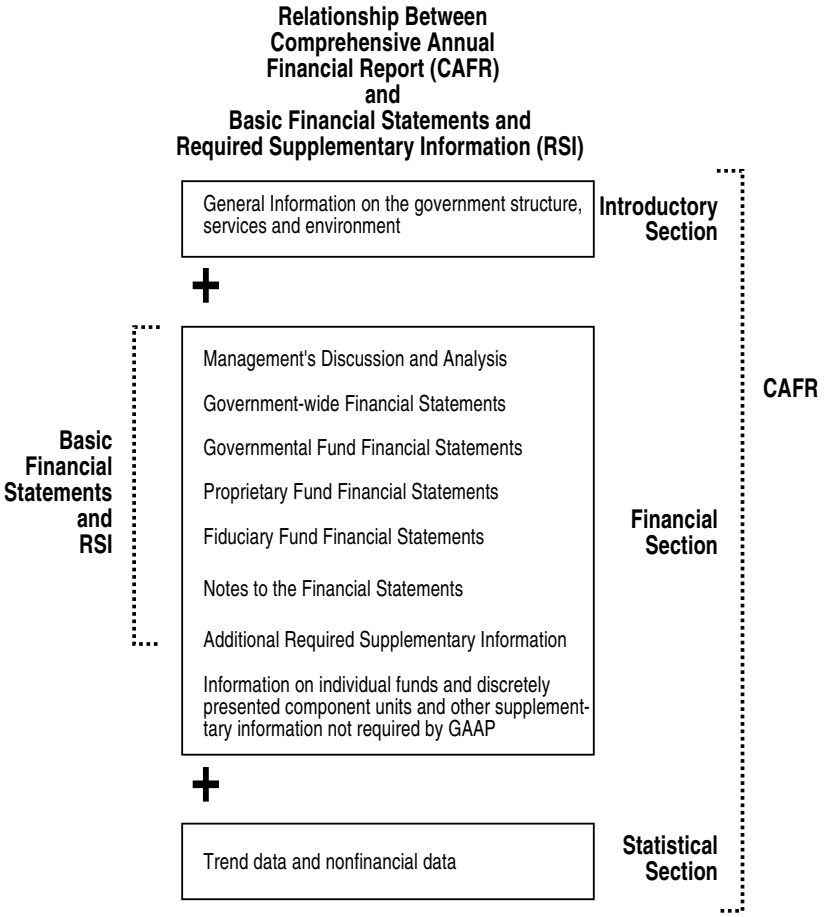
This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

(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 32 and 33 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 $2.6 billion and $2.5 billion at the close of the fiscal years 2003 and 2002, respectively.

The largest portion of the City's net assets reflects its investment of $2.15 billion (81.7 percent) and $2.06 billion (81.1 percent) in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets, for the fiscal years 2003 and 2002, 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, it should be noted that 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, 2003 and 2002 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and other assets	$ 384,223	$ 387,530	$ 227,423	$ 210,073	$ 611,646	$ 597,603
Capital Assets	2,023,879	1,977,725	754,640	741,373	2,778,519	2,719,098
Total Assets	2,408,102	2,365,255	982,063	951,446	3,390,165	3,316,701
Liabilities						
Long-term liabilities outstanding	562,122	552,788	96,855	96,300	658,977	649,088
Other liabilities	75,161	96,781	23,210	34,017	98,371	130,798
Total Liabilities	637,283	649,569	120,065	130,317	757,348	779,886
Net Assets						
Invested in capital assets, net of related debt	1,492,879	1,429,495	659,130	629,106	2,152,009	2,058,601
Restricted	117,801	133,460	16,721	16,399	134,522	149,859
Unrestricted	160,139	152,731	186,147	175,624	346,286	328,355
Total Net Assets	1,770,819	1,715,686	861,998	821,129	2,632,817	2,536,815
Total Liabilities and Net Assets	$ 2,408,102	$ 2,365,255	$ 982,063	$ 951,446	$ 3,390,165	$ 3,316,701

An additional portion of the City's net assets, $134.5 million (5.1 percent) for fiscal year 2003 and $149.8 million (5.9 percent) for fiscal year 2002 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2003 and 2002, $346.3 million (13.2 percent) and $328.4 million (12.9 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

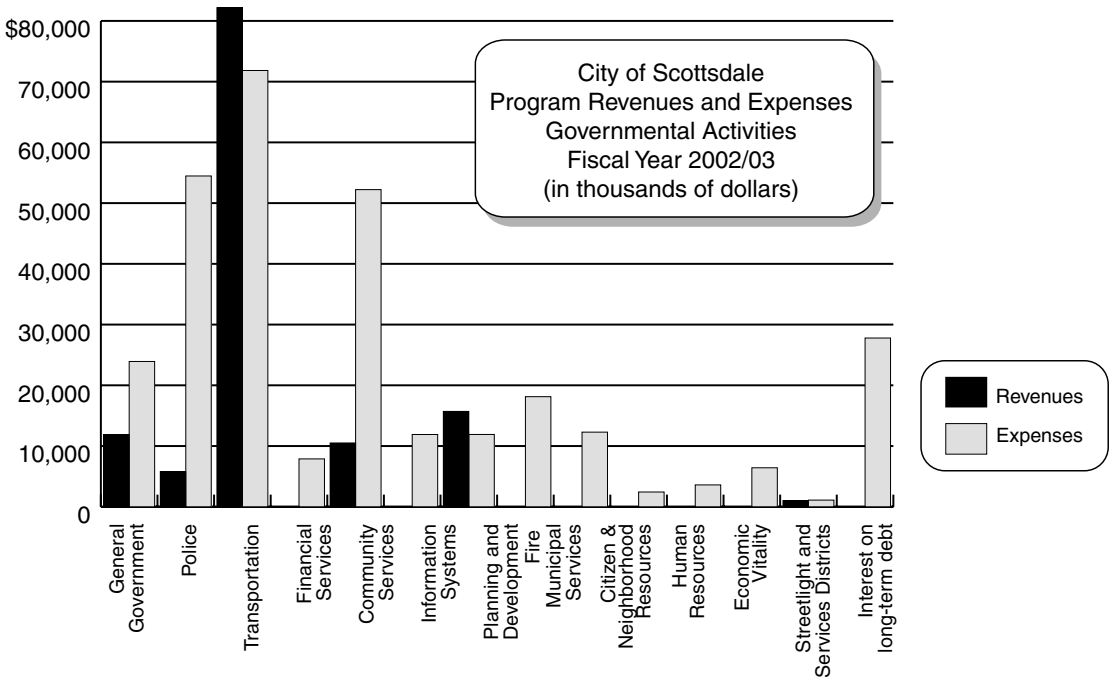
The City's total net assets increased by $96.0 million and $127.2 million during the fiscal years 2003 and 2002, respectively. These increases are explained in the government and business-type activities discussion herein, and are primarily a result of contributions from developers of infrastructure assets.

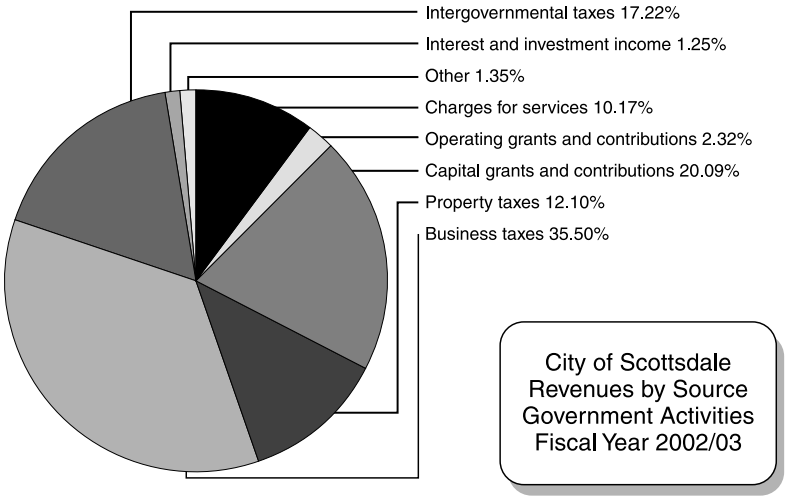
Changes in Net Assets
For the Years Ended June 30, 2003 and 2002 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues:						
Charges for Services	$ 35,501	$ 36,954	$ 110,616	$ 109,566	$ 146,117	$ 146,520
Operating Grants and Contributions	21,219	9,626	-	-	21,219	9,626
Capital Grants and Contributions	70,369	77,412	28,487	38,733	98,856	116,145
General Revenues:						
Property Taxes	42,218	39,485	-	-	42,218	39,485
Business Taxes	124,935	127,620	-	-	124,935	127,620
Intergovernmental Taxes	46,971	57,492	-	-	46,971	57,492
Interest and Investment Income	4,108	11,485	1,493	5,820	5,601	17,305
Other	4,718	5,213	1,672	-	6,390	5,213
Total Revenues	350,039	365,287	142,268	154,119	492,307	519,406
Expenses						
General Government	$ 23,926	$ 26,982	$ -	$ -	$ 23,926	$ 26,982
Police	54,469	52,719	-	-	54,469	52,719
Financial Services	7,883	7,464	-	-	7,883	7,464
Transportation	71,837	72,159	-	-	71,837	72,159
Community Services	52,222	53,325	-	-	52,222	53,325
Information Systems	11,901	10,821	-	-	11,901	10,821
Fire	18,127	16,494	-	-	18,127	16,494
Municipal Services	12,290	11,482	-	-	12,290	11,482
Citizen and Neighborhood Resources	2,433	2,484	-	-	2,433	2,484
Human Resources	3,601	-	-	-	3,601	-
Economic Vitality	6,421	-	-	-	6,421	-
Planning and Development	11,908	18,269	-	-	11,908	18,269
Streetlight and Services Districts	1,099	1,044	-	-	1,099	1,044
Interest on Long-term Debt	27,786	28,063	-	-	27,786	28,063
Water Utility	-	-	50,406	51,125	50,406	51,125
Sewer Utility	-	-	22,862	24,007	22,862	24,007
Airport	-	-	2,476	2,648	2,476	2,648
Solid Waste	-	-	13,783	14,071	13,783	14,071
Total Expenses	305,903	301,306	89,527	91,851	395,430	393,157
Increase in Net Assets Before Special Items and Transfers	44,136	63,981	52,741	62,268	96,877	126,249
Gain/(Loss) on Sale of Capital Asset	42	234	(917)	874	(875)	1,108
Transfers	10,955	6,223	(10,955)	(6,289)	-	(66)
Increase in Net Assets	55,133	70,438	40,869	56,853	96,002	127,291
Net Assets at Beginning of Year	1,715,686	1,645,248	821,129	764,276	2,536,815	2,409,524
Net Assets at End of Year	$ 1,770,819	$ 1,715,686	$ 861,998	$ 821,129	$ 2,632,817	$ 2,536,815

Governmental activities. Governmental activities increased the City's net assets by $55.1 million in fiscal year 2003 and $70.4 million in fiscal year 2002, thereby accounting for 57.4 percent and 55.3 percent, respectively, of the total growth in the net assets of the City. Key factors of this increase are as follows:

- For the second consecutive year, City sales tax posted negative year-over-year growth in the 2003 fiscal year. However, property taxes were up 6.9 percent and 4.6 percent, respectively, over the previous year. In preparation for the revenue decrease, the City placed spending limitations and restrictions on all departments to help ensure that total net assets did not decline.

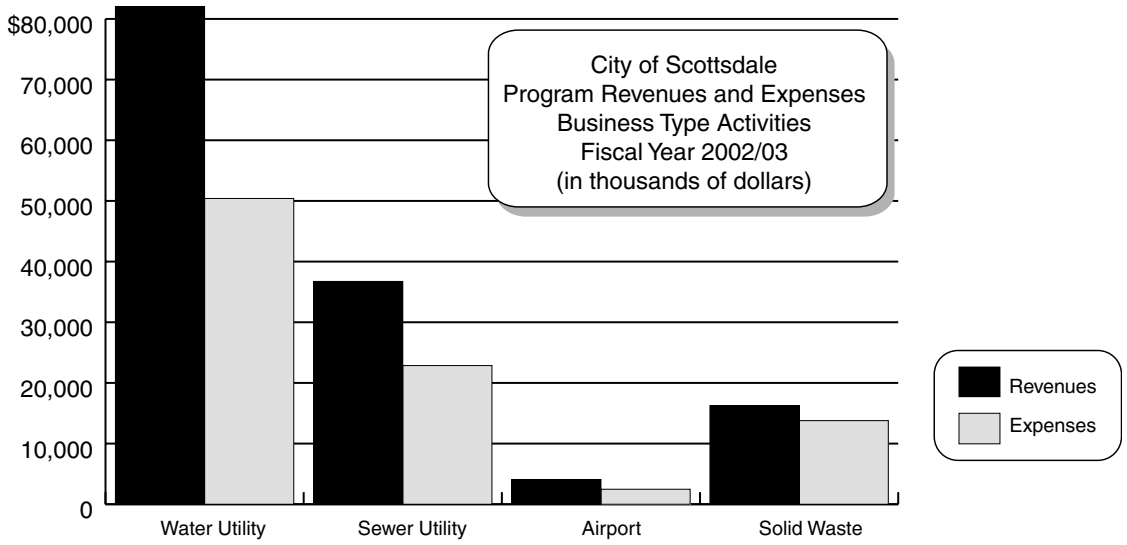


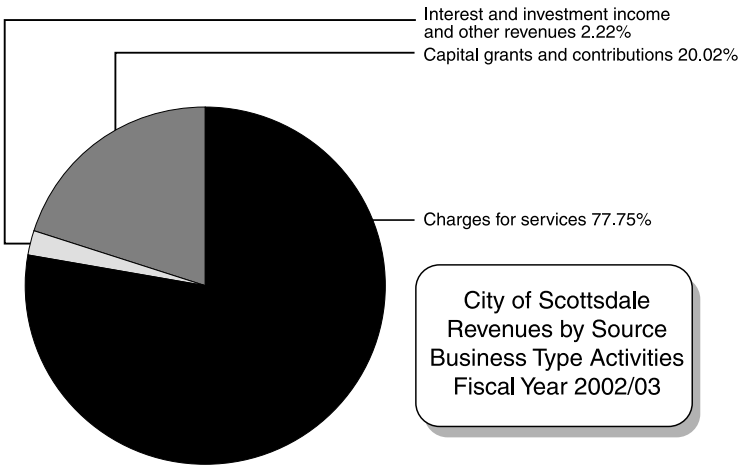


As shown in the "Program Revenues and Expenses for Governmental Activities" chart and the "Revenues by Source for Governmental Activities" chart, transportation is the largest function in expense (23.5 percent), followed by police (17.8 percent), and community services (17.1 percent). General revenues 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 (35.7 percent), followed by capital grants and contributions (20.1 percent), and intergovernmental taxes (13.4 percent).

Business-type activities. Business-type activities increased the City's net assets in fiscal years 2003 and 2002 by $40.9 million and $56.8 million, respectively, accounting for 42.6 percent and 44.7 percent, respectively, of the total growth in the City's net assets. Key factors of this increase are as follows:

- The Water and Sewer Utility Fund had capital contributions from developers and grantors resulting in $26.8 million and $35.8 million in revenue for fiscal years 2003 and 2002, respectively. The majority of this amount is from infrastructure donated from developers and development fees received as development continues throughout the City.





- The Airport Fund had capital contributions from grantors resulting in $1.6 million and $3.0 million in revenue for fiscal years 2003 and 2002, respectively. The majority of this amount is airport improvements financed by state and federal grants.
- The Solid Waste fund had increase in net assets in 2003 and 2002 of $1.4 million and $1.3 million, respectively. Operating expenses for the same periods stayed relatively constant at $13.7 million and $13.9 million, respectively. However, revenues increased from $15.8 million to $16.3 million from the fiscal year 2002 to 2003, a 3.2 percent increase. Although rates for solid waste services were unchanged from fiscal year 2002 and 2003, the number of homes and business continues to grow as the population increases.

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 in excess of $50.4 million and $22.9 million, respectively, in fiscal year 2003, followed by Solid Waste with operating expenses of $13.7 million. For the fiscal year, revenues exceeded expenses in all four areas of business activity. Fees provided the largest share of revenues (77.8 percent) followed by capital grants and contributions (20.0 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 $270.9 million, a decrease of $12.7 million in comparison to fiscal year 2002. The combined ending fund balances for fiscal year 2002 were $283.6 million. The decrease in the current year's fund balance is primarily due to the capital spending of bond proceeds received in fiscal year 2002. Approximately $255.2 million of the total for fiscal year 2003 and $268.7 million of the total for fiscal year 2002 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 ($13.7 million and $12.8 million for fiscal years 2003 and 2002, respectively); (2) for the repayment of a long-term loan from another fund ($1.2 million and $1.1 million for fiscal years 2003 and 2002, respectively) or; (3) to pay for the ongoing cost of the streetlight and services districts ($801,000 and $882,000 for fiscal years 2003 and 2002, respectively).

Revenues for governmental functions overall totaled approximately $285.1 million and $289.9 million in the fiscal years ended June 30, 2003 and 2002, respectively, which represents a decrease of 1.7 percent ($4.8 million) and 2.4 percent ($7.2 million), respectively, from the previous years. In fiscal year 2003 expenditures for governmental functions, totaled $327.0 million, an increase by 3.4 percent ($10.7 million) over the fiscal year 2002 total of $316.4 million. In the fiscal years ended June 30, 2003 and 2002 expenditures for governmental functions exceeded revenues by approximately $41.9 million (14.7 percent) and $26 million (9.1 percent), respectively. Increases in the deficit from 2002 to 2003 were caused by decreased interest earnings, federal grants and miscellaneous revenue as well as an increase in police, fire and debt service principal expenditures. 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 $71.2 million, while total fund balance was $73.2 million. The unreserved and total balances for the General Fund at the end of fiscal year 2002 were $74.4 million and $76.4 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 42.0 percent of the total General Fund expenditures of $169.7 million in fiscal year 2003 and 45.4 percent of the total General Fund expenditures of $163.9 million in fiscal year 2002. The total fund balance represents 43.1 percent and 46.6 percent of those same amounts for fiscal years 2003 and 2002, respectively. In fiscal year 2003 management has designated $58.4 million of the General Fund unreserved fund balance for various uses.

For the second consecutive year the fund balance in the City's General Fund decreased. The decrease in fiscal year 2003 by $3.1 million is mainly due to the funding of the pay-as-you-go Capital Improvement Plan and decreased revenues due to the current economy and was offset by spending restrictions placed on all departments during the year. Overall, the General Fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2003, of $27.3 million, an increase of 85.7 percent over the comparable figure from the prior year of $14.7 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 $9.0 million relatively unchanged from the previous year. The fund balance at the end of fiscal year 2002 was $8.4 million. During the fiscal year, the City issued $72,000,000 of General Obligation Refunding Bonds, Series 2002, (advance refunding) dated September 26, 2002, with an average interest rate of 4.5%, to refund $71,510,000 of Series 1992, 1993, 1994, 1995, 1997, 1998, 1999, 1999A and 2001 General Obligation and Preservation Bonds with an average interest rate of 4.92%. The City will reduce its total debt service payments over the next 22 years by approximately $3,218,584 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $611,585.

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 $81.2 million. The fund balance at the end of fiscal year 2002 was $72.5 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. The increase in funding was offset by increased spending for capital projects. Capital Improvement expenditures in 2003 and 2002 were $32.3 million and $23.1 million, respectively, an increase of 39.6 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 2003 and 2002, the unrestricted net assets for the Water and Sewer Utility were $181.5 million and $171.8 million, respectively; Scottsdale Airport were $100,000 and $459,000, respectively; and the Solid Waste Utility Fund $4.5 million and $3.3 million, respectively. The Internal Service Funds, which are used to account for certain governmental activities also had unrestricted net assets of $16.6 million and $19.8 million, respectively.

The total growth in net assets for the Enterprise Funds was $40.9 million and $56.8 million for fiscal years 2003 and 2002, 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 $38.4 million due to capital contributions of $26.8 million and increased water and sewer fees of $3.3 million.

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 2003, the net assets of the Scottsdale Memorial

Hospital Trust Fund totaled $695,000, representing a decrease of $33,000 in total net assets since June 30, 2002. 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 2003, the slight increase in expenditure budgets was offset by an increase in revenue budgets, thereby maintaining an excess of revenues over expenditures for the year. Net budget increases for expenditures by department totaled $1.1 million compared to a net budget decrease of expenditures in fiscal year 2002 of $3.4 million. The net increase is defined as follows:

$41,000 ..... General Government
$109,000 ..... Financial Services
$821,000 ..... Police
$236,000 ..... Community Services
($1,000) ..... Fire
($3,000) ..... Citizen & Neighborhood Resources
($86,000) ..... Economic Vitality

Net budget increases for revenues of $6.7 million were due to the addition of the following revenue, not previously budgeted for in the General Fund. This revenue was previously reported in the Highway User Revenue Fund:

$6,700,000 ..... Auto Lieu Tax

During the year, actual revenues and other resources fell short of budgetary estimates by $3.6 million compared to a shortage of $17.8 million in fiscal year 2002. The City was able to adjust revenue estimates for the 2003 budget year due to observed trends from the economic recession which began in fiscal year 2002.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003 and 2002, amount to $2.8 billion and $2.7 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 2003 and 2002 was 2.2 percent as shown in the table below.

Capital Assets, Net of Depreciation
June 30, 2003 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 349,826	$ 324,138	$ 13,916	$ 13,916	$ 363,742	$ 338,054
Buildings and Land Improvements	157,514	154,059	9,295	9,746	166,809	163,805
Streets and Storm Drains	1,404,787	1,346,180	-	-	1,404,787	1,346,180
Machinery and Equipment	21,280	23,193	3,656	3,002	24,936	26,195
Water Rights	-	-	64,688	64,489	64,688	64,489
Water System	-	-	343,606	332,675	343,606	332,675
Sewer System	-	-	250,282	212,755	250,282	212,755
Motor Vehicles and Maintenance by Fleet	22,956	23,461	-	-	22,956	23,461
Furniture, Fixtures and Office Equipment	-	-	234	286	234	286
Construction in Progress	67,516	106,694	68,963	104,504	136,479	211,198
Total	$ 2,023,879	$ 1,977,725	$ 754,640	$ 741,373	$ 2,778,519	$ 2,719,098

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

- Completion of construction in progress on the Pima Road Water Transmission Main – Pinnacle Peak Road to Cave Creek Road – A multiple construction contract project accounting for $23.5 million in budgeted funds.
- The acquisition of an additional 322 acres, totaling $17.2 million, for inclusion in the McDowell Sonoran Preserve.
- Renovation of the Eldorado Aquatic and Fitness Center. A project that added a new pool facility with a slide, beach entry, therapy pool and lap lanes for a total $5.4 million.

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 2003 and 2002, the City had total long-term obligations outstanding of $659.0 million and $687.5 million, respectively. Of these amounts, $319.3 million and $338.0 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 $339.7 million and $349.5 million, respectively.

Outstanding Debt (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	$ 305,003	$ 319,657	$ 14,323	$ 18,315	$ 319,326	$ 337,972
Revenue Bonds	10,990	13,385	71,230	73,945	82,220	87,330
Municipal Property Corporation Bonds	41,955	49,870	10,010	11,555	51,965	61,425
Scottsdale Preserve Authority Bonds	88,270	90,585	-	-	88,270	90,585
Special Assessments Bonds	11,140	13,061	-	-	11,140	13,061
Community Facilities Districts General Obligation Bonds	46,355	34,935	-	-	46,355	34,935
Add Deferred Issuance Premiums	6,864	1,572	188	225	7,052	1,797
Less Deferred Amounts on Refunding	(8,327)	(3,585)	(241)	(288)	(8,568)	(3,873)
Total Bonds Payable	502,250	519,480	95,510	103,752	597,760	623,232
Contracts Payable	19,627	21,416	-	-	19,627	21,416
Capital Lease	28,750	28,750	-	-	28,750	28,750
Compensated Absences	11,495	12,455	1,345	1,628	12,840	14,083
Total Long-term Liabilities	$ 562,122	$ 582,101	$ 96,855	$ 105,380	$ 658,977	$ 687,481

During the fiscal year, the City issued $72,000,000 of General Obligation Refunding Bonds, Series 2002, (advance refunding) dated September 26, 2002, with an average interest rate of 4.5%, to refund $71,510,000 of Series 1992, 1993, 1994, 1995, 1997, 1998, 1999, 1999A and 2001 General Obligation and Preservation Bonds with an average interest rate of 4.92%. The City will reduce its total debt service payments over the next 22 years by approximately $3,218,584 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $611,585. In addition, the City issued $30,570,000 of Municipal Property Corporation Refunding Bonds, Series 2002, (forward refunding) dated August 7, 2002, with an average interest rate of 5.5%, to refund $30,885,000 of Series 1992 Excise Tax Revenue Refunding Bonds with an average interest rate of 6.26%. The City refunded the bonds to reduce its total debt service payments over the next 13 years by approximately $2,059,698 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,073,165.

During fiscal year 2003, the City's total bonded debt decreased by approximately $25.5 million, in contrast to the increase of approximately $52.5 million in fiscal year 2002. Although the City completed several refunding transactions, the key contributor to the decrease was normal debt service payments. In addition to the refunding bonds, the City also issued $12.2 million in General Obligation Bonds for the DC Ranch Community Facilities District, to be used for capital projects.

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, 2003 and 2002 is $139.9 million and $114.9 million, respectively, in the 6% capacity and $467.9 million and $410.4 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.

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 is performance-based and 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. Because the total liability is not estimable, earned or due, no debt is recorded on the statement of Net Assets at June 30, 2003 related to this contract.

Subsequent to June 30, 2003 the following events related to debt occurred:

On July 2, 2003 the City Council approved a redevelopment agreement for the former Los Arcos Redevelopment District. Under the terms of the agreement, the City will provide an economic incentive calculated upon sales tax proceeds generated by the project with the Ellman Companies (the developer), up to a net present value maximum of $36,750,000 plus interest at a rate of 7.18%. This allocation is based on performance-based equal to 69% of the General Fund portion of sales tax generated at the site.

On September 10, 2003, the City sold City of Scottsdale General Obligation Refunding Bonds, Series 2003 in an aggregate principal amount not to exceed $16,265,000. The sale of these bonds will reduce future debt service payments by $1.1 million over the next ten years.

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, 2003

	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-

The City's ratings 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. Rating Agencies also reviewed and confirmed several of the revenue based bond ratings at various times throughout the year.

Economic Factors and Next Year's Budget and Rates

The City is entering an unprecedented third year of declining revenues amid continued economic uncertainty. Despite actual revenues that lagged behind adopted budget estimates, the City recognized the trend early enough to cut expenditures without affecting services.

Fiscal year 2003/04 revenue projections estimate declines or limited growth in many of the City's significant revenue sources, such as privilege tax, transient occupancy tax state-shared revenues, and development permits and fees. Despite these challenges, the City's 2003/04 budget continues to fund essential services, maintains investment in critical capital projects and carries forward Scottsdale's emergency reserve fund. To bring the budget into balance, the City has reduced the size of its workforce through attrition, trimmed employee programs and fringe benefits, reduced the General Fund subsidy to transportation projects, and adopted a more realistic and better-defined Capital Improvement Plan.

All of the above factors were considered in preparing the City's budget for fiscal year 2004. The budget for the 2003/04 year includes:

- Zero-based program budget approach.
- An $8.8 million dollar decrease in expenditures and transfers-out of the General Fund. Expenditures and transfers-out will decline from an estimated FY 2002/03 year-end level of $204.3 million to $195.5 million in FY 2003/04.
- An annualized reduction of $2.6 million in personnel costs through the elimination of 41 vacant positions. Of the total, 32 positions will come from the General Fund, where revenues are influenced significantly by the economy.
- Externally driven personnel cost increases due primarily to increases in city retirement contributions and health care insurance premiums. Increases in retirement contributions are estimated at $3.4 million, and increases in health care costs are estimated at $2.6 million.
- Additional measures to control personnel costs, including the elimination of across-the-board pay increases, elimination or reduction of several fringe benefits and employee programs and a significant reduction in training and travel expenditures.
- 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 associated maintenance and operating costs. Improved cash management and other changes in the proposed Capital Improvement Plan will ensure that the City can take advantage of favorable financing and construction markets to build key projects and phase in operating costs for new facilities at a reasonable pace.
- Sustained funding of the General Fund ten-percent reserve to ensure the City can provide basic services in the event of major emergencies. Use of reserves is under close scrutiny by the credit rating industry as governments deal with the tough economy.
- An estimated three-cent drop in the combined property tax rate, from $1.15 to $1.12 per $100 in assessed valuation.
- An average increase of only about $1.50 in the average homeowner's combined bill for water, sewer, refuse and recycling services.

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, 2003 (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Investments	$ 302,058	$ 120,669	$ 422,727
Cash with Fiscal Agent	40,889	11,502	52,391
Receivable (net of uncollectible amounts of $9,302):			
Property Taxes and Penalties	5,117	-	5,117
Other Local Taxes	14,110	-	14,110
Intergovernmental	1,865	571	2,436
Charges for Services	-	12,998	12,998
Interest and Other	17,907	1,133	19,040
Internal Balances	259	(259)	-
Supplies Inventory	551	-	551
Total Current Assets	382,756	146,614	529,370
Restricted Cash, Cash Equivalents, and Investments Assets:			
Water and Sewer System Replacement	-	14,286	14,286
Acquisition and Construction Reserve Development Fees	-	2,435	2,435
Customer Advances/Deposits and Deferred Revenue	-	5,335	5,335
Total Restricted Cash, Cash Equivalents, and Investments Assets	-	22,056	22,056
Capital Assets:			
Land, Water Rights, and Construction in Progress	417,342	147,567	564,909
Facilities, Infrastructure, and Equipment (net of depreciation)	1,606,537	607,073	2,213,610
Total Capital Assets (net of accumulated depreciation)	2,023,879	754,640	2,778,519
Other Assets:			
Equity in Joint Venture	-	58,573	58,573
Deferred Charges	1,467	180	1,647
Total Other Assets	1,467	58,753	60,220
Total Noncurrent Assets	2,025,346	835,449	2,860,795
Total Assets	2,408,102	982,063	3,390,165
LIABILITIES			
Current Liabilities:			
Accounts Payable	10,030	5,441	15,471
Accrued Payroll and Benefits	6,752	706	7,458
Accrued Compensated Absences	1,993	226	2,219
Claims Payable	8,839	-	8,839
Due to Other Governments	696	-	696
Matured Bonds, Loans, Capital Leases, Other Payables	25,620	9,080	34,700
Matured Bonds, Loans, Capital Leases, Other Interest Payable	15,269	2,422	17,691
Unearned Revenue	2,059	-	2,059
Guaranty and Other Deposits	3,700	-	3,700
Other Liabilities	203	-	203
Total Current Liabilities	75,161	17,875	93,036
Liabilities Payable from Restricted Assets:			
Customer Advances and Deposits	-	1,250	1,250
Deferred Revenue	-	4,085	4,085
Total Liabilities Payable from Restricted Assets	-	5,335	5,335
Noncurrent Liabilities:			
Accrued Compensated Absences	11,495	1,345	12,840
Bonds, Loans, Capital Leases, and Other Payables-Due within One Year	33,254	5,097	38,351
Bonds, Loans, Capital Leases, and Other Payables-Due in More Than One Year	517,373	90,413	607,786
Total Noncurrent Liabilities	562,122	96,855	658,977
Total Liabilities	637,283	120,065	757,348
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,492,879	659,130	2,152,009
Restricted:			
Debt Service	29,822	-	29,822
Transportation and Preserve Privilege Tax Activities	54,747	-	54,747
Capital Projects	31,957	-	31,957
Grants	474	-	474
Streetlight and Service District	801	-	801
Water and Sewer System Replacement	-	14,286	14,286
Acquisition and Construction	-	2,435	2,435
Unrestricted	160,139	186,147	346,286
Total Net Assets	1,770,819	861,998	2,632,817

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

Statement of Activities

For the Year Ended June 30, 2003 (in thousands of dollars)

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	$ 23,926	$ 11,402	$ 215	$ 264	$ (12,045)	$ -	$ (12,045)
Police	54,469	4,227	1,223	357	(48,662)	-	(48,662)
Financial Services	7,883	-	-	-	(7,883)	-	(7,883)
Transportation	71,837	-	13,293	68,883	10,339	-	10,339
Community Services	52,222	3,405	6,487	613	(41,717)	-	(41,717)
Information Systems	11,901	-	-	-	(11,901)	-	(11,901)
Fire	18,127	-	-	-	(18,127)	-	(18,127)
Municipal Services	12,290	-	-	-	(12,290)	-	(12,290)
Citizen and Neighborhood Resources	2,433	-	1	-	(2,432)	-	(2,432)
Human Resources	3,601	-	-	-	(3,601)	-	(3,601)
Economic Vitality	6,421	-	-	-	(6,421)	-	(6,421)
Planning and Development	11,908	15,449	-	252	3,793	-	3,793
Streetlight and Services Districts	1,099	1,018	-	-	(81)	-	(81)
Interest on Long-term Debt	27,786	-	-	-	(27,786)	-	(27,786)
Total Governmental Activities	305,903	35,501	21,219	70,369	(178,814)	-	(178,814)
Business-Type Activities:							
Water Utility	50,406	66,626	-	15,414	-	31,634	31,634
Sewer Utility	22,862	25,316	-	11,412	-	13,866	13,866
Airport	2,476	2,424	-	1,661	-	1,609	1,609
Solid Waste	13,783	16,250	-	-	-	2,467	2,467
Total Business-Type Activities	89,527	110,616	-	28,487	-	49,576	49,576
Total Government	395,430	146,117	21,219	98,856	(178,814)	49,576	(129,238)
General Revenues:							
Taxes:							
Property Taxes					42,218	-	42,218
Sales and Use Taxes					117,151	-	117,151
Franchise Taxes					7,784	-	7,784
Intergovernmental:							
State Share Sales					15,853	-	15,853
State Revenue Sharing					21,574	-	21,574
Other					9,544	-	9,544
Interest and Investment Income					4,108	1,493	5,601
Other Revenue					4,718	1,672	6,390
Gain (Loss) on Sale of Capital Assets					42	(917)	(875)
Transfers					10,955	(10,955)	-
Total General Revenues, Special Items, and Transfers					233,947	(8,707)	225,240
Change in Net Assets					55,133	40,869	96,002
Net Assets - Beginning					1,715,686	821,129	2,536,815
Net Assets - Ending					1,770,819	861,998	2,632,817

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

Balance Sheet

Governmental Funds
June 30, 2003 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	$ 74,065	$ 8,641	$ 82,110	$ 111,356	$ 276,172
Cash with Fiscal Agent	-	23,521	-	17,368	40,889
Receivables (net of allowance for uncollectibles):					
Interest	328	-	228	441	997
Privilege Tax	6,368	-	-	2,498	8,866
Hotel/Motel Tax	305	-	-	-	305
Property Tax	620	913	-	171	1,704
State Shared Sales Tax	1,359	-	-	-	1,359
Franchise Fee	1,769	-	-	-	1,769
Court Receivable	3,388	-	-	-	3,388
Highway User Tax	-	-	-	1,148	1,148
Auto Lieu Tax	663	-	-	-	663
Intergovernmental	-	-	335	1,119	1,454
Grants	7	-	-	404	411
Special Assessments	-	-	-	10,085	10,085
Note	4,000	-	-	-	4,000
Miscellaneous	2,372	-	20	185	2,577
Due from Other Funds	263	-	-	4,401	4,664
Supplies Inventory	169	-	-	-	169
Advances to Other Funds	1,191	-	107	-	1,298
Total Assets	$ 96,867	$ 33,075	$ 82,800	$ 149,176	$ 361,918

(continued)

Balance Sheet

Governmental Funds
June 30, 2003 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Total Nonmajor Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 2,822	$ -	$ 1,529	$ 5,024	$ 9,375
Accrued Payroll	8,154	-	6	419	8,579
Due to Other Funds	-		-	4,512	4,512
Matured Bond Interest Payable	-	9,981	-	5,288	15,269
Matured Bonds Payable	-	13,540	-	12,080	25,620
Deferred Revenue					
Property Tax	371	548	-	97	1,016
Special Assessments	-	-	-	10,085	10,085
Court	3,388	-	-	-	3,388
Tax Audit	1,353	-	-	-	1,353
Intergovernmental	-	-	-	1,235	1,235
Other	4,244	-	-	580	4,824
Advances From Other Funds	-	-	-	1,191	1,191
Due to Other Governments	-	-	28	668	696
Guaranty and Other Deposits	3,161	-	-	539	3,700
Other	146	-	-	57	203
Total Liabilities	23,639	24,069	1,563	41,775	91,046
Fund Balances:					
Reserved for:					
Advances	1,191	-	-	-	1,191
Streetlight and Services Districts	801	-	-	-	801
Debt Service	-	9,006	-	4,664	13,670
Unreserved, reported in:					
General Fund - Designated	58,416	-	-	-	58,416
General Fund - Undesignated	12,820	-	-	-	12,820
Capital Projects Funds	-	-	81,237	78,184	159,421
Special Revenue Funds	-	-	-	24,553	24,553
Total Fund Balances	73,228	9,006	81,237	107,401	270,872
Total Liabilities and Fund Balances	$ 96,867	$ 33,075	$ 82,800	$ 149,176	$ 361,918

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, 2003 (in thousands of dollars)

Fund Balances -Total Governmental Funds	$ 270,872
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.	1,999,256
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	1,467
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(561,844)
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.	19,842
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.	41,226
Net Assets of Governmental Activities	$ 1,770,819

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, 2003 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes - Local:					
Property	$ 15,552	$ 22,381	$ -	$ 3,650	$ 41,583
Transaction Privilege	79,704	-	-	30,980	110,684
Transient Occupancy	6,688	-	-	-	6,688
Light and Power Franchise	5,147	-	-	-	5,147
Cable TV Franchise	2,440	-	-	-	2,440
Salt River Project In-Lieu	197	-	-	-	197
Fire Insurance Premium	414	-	-	-	414
Taxes - Intergovernmental:					
State-Shared Sales	15,853	-	-	-	15,853
State Revenue Sharing	21,574	-	-	-	21,574
Auto Lieu Tax	7,984	-	-	-	7,984
Highway User Tax	-	-	-	13,137	13,137
Local Transportation Assistance Fund	-	-	-	1,146	1,146
Business and Liquor Licenses	1,816	-	-	-	1,816
Charges for Current Services:					
Building and Related Permits	15,424	-	-	25	15,449
Recreation Fees	2,205	-	-	795	3,000
Westworld Equestrian Facility Fees	1,541	-	-	-	1,541
Fines, Fees and Forfeitures:					
Court Fines	4,151	-	-	1	4,152
Parking	213	-	-	-	213
Photo Radar	765	-	-	-	765
Court Enhancement	-	-	-	512	512
Library	405	-	-	-	405
Special Assessments	-	-	-	1,970	1,970
Property Rental	2,530	-	-	306	2,836
Interest Earnings	1,655	1	568	1,606	3,830
Intergovernmental:					
Federal Grants	7	-	-	7,993	8,000
State Grants	-	-	250	182	432
Miscellaneous	418	-	358	401	1,177
Developer Contributions	251	-	399	112	762
Streetlight and Services Districts	1,018	-	-	-	1,018
Contributions and Donations	5	-	5	429	439
Reimbursements from Outside Sources	300	-	479	253	1,032
Indirect Costs	8,045	-	-	-	8,045
Other	735	-	90	25	850
Total Revenues	197,037	22,382	2,149	63,523	285,091

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Total Nonmajor Governmental Funds	Total Governmental Funds
EXPENDITURES					
Current:					
General Government	15,147	-	-	863	16,010
Police	51,570	-	-	801	52,371
Financial Services	7,752	-	-	-	7,752
Transportation	-	-	-	10,869	10,869
Community Services	41,785	-	-	7,165	48,950
Information Systems	7,386	-	-	-	7,386
Fire	17,745	-	-	-	17,745
Municipal Services	493	-	-	11,060	11,553
Citizen and Neighborhood Resources	2,445	-	-	1	2,446
Human Resources	3,372	-	-	3	3,375
Economic Vitality	6,268	-	-	-	6,268
Planning and Development	11,732	-	-	14	11,746
Streetlight and Services Districts	1,099	-	-	-	1,099
Debt Service:					
Principal	1,150	13,540	-	15,615	30,305
Interest and Fiscal Charges	1,784	17,335	-	10,640	29,759
Bond Issuance Costs	-	394	-	652	1,046
Capital Improvements	-	-	32,262	36,076	68,338
Total Expenditures	169,728	31,269	32,262	93,759	327,018
Excess (Deficiency) of Revenues Over Expenditures	27,309	(8,887)	(30,113)	(30,236)	(41,927)
OTHER FINANCING SOURCES (USES)					
Transfers in	7,753	9,040	38,868	51,780	107,441
Transfers out	(38,402)	-	(31)	(53,149)	(91,582)
Refunding Bonds Issued	-	72,000	-	30,570	102,570
Long-term Capital-Related Debt Issued	-	-	-	12,165	12,165
Premium on Bonds Issued	-	4,881	-	1,403	6,284
Payment to Bond Refunding Escrow Agent	-	(76,477)	-	(31,600)	(108,077)
Sale of Capital Assets	199	-	-	225	424
Total Other Financing Sources and (Uses)	(30,450)	9,444	38,837	11,394	29,225
Net Change in Fund Balances	(3,141)	557	8,724	(18,842)	(12,702)
Fund Balances - Beginning	76,369	8,449	72,513	126,243	283,574
Fund Balances - Ending	$ 73,228	$ 9,006	$ 81,237	$ 107,401	$ 270,872

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

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

June 30, 2003 (in thousands of dollars)

Net Change in Fund Balances - Total Governmental Funds	$	(12,702)
Amounts reported for governmental activities in the statement of activities are different because (see Section II B):		
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.		(12,702)
Donations of capital assets are not reflected on the governmental fund statements but are shown in the statement of activities.		59,888
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.		885
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		4,121
Bond issue 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.		904
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.		17,363
Additional accrued interest calculated on bonds and notes payable.		2,115
The net revenues of certain activities of internal service funds is reported with governmental activities.		(4,739)
Changes in Net Assets of Governmental Activities	$	55,133

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

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local:						
Property	$ 15,410	$ 15,410	$ 15,552	$ -	$ 15,552	$ 142
Transaction Privilege	84,047	84,047	79,704	-	79,704	(4,343)
Transient Occupancy	7,600	7,600	6,688	-	6,688	(912)
Light and Power Franchise	5,641	5,641	5,147	-	5,147	(494)
Cable TV Franchise	2,114	2,114	2,440	-	2,440	326
Salt River Project In-Lieu	203	203	197	-	197	(6)
Fire Insurance Premium	210	210	414	-	414	204
Taxes - Intergovernmental:						
State-Shared Sales	15,794	15,794	15,853	-	15,853	59
State Revenue Sharing	21,049	21,049	21,574	-	21,574	525
Auto Lieu Tax	-	6,700	7,984	-	7,984	1,284
Business and Liquor Licenses	1,705	1,705	1,816	-	1,816	111
Charges for Current Services:						
Building and Related Permits	15,500	15,500	15,424	-	15,424	(76)
Recreation Fees	2,130	2,130	2,205	-	2,205	75
Westworld Equestrian Facility Fees	1,300	1,300	1,541	-	1,541	241
Fines, Fees and Forfeitures:						
Court Fines	3,465	3,465	4,151	-	4,151	686
Parking	137	137	213	-	213	76
Photo Radar	1,150	1,150	765	-	765	(385)
Library	446	446	405	-	405	(41)
Property Rental	3,107	3,107	2,530	-	2,530	(577)
Interest Earnings	3,000	3,000	3,465	(1,810)	1,655	465
Intergovernmental:						
Federal Grants	-	-	-	7	7	-
Miscellaneous	-	-	-	418	418	-
Developer Contributions	-	-	-	251	251	-
Streetlight and Services Districts	500	500	450	568	1,018	(50)
Contributions and Donations	-	-	-	5	5	-
Reimbursements from Outside Sources	190	190	300	-	300	110
Indirect Costs	8,045	8,045	8,045	-	8,045	-
Other	1,766	1,766	735	-	735	(1,031)
Total Revenues	194,509	201,209	197,598	(561)	197,037	(3,611)
EXPENDITURES						
Current:						
General Government	16,285	16,326	14,972	175	15,147	1,354
Police	51,304	52,125	51,172	398	51,570	953
Financial Services	7,521	7,630	7,630	122	7,752	-
Community Services	43,277	43,513	41,635	150	41,785	1,878
Information Systems	7,578	7,578	7,369	17	7,386	209
Fire	17,917	17,916	17,745	-	17,745	171
Municipal Services	588	588	385	108	493	203
Citizen and Neighborhood Resources	2,785	2,782	2,436	9	2,445	346
Human Resources	3,459	3,459	3,358	14	3,372	101
Economic Vitality	6,531	6,445	6,263	5	6,268	182
Planning and Development	13,188	13,188	11,546	186	11,732	1,642
Streetlight and Services District	500	500	531	568	1,099	(31)
Debt Service						
Principal	1,283	1,283	1,150	-	1,150	133
Interest and Fiscal Charges	2,592	2,592	1,784	-	1,784	808
Total Expenditures	174,808	175,925	167,976	1,752	169,728	7,949
Excess (Deficiency) of Revenues Over Expenditures	19,701	25,284	29,622	(2,313)	27,309	4,338
OTHER FINANCING SOURCES (USES)						
Transfers In	7,627	7,627	7,753	-	7,753	126
Transfers Out	(27,328)	(32,911)	(38,402)	-	(38,402)	(5,491)
Sale of Capital Assets	-	-	199	-	199	199
Total Other Financing Sources and (Uses)	(19,701)	(25,284)	(30,450)	-	(30,450)	(5,166)
Net Change in Fund Balances	-	-	(828)	(2,313)	(3,141)	(828)
Fund Balances - Beginning	-	-	76,369	-	76,369	76,369
Fund Balances - Ending	$ -	$ -	$ 75,541	$ (2,313)	$ 73,228	$ 75,541

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, 2003 (in thousands of dollars)

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded for budget purposes:		
Enhanced Municipal Services District	$	568
Unrealized Loss on Investments		(1,810)
Miscellaneous Items		681
Total Revenue Reconciling Items:		(561)
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:		
Enhanced Municipal Services District		568
Claims and Compensated Absences		1,157
Bad Debt Expense		27
Total Expenditure Reconciling Items:		1,752
Net Increase/(Decrease) in Fund Balance - Budget to GAAP	$	(2,313)

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

Statement of Net Assets

Proprietary Funds
June 30, 2003 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total All Funds	Governmental Activities - Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	$ 117,640	$ -	$ 3,029	$ 120,669	$ 25,886
Cash with Fiscal Agent	11,218	-	284	11,502	-
Receivable (net of allowance for uncollectibles):					
Property Tax	-	-	-	-	25
Accounts	10,677	-	2,321	12,998	-
Grants	-	571	-	571	-
Interest	507	-	12	519	-
Miscellaneous	429	137	48	614	98
Due from other funds		-	-	-	150
Supplies Inventory	-	-	-	-	382
Total Current Assets	140,471	708	5,694	146,873	26,541
Noncurrent Assets:					
Restricted Cash, Cash Equivalents, and Investments:					
Water and Sewer System Replacement	14,286	-	-	14,286	-
Development Fees	2,435	-	-	2,435	-
Customer Advances/Deposits and Deferred Revenue	5,280	55	-	5,335	-
Subtotal	22,001	55	-	22,056	-
Capital Assets:					
Land	3,242	9,564	1,110	13,916	-
Water Rights	64,688	-	-	64,688	-
Water System	464,513	-	-	464,513	-
Sewer System	303,614	-	-	303,614	-
Buildings and Improvements	-	11,309	2,997	14,306	1,846
Motor Vehicles	-	-	-	-	45,233
Machinery and Equipment	3,873	73	2,017	5,963	828
Furniture and Fixtures	698	-	-	698	22
Construction in Progress	66,326	2,637	-	68,963	683
Less Accumulated Depreciation	(176,362)	(4,088)	(1,571)	(182,021)	(23,989)
Total Capital Assets (net of accumulated depreciation)	730,592	19,495	4,553	754,640	24,623
Other Assets:					
Equity in Joint Venture	58,573	-	-	58,573	-
Deferred Charges	180	-	-	180	-
Total Other Assets	58,753	-	-	58,753	-
Total Noncurrent Assets	811,346	19,550	4,553	835,449	24,623
Total Assets	$ 951,817	$ 20,258	$ 10,247	$ 982,322	$ 51,164

(continued on next page)

Statement of Net Assets

Proprietary Funds
June 30, 2003 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total All Funds	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 4,887	$ 246	$ 308	$ 5,441	$ 655
Accrued Payroll and Benefits	501	29	176	706	118
Accrued Compensated Absences	156	10	60	226	48
Due to Other Funds	-	152	-	152	-
Claims Payable	-	-	-	-	8,839
Matured Bonds Payable	8,850	-	230	9,080	-
Matured Bond Interest Payable	2,368	-	54	2,422	-
Total Current Liabilities	16,762	437	828	18,027	9,660
Current Liabilities Payable from Restricted Assets:					
Customer Advances and Deposits	1,195	55	-	1,250	-
Deferred Revenue	4,085	-	-	4,085	-
Total Current Liabilities Payable from Restricted Assets:	5,280	55	-	5,335	-
Noncurrent Liabilities:					
Accrued Compensated Absences	928	64	353	1,345	278
Advances from Other Funds	-	107	-	107	-
Bonds Payable - Due within One Year	4,852	-	245	5,097	-
Bonds Payable - Due in More Than One Year	88,673	-	1,740	90,413	-
Total Noncurrent Liabilities	94,453	171	2,338	96,962	278
Total Liabilities	116,495	663	3,166	120,324	9,938
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	637,067	19,495	2,568	659,130	24,623
Restricted for Water and Sewer System Replacement	14,286	-	-	14,286	-
Restricted for Acquisition and Construction	2,435	-	-	2,435	-
Unrestricted	181,534	100	4,513	186,147	16,603
Total Net Assets	$ 835,322	$ 19,595	$ 7,081	$ 861,998	$ 41,226

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, 2003 (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	$ 63,411	$ -	$ -	$ 63,411	$ -
Sewer Service Fees	25,316	-	-	25,316	-
Reclaimed Water Distribution	2,329	-	-	2,329	-
Groundwater Treatment Plant	886	-	-	886	-
Solid Waste Fees	-	-	16,250	16,250	-
Airport Fees	-	2,424	-	2,424	-
Other Services	-	-	-	-	18,509
Other	1,672	-	-	1,672	490
Total Operating Revenues	93,614	2,424	16,250	112,288	18,999
Operating Expenses					
Costs for Sales and Services:					
Water Operations	29,727	-	-	29,727	-
Sewer Operations	11,355	-	-	11,355	-
Solid Waste Operations	-	-	11,822	11,822	-
Airport Operations	-	1,310	-	1,310	-
Other Services	-	-	-	-	14,717
Indirect Costs	5,909	489	1,647	8,045	-
Depreciation and Amortization	20,746	677	202	21,625	5,720
Total Operating Expenses	67,737	2,476	13,671	83,884	20,437
Operating Income (Loss)	25,877	(52)	2,579	28,404	(1,438)
Non-Operating Revenues (Expenses)					
Property Tax	-	-	-	-	649
Investment Income	1,450	1	42	1,493	278
Interest Expense	(5,531)	-	(112)	(5,643)	-
Gain (Loss) on Sale of Fixed Assets	(628)	(289)	-	(917)	137
Net Non-Operating Revenues (Expenses)	(4,709)	(288)	(70)	(5,067)	1,064
Income (Loss) Before Contributions and Transfers	21,168	(340)	2,509	23,337	(374)
Capital Contributions	26,826	1,661	-	28,487	539
Transfers In	15	-	-	15	280
Transfers Out	(9,570)	(334)	(1,066)	(10,970)	(5,184)
Change in Net Assets	38,439	987	1,443	40,869	(4,739)
Total Net Assets - Beginning	796,883	18,608	5,638	821,129	45,965
Total Net Assets - Ending	$ 835,322	$ 19,595	$ 7,081	$ 861,998	$ 41,226

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, 2003 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total All Funds	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:					
Cash Received from Customers	$ 91,652	$ 2,417	$ 16,181	$ 110,250	$ 18,509
Cash Paid to Suppliers	(39,764)	(1,019)	(9,514)	(50,297)	(11,886)
Cash Paid to Employees	(9,965)	(693)	(4,094)	(14,752)	(2,794)
Other Operating	1,671	135	(22)	1,784	476
Net Cash Provided by Operating Activities	43,594	840	2,551	46,985	4,305
Cash Flows from Non-Capital Financing Activities:					
Property Tax	-	-	-	-	644
Transfers In	15	-	-	15	280
Transfers Out	(9,570)	(334)	(1,066)	(10,970)	(5,184)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(9,555)	(334)	(1,066)	(10,955)	(4,260)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions from Other:					
Water and Sewer Development Fees	17,648	-	-	17,648	-
Capital Grants	-	1,850	-	1,850	-
Acquisition and Construction of Property and Equipment	(35,028)	(2,312)	-	(37,340)	(3,777)
Principal Payments on Capital Debt	(7,467)	-	(220)	(7,687)	-
Interest Paid on Capital Debt	(5,781)	-	(117)	(5,898)	-
Sale of Fixed Assets	60	-	-	60	216
Net Cash Provided by (Used for) Capital and Related Financing Activities	(30,568)	(462)	(337)	(31,367)	(3,561)
Cash Flows from Investing Activities:					
Proceeds from the Sale of investments	-	-	14	14	-
Income Received on Investments	2,353	11	38	2,402	378
Net Cash Provided by Investing Activities	2,353	11	52	2,416	378
Net Increase (Decrease) in Cash and Cash Equivalents	5,824	55	1,200	7,079	(3,138)
Cash and Cash Equivalents at Beginning of Year	145,035	-	1,956	146,991	29,024
Cash and Cash Equivalents at End of Year	$ 150,859	$ 55	$ 3,156	$ 154,070	$ 25,886

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, 2003 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total All Funds	Governmental Activities - Internal Service Funds
Cash and Cash Equivalents at End of Year Includes:					
Cash and Investments	$ 117,640	$ -	$ 3,029	$ 120,669	$ 25,886
Deduction for Long-term Investments	-	-	(157)	(157)	-
Cash with Fiscal Agent	11,218	-	284	11,502	-
Restricted Cash and Investments	22,001	55	-	22,056	-
Total Cash and Cash Equivalents	$ 150,859	$ 55	$ 3,156	$ 154,070	$ 25,886
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	$ 25,877	$ (52)	$ 2,579	$ 28,404	$ (1,438)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	20,746	677	202	21,625	5,720
Changes In Assets and Liabilities Sources (Uses) of Cash:					
Accounts Receivable	(730)	-	(69)	(799)	(14)
Miscellaneous Receivables	(2)	(124)	(22)	(148)	-
Supplies Inventory	-	-	-	-	86
Accounts Payable	(2,732)	88	-	(2,644)	(401)
Accrued Payroll	(6)	(1)	(139)	(146)	(67)
Claims Payable	-	-	-	-	419
Deferred Revenue	408	(13)	-	395	-
Due to Other Funds	-	152	-	152	-
Advances From Other Funds	-	107	-	107	-
Other Liabilities	33	6	-	39	-
Total Adjustments	17,717	892	(28)	18,581	5,743
Net Cash Provided by Operating Activities	$ 43,594	$ 840	$ 2,551	$ 46,985	$ 4,305
Supplemental Disclosure of Non-Cash Financing Activities:					
Additions to Property, Plant, and Equipment					
Contributions from Developers	$ 8,825	$ -	$ -	$ 8,825	$ -
Contributions from Other Government Units	-	-	-	-	539
Amortization of Deferred Charges	82	-	-	82	-
Accumulated Accretion	828	-	-	828	-
Increase (Decrease) in Fair Value of Investments	(422)	(1)	(10)	(433)	(27)
Loss on Sale of Fixed Assets	(688)	(289)	-	(977)	(79)
Total Non-Cash Financing Activities	$ 8,625	$ (290)	$ (10)	$ 8,325	$ 433

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

Statement of Fiduciary Net Assets

Fiduciary Funds
June 30, 2003 (in thousands of dollars)

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 704	$ 534
Interest Receivable	3	-
Total Assets	$ 707	$ 534
LIABILITIES		
Accounts Payable	$ 3	$ 70
Designated Escrow Payable	-	464
Total Liabilities	3	534
NET ASSETS		
Held in Trust for Other Purposes	$ 704	$ -

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, 2003 (in thousands of dollars)

	Private Purpose Trust Funds
ADDITIONS	
Contributions:	
Private Donations	$ 310
Investment Earnings:	
Interest	26
Total Additions	336
DEDUCTIONS	
Scholarships	6
Redevelopment Expenses	359
Total Deductions	365
Change in Net Assets	(29)
Net Assets - Beginning	733
Net Assets - Ending	$ 704

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 (the 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.

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 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 changes in net assets) 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, general long-term obligation debt principal, interest, and related costs.

The *General Capital Improvement Plan 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.).

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 or have a measurement focus. 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 (GASB). 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 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, 2003.

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 (i.e., 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. No interest was capitalized for the fiscal year 2002/03.

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.

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 differences between the Governmental Fund balance sheet and the government-wide statement of net assets.

The fund balances of the City's Governmental Funds, $270,872, differs from net assets of governmental activities, $1,770,819, 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	$ 276,172	$ -	$ 25,886	$ -	$ 302,058
Cash with Fiscal Agent	40,889				40,889
Receivables (net of allowance for uncollectibles)					
Interest	997	-	98	-	1,095
Privilege Tax	8,866	-	-	-	8,866
Hotel/Motel Tax	305	-	-	-	305
Property Tax	1,704	-	25	-	1,729
State Shared Sales Tax	1,359	-	-	-	1,359
Franchise Fee	1,769	-	-	-	1,769
Court Receivable	3,388	-	-	-	3,388
Highway User Tax	1,148	-	-	-	1,148
Auto Lieu Tax	663	-	-	-	663
Intergovernmental	1,454	-	-	-	1,454
Grants	411	-	-	-	411
Special Assessments	10,085	-	-	-	10,085
Note	4,000	-	-	-	4,000
Miscellaneous	2,577	-	150	-	2,727
Due from Other Funds/Internal Balances	4,664	-	-	(4,512)	152
Supplies Inventory	169	-	382	-	551
Advances to Other Funds/Internal Balances	1,298	-	-	(1,191)	107
Capital Assets (net of accumulated depreciation)	-	1,999,256	24,623	-	2,023,879
Deferred charges and other assets	-	1,467	-	-	1,467
Total Assets	$ 361,918	$ 2,000,723	$ 51,164	$ (5,703)	$ 2,408,102
LIABILITIES					
Accounts Payable	$ 9,375	$ -	$ 655	$ -	$ 10,030
Accrued Payroll and Benefits	8,579	-	118	(1,945)	6,752
Accrued Compensated Absences - Due Within One Year	-	-	48	1,945	1,993
Accrued Compensated Absences - Due in More Than One Year	-	11,217	278	-	11,495
Claims Payable	-	-	8,839	-	8,839
Due to Other Funds	4,512	-		(4,512)	-
Matured Interest Payable	15,269	-	-	-	15,269
Matured Bonds Payable	25,620	-	-	-	25,620
Deferred Revenue					
Property Tax	1,016	(1,016)	-	-	-
Special Assessments	10,085	(10,085)	-	-	-
Court	3,388	(3,388)	-	-	-
Tax Audit	1,353	(1,353)	-	-	-
Intergovernmental	1,235	-	-	-	1,235
Other	4,824	(4,000)	-	-	824
Advances From Other Funds	1,191	-	-	(1,191)	-
Due to Other Governments	696	-	-	-	696
Guaranty and Other Deposits	3,700	-	-	-	3,700
Other	203	-	-	-	203
Bonds, Loans, Capital Leases, and Other Payables	-	550,627	-	-	550,627
Total Liabilities	91,046	542,002	9,938	(5,703)	637,283
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	270,872	1,458,721	41,226	-	1,770,819
Total Liabilities and Fund Balances/Net Assets	$ 361,918	$ 2,000,723	$ 51,164	$ (5,703)	$ 2,408,102

(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	$	2,799,823
Accumulated depreciation		(800,567)
	$	1,999,256

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 @ 7/1/02	$	563
Bond issuance cost for FY 2003		1,046
Amortization of bond issuance costs		(142)
	$	1,467

Long-term liablilities 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 exitsting debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent ($108,077) to be placed in escrow for payment of the old debt ($102,570) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was $5,507 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, 2003 were:

Contract and capital lease payables	$	(48,377)
Bonds payable		(503,713)
Deferred charge on refunding		8,327
Deferred issuance premium		(6,864)
Accrued vacation and sick leave pay		(11,217)
	$	(561,844)

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 grant 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	$	10,085
Deferred court revenue		3,388
Deferred other		4,000
Deferred tax revenue		2,369
	$	19,842

(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.

	$	41,226

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, $(12,702), differs from the change in net assets for the governmental activities, $55,133, 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	$ 41,583	$ (14)	$ -	$ 649	$ -	$ 42,218
Transaction Privilege	110,684	(221)	-	-	-	110,463
Transient Occupancy	6,688	-	-	-	-	6,688
Light and Power Franchise	5,147	-	-	-	-	5,147
Cable TV Franchise	2,440	-	-	-	-	2,440
Salt River Project In-Lieu	197	-	-	-	-	197
Fire Insurance Premium	414	-	-	-	-	414
Taxes - Intergovernmental:						
State-Shared Sales	15,853	-	-	-	-	15,853
State Revenue Sharing	21,574	-	-	-	-	21,574
Auto Lieu Tax	7,984	-	-	-	-	7,984
Highway User Tax	13,137	-	-	-	-	13,137
Local Transportation Assistance Fund	1,146	-	-	-	-	1,146
Business and Liquor Licenses	1,816	-	-	-	-	1,816
Charges for Current Services:						
Building and Related Permits	15,449	-	-	-	-	15,449
Recreation Fees	3,000	-	-	-	-	3,000
Westworld Equestrian Facility Fees	1,541	-	-	-	-	1,541
Fines and Forfeitures:						
Court Fines	4,152	(1,415)	-	-	-	2,737
Parking	213	-	-	-	-	213
Photo Radar	765	-	-	-	-	765
Court Enhancement	512	-				512
Library	405	-	-	-	-	405
Special Assessments	1,970	5,771	-	-	-	7,741
Property Rental	2,836	-	-	-	-	2,836
Interest Earnings	3,830	-	-	278	-	4,108
Intergovernmental:						
Federal Grants	8,000	-	-	-	-	8,000
State Grants	432	-	-	-	-	432
Miscellaneous	1,177	-	-	-	-	1,177
Developer Contributions	762	-		-	-	762
Streetlight and Services Districts	1,018	-	-	-	-	1,018
Contributions and Donations	439	-	-	-	-	439
Reimbursements from Outside Sources	1,032	-	-	-	-	1,032
Indirect Costs	8,045					8,045
Other	850	-	-	-	-	850
Total	285,091	4,121	-	927	-	290,139

(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	$ 16,010	$ (99)	$ 7,931	$ 84	$ -	$ 23,926
Police	52,371	(266)	1,983	381	-	54,469
Financial Services	7,752	(108)	208	31	-	7,883
Transportation	10,869	25	60,925	18	-	71,837
Community Services	48,950	(475)	3,604	143	-	52,222
Information Systems	7,386	13	4,499	3	-	11,901
Fire	17,745	-	276	106	-	18,127
Municipal Services	11,553	(138)	254	621	-	12,290
Citizen and Neighborhood Resources	2,446	(7)	(19)	13	-	2,433
Human Resources	3,375	220	3	3	-	3,601
Economic Vitality	6,268	150	3	0	-	6,421
Planning and Development	11,746	(200)	327	35	-	11,908
Streetlight and Services Districts	1,099	-	-	-	-	1,099
Debt Service:						
Principal	30,305	-	-	-	(30,305)	-
Interest and Fiscal Charges	29,759	-	-	-	(1,973)	27,786
Bond Issuance Costs	1,046	-	-	-	(1,046)	-
Capital Improvements	68,338	-	(68,338)	-	-	-
Total Expenditures/Expenses	327,018	(885)	11,656	1,438	(33,324)	305,903
OTHER FINANCING USES/CHANGES IN NET ASSETS						
Net Transfers (to) From Other Funds	15,859	-	(527)	(4,377)	-	10,955
Capital Contibutions	-	-	59,888	12	-	59,900
Sales of Capital Assets	424	-	(519)	137	-	42
Refunding Bonds Issued	102,570	-	-	-	(102,570)	-
Long-term Capital-Related Debt Issued	12,165	-	-	-	(12,165)	-
Premium on Bonds Issued	6,284	-	-	-	(6,284)	-
Payment to Bond Refunding Escrow Agent	(108,077)	-	-	-	108,077	-
Total	29,225	-	58,842	(4,228)	(12,942)	70,897
Net Change for the Year	$ (12,702)	$ 5,006	$ 47,186	$ (4,739)	$ 20,382	$ 55,133

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	$	(14)
Court revenue		(1,415)
Tax audit revenue		(221)
Special Assessment revenue		5,771
	$	4,121

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	$	(885)

(4) When capital assets that are to 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	$	65,460
Depreciation Expenses		(77,643)
Loss on disposal of capital assets		(203)
Difference	$	(12,386)

The proceeds from the sale of land are reported as revenue in the governmental funds. However, the cost of the land sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "gain on sale of land" in the statement of activities. Thus, more revenue is reported in the governmental funds than gain in the statement of activities.

Cost of land sold	$	(316)

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	$	59,888

(5) Internal Service funds are used by management to charge the costs of certain acitivities, 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 ($516) 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	$	(4,739)

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 2003	$	1,046
Amortization of bond issuance costs		(142)
Difference	$	904

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	$	108,077
Principal payments made		30,305
	$	138,382

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued 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	$	1,123
Amortization of bond premium and discounts		992
	$	2,115

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:

Refunding General Obligation Bonds	$	(84,165)
Refunding Revenue Bonds		(30,570)
Premium on Refunding Bonds		(6,284)
	$	(121,019)

III. STEWARDSHIP, COMPLIANCE, and ACCOUNTABILITY

A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2002/03 on a cash basis and the appropriation for this budget 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 Fund (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, 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, 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 fiscal year 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.

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 Streetlight and Services District Department exceeded its expenditure appropriation by $(31,000). This over expenditure was funded by available fund balance.

The Highway User Revenue Fund exceeded its Operating Expenditures appropriation by $(450,000). This over expenditure was funded by the General Fund.

The Airport Enterprise Fund exceeded its expense appropriation by $(84,000). This over expense was funded by a transfer from the General Fund.

C. Deficit Fund Equity

The Section 8 Housing Fund had a deficit fund balance of ($42,000) 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.

The Preserve Privilege Tax Capital Projects Fund had a deficit fund balance of $(7,110,000), caused by advanced spending of bond proceeds under a reimbursement resolution. Bonds will be sold in March 2004.

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 reserved and unreserved fund balance/net assets at June 30, 2003:

Fund Balance Reservations and Designations (in thousands of dollars)

General Fund	Major	Nonmajor
Designated for Bonds Payable	$ 33,720	
Designated for Economic Stabilization Reserve	20,476	
Designated for Economic Investment	4,220	
Total Designated	$ 58,416	
Debt Service		
Reserved for Debt Service	$ 9,006	$ 4,664

Restricted Net Asset and Unrestricted Net Asset Designations

Water and Sewer	
Restricted for Repair and Replacement	$ 14,286
Restricted for Acquisition and Construction	2,435
Total Restricted	$ 16,721

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

Water and Sewer	
Designated for Operating Reserve	$ 15,363
Solid Waste	
Designated for Operating Reserve	$ 3,156
Airport	
Designated for Operating Reserve	$ 68
Self-Insurance	
Designated for General Liability Claims	$ 4,431
Designated for Benefits	4,109
	$ 8,540
Fleet Management	
Designated for Capital Equipment Replacement	$ 4,057

IV. DETAILED NOTES ON ALL FUNDS

A. 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 early implemented 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 disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

Deposits

At June 30, 2003, the carrying amount of the City's deposits was $16,698,779, and the bank balance was $15,739,883. The $958,896 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, 2003, 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).

Investments

The City's investments at June 30,2003, are summarized as follows:

(in thousands of dollars)		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1 - 2	2 - 3
U.S. Treasuries	$ 66,163	$ 66,163	$ -	$ -
U.S. Agencies	328,647	24,884	111,215 *	192,548 **
Repurchase Agreements	28,049	28,049	-	-
Local Government Investment Pool	3,555	3,555	-	-
Guaranteed Investment Contracts	475	475	-	-
Money Market Funds	54,824	54,824	-	-
Total Investments	$ 481,713	$ 177,950	$111,215	$ 192,548

*$29,475 of these bonds are callable July 21, 2003 to May 3, 2004
**$172,431 of these bonds are callable July 23, 2003 to June 30, 2004

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

Carrying Amount of City Deposits	$	16,699
Investments		481,713
Total Cash and Investments	$	498,412

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

Primary Government		
Cash and Investments	$	422,727
Cash Held with Fiscal Agent		52,391
Restricted Cash		22,056
Handicap Scholarship Private Purpose Trust Fund		9
Scottsdale Memorial Hospital Redevelopment		
Private Purpose Trust Fund		695
Family Self-sufficiency Agency Fund		70
Retainage Escrow Agency Fund		464
Total Cash and Investments	$	498,412

Investment income comprises the following for the year ended June 30, 2003 (in thousands of dollars):

Net Interest and Dividends	$	14,821
Net Decrease in the Fair Value of Investments		(9,194)
Total Net Investment Income	$	5,627

The net decrease in the fair value of investments during fiscal year 2002/03 was $9,193,871. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. Of the $9,193,871 net decrease, $7,864,309 represents the City's share of the loss on an investment within the Local Government Investment Pool. In addition, the City had an unrealized gain on investments held at June 30, 2003, of $1,187,935.

B. Receivables

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

Receivable Balance (Net of Allowance for Uncollectible) (in thousands of dollars)

Governmental Activities:

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Project	Nonmajor and Other Funds	Total Governmental Funds
Receivables					
Property Taxes and Penalties:					
Property	$ 620	$ 913	$ -	$ 196	$ 1,729
Court	12,690	-	-	-	12,690
Subtotal Property Taxes and Penalties	13,310	913	-	196	14,419
Other local taxes:					
Privilege	6,368	-	-	2,498	8,866
Hotel/Motel	305	-	-	-	305
State Shared Sales Tax	1,359	-	-	-	1,359
Franchise Fee	1,769	-	-	-	1,769
Auto Lieu	663	-	-	-	663
Highway User	-	-	-	1,148	1,148
Subtotal Other Local Taxes	10,464	-	-	3,646	14,110
Intergovernmental	7	-	335	1,523	1,865
Interest and Other:					
Interest	328	-	228	539	1,095
Special Assessments	-	-	-	10,085	10,085
Note (Sinclair Oil)	4,000	-	-	-	4,000
Miscellaneous	2,372	-	20	335	2,727
Subtotal Interest and Other	6,700	-	248	10,959	17,907
Gross Receivable	30,481	913	583	16,324	48,301
Less: Allowance for Uncollectibles	(9,302)	-	-	-	(9,302)
Net Total Receivables	$ 21,179	$ 913	$ 583	$ 16,324	$ 38,999

Major Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total
Receivables				
Charges for services	$ 10,677	$ -	$ 2,321	$ 12,998
Intergovernmental	-	571	-	571
Interest	507	-	12	519
Miscellaneous	429	137	48	614
Gross Receivable	11,613	708	2,381	14,702
Net Total Receivables	$ 11,613	$ 708	$ 2,381	$ 14,702

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	$ 1,016	$ -
Special Assessments	10,085	-
Court	3,388	-
Tax Audit	1,353	-
Intergovernmental	-	1,235
Other	-	-
Note Receivable	4,000	-
Community Services	-	272
Other	-	52
Community Facilities District Developer Deposit	-	500
	$ 19,842	$ 2,059

C. Capital Assets

Capital Asset activity (in thousands of dollars) for the year ended June 30, 2003, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 324,138	$ 26,004	$ (316)	$ 349,826
Construction In Process	106,694	65,333	(104,511)	67,516
Total Capital Assets, Not Being Depreciated:	430,832	91,337	(104,827)	417,342
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	264,387	13,454	-	277,841
Streets and Storm Drains	1,934,425	120,845	-	2,055,270
Vehicles	38,429	5,087	(1,935)	41,581
Maintenance by Fleet	3,590	128	(66)	3,652
Machinery and Equipment	49,999	3,779	(1,029)	52,749
Total Capital Assets, Being Depreciated:	2,290,830	143,293	(3,030)	2,431,093
Less Accumulated Depreciation for:				
Buildings and Land Improvements	110,328	9,999	-	120,327
Streets and Storm Drains	588,245	62,238	-	650,483
Vehicles	17,111	5,247	(1,852)	20,506
Maintenance by Fleet	1,447	390	(66)	1,771
Machinery and Equipment	26,806	5,489	(826)	31,469
Total Accumulated Depreciation:	743,937	83,363	(2,744)	824,556
Total Capital Assets, Being Depreciated, Net	1,546,893	59,930	(286)	1,606,537
Governmental Activities Capital Assets, Net	$ 1,977,725	$ 151,267	$ (105,113)	$ 2,023,879

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 13,916	$ -	$ -	$ 13,916
Water Rights	64,489	199	-	64,688
Construction In Process	104,504	26,943	(62,484)	68,963
Total Capital Assets, Not Being Depreciated:	182,909	27,142	(62,484)	147,567
Capital Assets, Being Depreciated:				
Water System	440,188	25,468	(1,143)	464,513
Sewer System	264,759	45,148	(6,293)	303,614
Buildings and Land Improvements	14,285	630	(609)	14,306
Machinery and Equipment	5,036	948	(21)	5,963
Furniture, Fixtures and Office Equipment	698	-	-	698
Total Capital Assets, Being Depreciated:	724,966	72,194	(8,066)	789,094
Less Accumulated Depreciation for:				
Water System	107,513	13,622	(228)	120,907
Sewer System	52,004	6,803	(5,475)	53,332
Buildings and Land Improvements	4,539	792	(320)	5,011
Machinery and Equipment	2,034	273	-	2,307
Furniture, Fixtures and Office Equipment	412	52	-	464
Total Accumulated Depreciation:	166,502	21,542	(6,023)	182,021
Total Capital Assets, Being Depreciated, Net	558,464	50,652	(2,043)	607,073
Business-type Activities Capital Assets, Net	$ 741,373	$ 77,794	$ (64,527)	$ 754,640

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

Governmental Activities	
General Government	$ 6,123
Police	1,488
Financial Services	208
Transportation	62,619
Community Services	3,343
Information Services	3,572
Fire	202
Municipal Services	19
Citizen and Neighborhoods Resources	19
Human Resources	3
Economic Vitality	3
Planning and Development	44
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,720
Total Depreciation Expense - Government Activities	$ 83,363

Business-Type Activities		
Water and Sewer System	$	20,663
Airport		677
Solid Waste		202
Total Depreciation Expense - Business-Type Activities	$	21,542

Construction Commitments

The City has active construction projects as of June 30, 2003. At year-end the government's commitments with contractors for specific projects (in thousands of dollars) are as follows:

Construction Commitments	Spent to Date	Remaining Commitment
Streets	$ 7,294	$ 4,383
Traffic	1,509	1,810
Improvement District	6	27
Fire	1,336	2,203
Police	461	1,306
Drain/Flood Control	1,064	596
Community	864	1,800
Parks/Recreation	6,131	1,932
Municipal Facilities	460	331
Technology	48	1,263
Libraries	136	618
Airport	775	86
Transit	141	166
Water System	16,856	7,190
Sewer System	305	2,045
	$ 37,386	$ 25,756

The improvement district portion of the commitment is financed by improvement district bonds. The traffic commitments are being financed by the .2 percent 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.

D. 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, 2003, is as follows (in thousands of dollars):

Receivable Fund		Amount
General	$	263
Nonmajor Governmental Funds		4,401
Total	$	4,664

Payable Fund		Amount
Nonmajor Governmental Funds	$	111
Major Enterprise		
Airport		152
Nonmajor Governmental Funds		4,401
Total	$	4,664

The composition of individual funds having advances to and from other funds at June 30, 2003 is as follows.

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 Capital Improvement Plan Capital Project Fund to the Airport was to provide cash for the completion of the Kilo Ramp and Airport Service Road Reconstruction. The amounts will be repaid from the Airport Enterprise Fund when the Airport operations generate sufficient cash to cover operations.

Advances To Other Funds: (in thousands of dollars)	**Amount**
General	$ 1,191
Major Governmental Funds	
General CIP Construction	107
Total	$ 1,298

Advances From Other Funds: (in thousands of dollars)	**Amount**
Nonmajor Governmental Funds	$ 1,191
Major Enterprise Funds	
Airport	107
Total	$ 1,298

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 a transfer in the amount of $500,000 was made from the Fleet Management Internal Service Funds to the General Fund. Of the total, transfers totaling $4,658,000 from the Fleet Management Fund to Capital Projects were made in order to fund pay-as-you go capital projects and to reduce the excess cash balance in the Fleet Management Fund.

Net transfers (in thousands of dollar):

Transfers Out From:	
Major Governmental Funds	
General	$ 38,402
Capital Projects	
General CIP Construction	31
Total Major Governmental Funds	38,433

Transfers In To:	
Major Governmental Funds	
Capital Projects	
General CIP Construction	$ 17,921
Nonmajor Governmental Funds	20,431
Internal Service Funds	50
Nonmajor Governmental funds	31
Total Major Governmental Funds	38,433

Transfers Out From:		Transfers In To:	
Major Enterprise Funds			
Water and Sewer	$ 9,570	**Major Governmental Funds**	
		General Fund	$ 7,176
		Capital Projects	
		General CIP Construction	2,394
Airport	334	**Major Governmental Funds**	
		General Fund	74
		Capital Projects	
		General CIP Construction	260
Solid Waste	1,066	**Major Governmental Funds**	
		Capital Projects	
		General CIP Construction	836
		Internal Service	230
Total Major Enterprise Funds	10,970	Total Major Enterprise Funds	10,970
Nonmajor Governmental Funds	53,149	**Major Governmental Funds**	
		General Fund	3
		Debt Service	
		General Obligation Bond	9,040
		Capital Projects	
		General CIP Construction	12,788
		Nonmajor Governmental funds	31,318
Total Nonmajor Governmental Funds	53,149	Total Nonmajor Governmental Funds	53,149
Internal Service	5,184	**Major Governmental Funds**	
		General Fund	500
		Capital Projects	
		General CIP Construction	4,669
		Major Enterprise Funds	
		Enterprise	
		Water and Sewer	15
Total Internal Service Funds	5,184	Total Internal Service Funds	5,184
Total	$ 107,736	Total	$ 107,736

E. Bonds, Loans, Capital Leases and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2003. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2003.

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, 2003, the City had $330,200,000 of unissued various purpose GO bonds, which were authorized in September 2000. In addition, the City had $65,400,000 of unissued Preservation GO bonds, which were authorized in September 1999. 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.

Highway User Revenue Fund Bonds
Highway User Revenue Fund (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 general 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.

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. SPA bonds are recorded as general long-term debt and are paid out of the SPA Debt Service Fund.

Water & Sewer Revenue Bonds
Water & 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, 2003, the City had $3,340,000 authorized but unissued Water & Sewer Revenue bonds. The City has no plans to issue the remaining portion of the unissued Water & Sewer Revenue bonds authorized as all projects related to the authorization have been completed. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & 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 & 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, 2003, the funds reserved for this purpose were $14,285,965.

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, 2003, 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 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, 2003, there were 6 separate series of Special Assessment 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 CFD 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 2002/03. 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, 2003, and net of any amounts to be paid or retired by the trustee on July 1, 2003 (in thousands of dollars).

Refunded in Prior Year
(in thousands of dollars)

McDowell Mountain Ranch CFD:				
General Obligation Series Series 1994	$	7,735		
General Obligation Series Series 1994 A		2,845		
General Obligation Series 1997		6,910	$	17,490
Scottsdale Mountain CFD:				
General Obligation Series Series 1993A		2,500		
General Obligation Series Series 1993B		85		
General Obligation Series 1995		1,725		4,310
Total CFD Bonds Refunded in Prior Years			$	21,800

Bonds payable at June 30, 2003 are comprised of the following:

Classified in Governmental Activities on the Government-wide financial statements:

General Obligation Bonds	Bonds Outstanding (in thousands of dollars)
1989 Capital Improvement Project Serial Bonds (Series C issued 1992)/Refunding Bonds due in annual installments of $750,000 to $2,025,000 through July 1, 2012; interest at 5.25 percent to 7.75 percent. On September 3, 1997, $5,505,000 due 2007 through 2010 were refunded, on July 18, 2001, an additional $5,610,000 due 2005, 2006, 2011 and 2012 were refunded, and on September 26, 2002, another $2,065,000 due 2003 and 2004 were refunded. Original issue amount, $25,055,000.	$ -
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, 2003, $10,231,258 bonds are capital appreciation bonds maturing in 2004 and 2005, of which $6,652,737 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	17,248
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. Original issue amount, $21,000,000.	2,905
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.	15,865
1989 Capital Improvement Project Serial Bonds (Series E issued 1994) due in annual installments of $450,000 to $1,150,000 through July 1, 2014; interest at 5.25 percent to 8.25 percent. On September 3, 1997, $4,325,000 due 2007 through 2011 were refunded, on July 18, 2001, an additional $5,350,000 due 2004 through 2006 and 2012 through 2014 were refunded, and on September 26, 2002, another $625,000 due 2003 were refunded. Original issue amount, $14,250,000.	-
1994 Various Projects Serial Bonds due in annual installments of $475,000 to $775,000 through July 1, 2014; interest at 5.75 percent to 8.25 percent. On September 3, 1997, $9,525,000 due 2006 through 2014 were refunded, on July 18, 2001, an additional $1,500,000 due 2004 and 2005 were refunded, and on September 26, 2002, another $700,000 due 2003 were refunded. Original issue amount, $16,000,000.	-
1995 Storm Sewer, Parks and Pima Road Improvement Serial Bonds (issued November 1, 1995) due in annual installments of $425,000 to $1,200,000 through July 1, 2015; interest at 4.65 percent to 7.0 percent. On July 18, 2001, $2,725,000 due 2009 through 2011 were refunded, and on September 26, 2002, an additional $8,125,000 due 2002 through 2008 and 2012 through 2015 were refunded. Original issue amount, $15,000,000.	-
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 throuth 2016 were refunded. Original issue amount, $27,500,000.	2,415

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.	$	19,850
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.		8,910
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.		6,450
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.		18,400
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.		29,210
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. Original issue amount $51,155,000.		49,570
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. Original issue amount $68,000,000.		66,260
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. Original issue amount $72,000,000.		67,920
Total General Obligation Bonds Outstanding		305,003

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, and 2002 Refunding Bonds of $28,293,000 and $40,000,000 and $8,100,000, 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.		10,990

Municipal Property Corporation Bonds

1992 Refunding Series Municipal Property Corporation Certificates of Participation due in semi-annual installments of $55,000 to $1,865,000 through November 1, 2014; interest at 5.0 percent to 6.375 percent. On August 7, 2002, $30,885,000 due 2003 through 2014 were refunded. Original issue amount, $47,095,000.	$ -
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.	8,120
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.	1,080
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. Original issue amount, $2,950,000.	2,270
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.	340
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.	835
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. Original issue amount, $30,570,000.	29,310
Total MPC Bonds Outstanding	41,955

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.	1,160
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. Original issue amount $77,000,000.	69,740
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.	17,370
Total Scottsdale Preserve Authority Bonds	88,270

Special Assessment Bonds

Special Assessment Bonds issued April 23, 1992, 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 7.05 percent. Total original issue amount, $43,045,000.	$ 11,140

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.	3,225
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.	17,970
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.	5,160
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.	12,165
Total Community Facilities Districts General Obligation Bonds Outstanding	46,355
Total Bonds Payable Recorded in Governmental Activities	$ 503,713

Classified in Business-Type Activities on the Government-wide financial statements:

General Obligation Bonds	Bonds Outstanding (in thousands of dollars)
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, 2003, $10,231,258 bonds are capital appreciation bonds maturing in 2004 and 2005, of which $6,652,737 are included in the amount paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	$ 13,008
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
Total General Obligation Bonds Outstanding	14,323

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. Original issue amount, $5,000,000.	2,910
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. Original issue amount, $5,000,000.	465
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.	6,700
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. Original issue amount $20,000,000.	17,100
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. Original issue amount $50,000,000.	44,055
Total Water and Sewer Revenue Bonds Outstanding	71,230

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.	$ 1,985
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.	8,025
Total Municipal Property Corporation Bonds Outstanding	10,010
Total Bonds Payable Recorded in Business-type Activities	95,563
Total Long-term Portion of Bonds Payable	$ 599,276

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, 2003 (in thousands of dollars):

General Obligation Bonds Issued to Provide Water, Sewer, Light,		General Obligation Bonds Issued for All Other Purposes	
20% Constitutional Limit	$ 705,321	6% Constitutional Limit	$ 211,596
Less General Obligation 20% Bonds Outstanding	(237,400)	Less General Obligation 6% Bonds Outstanding	(71,695)
Available 20% Limitation Borrowing Capacity	$ 467,921	Available 6% Limitation Borrowing Capacity	$ 139,901

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 has an independent consultant evaluating the City's outstanding tax-exempt debt for arbitrage liability. As of June 30, 2003, the City has recognized an arbitrage liability of $151,853. This arbitrage liability is reported in due to other governments in the governmental activities statement of net assets.

Advance and Forward Refundings

During the year ended June 20, 2003, the City issued two series of refunding bonds.

The City issued $72,000,000 of General Obligation Refunding Bonds, Series 2002, (advance refunding) dated September 26, 2002, with an average interest rate of 4.5%, to refund $71,510,000 of Series 1992, 1993, 1994, 1995, 1997, 1998, 1999, 1999A and 2001 General Obligation and Preservation Bonds with an average interest rate of 4.92%. The City will reduce its total debt service payments over the next 22 years by approximately $3,218,584 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $611,585.

The City issued $30,570,000 of Municipal Property Corporation Refunding Bonds, Series 2002, (forward refunding) dated August 7, 2002, with an average interest rate of 5.5%, to refund $30,885,000 of Series 1992 Excise Tax Revenue Refunding Bonds with an average interest rate of 6.26%. The City refunded the bonds to reduce its total debt service payments over the next 13 years by approximately $2,059,698 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,073,165.

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.

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, 2003, net of any amounts to be paid or retired by the trustee on July 1, 2003.

Refunded in Year Ended June 30, 2003 (in thousands of dollars)		
1989 General Obligation Series C (1992) Bonds	$	2,065
1989 General Obligation Series D (1993) Bonds		9,940
1989 General Obligation Series E (1994) Bonds		625
1994 General Obligation Bonds		700
1995 General Obligation Bonds		8,125
1997 General Obligation Bonds		18,305
1998 General Obligation Bonds		8,180
1999A General Obligation Bonds		15,525
1999 Preservation General Obligation Bonds		4,125
2001 Preservation General Obligation Bonds		3,920
1992 Refunding Municipal Property Corporation Certificates of Participation		30,885
	$	102,395

Refunded in Prior Years (in thousands of dollars)		
1989 General Obligation Series B (1991) Bonds	$	11,895
1989 General Obligation Series C (1992) Bonds		11,115
1989 General Obligation Series E (1994) Bonds		9,675
1994 General Obligation Bonds		11,025
1995 General Obligation Bonds		2,725
1999 General Obligation Bonds		32,375
1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds		16,690
	$	95,500

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 following is a summary of debt service to maturity for all long-term contracts payable at June 30, 2003. The final payment for the water facilities contract was made during the current year; as a result, there were no long-term contracts payable classified in business-type activities.

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.	$ 3,304
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.	268
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.	1,760
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.	1,650
Contract payable for the construction of public infrastructure relating to completion of the Anchor National Life / Portales mixed use development; due in annual installments beginning 2003.	2,117
Contract payable for the construction of public infrastructure relating to completion of the Promenade shopping center; due in annual installments beginning March 2000 through March 2007; non interest bearing.	2,953
Contract payables for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through; interest at 10.0 percent.	140
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.	7,430
Total Contracts Payable Recorded in Governmental Activities	$ 19,627

Capital Lease

In connection with the Waterfront Area Redevelopment Plan, the City has entered into a garage lease agreement in order to provide public parking. The lease has an initial term of 50 years. The lease is payable over 30 years in the amount of $28,750,000, plus interest at 9.14% per annum compounded annually, subject to an interest rate buy down option. The exclusive funding source for the lease payments is new retail sales tax revenues generated by the Nordstrom department store and the multilevel retail bridge linking Nordstrom to Fashion Square, as well as increased retail sales tax revenues (over 1995) from Fashion Square.

The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded as buildings and other improvements, at the present value of the future minimum lease payments as of the inception date. According to the lease agreement annual payments should be allocated to interest due first with the remaining amount allocated to the principal. Current estimates indicate that it is unlikely that any principal will be paid until near the end of the lease.

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, 2003 (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	$ 319,657	$ 72,741	$ (87,395)	$ 305,003	$ 14,483
HURF Revenue Bonds	13,385	-	(2,395)	10,990	2,515
Municipal Property Corporation Bonds	49,870	30,570	(38,485)	41,955	7,815
Scottsdale Preserve Authority Bonds	90,585	-	(2,315)	88,270	2,445
Special Assessments Bonds	13,061	-	(1,921)	11,140	2,386
Community Facilities Districts General Obligation Bonds	34,935	12,165	(745)	46,355	1,405
Add Deferred Issuance Premiums	1,572	6,284	(992)	6,864	-
Less Deferred Amounts on Refunding	(3,585)	(5,865)	1,123	(8,327)	-
Total Bonds Payable	519,480	115,895	(133,125)	502,250	31,049
Contracts Payable	21,416	-	(1,789)	19,627	2,205
Capital Lease	28,750	-	-	28,750	-
Compensated Absences	12,455	-	(960)	11,495	1,993
Governmental Activity Long-term Liabilities	$ 582,101	$ 115,895	$ (135,874)	$ 562,122	$ 35,247

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, 2003, $326,000 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	$ 18,315	$ 828	$ (4,820)	$ 14,323	$ 592
Water and Sewer Revenue Bonds	73,945	-	(2,715)	71,230	2,860
Municipal Property Corporation Bonds	11,555	-	(1,545)	10,010	1,645
Add Deferred Issuance Premiums	225	-	(37)	188	-
Less Deferred Amounts on Refunding	(288)	-	47	(241)	-
Total Bonds Payable	103,752	828	(9,070)	95,510	5,097
Compensated Absences	1,628	-	(283)	1,345	226
Business-type Activity Long-term Liabilities	$ 105,380	$ 828	$ (9,353)	$ 96,855	$ 5,323

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2003. 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
2004	$ 3,093	$ 13,489	$ 16,582	$ 11,390	$ 3,323	$ 14,713	$ 14,483	$ 16,812	$ 31,295
2005	6,526	13,358	19,884	8,491	2,824	11,315	15,017	16,182	31,199
2006	5,476	10,865	16,341	10,479	2,409	12,888	15,955	13,274	29,229
2007	6,065	10,560	16,625	12,080	1,902	13,982	18,145	12,462	30,607
2008	7,775	10,205	17,980	11,165	1,363	12,528	18,940	11,568	30,508
2009-2013	73,305	42,469	115,774	18,090	1,308	19,398	91,395	43,777	135,172
2014-2018	64,260	24,369	88,629	-	-	-	64,260	24,369	88,629
2019-2023	51,550	10,674	62,224	-	-	-	51,550	10,674	62,224
2024-2028	11,680	584	12,264	-	-	-	11,680	584	12,264
Capital Appreciation **	3,578	(3,578)	-	-		-	3,578	(3,578)	-
Total	$ 233,308	$ 132,995	$ 366,303	$ 71,695	$ 13,129	$ 84,824	$ 305,003	$ 146,124	$ 451,127

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

Governmental Activities (continued)
(in thousands of dollars)

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
2004	$ 2,515	$ 591	$ 3,106	$ 7,815	$ 2,330	$ 10,145	$ 2,445	$ 4,414	$ 6,859
2005	2,660	459	3,119	6,740	1,916	8,656	2,595	4,258	6,853
2006	2,825	316	3,141	2,725	1,548	4,273	2,740	4,092	6,832
2007	2,990	164	3,154	2,870	1,396	4,266	2,890	3,940	6,830
2008	-	-	-	3,020	1,237	4,257	3,035	3,778	6,813
2009-2013	-	-	-	16,820	3,559	20,379	17,475	16,226	33,701
2014-2018	-	-	-	1,965	143	2,108	22,125	11,382	33,507
2019-2023	-	-	-	-	-	-	28,380	5,494	33,874
2024-2028	-	-	-	-	-	-	6,585	296	6,881
Total	$ 10,990	$ 1,530	$ 12,520	$ 41,955	$ 12,129	$ 54,084	$ 88,270	$ 53,880	$ 142,150

Governmental Activities (continued)
(in thousands of dollars)

Fiscal Year	Special Assessment Bonds			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,385	$ 477	$ 2,862	$ 1,405	$ 2,255	$ 3,660
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	192	1,027	1,615	2,045	3,660
2008	835	423	1,258	1,685	1,978	3,663
2009-2013	3,835	-	3,835	9,780	8,705	18,485
2014-2018	-	-	-	12,035	6,170	18,205
2019-2023	-	-	-	11,640	3,065	14,705
2024-2028	-	-	-	5,190	668	5,858
Total	$ 11,140	$ 1,708	$ 12,848	$ 46,355	$ 29,200	$ 75,555

Governmental Activities (continued)
(in thousands of dollars)

Fiscal Year	Contracts Payable			Capital Lease			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,205	533	$ 2,738	$ -	$ 2,120	$ 2,120	$ 33,253	$ 29,532	$ 62,785
2005	2,235	502	2,737	-	2,184	2,184	33,132	28,043	61,175
2006	2,262	469	2,731	-	2,249	2,249	28,877	24,336	53,213
2007	1,834	435	2,269	-	2,317	2,317	31,179	22,951	54,130
2008	951	398	1,349	-	2,386	2,386	28,466	21,768	50,234
2009-2013	5,313	1,361	6,674	-	13,049	13,049	144,618	86,677	231,295
2014-2018	1,117	589	1,706	-	15,127	15,127	101,502	57,780	159,282
2019-2023	1,278	428	1,706	-	17,536	17,536	92,848	37,197	130,045
2024-2028	1,484	222	1,706	28,750	24,101	52,851	53,689	25,871	79,560
2029-2033	838	24	862	-	-	-	838	24	862
2034-2035	110	-	110	-	-	-	110	-	110
Capital Appreciation	-	-	-	-	-	-	3,578	(3,578)	-
Total	$ 19,627	$4,961	$ 24,588	28,750	81,069	109,819	$ 552,090	$ 330,601	$ 882,691

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
2004	$ 592	$ 4,293	$ 4,885	$ 592	$ 4,293	$ 4,885
2005	563	4,352	4,915	563	4,352	4,915
2006	6,515	340	6,855	6,515	340	6,855
2007	-	-	-	-	-	-
2008	-	-	-	-	-	-
2009-2013	-	-	-	-	-	-
2014-2018	-	-	-	-	-	-
2019-2023	-	-	-	-	-	-
2023-2026	-	-	-	-	-	-
Capital Appreciation **	6,653	(828)	5,825	6,653	(828)	5,825
Total	$ 14,323	$ 8,157	$ 22,480	$ 14,323	$ 8,157	$ 22,480

Business-type Activities (continued)
(in thousands of dollars)

Fiscal Year	Water and Sewer Revenue Bonds			Municipal Property Corporation Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 2,860	$ 3,650	$ 6,510	$ 1,645	$ 412	$ 2,057	$ 5,097	$ 8,355	$ 13,452
2005	3,055	3,467	6,522	1,745	350	2,095	5,363	8,169	13,532
2006	3,245	3,270	6,515	1,860	286	2,146	11,620	3,896	15,516
2007	3,400	3,076	6,476	1,990	217	2,207	5,390	3,293	8,683
2008	3,565	2,873	6,438	2,130	118	2,248	5,695	2,991	8,686
2009-2013	17,105	11,475	28,580	640	46	686	17,745	11,521	29,266
2014-2018	16,995	7,263	24,258	-		-	16,995	7,263	24,258
2019-2023	21,005	2,991	23,996	-	-	-	21,005	2,991	23,996
2023-2026	-	-	-	-	-	-	-	-	-
Capital Appreciation **	-	-	-	-	-	-	6,653	(828)	5,825
Total	$ 71,230	$ 38,065	$ 109,295	$ 10,010	$ 1,429	$ 11,439	$ 95,563	$ 47,651	$ 143,214

** 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 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, 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.

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, 2003, the general liability claims payable totaled $7,610,421 and the self-insured benefits claims totaled $1,229,000.

	Years Ended June 30	
(in thousands of dollars)	**2003**	**2002**
Claims Payable, July 1	$ 8,420	$ 7,721
Current Year Claims Incurred	6,065	7,883
Current Year Claim Payments	(5,646)	(7,184)
Claims Payable June 30	$ 8,839	$ 8,420

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, 2003, the 90% confidence level recommendation is $11,035,110 for all lines of pending claims and the claims incurred, corridor reserve and premium stabilization reserve total $1,981,000 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 $5.5 million 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 $16,717,726 for the year ended June 30, 2003. The new contract requires 26 payments during the fiscal year 2003/04 for a total amount of $18,235,442.

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, 2003. Annual amounts due in fiscal year 2003/04 will approximate $2,780,596.

The City has a Service Agreement with the Scottsdale Convention and Visitors' Bureau (Bureau) that provides that the Council will manage the tourism promotion within the Scottsdale community for a ten-year period. 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 $5,023,610 for the year ended June 30, 2003. The annual amount due in fiscal year 2004 will be $4,506,000.

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, 2003, is $6,512,170.

On July 2, 2003, the City Council approved a redevelopment agreement for the former Los Arcos Redevelopment District. Under the terms of the agreement, the City will share sales tax proceeds generated by the project with the Ellman Companies (the developer), up to a net present value maximum of $36,750,000 plus interest at a rate of 7.18%. This allocation is based on performance-based sharing 69% of the General Fund portion of sales tax generated at the site. After completion of improvements, but prior to any payments by the City, the Developer will deed to the City title to a parking structure and approximately 20 acres of land, plus all improvements on those lands. The City will not be obligated to make any payments until the entire project is completed. Litigation has been filed to challenge this Agreement on a variety of legal issues. The actions seek to declare the Agreement invalid, but do not request money damages against the City or other defendants. The City Attorney's Office has reviewed this Agreement and is optimistic that it is legally defensible.

On September 10, 2003, the City sold City of Scottsdale General Obligation Refunding Bonds, Series 2003 in an aggregate principal amount not to exceed $16,625,000.

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. 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, 2002, (the latest audited information available from SROG), the City's net investment in SROG was $39,922,000. SROG's net cash operating expenses for the year ended June 30, 2002, were $24,004,656, of

which the City's share was $2,348,946, or 9.8 percent. For the year ended June 30, 2003, the City paid $13,133,376 for SROG capital contributions, and $2,190,090 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 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, 2003, 2002, and 2001 were 2.49% (2.00% retirement and .49% long-term disability) 2.49% and 2.66%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2003, 2002, and 2001 were $2,034,363, $2,057,262, and $1,925,741, 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 5.37% of annual covered payroll, consisting of 11.64% for normal cost and (6.27%) for amortization of unfunded actuarial accrued liability. Contribution rates for 2002 and 2001 were 5.37% and 4.48%, respectively.

Annual Pension Cost

For 2002, the City's annual pension cost of $924,558 for PSPRS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002 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, 2002 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
2000	$ 1,198	100%	-
2001	1,133	100%	-
2002	925	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% 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, 2003, 2002, and 2001 were 6.97%, 6.97% and 10.22%, respectively. The City's contributions to EORP for the years ending June 30, 2003, 2002 and 2001 were $10,036, $9,749, and $13,445, respectively, equal to the required contributions for each year.

G. Other Post-Employment Benefits

In addition to the pension benefits described previously in H 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 2002/03 was 85. The projected liability, as of June 30, 2003, for medical conversion was $6,308,534. Of this liability, $5,784,311 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, 2003, actuarial valuation. Significant actuarial assumptions of the January 1, 2003 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 percent based on years of service per annum, d) unit credit cost method based on participant data as of January 1, 2003.

Required Supplementary Information

Public Safety Personnel Retirement System
Schedule of Funding Progress
(in thousands of dollars)

Actuarial Valuation June 30	(1) Actuarial Value of Assets	(2) Entry Age Actuarial Accrued Liability (AAL)	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
1997	54,611	46,315	117.9%	(8,296)	13,443	-
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	-

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

This fund receives and expends the City's allocation of the Arizona's Highway User Revenue Tax ("gas 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 Grants (CDBG)

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

The 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 .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 .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 .2 percent Transportation Privilege (Sales) Tax

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 Fund

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

Preserve Privilege Tax Fund

Accounts for the May 23, 1995, voter-approved .2 percent Preservation 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 .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.

Combining Balance Sheet

Nonmajor Governmental Funds
June 30, 2003 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	$ 17,738	$ 5,110	$ 88,508	$ 111,356
Cash with Fiscal Agent	2,752	14,616	-	17,368
Receivables				
Interest	105	-	336	441
Privilege Tax	2,498	-	-	2,498
Property Tax	-	171	-	171
Highway User Tax	1,148	-	-	1,148
Intergovernmental	1,119	-	-	1,119
Grants	404	-	-	404
Special Assessments	-	10,085	-	10,085
Miscellaneous	48	137	-	185
Due from Other Funds	4,401	-	-	4,401
Total Assets	$ 30,213	$ 30,119	$ 88,844	$ 149,176
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 1,079	$ 41	$ 3,904	$ 5,024
Accrued Payroll	412	-	7	419
Due to Other Funds	111	-	4,401	4,512
Matured Bond Interest Payable	357	4,931	-	5,288
Matured Bonds Payable	2,395	9,685	-	12,080
Deferred Revenue:				
Property Tax	-	97	-	97
Special Assessments	-	10,085	-	10,085
Intergovernmental	1,235	-	-	1,235
Other	-	580	-	580
Advances From Other Funds	-	-	1,191	1,191
Due to Other Governments	-	-	668	668
Guaranty and Other Deposits	50	-	489	539
Other	21	36	-	57
Total Liabilities	5,660	25,455	10,660	41,775
Fund Balances				
Reserved for:				
Debt Service	-	4,664	-	4,664
Unreserved, undesignated	24,553	-	78,184	102,737
Total Fund Balances (Deficit)	24,553	4,664	78,184	107,401
Total Liabilities and Fund Balances	$ 30,213	$ 30,119	$ 88,844	$ 149,176

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

Nonmajor Governmental Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes - Local:				
Property	$ -	$ 3,650	$ -	$ 3,650
Transaction Privilege	30,980	-	-	30,980
Highway User Tax	13,137	-	-	13,137
Local Transportation Assistance Fund	1,146	-	-	1,146
Charges for Current Services:				
Building and Related Permits	25	-	-	25
Recreation Fees	795	-	-	795
Fines, Fees and Forfeitures:				
Court Fines	1	-	-	1
Court Enhancement	512	-	-	512
Special Assessments	-	1,970	-	1,970
Property Rental	74	232	-	306
Interest Earnings	727	55	824	1,606
Intergovernmental:				
Federal Grants	7,993	-	-	7,993
State Grants	182	-	-	182
Miscellaneous	360	41	-	401
Developer Contributions	-	7	105	112
Contributions and Donations	429	-	-	429
Reimbursements From Outside Sources	149	-	104	253
Other	25	-	-	25
Total Revenues	56,535	5,955	1,033	63,523

(continued)

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

Nonmajor Governmental Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
EXPENDITURES				
Current:				
General Government	246	617	-	863
Police	801	-	-	801
Transportation	10,869	-	-	10,869
Community Services	7,165	-	-	7,165
Municipal Services	11,060	-	-	11,060
Citizen and Neighborhood Resources	1	-	-	1
Human Resources	3	-	-	3
Planning and Development	14	-	-	14
Debt Service:				
Principal	2,965	12,650	-	15,615
Interest and Fiscal Charges	1,100	9,526	14	10,640
Bond Issuance Costs	-	652	-	652
Capital Improvements	1,294	-	34,782	36,076
Total Expenditures	35,518	23,445	34,796	93,759
Excess (Deficiency) of Revenues Over Expenditures	21,017	(17,490)	(33,763)	(30,236)
OTHER FINANCING SOURCES (USES)				
Transfers In	10,805	17,350	23,625	51,780
Transfers Out	(33,269)	-	(19,880)	(53,149)
Refunding Bonds Issued	-	30,570	-	30,570
Long-term Capital-related Debt Issued	-	-	12,165	12,165
Premium on Bonds Issued	-	1,403	-	1,403
Payment to Bond Refunding Escrow Agent	-	(31,600)	-	(31,600)
Sale of Capital Assets	225	-	-	225
Total Other Financing Sources and (Uses)	(22,239)	17,723	15,910	11,394
Net Change in Fund Balances	(1,222)	233	(17,853)	(18,842)
Fund Balances - Beginning	25,775	4,431	96,037	126,243
Fund Balances - Ending	$ 24,553	$ 4,664	$ 78,184	$ 107,401

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds
June 30, 2003 (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 All Funds
ASSETS									
Cash and Investments	$ 34	$ -	$ -	$ 564	$ -	$ 13,377	$ -	$ 3,763	$ 17,738
Cash with Fiscal Agent	2,752	-	-	-	-	-	-	-	2,752
Receivables:									
Interest	-	-	-	-	-	79	18	8	105
Privilege Tax	-	-	-	-	-	1,261	1,237	-	2,498
Highway User Tax	1,148	-	-	-	-	-	-	-	1,148
Intergovernmental	-	-	-	-	-	-	-	1,119	1,119
Grants	107	118	6	70	103	-	-		404
Miscellaneous	13	-	-	10	-	-	-	25	48
Due from Other Funds	-	-	-	-	-	4,401	-	-	4,401
Total Assets	$ 4,054	$ 118	$ 6	$ 644	$ 103	$ 19,118	$ 1,255	$ 4,915	$ 30,213
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts Payable	$ 925	$ 74	$ -	$ 14	$ 2	$ -	$ -	$ 64	$ 1,079
Accrued Payroll	327	16	1	34	21	-	-	13	412
Due to Other Funds	-	26	5	-	80	-	-	-	111
Matured Bond Interest Payable	357	-	-	-	-	-	-	-	357
Matured Bonds Payable	2,395	-	-	-	-	-	-	-	2,395
Deferred Revenue:									
Intergovernmental	-	-	-	82	42	-	-	1,111	1,235
Guaranty and Other Deposits	50	-	-	-	-	-	-	-	50
Other	-	-	-	-	-	-	-	21	21
Total Liabilities	4,054	116	6	130	145	-	-	1,209	5,660
Fund Balances									
Unreserved, Undesignated	-	2	-	514	(42)	19,118	1,255	3,706	24,553
Total Fund Balances (Deficit)	-	2	-	514	(42)	19,118	1,255	3,706	24,553
Total Liabilities and Fund Balances	$ 4,054	$ 118	$ 6	$ 644	$ 103	$ 19,118	$ 1,255	$ 4,915	$ 30,213

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

Nonmajor Special Revenue Governmental Funds
For the Year Ended June 30, 2003 (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 All Funds
REVENUES									
Taxes - Local:									
Transaction Privilege	$ -	$ -	$ -	$ -	$ -	$ 15,645	$ 15,335	$ -	$ 30,980
Taxes - Intergovernmental:									
Highway User Tax	13,137	-	-	-	-	-	-	-	13,137
Local Transportation Assistance Fund	1,146	-	-	-	-	-	-	-	1,146
Charges for Current Services:									
Building and Related Permits	5	-	-	-	-	-	-	20	25
Recreation Fees	-	-	-	-	-	-	-	795	795
Fines, Fees and Forfeitures:									
Court Fines	-	-	-	-	-	-	-	1	1
Court Enhancement Fee	-	-	-	-	-	-	-	512	512
Property Rental	-	-	-	-	-	-	-	74	74
Interest Earnings	-	-	-	2	2	217	82	424	727
Intergovernmental:									
Federal Grants	107	1,170	6	1,968	4,742	-	-	-	7,993
State Grants	-	-	-	136	-	-	-	46	182
Miscellaneous	22	-	28	-	-	-		310	360
Contributions and Donations	-	-	-	2	-	-	-	427	429
Reimbursements From Outside Sources	140	-	-	-	9	-	-	-	149
Other	1	-	-	1	2	-	-	21	25
Total Revenues	14,558	1,170	34	2,109	4,755	15,862	15,417	2,630	56,535
EXPENDITURES									
Current:									
General Government	-	-	-	165	-	1	-	80	246
Police	-	-	-	546	-	-	-	255	801
Transportation	10,869	-	-	-	-	-	-	-	10,869
Community Services	-	1,170	28	120	4,687	-	-	1,160	7,165
Municipal Services	11,060	-	-		-	-	-	-	11,060
Citizen and Neighborhood Resources	-	-	-	-	-	-	-	1	1
Human Resources	-	-	-	3	-	-	-	-	3
Planning and Development	-	-	-	-	-	-	-	14	14
Debt Service:									
Principal	2,395	-	-	-	-	570	-	-	2,965
Interest and Fiscal Charges	715	-	-	-	-	385	-	-	1,100
Capital Improvements	-	-	-	1,274	-	-	-	20	1,294
Total Expenditures	25,039	1,170	28	2,108	4,687	956	-	1,530	35,518
Excess (Deficiency) of Revenues Over Expenditures	(10,481)	-	6	1	68	14,906	15,417	1,100	21,017
OTHER FINANCING SOURCES (USES)									
Transfers In	10,554	6	-	5	-	-	-	240	10,805
Transfers Out	(73)	-	(6)	(12)	-	(15,921)	(16,721)	(536)	(33,269)
Sale of Capital Assets	-	-	-	-	-	-	-	225	225
Total Other Financing Sources and (Uses)	10,481	6	(6)	(7)	-	(15,921)	(16,721)	(71)	(22,239)
Net Change in Fund Balances	-	6	-	(6)	68	(1,015)	(1,304)	1,029	(1,222)
Fund Balances - Beginning	-	(4)	-	520	(110)	20,133	2,559	2,677	25,775
Fund Balances - Ending	$ -	$ 2	-	$ 514	$ (42)	$ 19,118	$ 1,255	$ 3,706	$ 24,553

Highway User Fuel Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Intergovernmental:						
Auto Lieu Tax	$ 6,700	$ -	$ -	$ -	$ -	$ -
Highway User Tax	13,118	13,118	13,137	-	13,137	19
Local Transportation Assistance Fund	1,146	1,146	1,146	-	1,146	-
Building and Related Permits	-	-	-	5	5	-
Intergovernmental:						
Federal Grants	-	-	-	107	107	-
Miscellaneous	-	-	-	22	22	-
Reimbursement From Outside Sources	-	-	-	140	140	-
Other	-	-	-	1	1	-
Total Revenues	20,964	14,264	14,283	275	14,558	19
EXPENDITURES						
Current:						
Transportation	10,556	10,556	10,858	11	10,869	(302)
Municipal Services	10,898	10,898	11,046	14	11,060	(148)
Debt Service:						
Principal	2,395	2,395	2,395	-	2,395	-
Interest and Fiscal Charges	715	715	715	-	715	-
Total Expenditures	24,564	24,564	25,014	25	25,039	(450)
Excess (Deficiency) of Revenues Over Expenditures	(3,600)	(10,300)	(10,731)	250	(10,481)	(431)
OTHER FINANCING SOURCES (USES)						
Transfers In	3,673	10,373	10,554	-	10,554	181
Transfers Out	(73)	(73)	(73)	-	(73)	-
Total Other Financing Sources and Uses	3,600	10,300	10,481	-	10,481	181
Net Change in Fund Balances	-	-	(250)	250	-	(250)
Fund Balances - Beginning	-	-	-	-	-	-
Fund Balances - Ending	$ -	$ -	$ (250)	$ 250	$ -	$ (250)

Explanation of Differences:

The City does not budget for certain revenues:	
Building and Related Permits	$ 5
Grants	129
Reimbursement From Outside Sources	140
Other	1
	275
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:	
Compensated Absences	$ 25
Net Increase in Fund Balance - Budget to GAAP	$ 250

Preserve Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local:						
Transaction Privilege	$ 16,641	$ 16,641	$ 15,645	$ -	$ 15,645	$ (996)
Interest Earnings	500	500	669	(452)	217	169
Total Revenues	17,141	17,141	16,314	(452)	15,862	(827)
EXPENDITURES						
Current:						
General Government	-	-	-	1	1	-
Debt Service:						
Principal	570	570	570	-	570	-
Interest and Fiscal Charges	385	385	385	-	385	-
Total Expenditures	955	955	955	1	956	-
Excess (Deficiency) of Revenues Over Expenditures	16,186	16,186	15,359	(453)	14,906	(827)
OTHER FINANCING SOURCES (USES)						
Transfers Out	(16,186)	(16,186)	(15,921)	-	(15,921)	265
Total Other Financing Sources and Uses	(16,186)	(16,186)	(15,921)	-	(15,921)	265
Net Change in Fund Balances	-	-	(562)	(453)	(1,015)	(562)
Fund Balances - Beginning	-	-	20,133	-	20,133	20,133
Fund Balances - Ending	$ -	$ -	$ 19,571	$ (453)	$ 19,118	$ 19,571

Explanation of Differences:

Items recorded as revenues for GAAP purposes:

Unrealized Loss on Investments	$ (452)

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	$ (453)

Transportation Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local:						
Transaction Privilege	$ 16,388	$ 16,388	$ 15,335	$ -	$ 15,335	$ (1,053)
Interest Earnings	500	500	167	(85)	82	(333)
Total Revenues	16,888	16,888	15,502	(85)	15,417	(1,386)
EXPENDITURES						
Current:						
Transportation	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	16,888	16,888	15,502	(85)	15,417	(1,386)
OTHER FINANCING SOURCES (USES)						
Transfers Out	(16,888)	(16,888)	(16,721)	-	(16,721)	167
Total Other Financing Sources and Uses	(16,888)	(16,888)	(16,721)	-	(16,721)	167
Net Change in Fund Balances	-	-	(1,219)	(85)	(1,304)	(1,219)
Fund Balances - Beginning	-	-	2,559	-	2,559	2,559
Fund Balances - Ending	$ -	$ -	$ 1,340	$ (85)	$ 1,255	$ 1,340

Explanation of Differences:

Items recorded as revenues for GAAP purposes:	
Unrealized Loss on Investments	$ (85)
Net (Decrease) in Fund Balance - Budget to GAAP	$ (85)

Combining Balance Sheet

Nonmajor Debt Service Governmental Funds
June 30, 2003 (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 All Funds
ASSETS								
Cash and Investments	$ 65	$ 1,530	$ 869	$ 794	$ 1,197	$ 655	$ -	$ 5,110
Cash with Fiscal Agent	7,963	99	326	980	563	89	4,596	14,616
Receivables (net of allowance for uncollectables):								
Property Tax	-	-	33	55	76	7	-	171
Special Assessments	-	10,085	-		-	-	-	10,085
Miscellaneous	134	-	-	3	-	-	-	137
Total Assets	$ 8,162	$ 11,714	$ 1,228	$ 1,832	$ 1,836	$ 751	$ 4,596	$ 30,119
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	$ -	$ 30	$ 11	$ -	$ -	$ -	$ -	$ 41
Matured Bond Interest Payable	1,338	99	111	450	563	89	2,281	4,931
Matured Bonds Payable	6,625	-	215	530	-	-	2,315	9,685
Deferred Revenue:								
Property Tax	-	-	17	30	45	5	-	97
Special Assessments	-	10,085	-	-	-	-	-	10,085
Other	80	-	500	-	-	-	-	580
Other	-	36	-	-	-	-	-	36
Total Liabilities	8,043	10,250	854	1,010	608	94	4,596	25,455
Fund Balances								
Reserved for:								
Debt Service	119	1,464	374	822	1,228	657	-	4,664
Total Fund Balances (Deficit)	119	1,464	374	822	1,228	657	-	4,664
Total Liabilities and Fund Balances	$ 8,162	$ 11,714	$ 1,228	$ 1,832	$ 1,836	$ 751	$ 4,596	$ 30,119

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

Nonmajor Debt Service Governmental Funds
For the Year Ended June 30, 2003 (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 All Funds
REVENUES								
Taxes - Local:								
Property	$ -	$ -	$ 602	$ 1,644	$ 1,281	$ 123	$ -	$ 3,650
Special Assessments	-	1,970	-	-	-	-	-	1,970
Property Rental	232	-	-	-	-	-	-	232
Interest Earnings	1	-	4	11	10	29	-	55
Intergovernmental:								
Miscellaneous	-	-	-	41	-	-	-	41
Developer Contributions	-	-	-	-	-	7	-	7
Total Revenues	233	1,970	606	1,696	1,291	159	-	5,955
EXPENDITURES								
Current:								
General Government	-	1	15	555	46	-	-	617
Debt Service:								
Principal	7,600	1,990	215	530	-	-	2,315	12,650
Interest and Fiscal Charges	2,570	279	271	899	762	179	4,566	9,526
Bond Issuance Costs	267	-	35	-	350	-	-	652
Total Expenditures	10,437	2,270	536	1,984	1,158	179	6,881	23,445
Excess (Deficiency) of Revenues Over Expenditures	(10,204)	(300)	70	(288)	133	(20)	(6,881)	(17,490)
OTHER FINANCING SOURCES (USES)								
Transfers In	10,019	-	-	-	450	-	6,881	17,350
Premium on Bonds Issued	1,334	-	-	-	69	-	-	1,403
Refunding Bonds Issued	30,570	-	-	-	-	-	-	30,570
Payment to Bond Refunding Escrow Agent	(31,600)	-	-	-	-	-	-	(31,600)
Total Other Financing Sources and (Uses)	10,323	-	-	-	519	-	6,881	17,723
Net change in Fund Balances	119	(300)	70	(288)	652	(20)	-	233
Fund Balances - Beginning	-	1,764	304	1,110	576	677	-	4,431
Fund Balances - Ending	$ 119	$ 1,464	$ 374	$ 822	$ 1,228	$ 657	$ -	$ 4,664

General Obligation Bond Debt Service

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

Governmental Funds

For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local:						
Property	$ 22,766	$ 22,766	$ 22,381	$ -	$ 22,381	$ (385)
Interest Earnings	-	-	1	-	1	1
Total Revenues	22,766	22,766	22,382	-	22,382	(384)
EXPENDITURES						
Debt Service:						
Principal	12,720	12,720	13,540	-	13,540	(820)
Interest and Fiscal Charges	19,691	19,691	17,335	-	17,335	2,356
Bond Issuance Costs	-	-	394	-	394	(394)
Total Expenditures	32,411	32,411	31,269	-	31,269	1,142
Excess (Deficiency) of Revenues Over Expenditures	(9,645)	(9,645)	(8,887)	-	(8,887)	758
OTHER FINANCING SOURCES (USES)						
Transfers In	9,645	9,645	9,040	-	9,040	(605)
Refunding Bonds Issued	-	-	72,000	-	72,000	72,000
Premium on Refunding Debt	-	-	4,881	-	4,881	4,881
Payment to Bond Refunding Escrow Agent	-	-	(76,477)	-	(76,477)	(76,477)
Total Other Financing Sources and Uses	9,645	9,645	9,444	-	9,444	(201)
Net Change in Fund Balances	-	-	557	-	557	557
Fund Balances - Beginning	-	-	8,449	-	8,449	8,449
Fund Balances - Ending	$ -	$ -	$ 9,006	$ -	$ 9,006	$ 9,006

Municipal Property Corporation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Property Rental	$ 280	$ 280	$ 232	$ -	$ 232	$ (48)
Interest Earnings	250	250	1	-	1	(249)
Total Revenues	530	530	233	-	233	(297)
EXPENDITURES						
Debt Service:						
Principal	6,340	6,340	7,600	-	7,600	(1,260)
Interest and Fiscal Charges	4,753	4,753	2,570	-	2,570	2,183
Bond Issuance Costs	-	-	267	-	267	(267)
Total Expenditures	11,093	11,093	10,437	-	10,437	656
Excess (Deficiency) of Revenues Over Expenditures	(10,563)	(10,563)	(10,204)	-	(10,204)	359
OTHER FINANCING SOURCES (USES)						
Transfers In	10,563	10,563	10,019	-	10,019	(544)
Refunding Bonds Issued	-	-	30,570	-	30,570	30,570
Premium on Refunding Debt	-	-	1,334	-	1,334	1,334
Payment to Bond Refunding Escrow Agent	-	-	(31,600)	-	(31,600)	(31,600)
Total Other Financing Sources and Uses	10,563	10,563	10,323	-	10,323	(240)
Net Change in Fund Balances	-	-	119	-	119	119
Fund Balances - Beginning	-	-	-	-	-	-
Fund Balances - Ending	$ -	$ -	$ 119	$ -	$ 119	$ 119

Special Assessments Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Special Assessments	$ 2,562	$ 2,562	$ 1,970	$ -	$ 1,970	$ (592)
Total Revenues	2,562	2,562	1,970	-	1,970	(592)
EXPENDITURES						
Current:						
General Government	-	-	1	-	1	(1)
Debt Service:						
Principal	1,944	1,944	1,990	-	1,990	(46)
Interest and Fiscal Charges	618	618	279	-	279	339
Total Expenditures	2,562	2,562	2,270	-	2,270	292
Excess (Deficiency) of Revenues Over Expenditures	-	-	(300)	-	(300)	(300)
Fund Balances - Beginning	-	-	1,764	-	1,764	1,764
Fund Balances - Ending	$ -	$ -	$ 1,464	$ -	$ 1,464	$ 1,464

Scottsdale Preserve Authority Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Total Revenues	-	-	-	-	-	-
EXPENDITURES						
Debt Service:						
Principal	2,315	2,315	2,315	-	2,315	-
Interest and Fiscal Charges	4,566	4,566	4,566	-	4,566	-
Total Expenditures	6,881	6,881	6,881	-	6,881	-
Excess (Deficiency) of Revenues Over Expenditures	(6,881)	(6,881)	(6,881)	-	(6,881)	-
OTHER FINANCING SOURCES (USES)						
Transfers In	6,881	6,881	6,881	-	6,881	-
Total other financing sources and uses	6,881	6,881	6,881	-	6,881	-
Net Change in Fund Balances	-	-	-	-	-	-
Fund Balances - Beginning	-	-	-	-	-	-
Fund Balances - Ending	$ -	$ -	$ -	$ -	$ -	$ -

Combining Balance Sheet

Nonmajor Capital Projects Governmental Funds
June 30, 2003 (in thousands of dollars)

	General Obilgation Bond	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total All Funds
ASSETS							
Cash and Investments	$ 31,204	$ 753	$ -	$ 44,717	98	11,736	$ 88,508
Receivables:							
Interest	168	3	10	155	-	-	336
Total Assets	$ 31,372	$ 756	$ 10	$ 44,872	$ 98	$ 11,736	$ 88,844
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	$ -	$ -	$ 1,528	$ 2,376	$ -	$ -	3,904
Accrued Payroll	-	-	-	7	-	-	7
Due to Other Funds	-	-	4,401	-	-	-	4,401
Advances From Other Funds	-	-	1,191	-	-	-	1,191
Due to Other Governments	152	-	-	516	-	-	668
Guaranty and Other Deposits	-	-	-	489	-	-	489
Total Liabilities	152	-	7,120	3,388	-	-	10,660
Fund Balances							
Unreserved, Undesignated	31,220	756	(7,110)	41,484	98	11,736	78,184
Total Fund Balances (Deficit)	31,220	756	(7,110)	41,484	98	11,736	78,184
Total Liabilities and Fund Balances	$ 31,372	$ 756	$ 10	$ 44,872	$ 98	$ 11,736	$ 88,844

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

Nonmajor Capital Projects Governmental Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	General Obilgation Bond	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total All Funds
REVENUES							
Interest Earnings	$ 479	$ 8	$ (69)	$ 363	$ 2	$ 41	$ 824
Developer Contributions	-	-	-	105	-	-	105
Reimbursements from Outside Sources	1	-	2	101	-	-	104
Total Revenues	480	8	(67)	569	2	41	1,033
EXPENDITURES							
Debt Service							
Interest and Fiscal Charges	13	-	-	-	1	-	14
Capital Improvements	-	-	17,155	17,493	90	44	34,782
Total Expenditures	13	-	17,155	17,493	91	44	34,796
Excess (Deficiency) of Revenues Over Expenditures	467	8	(17,222)	(16,924)	(89)	(3)	(33,763)
OTHER FINANCING SOURCES (USES)							
Transfers In	1	-	-	23,624	-	-	23,625
Transfers Out	(19,395)	-	-	(35)	-	(450)	(19,880)
Long-term Capital-related Debt Issued	-	-	-	-	-	12,165	12,165
Total Other Financing Sources and (Uses)	(19,394)	-	-	23,589	-	11,715	15,910
Net Change in Fund Balances	(18,927)	8	(17,222)	6,665	(89)	11,712	(17,853)
Fund Balances - Beginning	50,147	748	10,112	34,819	187	24	96,037
Fund Balances - Ending	$ 31,220	$ 756	$ (7,110)	$ 41,484	$ 98	$ 11,736	$ 78,184

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
Revenues						
Charges for Sales and Services:						
Water Service Fees	$ 64,624	$ 64,624	63,411	$ -	$ 63,411	$ (1,213)
Sewer Service Fees	26,841	26,841	25,316	-	25,316	(1,525)
Reclaimed Water Distribution	2,000	2,000	2,329	-	2,329	329
Groundwater Treatment Plant	2,400	2,400	886	-	886	(1,514)
Investment Income	2,336	2,336	4,293	(2,843)	1,450	1,957
Capital Contributions	-	-	-	26,826	26,826	-
Transfers In	-	-	15	-	15	15
Other	1,058	1,058	1,672	-	1,672	614
Total Revenues	99,259	99,259	97,922	23,983	121,905	(1,337)
Expenses						
Cost of Sales and Services:						
Water Operations	32,921	32,815	29,810	(83)	29,727	3,005
Sewer Operations	8,488	8,594	11,320	35	11,355	(2,726)
Debt Service and Reserves	15,925	15,925	14,381	(8,850)	5,531	1,544
Depreciation and Amortization	-	-	-	20,746	20,746	-
Indirect Costs	5,909	5,909	5,909	-	5,909	-
Loss on Sale of Fixed Assets	-	-	-	628	628	-
Transfers Out	7,497	7,497	7,593	1,977	9,570	(96)
Total Expenses	70,740	70,740	69,013	14,453	83,466	1,727
Change in Net Assets	$ 28,519	$ 28,519	$ 28,909	$ 9,530	$ 38,439	$ 390

(continued)

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

Explanation of Differences:

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

Unrealized Loss on Investments	$	(2,843)
Capital Contributions		26,826
Total Revenue Reconciling Items:		23,983

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

Compensated Absences		(48)
Debt Service Principal Payments		(8,850)
Depreciation and Amortization Expense		20,746
Loss on Sale of Fixed Assets		628
Transfers Out for Capital Budgeted in Prior Year		1,977
Total Expenditure Reconciling Items:		14,453

Net Increase in Net Assets - Budget to GAAP	$	9,530

Airport Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
Revenues						
Charges for Sales and Services:						
Airport Fees	$ 2,386	$ 2,386	$ 2,424	$ -	$ 2,424	$ 38
Investment Income	-	-	2	(1)	1	2
Capital Contributions	-	-	-	1,661	1,661	-
Transfers In	25	25	-	-	-	(25)
Total Revenues	2,411	2,411	2,426	1,660	4,086	15
Expenses						
Cost of Sales and Services:						
Airport Operations	1,264	1,249	1,306	4	1,310	(57)
Depreciation	-	-	-	677	677	-
Indirect Costs	490	490	489	-	489	1
Loss on Sale of Fixed Assets	-	-	-	289	289	-
Transfers Out	306	306	334	-	334	(28)
Total Expenses	2,060	2,045	2,129	970	3,099	(84)
Change in Net Assets	$ 351	$ 366	$ 297	$ 690	$ 987	$ (69)

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

Unrealized Loss on Investments	$ (1)
Capital Contributions	1,661
Total Revenue Reconciling Items:	1,660

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

Compensated Absences	4
Depreciation Expense	677
Loss on Sale of Fixed Assets	289
Total Expenditure Reconciling Items:	970

Net increase in Net Assets - Budget to GAAP	$ 690

Solid Waste Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2003 (in thousands of dollars)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
Revenues						
Charges for Sales and Services:						
Solid Waste Fees	16,115	16,115	16,250	-	16,250	135
Investment Income	44	44	72	(30)	42	28
Total Revenues	16,159	16,159	16,322	(30)	16,292	163
Expenses						
Cost of Sales and Services:						
Solid Waste Operations	12,512	12,283	11,995	(173)	11,822	288
Debt Service and Reserves	342	342	342	(230)	112	-
Depreciation	-	-	-	202	202	-
Indirect Costs	1,647	1,647	1,647	-	1,647	-
Transfers Out	35	35	35	1,031	1,066	-
Total Expenses	14,536	14,307	14,019	830	14,849	288
Change in Net Assets	$ 1,623	$ 1,852	$ 2,303	$ (860)	$ 1,443	$ 451

Explanation of Differences:

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

Unrealized Loss on Investments	$ (30)
Total Revenue Reconciling Items:	(30)

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

Compensated Absences	$ (173)
Debt Service Principal Payments	(230)
Depreciation Expense	202
Transfers Out for:	
Capital Budgeted in Prior Year	801
Unbudgeted Transfer to Fleet	230
Total Expenditure Reconciling Items:	830
Net(Decrease) in Net Assets - Budget to GAAP	$ (860)

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. 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, 2003 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total All Funds
ASSETS			
Current Assets:			
Cash and Investments	$ 8,505	$ 17,381	$ 25,886
Receivables (net of allowance for uncollectibles)			
Property tax	-	25	25
Interest	41	57	98
Miscellaneous	8	142	150
Supplies Inventory	382	-	382
Total Current Assets	8,936	17,605	26,541
Noncurrent Assets:			
Capital Assets:			
Buildings and Improvements	1,846	-	1,846
Motor Vehicles	45,233	-	45,233
Machinery and Equipment	828	-	828
Furniture and Fixtures	-	22	22
Construction in Progress	683	-	683
Less Accumulated Depreciation	(23,967)	(22)	(23,989)
Total Capital Assets (net of accumulated depreciation)	24,623	-	24,623
Total Noncurrent Assets	24,623	-	24,623
Total Assets	$ 33,559	$ 17,605	$ 51,164
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 526	$ 129	$ 655
Accrued Payroll and Benefits	97	21	118
Accrued Compensated Absences	36	12	48
Claims Payable	-	8,839	8,839
Total Current Liabilities	659	9,001	9,660
Noncurrent Liabilities:			
Accrued Compensated Absences	214	64	278
Total Noncurrent Liabilities	214	64	278
Total Liabilities	873	9,065	9,938
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	24,623	-	24,623
Unrestricted	8,063	8,540	16,603
Total Net Assets	$ 32,686	$ 8,540	$ 41,226

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

Internal Service Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total All Funds
Operating Revenues			
Charges for Sales and Services:			
Billings To User Programs	$ 10,465	$ 4,253	$ 14,718
Self Insurance Contributions	-	3,791	3,791
Other	92	398	490
Total Operating Revenues	10,557	8,442	18,999
Operating Expenses			
Costs of Sales and Services:			
Fleet Management Operations	6,355	-	6,355
Self-Insurance Administration	-	721	721
Self-Insurance Claims	-	6,065	6,065
Insurance and Bond Premiums	-	1,576	1,576
Depreciation	5,720	-	5,720
Total Operating Expenses	12,075	8,362	20,437
Operating Income (Loss)	(1,518)	80	(1,438)
Non-Operating Revenues			
Property Tax	-	649	649
Investment Income	113	165	278
Gain on Sale of Fixed Assets	137	-	137
Total Non-Operating Revenues	250	814	1,064
Income (Loss) Before Contributions and Transfers	(1,268)	894	(374)
Capital Contributions	539	-	539
Transfers In	280	-	280
Transfers Out	(5,173)	(11)	(5,184)
Change in Net Assets	(5,622)	883	(4,739)
Total Net Assets - Beginning	38,308	7,657	45,965
Total Net Assets - Ending	$ 32,686	$ 8,540	$ 41,226

Combining Statement of Cash Flows

Internal Service Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total All Funds
Cash Flows from Operating Activities:			
Cash Received from Customers	$ 10,465	$ 8,044	$ 18,509
Cash Paid to Suppliers	(4,423)	(7,463)	(11,886)
Cash Paid to Employees	(2,305)	(489)	(2,794)
Other Operating	91	385	476
Net Cash Provided by Operating Activities	3,828	477	4,305
Cash Flows from Non-Capital Financing Activities:			
Property Tax	-	644	644
Transfers In	280	-	280
Transfers Out	(5,173)	(11)	(5,184)
Net Cash Provided by (Used) for Non-Capital Financing Activities	(4,893)	633	(4,260)
Cash Flows from Capital and Related			
Financing Activities:			
Acquisition and Construction of Property and Equipment	(3,777)	-	(3,777)
Sale of Fixed Assets	216	-	216
Net Cash (Used) for Capital and Related Financing Activities	(3,561)	-	(3,561)
Cash Flows from Investing Activities:			
Income Received on Investments	156	222	378
Net Increase (Decrease) in Cash and Cash Equivalents	(4,470)	1,332	(3,138)
Cash and Cash Equivalents at Beginning of Year	12,975	16,049	29,024
Cash and Cash Equivalents at End of Year	$ 8,505	$ 17,381	$ 25,886
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	$ (1,518)	$ 80	$ (1,438)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	5,720	-	5,720
Changes in Assets and Liabilities Sources (Uses) of Cash:			
Accounts Receivable	(1)	(13)	(14)
Supplies Inventory	86	-	86
Accounts Payable	(404)	3	(401)
Accrued Payroll and Benefits	(55)	(12)	(67)
Claims Payable	-	419	419
Total Adjustments	5,346	397	5,743
Net Cash Provided by Operating Activities	$ 3,828	$ 477	$ 4,305
Supplemental Disclosure of Noncash Financing Activities:			
Additions to Property, Plant, and Equipment Contributions from Other Government Units	$ 539	$ -	$ 539
Increase(Decrease) in Fair Value of Investments	(27)	-	(27)
Loss on Sale of Fixed Assets	(79)	-	(79)
Total Non-Cash Financing Activities	$ 433	$ -	$ 433

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 individuals 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, 2003 (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	$ 9	$ 695	$ 704	$ 70	$ 464	$ 534
Interest Receivable	-	3	3	-	-	-
Total Assets	9	698	707	70	464	534
LIABILITIES						
Accounts Payable	-	3	3	70	-	70
Designated Escrow Payable	-	-	-	-	464	464
Total Liabilities	-	3	3	70	464	534
NET ASSETS						
Held in Trust for Other Purposes	$ 9	$ 695	$ 704	$ -	$ -	$ -

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds
For the Year Ended June 30, 2003 (in thousands of dollars)

	Handicap Scholarship Private Purpose Trust Fund	Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund	Total
ADDITIONS			
Contributions:			
Private Donations	$ 10	$ 300	310
Investment Earnings:			
Interest	-	26	26
Total Additions	10	326	336
DEDUCTIONS			
Scholarships	6	-	6
Redevelopment Expenses	-	359	359
Total Deductions	6	359	365
Change in Net Assets	4	(33)	(29)
Net Assets - Beginning	5	728	733
Net Assets - Ending	$ 9	$ 695	704

Combining Statement of Changes in Assets and Liabilities

Fiduciary Funds

For the Year Ended June 30, 2003 (in thousands of dollars)

	Family Self-Sufficiency				Retainage Escrow			
	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
ASSETS								
Cash and Investments	$ 111	$ 39	$ 80	$ 70	$ 233	$ 644	$ 413	$ 464
Total Assets	$ 111	$ 39	$ 80	$ 70	$ 233	$ 644	$ 413	$ 464
LIABILITIES								
Accounts Payable	$ 111	$ 39	$ 80	$ 70	$ -	$ -	$ -	$ -
Designated Escrow Payable	-	-	-	-	233	644	413	464
Total Liabilities	$ 111	$ 39	$ 80	$ 70	$ 233	$ 644	$ 413	$ 464

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, 2003 (in thousands of dollars)

	July 1, 2002	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions & Contract Adjustments	June 30, 2003	Governmental Fund Type	Business Fund Type	Final Payment Date
GENERAL OBLIGATION BONDS										
Governmental Fund Type:										
1989 Series C (1992)	$ 2,065	$ -		$ -	$ 2,065	$ -	$ -	$ -	$ -	07/01/04
1993 Refunding	17,093	-	290	-	-	445	17,248	17,248	-	07/01/09
1989 Series D (1993)	12,845	-		-	9,940	-	2,905	2,905	-	07/01/13
1993A GO Refunding	18,214	-	2,645	-	-	296	15,865	15,865	-	07/01/11
1989 Series E (1994)	625	-	-	-	625	-	-	-	-	07/01/03
1994 Various Purpose	700	-	-	-	700	-	-	-	-	07/01/03
1995 GO / Pima Road	8,775	-	650	-	8,125	-	-	-	-	07/01/15
1997 Series H - Roads/ Strm Sew/ Pima	21,850	-	1,130	-	18,305	-	2,415	2,415	-	07/01/16
1997 GO Refunding	19,900	-	50	-	-	-	19,850	19,850	-	07/01/14
1989 Series I (1998)	17,875	-	785	-	8,180	-	8,910	8,910	-	07/01/18
1999A GO / Pima Road	22,875	-	900	-	15,525	-	6,450	6,450	-	07/01/19
1999 GO Preservation	23,900	-	1,375	-	4,125	-	18,400	18,400	-	07/01/24
2001 GO Preservation	34,080	-	950	-	3,920	-	29,210	29,210	-	07/01/24
2001 GO Refunding Various Purpose	22,567	-	1,290	-	-	-	21,277	21,277	-	07/01/24
2001 GO Refunding Preservation	28,293	-	-	-	-	-	28,293	28,293	-	07/01/24
2002 GO Various Purpose	28,000	-	1,740	-	-	-	26,260	26,260	-	07/01/24
2002 GO Preservation	40,000	-	-	-	-	-	40,000	40,000	-	07/01/24
2002 GO Refunding Various Purpose	-	-	4,080	63,900	-	-	59,820	59,820	-	07/01/19
2002 GO Refunding Preservation	-	-	-	8,100	-	-	8,100	8,100	-	07/01/19
2001 GO Refunding Series Deferred Issuance Premium	1,410	-	-	-	-	(115)	1,295	1,295	-	
2001 GO Series Deferred Amount on Refunding	(2,299)	-	-	-	-	187	(2,112)	(2,112)	-	
2002 GO Refunding Series Deferred Issuance Premium	-	-	-	4,881	-	(753)	4,128	4,128	-	
2002 GO Series Deferred Amount on Refunding	-	-	-	(4,967)	-	767	(4,200)	(4,200)	-	
Subtotal	318,768	-	15,885	71,914	71,510	827	304,114	304,114	-	
Business Type - General Obligation Bonds										
1993 Refunding	17,000	-	4,820	-	-	828	13,008	-	13,008	07/01/06
1993 A GO Refunding	1,315	-	-	-	-	-	1,315	-	1,315	07/01/06
Subtotal	18,315	-	4,820	-	-	828	14,323	-	14,323	
Total General Obligation Bonds	$ 337,083	$ -	$ 20,705	$ 71,914	$ 71,510	$ 1,655	$ 318,437	$ 304,114	$ 14,323	
REVENUE BONDS										
Governmental Fund Type										
Highway User Revenue Fund Bonds										
1993 HURF Refunding	$ 13,385	$ -	$ 2,395	$ -	$ -	$ -	$ 10,990	$ 10,990	$ -	07/01/07
Subtotal	13,385	-	2,395	-	-	-	10,990	10,990	-	
Business Type - Revenue Bonds										-
1989 Utility Series B (1992)	3,145	-	235	-	-	-	2,910	-	2,910	07/01/12
1989 Utility Series C (1994)	680	-	215	-	-	-	465	-	465	07/01/05
1996 Utility Revenue Series Refunding	7,210	-	510	-	-	-	6,700	-	6,700	07/01/14
1989 Utility Series D (1998)	17,625	-	525	-	-	-	17,100	-	17,100	07/01/22
1989 Utility Series E (1998)	45,285	-	1,230	-	-	-	44,055	-	44,055	07/01/23
1996 Revenue Series Deferred Amount on Refunding	(288)	-	-	-	-	47	(241)	-	(241)	
Subtotal	73,657	-	2,715	-	-	47	70,989	-	70,989	
Total Revenue Bonds	$ 87,042	$ -	$ 5,110	$ -	$ -	$ 47	$ 81,979	$ 10,990	$ 70,989	

*This exhibit includes both Governmental Fund Type and Business-type 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, 2003 (in thousands of dollars)

	July 1, 2002	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions & Contract Adjustments	June 30, 2003	Governmental Fund Type	Business Fund Type	Final Payment Date
MUNICIPAL PROPERTY CORPORATION BONDS										
Governmental Fund Type:										
1992 Asset Transfer Refunding	$ 31,860	-	975	-	30,885	-	-	-	-	11/01/14
1993 Refunding	11,875	-	3,755	-	-	-	8,120	8,120	-	07/01/05
1994 Refunding	2,105	-	1,025	-	-	-	1,080	1,080	-	07/01/04
1995 MPC Taxable Excise - TPC Land	2,380	-	110	-	-	-	2,270	2,270	-	07/01/15
1996 McCormick/Stillman Park	665	-	325	-	-	-	340	340	-	07/01/04
1998 Telephone, HR\Tech Bldg, Westworld	985	-	150	-	-	-	835	835	-	07/01/08
2002 Refunding	-	-	1,260	30,570	-	-	29,310	29,310	-	07/01/14
2002 Refunding Series Deferred Issuance Premium	-	-	-	1,334	-	(111)	1,223	1,223	-	
2002 Series Deferred Amount on Refunding	-	-	-	(898)	-	75	(823)	(823)	-	
Subtotal	49,870	-	7,600	31,006	30,885	(36)	42,355	42,355	-	
Business Type - Municipal Property Corporation Bonds										
1995 Transfer Station	2,215	-	230	-	-	-	1,985	-	1,985	07/01/10
2001 Scottswater	9,340	-	1,315	-	-	-	8,025	-	8,025	07/01/08
2001 Scottswater Deferred Issuance Premium	225	-	-	-	-	(37)	188	-	188	
Subtotal	11,780	-	1,545	-	-	(37)	10,198	-	10,198	
Total Municipal Property Corporation Bonds	$ 61,650	$ -	$ 9,145	$ 31,006	$ 30,885	$ (73)	$ 52,553	$ 42,355	$ 10,198	
SCOTTSDALE PRESERVE AUTHORITY BONDS										
Governmental Fund Type:										
1997 Excise Tax Revenue	$ 1,700	$ -	$ 540	$ -	$ -	$ -	$ 1,160	$ 1,160	$ -	07/01/05
1998 Excise Tax Revenue	71,450	-	1,710	-	-	-	69,740	69,740	-	07/01/24
2001 Excise Tax Revenue	17,435	-	65	-	-	-	17,370	17,370	-	07/01/22
2001 Excise Tax Revenue Deferred Issuance Premium	122	-	-	-	-	(6)	116	116	-	
2001 Excise Tax Revenue Deferred Amount on Refunding	(740)	-	-	-	-	37	(703)	(703)	-	
Total Scottsdale Preserve Authority Bonds	$ 89,967	$ -	$ 2,315	$ -	$ -	$ 31	$ 87,683	$ 87,683	$ -	
SPECIAL ASSESSMENT BONDS										
Governmental Fund Type:										
Pinnacle Vista Series 97	$ 90	$ -	$ 90	$ -	$ -	$ -	$ -	$ -	$ -	01/01/03
North Area Water Series 98	175	-	175	-	-	-	-	-	-	01/01/03
Adobe Miller Series 99	105	-	105	-	-	-	-	-	-	01/01/03
Craftsman Court Series 100	30	-	15	-	-	-	15	15	-	01/01/04
Bell Road Series 101	11	-	4	-	-	-	7	7	-	01/01/05
Desert Ranch Water Series 102	70	-	32	-	-	-	38	38	-	01/01/04
Desert Ranch Infrastructure Series 103	4,485	-	1,415	-	-	-	3,070	3,070	-	01/01/05
Pima Acres Paving & Drainage Series 105	595	-	85	-	-	-	510	510	-	01/01/09
Bell Road II Series 106	7,500	-	-	-	-	-	7,500	7,500	-	01/01/13
Total Special Assessment Bonds	$ 13,061	$ -	$ 1,921	$ -	$ -	$ -	$ 11,140	$ 11,140	$ -	

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

Schedule of Changes in Long-term Debt*

(continued)

For the Fiscal Ended June 30, 2003 (in thousands of dollars)

	July 1, 2002	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions & Contract Adjustments	June 30, 2003	Governmental Fund Type	Business Fund Type	Final Payment Date
COMMUNITY FACILITIES DISTRICT BONDS										
Governmental Fund Type:										
McDowell Mtn Ranch Refunding Series 1999	$ 18,500	$ -	$ 530	$ -	$ -	$ -	$ 17,970	$ 17,970	$ -	07/15/22
DC Ranch Series 1998	4,750	-	-	-	-	-	4,750	4,750	-	07/15/23
Via Linda Road Series 1999	3,225	-	-	-	-	-	3,225	3,225	-	07/15/23
DC Ranch Series 1999	3,085	-	-	-	-	-	3,085	3,085	-	07/15/24
Scottsdale Mountain Refunding Series 2002	5,375	-	215	-	-	-	5,160	5,160	-	07/15/18
DC Ranch Series 2002	-	12,165	-	-	-	-	12,165	12,165	-	07/15/27
Scottsdale Mountain 2002 Deferred Issuance Premium	40	-	-	-	-	(4)	36	36	-	
Scottsdale Mountain 2002 Deferred Amount on Refunding	(546)	-	-	-	-	57	(489)	(489)	-	
DC Ranch 2002 Deferred Issuance Premium	-	69	-	-	-	(3)	66	66	-	
Total Community Facilities District Bonds	34,429	12,234	745	-	-	50	45,968	45,968	-	
Total Bonds	$ 623,232	$ 12,234	$ 39,941	$ 102,920	$ 102,395	$ 1,710	$ 597,760	$ 502,250	$ 95,510	
CONTRACTS PAYABLE										
Governmental Fund Type:										
US Corps of Engineers	$ 3,363	$ -	$ 59	$ -	$ -	$ -	$ 3,304	$ 3,304	$ -	2032
Dial Corporation	303	-	35	-	-	-	268	268	-	2008
US Patent Office	5	-	-	-	-	-	5	5	-	2009
McDowell Sonoran Preserve	8,000	-	570	-	-	-	7,430	7,430	-	2013
Bureau of Reclaimation\Westworld	1,705	-	55	-	-	-	1,650	1,650	-	2032
Bureau of Reclaimation\TPC	1,815	-	55	-	-	-	1,760	1,760	-	2035
Underground Improvement District Series 104	209	-	69	-	-	-	140	140	-	01/01/13
Anchor National Life / Portales	2,117	-	-	-	-	-	2,117	2,117	-	2005
Promenade	3,899		946	-	-	-	2,953	2,953	-	2007
Total Contracts	$ 21,416	$ -	$ 1,789	$ -	$ -	$ -	$ 19,627	$ 19,627	$ -	
CAPITAL LEASES										
Governmental Fund Type:										
Nordstrom Garage Lease	$ 28,750	$ -	$ -	$ -	$ -	$ -	$ 28,750	$ 28,750	$ -	2028
Total Bonds and Contracts	$ 673,398	$ 12,234	$ 41,730	$ 102,920	$ 102,395	$ 1,710	$ 646,137	$ 550,627	$ 95,510	
Compensated Absences								11,495	1,345	
Total Long-Term Debt								$ 562,122	$ 96,855	

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

Government-wide Expenses by Function

Table I

Last Two 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

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

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 Two Fiscal Years (in thousands of dollars)

	Program Revenues			General Revenues				
Fiscal Year	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

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
1994	$ 12,437	$ 21,619	$ 4,301	$ 3,128	$ 16,468	$ -	$ 7,545	$ 13,993	$ -	$ -	$ -	$ 12,933	$ 470	$ 29,611	$ -	$ 122,505
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

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
1994	$ 63,996	$ 33,609	$ 5,643	$ 876	$ 10,499	$ 1,711	$ 4,818	$ 515	$ 10,194	$ 131,861
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

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
1994	$ 37,741	$ 4,465	$ 17,666	$ 3,885	$ 239	$ 63,996
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

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
1994	$ 37,741	$ 7,205	$ -	$ 4,465	$ 9,210	$ 8,479	$ 2,822
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

Fiscal Year	Cable TV Franchise	Fire Insurance Franchise	Business Licenses & Fees	Development Permits & Fees	Recreation Fees	Fines & Forfeitures	Total
1994	$ 916	$ 148	$ 876	$ 8,733	$ 1,767	$ 1,711	$ 84,073
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

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
1994	$ 6,274	$ 7,498	$ 3,261	$ 2,983	$ 4,674	$ 7,483	$ 2,484	$ 4,246	$ 3,170	$ 2,083	$ 790	$ 44,946
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

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
1994	$ 37,741	$ 7,205	$ -	$ 44,946
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

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
1993	1994	17,133	16,404	95.7%	1,226	36	17,666	103.1%	697	4.1%
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%

Source: Maricopa County Treasurer's Office 2003 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
1994 P	$ -	$ 1,136,492	$ 30,271	$ 94,651	$ 67,694	$ 1,329,108	$ 478	$ 1,328,630	$ 9,415,061
S	541,280	619,463	30,271	94,662	67,725	1,353,401	479	1,352,922	9,560,216
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	1,530,089	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

Source: AZ Department of Revenue/Property Tax Division, Abstract of the Assessment Roll 2001

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
1994 P	510,029	186,349	552,152	80,086	-	6	-	-	7	1,328,629
S	521,916	193,931	554,901	82,161	-	6	-	-	7	1,352,922
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

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 2001
Maricopa County Department of Finance

Property Tax Rates - Direct and Overlapping Governments

Table Xia

Tax Rates Per $100 Assessed Valuation
Last Ten Fiscal Years

		School Districts										
Fiscal Year	**City of Scottsdale**	**Scottsdale Unified**	**Community College**	**Maricopa County**	**State of Arizona**	**Flood District**	**Central Arizona Project**	**Fire District**	**Library**	**EVIT**	**Education Equalization**	**Total**
1994 P	0.4940	4.3194	0.8532	1.5848	0.4700	-	-	-	-	-	-	7.7214
S	0.7812	1.5225	-	0.1878	-	0.3632	0.1400	0.0104	0.0417	-	-	3.0468
Total	1.2752	5.8419	0.8532	1.7726	0.4700	0.3632	0.1400	0.0104	0.0417	-	-	10.7682
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

Scottsdale residents residing outside Scottsdale Unified School District:

School District	2001/2002 Tax Rate Total
Balsz Elementary	$12.84
Cave Creek	9.36
Fountain Hills	10.67
Paradise Valley	11.66
Tempe	12.14

Source: Maricopa County Department of Finance Publications On-Line "2002 County Tax Rates"

Property Tax Levies - Direct and Overlapping Governments

Table Xib

Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year	City of Scottsdale	School Districts: Scottsdale Unified	Community College	Maricopa County	State of Arizona	Flood District	Central Arizona Project	Fire District	Library	East Valley Institute of Technology	Education Equalization	Total
1994 P	$ 6,564	$ 63,549	$ 113,440	$ 140,248	$ 62,492	$ -	$ -	$ -	$ -	$ -	$ 70,470	$ 456,763
S	10,569	22,690	-	25,360	-	35,142	18,906	1,404	5,631	3,596	-	123,298
TOTAL	17,133	86,239	113,440	165,608	62,492	35,142	18,906	1,404	5,631	3,596	70,470	580,061
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

Source: Maricopa County Department of Finance Publications On-Line "Tax Levy 2002"

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, 2003

Taxpayer	Type of Business	Assessed Valuation (in thousands of dollars)	% of Secondary Assessed Valuation
Arizona Public Service Company	Gas and Electric Utility	$ 49,923	1.42%
Scottsdale Fashion Square	Shopping Center	49,808	1.41%
Qwest Communications, Inc.	Telecommunications	30,364	0.86%
First American Tax Valuation	Resort	24,186	0.69%
Gainey Drive Associates	Resort	21,438	0.61%
General Dynamics	Industrial Park	19,519	0.55%
Wyndham International	Resort	12,675	0.36%
Southwest Gas Corporation	Gas Utility	12,668	0.36%
CMD Properties Inc.	Office Buildings	12,215	0.35%
Scottsdale Fiesta Plaza	Shopping Center	10,186	0.29%
		$ 242,982	6.90%

Source: The City of Scottsdale's Property Tax Auditor, as obtained from the Arizona Department of Revenue, CVP Department and the 2002 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 2002/03 secondary assessed valuation of the Salt River Project within the City is $21,682,030. 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
1994	$ 3,523	$ 4,083
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

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
1994	$ 1,352,922,237	154,960	$ 110,965,000	$ 3,478,905	$ 107,486,095	7.9%	$ 693.64
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

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 accretion on capital appreciation bonds and 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, 2003 (in thousands of dollars)

Net Secondary Assessed Valuation as of June 30, 2003		$	3,526,605
Debt Limit Equal to 20% of Assessed Valuation			705,321
General Obligation Bonded Debt Subject to 20% Debt Limit (net of amounts available in Debt Service Funds for payment on July 1, 2003):			
1993 Refunding	$ 7,596		
1989 Series D (1993)	2,905		
1993A Refunding	14,654		
1997 GO Refunding	17,405		
1989 GO Series I (1998)	4,445		
1999 Preservation GO	18,400		
2001 Preservation GO	29,210		
2001 Refunding	47,155		
2002 GO Series	55,000		
2002 Refunding	40,630		
Net Outstanding Bonded Debt Subject to 20% Limit			237,400
Legal 20% Debt Margin (Available Borrowing Capacity)		**$**	**467,921**
Debt Limit Equal to 6% of Assessed Valuation		$	211,596
General Obligation Bonded Debt Subject to 6% Debt Limit (net of amounts available in Debt Service Funds for payment on July 1, 2003):			
1993 GO Refunding	$ 12,429		
1993A Refunding	2,526		
1997 Series H Roads	2,415		
1997 GO Refunding	2,445		
1989 Series I (1998)	4,465		
1999A Streets	4,948		
1999A Pima Road	1,502		
2001 Refunding	2,415		
2002 GO Series	11,260		
2002 Refunding	27,290		
Net Outstanding Bonded Debt Subject to 6% Limit			71,695
Legal 6% Debt Margin (Available Borrowing Capacity)		**$**	**139,901**

(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
1994	$ 4,585	$ 4,897	$ 9,482	$ 122,505	7.74%
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%

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
1994	$ 49,233	$ 33,423	$ 15,810	$ 12,377	$ 28,187	$ 2,672	$ 3,124	$ 5,796
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

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
1994	4.86	2.73	5.92	10.55	1.20
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

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	$ 39,515	14.4196%	$ 5,698
Maricopa County Community College District	305,750	14.4196%	44,088
Tempe Elementary School District No. 3	66,645	0.0002%	-
Balsz Elementary School District No. 31	18,805	4.0186%	756
Scottsdale Unified School District No. 48	265,710	69.6978%	185,194
Paradise Valley Unified School District No. 69	334,110	31.9658%	106,801
Cave Creek Unified School District No. 93	54,570	62.3736%	34,037
Fountain Hills Unified School District No. 98	30,690	2.2883%	702
Phoenix Union High School District No. 210	170,935	0.2748%	470
East Valley Institute of Technology District No. 401	12,055	19.6798%	2,373
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			426,474
City of Scottsdale	305,003	100.0000%	305,003
Total Direct and Overlapping Debt			$ 731,477

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]
1994	154,960	$ 28,800	39.1	22,096	3.4%
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

Sources:

[1] City of Scottsdale Planning 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)

	Property Value [1]			Commercial Construction [2]		Residential Construction [2]	
Fiscal Year	Commercial	Residential	Nontaxable	Number of Permits	Value	Number of Dwelling Units	Value
1994	$ 3,265,815	$ 6,294,430	$ 671,710	2,516	$ 153,331	4,595	$ 593,418
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

Source:
(1) Arizona Department of Revenue 2002 Abstract of the Assessment Roll

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

Schedule of Insurance

Table XXI

June 30, 2003

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	$40,000,000 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

Source: City of Scottsdale Financial Services Department Risk Management Division

Salaries and Surety Bonds of Principal Officials

Table XXII

For Fiscal Year Ended June 30, 2003

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	79,664	included in above
City Attorney	125,362	included in above
City Judge	121,805	included in above
City Auditor	97,552	included in above

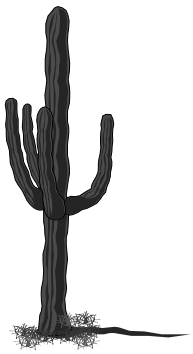
*annual maximum amount

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



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

Miles of Sewers
Storm 68.7
Sanitary 1,262

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 605
Number of Traffic Charges (Excluding parking and Criminal) 40,672
Number of Photo Radar Citations (Began Photo Radar in Jan. 1997) 21,809
Number of Vehicles 295

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

Recreation
Parks - Developed parks acreage 869
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 81,285
Annual Consumption (Gallons) 25,200,000,000
System Capacity (Gallons Per Day) 149,618,000
Miles of Distribution Lines 1,815

Number of Streetlights 10,300

Employees as of June 30, 2003
Full-Time 1,839
Part-Time 374
Grant and Trust funded – (# is included in full/part-time totals) 20
Total 2,213

Elections
Number of registered voters as of last general election, May 2002 110,664
% of registered voters voting in last general election 16.63%

Population
Median Age of Residents 42.1
Median Household Income (2000 Special Census) $63,800
Median Home Value - Single Family $220,800

Source: City of Scottsdale Financial Services Department