City of Scottsdale, Arizona

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2005

Prepared by:

Financial Services Department

Craig Clifford, CPA
Chief Financial Officer

Lisa Murphy, CPA
Accounting Director

City of Scottsdale, Arizona

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For the Fiscal Year ended June 30, 2005
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Transmittal Letter

For the Fiscal Year Ended June 30, 2005

City of Scottsdale
Scottsdale, Arizona

September 9, 2005

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

The Comprehensive Annual Financial Report of the City of Scottsdale, Arizona, (the City) for the fiscal year ended June 30, 2005, is submitted in accordance with Article 6, Section 14, of the City Charter. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Cronstrom, Trbovich & Osuch, PC, have issued an unqualified ("clean") opinion on the City of Scottsdale, Arizona's financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

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

City of Scottsdale Profile

Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing an area approximately 185.2 square miles. Lying at an elevation of 1,260 feet above sea level, the City averages 322 days of sunshine and 7.74 inches of rainfall per year, with the average minimum and maximum temperatures ranging from 56.2 degrees to 86.3 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 metropolitan Phoenix 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 1990 census reporting 130,069, and the 2000 census reporting 202,705. The City's population was estimated at 221,130 for July 2005.

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

The annual budget serves as the foundation for Scottsdale's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various 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. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During FY 2004/05, 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.

Local Economy

The City of Scottsdale has benefited from the recent national and state economic resurgences, especially pertaining to growth in retail sales, tourism, and construction activities. The City also continues to benefit from other favorable conditions associated with Scottsdale, including a stable, diversified economic base and a desirable location for work, destination, and living. Low commercial vacancy rates, current low mortgage interest rates, and the attractive developments within Scottsdale continue to bring high-end residential growth and commercial development. Commercial successes can be expected to continue because of the City's commitment to targeted recruitment efforts that focus on industry segments that complement the existing business mix, including: corporate headquarter and regional offices; high-tech, research and development; bio-med; high-end resorts and hotels, and business and professional services.

The following categories represent key factors affecting Scottsdale's economic and financial success:

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. The City saw the return of double-digit growth in sales tax revenues in FY 2004/05 with a 10.5 percent increase over the prior year's 6.7 percent gain – positive indication that the local economic recovery is well underway. Factors contributing to a brighter economic outlook for retailers included rising consumer confidence, continued low interest rates, a red-hot housing market, increased factory orders and productivity, and the return of worker pay raises and bonuses.

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 unemployment rate was lower than state and metropolitan levels and was approximately 2.9 percent in June 2005.

Job Growth

The City of Scottsdale recruited six new, targeted firms and secured three expansions resulting in over 1,440 new jobs in FY 2004/05 with an average annual salary of $48,000. The City benefited from population growth as well as higher income levels due to the addition of higher wage jobs. Major new employers to announce moves to Scottsdale in FY 2004/05 included Pulte Homes, V Commerce, Abbot Labs, and Piper Jaffrey. The City also benefited from the expansions of DHL, Vanguard, and Dollar Days International.

Vacancy Rates

Scottsdale's citywide office vacancy rate was 16.6 percent at the end of FY 2004/05, which was below the Valley-wide average. Scottsdale's weighted average rent was 12.9 percent higher than the Valley-wide average, evidence that Scottsdale remains an attractive city to conduct business. The forecasted vacancy rate for FY 2005/06 indicates improvement, in line with a more positive economic outlook.

Tourism

Tourism is one of Scottsdale's largest industries and is a significant contributor to the City's economy. Numerous resort and convention facilities, along with many hotels and motels, provide nearly 10,000 guest rooms, along with many public and private golf courses and tennis courts, and several country clubs. The number of rooms is expected to remain stable through 2006. More than 17,000 retail shops, boutiques, and galleries are located throughout the City and a selection of almost 600 restaurants is available. These services and facilities, complemented by the mild winter, have made Scottsdale a popular vacation spot for tourists and winter visitors.

Hotel/motel transient occupancy tax receipts increased approximately 9.8 percent in FY 2004/05 over the previous year – the second straight year of solid revenue growth after anemic post 9/11 levels. The current assessment for FY 2005/06 is that tourism will continue to experience positive gains, reflected by continued increases in occupancy and room rates. However, hotel room rates remain relatively low compared to historic levels as hoteliers offer discounts to spur demand. Therefore, while the long-term outlook for local tourism remains optimistic, slower hotel occupancy tax growth is expected relative to historic levels.

Long-Term Financial Planning

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Scottsdale's fiscal health. Fiscal conservatism, a streamlined budget, and operating efficiencies have resulted in a solid financial position for the City at the close of FY 2004/05. The Mayor and City Council have co-created a mission statement as well as seven broad goal categories, which represent key interests and priorities of the Mayor, City Council, and reflect their constituency's suggestions and expectations for the future. Approval by Council of these Mission and Goal statements allows staff to create strategic plans and a programmatic budget that directly responds to the Council's and community's goals and expectations. Plans articulated in the FY 2004/05 Adopted Budget and Five-Year Balanced Financial Plan continued 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.

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

- Financial Resource Planning

Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal wellbeing 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.

- Debt Management

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

Major Initiatives

The City of Scottsdale's FY 2005/06 budget reflects continuing strength in the City's economy, reinforced by positive trends at the state and national levels. Modest improvements projected in the City's revenues, combined with savings carried over from FY 2004/05, will allow Scottsdale to balance its budget, meet its most pressing needs and fund the City's highest priorities for FY 2005/06. These needs include a new municipal fire department, additional police officers, added operating costs related to the opening of new City facilities, a continued focus on code enforcement and property maintenance in the mature portions of the City, and continued emphasis on economic vitality and revitalization.

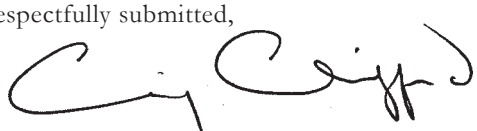
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scottsdale for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the 32nd consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Scottsdale received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2004 from the GFOA for our conformity in budget presentation, with special recognition in the areas of performance measures and capital budgeting. 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, 2005. In addition, credit ratings of "AAA", "Aaa", and "AAA" from the three major credit rating agencies, Fitch Ratings, Moody's Investors Service, and Standard and Poor's Ratings Services, respectively, were re-affirmed on the City's outstanding general obligation bonds. These are the highest possible ratings.

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, 2004

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, 2005

City of Scottsdale
Scottsdale, Arizona

City of Scottsdale, Arizona
List of Elected and Appointed Officials

City Council

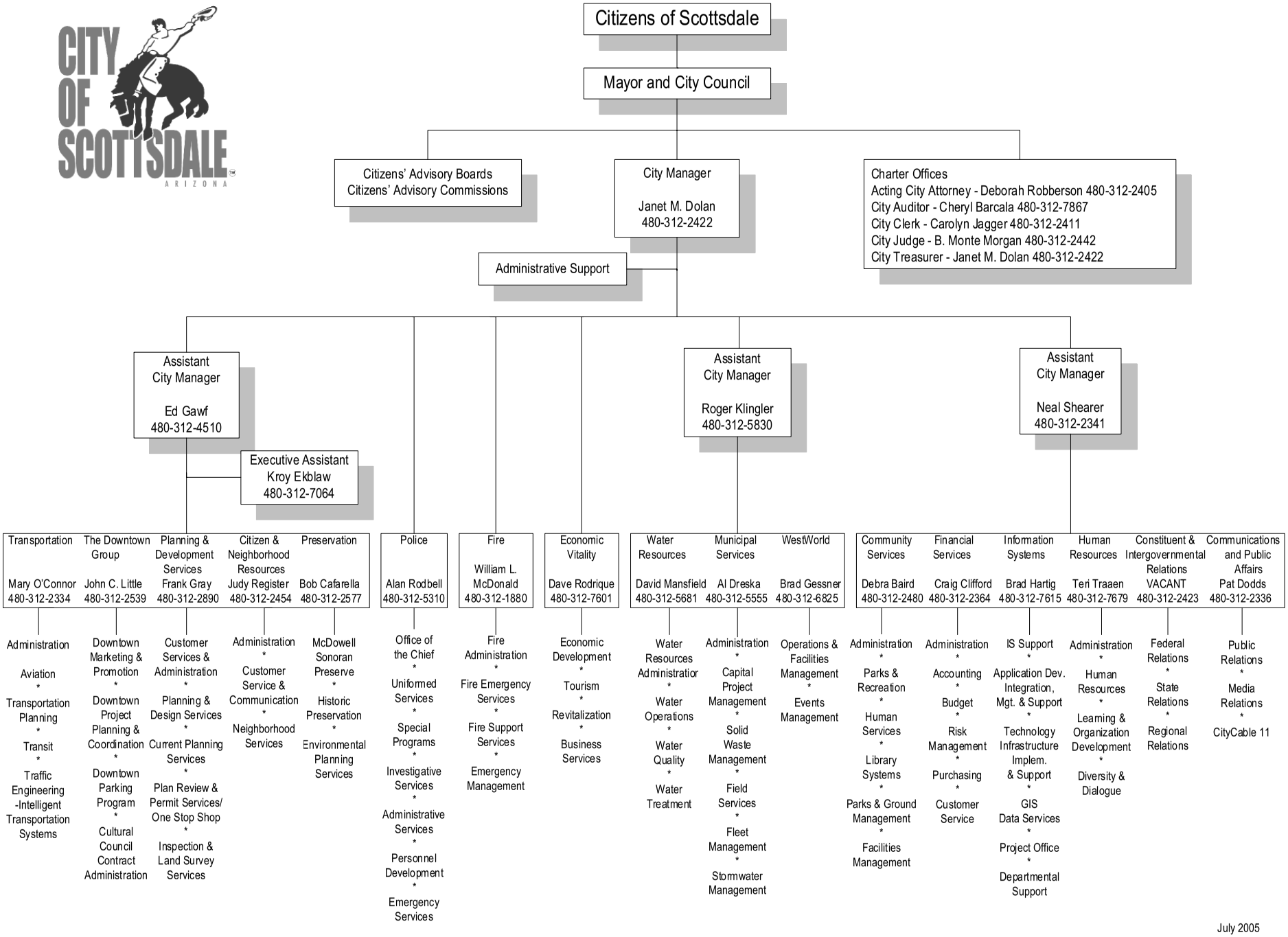
Mary Manross, Mayor
Robert W. Littlefield, Vice Mayor
Betty Drake
Wayne Ecton
W.J. "Jim" Lane
Ron McCullagh
Kevin J. Osterman

Charter Offices

Deborah Robberson, Acting City Attorney
Cheryl Barcala, City Auditor
Carolyn Jagger, City Clerk
B. Monte Morgan, City Judge
Janet M. Dolan, City Treasurer

Administrative Staff

Janet M. Dolan, City Manager
Ed Gawf, Assistant City Manager
Roger Klingler, Assistant City Manager
Neal Shearer, Assistant City Manager


Citizens of Scottsdale
Mayor and City Council
Citizens' Advisory Boards
Citizens' Advisory Commissions
City Manager
Janet M. Dolan
480-312-2422
Administrative Support
Charter Offices
Acting City Attorney - Deborah Robberson 480-312-2405
City Auditor - Cheryl Barcala 480-312-7867
City Clerk - Carolyn Jagger 480-312-2411
City Judge - B. Monte Morgan 480-312-2442
City Treasurer - Janet M. Dolan 480-312-2422
Assistant City Manager
Ed Gawf
480-312-4510
Executive Assistant
Kroy Ekblaw
480-312-7064
Assistant City Manager
Roger Klingler
480-312-5830
Assistant City Manager
Neal Shearer
480-312-2341
Transportation
Mary O'Connor
480-312-2334
Administration
Aviation
*
Transportation Planning
*
Transit
*
Traffic Engineering -Intelligent Transportation Systems
The Downtown Group
John C. Little
480-312-2539
Downtown Marketing & Promotion
*
Downtown Project Planning & Coordination
*
Downtown Parking Program
*
Cultural Council Contract Administration
Planning & Development Services
Frank Gray
480-312-2890
Customer Services & Administration
*
Planning & Design Services
*
Current Planning Services
*
Plan Review & Permit Services/ One Stop Shop
*
Inspection & Land Survey Services
Citizen & Neighborhood Resources
Judy Register
480-312-2454
Administration
*
Customer Service & Communication
*
Neighborhood Services
Preservation
Bob Cafarella
480-312-2577
McDowell Sonoran Preserve
*
Historic Preservation
*
Environmental Planning Services
Police
Alan Rodbell
480-312-5310
Office of the Chief
*
Uniformed Services
*
Special Programs
*
Investigative Services
*
Administrative Services
*
Personnel Development
*
Emergency Services
Fire
William L. McDonald
480-312-1880
Fire Administration
*
Fire Emergency Services
*
Fire Support Services
*
Emergency Management
Economic Vitality
Dave Rodrique
480-312-7601
Economic Development
*
Tourism
*
Revitalization
*
Business Services
Water Resources
David Mansfield
480-312-5681
Water Resources Administratior
*
Water Operations
*
Water Quality
*
Water Treatment
Municipal Services
Al Dreska
480-312-5555
Administration
*
Capital Project Management
*
Solid Waste Management
*
Field Services
*
Fleet Management
*
Stormwater Management
WestWorld
Brad Gessner
480-312-6825
Operations & Facilities Management
*
Events Management
Community Services
Debra Baird
480-312-2480
Administration
*
Parks & Recreation
*
Human Services
*
Library Systems
*
Parks & Ground Management
*
Facilities Management
Financial Services
Craig Clifford
480-312-2364
Administration
*
Accounting
*
Budget
*
Risk Management
*
Purchasing
*
Customer Service
Information Systems
Brad Hartig
480-312-7615
IS Support
*
Application Dev. Integration, Mgt. & Support
*
Technology Infrastructure Implem. & Support
*
GIS Data Services
*
Project Office
*
Departmental Support
Human Resources
Teri Traaen
480-312-7679
Administration
*
Human Resources
*
Learning & Organization Development
*
Diversity & Dialogue
Constituent & Intergovernmental Relations
VACANT
480-312-2423
Federal Relations
*
State Relations
*
Regional Relations
Communications and Public Affairs
Pat Dodds
480-312-2336
Public Relations
*
Media Relations
*
CityCable 11
July 2005

CRONSTROM, TRBOVICH & OSUCH
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, 2005, 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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, internal service, and fiduciary fund of the City of Scottsdale, Arizona, as of June 30, 2005, 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 11 through 27 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 85 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2005 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 & Osuch, P.C.

Cronstrom, Trbovich & Osuch P.C.

September 9, 2005

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, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS

Key Financial highlights for fiscal year 2005 are as follows:

- The assets of the City exceeded its liabilities at the close of the fiscal years 2005 and 2004 by $2.9 billion and $2.8 billion (net assets), respectively. Of these amounts, $430.8 million and $399.4 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 $119.3 million and $179.3 million during fiscal years 2005 and 2004, respectively.

- As of June 30, 2005 and 2004, the City's governmental funds reported combined ending fund balances of $264.8 million and $317.5 million, respectively. The decrease is primarily due to significant land purchases during fiscal year 2005. Approximately 95.7 percent of the fund balance at June 30, 2005, $253.3 million, is unreserved fund balance available for spending at the government's discretion, compared to $306.3 million at June 30, 2004. However, in fiscal year 2005 management has designated $29.9 million of the unreserved fund balance for various uses and $148.6 million is for capital projects.

- At the close of the current fiscal year, unreserved fund balance for the General Fund was $72.8 million or 38.6 percent of total General Fund expenditures of $188.4 million. At the close of fiscal year 2004, unreserved fund balance for the General Fund was $59.7 million or 34.3 percent of total General Fund expenditures of $174.2 million.

- During fiscal years 2005 and 2004, the City's total bonded debt increased by approximately $27.0 million and $111.6 million, respectively. Although the City reduced several bond payable balances, the key contributors to the increase were the issuance of new Municipal Property Corporation bonds in the amount of $60.7 million and Certificates of Participation in the amount of $7.7 million during fiscal year 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

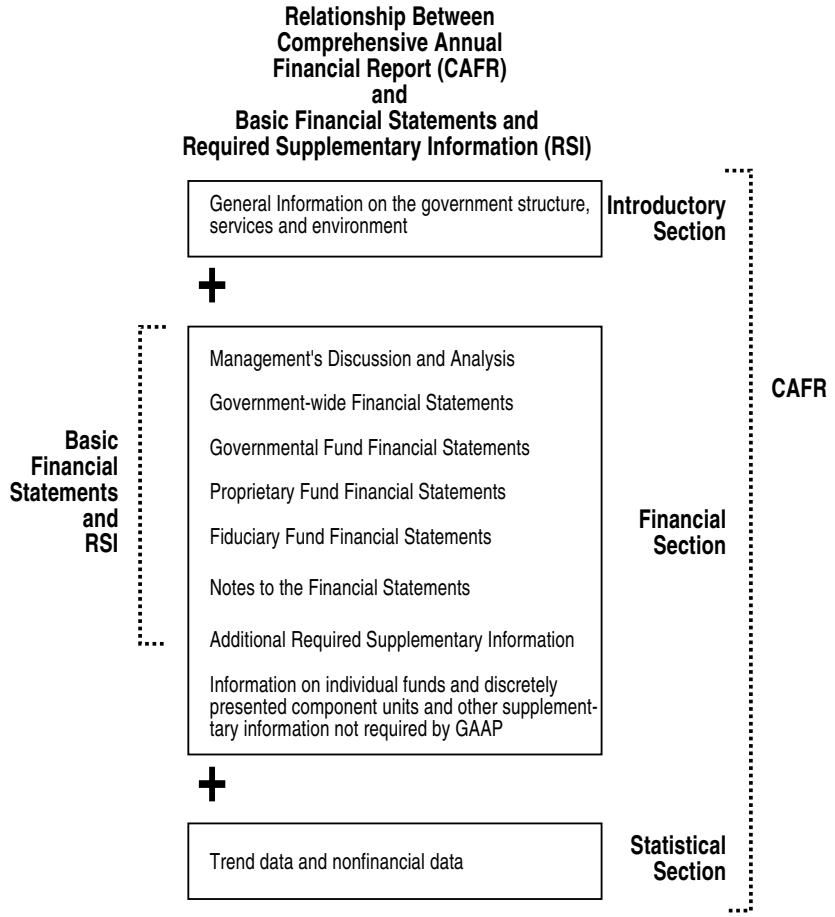
This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

(1) **Government-wide** financial statements,

(2) **Fund** financial statements, and

(3) **Notes** to the financial statements.

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



Government-wide Financial Statements

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

The **statement of net assets** and **the statement of activities** provide information about the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements reflect how services were financed in the short term as well as what dollars remain for future spending. The fund financial statement also displays the City's most significant funds with all other major funds presented in total in one column.

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, citizen and neighborhood resources, human resources and economic vitality. 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 the 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 the 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 30 and 31 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, General Capital Improvement Plan (CIP) Construction Capital Projects Fund and the Preserve Privilege Tax Capital Project 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 in a separate section of this report.

The basic governmental fund financial statements begin on page 32 of this report.

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, Solid Waste and Airport operations of the City. 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 in a separate section of this report.

The basic Proprietary Fund financial statements begin on page 40 of 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.

The basic Fiduciary Fund financial statements begin on page 45 of this report.

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. The notes can be found beginning on page 47 of this report.

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. This information can be found on page 85 of this report.

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

While this document contains information about the funds used by the City to provide services to our citizens, the Statement of Net Assets and the Statement of Activities serve to provide an answer to the question of how the City, as a whole, did financially throughout the year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. The change in assets is important because it tells the reader whether the financial position of the City as a

whole has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

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 $2.9 billion and $2.8 billion at the close of the fiscal years 2005 and 2004, respectively.

Net Assets

For the Years Ended June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	$ 415,801	$ 436,905	$ 282,528	$ 324,954	$ 698,329	$ 761,859
Capital Assets	2,237,825	2,090,682	912,642	820,530	3,150,467	2,911,212
Total Assets	2,653,626	2,527,587	1,195,170	1,145,484	3,848,796	3,673,071
Liabilities						
Long-term Liabilities Outstanding	608,392	568,936	163,570	168,710	771,962	737,646
Other Liabilities	96,890	83,381	38,738	30,150	135,628	113,531
Total Liabilities	705,282	652,317	202,308	198,860	907,590	851,177
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,657,747	1,548,486	756,433	653,351	2,414,180	2,201,837
Restricted	72,795	199,767	23,472	20,842	96,267	220,609
Unrestricted	217,802	127,017	212,957	272,431	430,759	399,448
Total Net Assets	$ 1,948,344	$ 1,875,270	$ 992,862	$ 946,624	$ 2,941,206	$ 2,821,894

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, and equipment) of $2.4 billion (82.1 percent) and $2.2 billion (78.0 percent), less any related outstanding debt used to acquire those assets, for the fiscal years 2005 and 2004, respectively. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources because the City uses these assets to provide services to citizens and; therefore, cannot liquidate them.

An additional portion of the City's net assets, $96.3 million (3.3 percent) for fiscal year 2005 and $220.6 million (7.8 percent) for fiscal year 2004 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2005 and 2004, $430.8 million (14.6 percent) and $399.4 million (14.2 percent), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Analysis of Changes in Net Assets

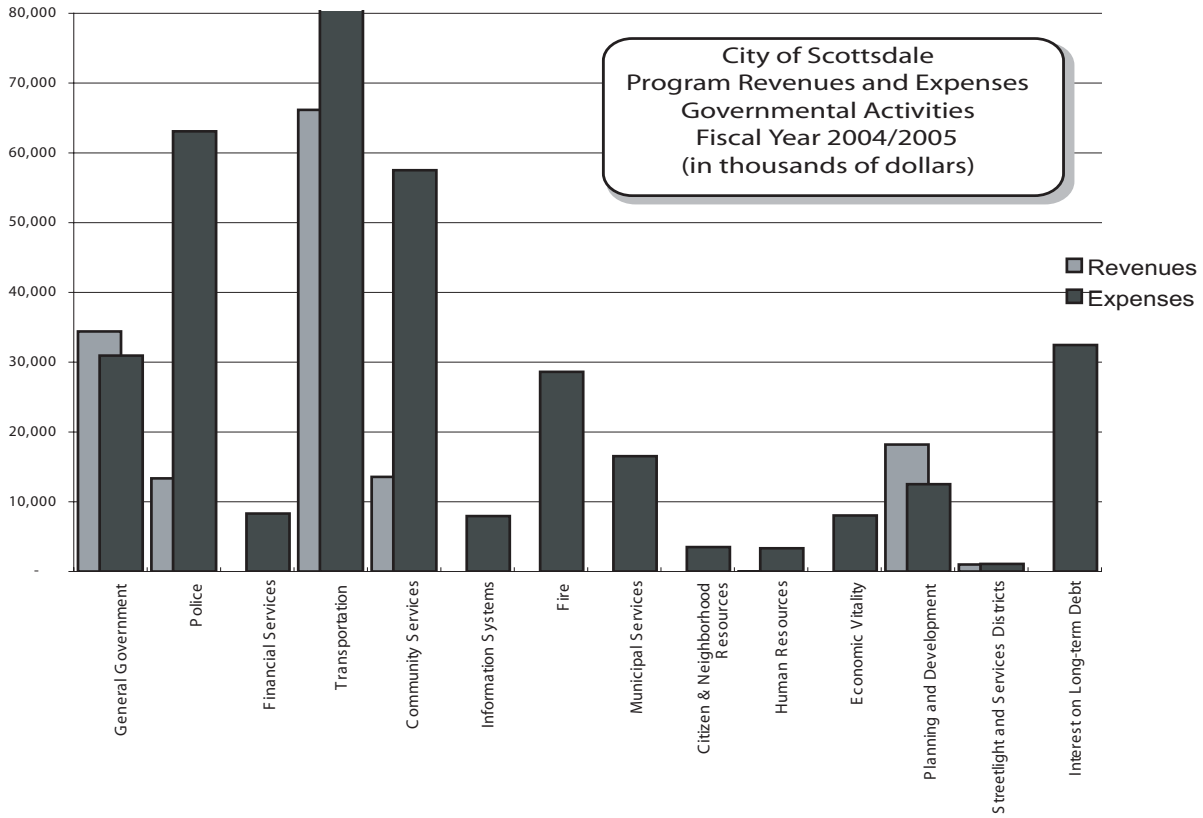
The City's total net assets increased by $119.3 million and $179.3 million during the fiscal years 2005 and 2004, respectively. These increases are explained in the government and business-type activities discussion herein, and are primarily a result of contributions from developers of infrastructure assets.

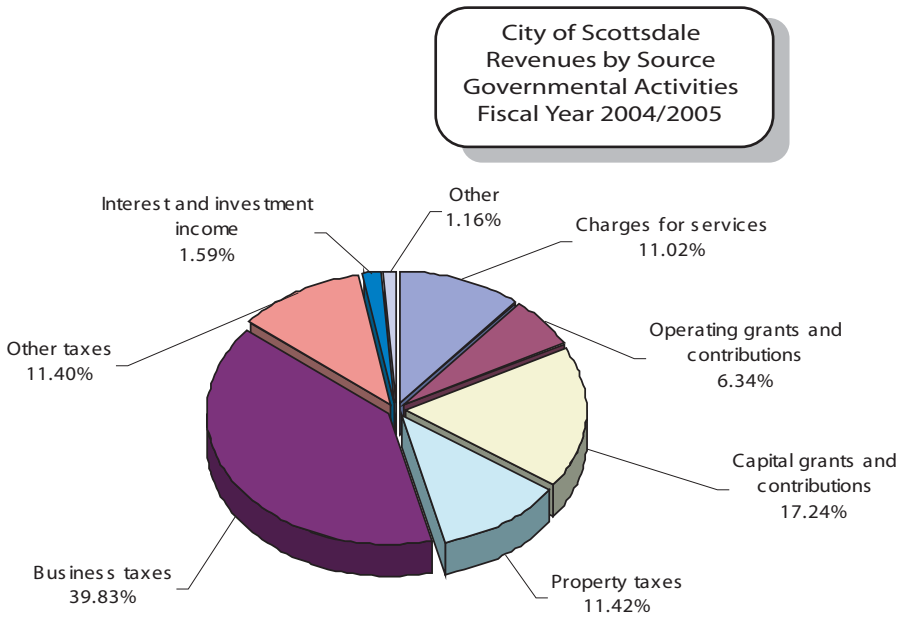
Changes in Net Assets
For the Years Ended June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	$ 46,720	$ 41,575	$ 120,261	$ 115,624	$ 166,981	$ 157,199
Operating Grants and Contributions	26,865	24,508	-	-	26,865	24,508
Capital Grants and Contributions	73,092	105,794	38,313	71,709	111,405	177,503
General Revenues						
Property Taxes	48,416	46,371	-	-	48,416	46,371
Business Taxes	168,909	136,668	-	-	168,909	136,668
Intergovernmental Taxes	48,346	45,163	-	-	48,346	45,163
Interest and Investment Income	6,765	2,655	4,288	973	11,053	3,628
Other	4,941	6,981	821	699	5,762	7,680
Total Revenues	424,054	409,715	163,683	189,005	587,737	598,720
Expenses						
General Government	30,943	23,839	-	-	30,943	23,839
Police	63,076	60,027	-	-	63,076	60,027
Financial Services	8,315	7,655	-	-	8,315	7,655
Transportation	85,835	78,373	-	-	85,835	78,373
Community Services	57,519	55,087	-	-	57,519	55,087
Information Systems	7,941	11,135	-	-	7,941	11,135
Fire	28,620	19,570	-	-	28,620	19,570
Municipal Services	16,520	13,024	-	-	16,520	13,024
Citizen and Neighborhood Resources	3,496	2,812	-	-	3,496	2,812
Human Resources	3,333	3,462	-	-	3,333	3,462
Economic Vitality	8,026	6,130	-	-	8,026	6,130
Planning and Development	12,522	11,697	-	-	12,522	11,697
Streetlight and Services Districts	1,094	1,024	-	-	1,094	1,024
Interest on Long-term Debt	32,466	28,028	-	-	32,466	28,028
Water Utility	-	-	59,723	51,095	59,723	51,095
Sewer Utility	-	-	28,324	24,678	28,324	24,678
Airport	-	-	3,346	2,622	3,346	2,622
Solid Waste	-	-	15,508	15,153	15,508	15,153
Total Expenses	359,706	321,863	106,901	93,548	466,607	415,411
Increase in Net Assets Before Special Items and Transfers	64,348	87,852	56,782	95,457	121,130	183,309
Gain/(Loss) on Sale of Capital Asset	(841)	(240)	(977)	206	(1,818)	(34)
Special Item - Defeasance of Debt	-	(3,964)	-	-	-	(3,964)
Transfers	9,567	11,037	(9,567)	(11,037)	-	-
Increase in Net Assets	73,074	94,685	46,238	84,626	119,312	179,311
Net Assets at Beginning of Year	1,875,270	1,780,585	946,624	861,998	2,821,894	2,642,583
Net Assets at End of Year	$ 1,948,344	$ 1,875,270	$ 992,862	$ 946,624	$ 2,941,206	$ 2,821,894

Governmental activities. Governmental activities increased the City's net assets by $73.1 million in fiscal year 2005 and $94.7 million in fiscal year 2004, thereby accounting for 61.3 percent and 52.8 percent, respectively, of the total growth in the net assets of the City. The key factor of this increase is as follows:

- For the second year in a row, City sales tax posted a year-over-year growth in the 2005 fiscal year resulting in an increase of 23.6 percent. Two new sales taxes were approved in May 2004 resulting in an additional 0.2 percent in Preserve Privilege Tax and 0.15 percent in Public Safety Tax. Although the property tax rates decreased in both fiscal years 2005 and 2004 property tax revenues rose 4.4 percent and 9.8 percent, respectively, over the previous years due to increases in assessed valuation.


City of Scottsdale
Program Revenues and Expenses
Governmental Activities
Fiscal Year 2004/2005
(in thousands of dollars)
Revenues
Expenses
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
General Government
Police
Financial Services
Transportation
Community Services
Information Systems
Fire
Municipal Services
Citizen & Neighborhood Resources
Human Resources
Economic Vitality
Planning and Development
Streetlight and Services Districts
Interest on Long-term Debt


City of Scottsdale
Revenues by Source
Governmental Activities
Fiscal Year 2004/2005
Interest and investment income 1.59%
Other 1.16%
Charges for services 11.02%
Operating grants and contributions 6.34%
Other taxes 11.40%
Capital grants and contributions 17.24%
Business taxes 39.83%
Property taxes 11.42%

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 (23.9 percent), followed by police (17.5 percent), and community services (16.0 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, including Sales and Use Taxes and Franchise Taxes, are the largest single source of funds (39.8 percent), followed by capital grants and contributions (17.2 percent), and property taxes (11.4 percent).

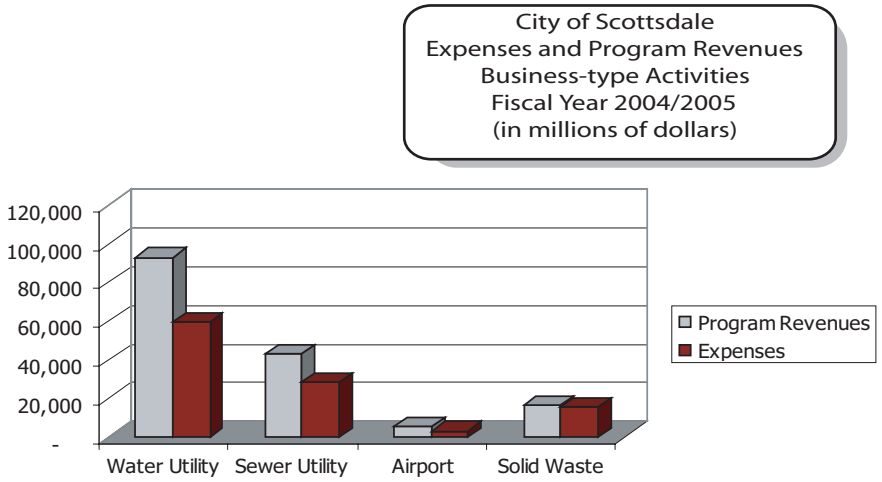
The Transportation department ensures that Scottsdale neighborhoods, businesses and visitors are provided an accessible, environmentally sensitive, safe and efficient transportation system. Projects and operations for street, transit and non-motorized travel are developed in cooperation with the public and promote economic sustainability for the community, preserves and enhances neighborhood quality of life and ensures seamless connections to the regional network.

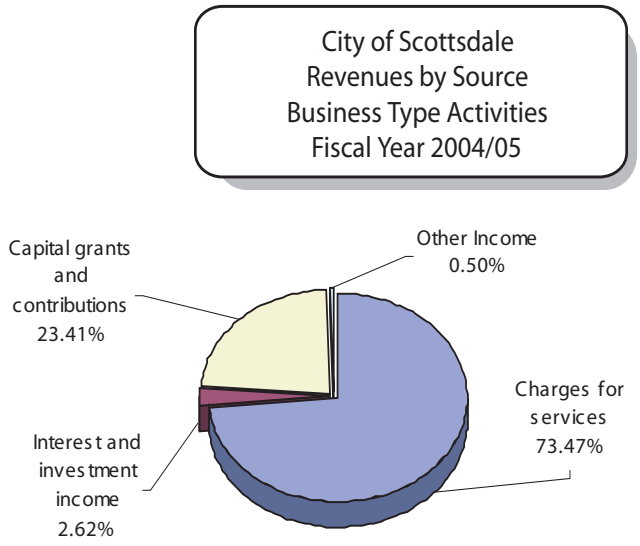
The Scottsdale Police Department, in partnership with the citizens of Scottsdale, recognizes the changing needs of our community and law enforcement's role in addressing those needs. Furthermore, they pledge excellence, initiative and integrity to enhance the quality of life throughout our City knowing those they serve deserve no less.

The City's Community Services Department improves and preserves Scottsdale's quality of life through development of safe and highly maintained facilities and imaginative services that provide opportunities for family interaction, cultural enrichment, and development of lifetime skills which build self-esteem, promote healthy lifestyles and are a catalyst for community involvement. They provide assistance and guidance to those in need and link our citizens with information and resources throughout the world.

Business-Type activities. Business-type activities increased the City's net assets in fiscal years 2005 and 2004 by $46.2 million and $84.6 million, respectively, accounting for 38.7 percent and 47.2 percent, respectively, of the total growth in the City's net assets. The key factor of this increase is as follows:

- The Water and Sewer Utility Fund had capital contributions from developers and grantors resulting in $35.9 million and $70.9 million in revenue for fiscal years 2005 and 2004, respectively. The majority of this amount is from infrastructure donated from developers and development fees received as development continues throughout the City.





As shown in "Program Revenues and Expenses for Business Type Activities" and the "Revenues by Source for Business Type Activities" charts, the largest of Scottsdale's business-type activities, Water and Sewer utilities, each had expenses of $59.7 million and $28.3 million, respectively, in fiscal year 2005, followed by Solid Waste with operating expenses of $15.5 million. For the fiscal year, revenues exceeded expenses in all four areas of business activity. Revenues exceed expenditures due to multi-year financial planning and pay-as-you-go contributions to capital projects. Charges for services provided the largest share of revenues (73.5 percent) followed by capital grants and contributions (23.4 percent), which are largely developer contributions and development fees, for all of the business-type activities.

The City's Water Resources Department plans, manages and operates a safe, reliable water supply and wastewater reclamation system and provides efficient, high quality customer service to Scottsdale citizens.

The Solid Waste Department provides effective and responsive leadership that ensures the delivery of safe, efficient and environmentally sound solid waste services to approximately 73,000 residential customers and 1,400 commercial and roll-off customers.

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

Funds are created and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An activity not required to be reported in a separate fund is included in the general fund. Governmental funds are used to account for tax-supported activities.

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. These funds are accounted for by using the modified accrual basis of accounting. 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 $264.8 million, a decrease of $52.7 million in comparison to the combined ending fund balances for fiscal year 2004 of $317.5 million. The decrease in the current year's fund balance is primarily due to land purchases during fiscal year 2005. Approximately $253.3 million of the total for fiscal year 2005 and $306.3 million of the total for fiscal year 2004 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 ($10.6 million and $9.1 million for fiscal years 2005 and 2004, respectively); (2) for the repayment of a long-term loan from another fund (all amounts were repaid in 2005, but $1.3 million was reserved for this purpose in fiscal year 2004) or; (3) to pay for the ongoing cost of the streetlight and services districts ($872,000 and $891,000 for fiscal years 2005 and 2004, respectively).

Revenues for governmental functions overall totaled approximately $363.0 million in fiscal year 2005, an increase of 18.2 percent ($55.9 million) over the previous year total of $307.1 million. In fiscal year 2005 expenditures for governmental functions, totaled $494.2 million, an increase of 46.3 percent ($156.5 million) over the fiscal year 2004 total of $337.7 million. In the fiscal years ended June 30, 2005 and 2004 expenditures for governmental functions exceeded revenues by approximately $131.2 million (36.1 percent) and $30.6 million (10.0 percent), respectively. The excess in both years was due to the City financing some capital projects with debt proceeds received in prior years and reflected in beginning fund balance. Increases in the excess from 2004 to 2005 were mainly due to land purchases by the City in fiscal year 2005.

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 $72.8 million, while total fund balance was $73.6 million. The unreserved and total balances for the General Fund at the end of fiscal year 2004 were $59.7 million and $61.9 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 38.6 percent of the total General Fund expenditures of $188.4 million in fiscal year 2005 and 34.3 percent of the total General Fund expenditures of $174.2 million in fiscal year 2004. The total fund balance represents 39.1 percent and 35.5 percent of total fund expenditures for fiscal years 2005 and 2004, respectively. In fiscal year 2005 management has designated $29.9 million of the General Fund unreserved fund balance for various uses. See note section III.D in the Notes to the Financial Statements for further information regarding reservations and designations.

For the first time in three years the fund balance in the City's General Fund increased. The increase in fiscal year 2005 by $11.8 million is mainly due to a brighter economic outlook and rising consumer confidence that resulted in increased sales tax revenues for the City. Overall, the General Fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2005, of $49.1 million, an increase of 44.1 percent over the comparable figure from the prior year of $34.1 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 $5.6 million, an increase of $2.1 million from the $3.5 million at the end of fiscal year 2004.

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 $113.6 million, compared to a fund balance of $88.9 million at the end of fiscal year 2004. 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 and debt proceeds. Capital improvement expenditures in 2005 and 2004 were $115.6 million and $25.0 million, respectively, an increase of $90.6 million, which is explained in greater detail in the Capital Assets section of this report.

The Preserve Privilege Tax Fund accounts for the resources used to acquire and improve land within the McDowell Sonoran Preserve. Resources are provided by the proceeds from the sale of bonds and the .15 percent Preserve Privilege Tax approved in May of 2004. In fiscal year 2005 the City acquired an additional 677 acres of land, totaling $60.8 million, for inclusion in the McDowell Sonoran Preserve.

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 2005 and 2004, the unrestricted net assets for the Water and Sewer Utility were $204.3 million and $265.4 million, respectively; Scottsdale Airport were $2.1 million and $1.2 million, respectively; and the Solid Waste Utility Fund were $6.6 million and $5.8 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 $15.6 million, respectively.

The total growth in net assets for the Enterprise Funds was $46.2 million and $84.6 million for fiscal years 2005 and 2004, 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 $43.8 million due to capital contributions of $35.9 million as well as increased revenues.

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 2005, the net assets of the Scottsdale Memorial Hospital Trust Fund totaled $19,000, representing a decrease of $345,000 in total net assets since June 30, 2004. The change is primarily related to increased expenses and completion of projects directly related to the redevelopment area. Changes to the other Fiduciary Funds were immaterial for the fiscal year.

General Fund Budgetary Highlights

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.

The City's final budget differs from the original budget due to adjustments that were made during the fiscal year. In fiscal year 2005, there was a slight increase in expenditure budgets; however, the City maintained an excess of revenues over expenditures and did not exceed the total appropriations for the year. The majority of these changes were contingency transactions approved by the City Council and budgetary transfers to the Fleet Management Fund for vehicle adjustments. Net budget increases for expenditures by department totaled $190,000 and $434,000 for fiscal years 2005 and 2004, respectively. The net increase is defined as follows:

$ 183,000	General Government
(800,000)	Police
(50,000)	Community Services
(31,000)	Information Systems
257,000	Fire
(53,000)	Citizen & Neighborhood Resources
(61,000)	Human Resources
745,000	Economic Vitality

During the year, actual revenues and other resources exceeded budgetary estimates by $26.7 million compared to $18.9 million in fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2005 and 2004, amount to $3.2 billion and $2.9 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 2005 and 2004 was 8.2 percent as shown in the table below.

Capital Assets, Net of Depreciation
For the Years Ended June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 514,588	$ 413,520	$ 24,065	$ 24,162	$ 538,653	$ 437,682
Buildings and Land Improvements	136,185	135,751	10,146	10,757	146,331	146,508
Streets and Storm Drains	1,417,799	1,433,989	-	-	1,417,799	1,433,989
Machinery and Equipment	20,173	17,807	3,972	3,388	24,145	21,195
Water Rights	-	-	64,688	64,688	64,688	64,688
Water System	-	-	401,207	406,412	401,207	406,412
Sewer System	-	-	257,445	258,737	257,445	258,737
Motor Vehicles and Maintenance by Fleet	22,629	23,450	-	-	22,629	23,450
Furniture, Fixtures and Office Equipment	-	-	117	178	117	178
Construction in Progress	126,451	66,165	151,002	52,208	277,453	118,373
Total	$ 2,237,825	$ 2,090,682	$ 912,642	$ 820,530	$ 3,150,467	$ 2,911,212

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

- Construction in progress on the Chaparral Water Treatment Plant – A multiple construction contract project accounting for total budgeted funds of approximately $83 million with total expenditures for the current fiscal year of $34 million.

- The City's water and sewer 5-year capital improvement plan includes significant cost impacts from "unfunded" federal water quality mandates for treatment of arsenic and disinfection by-product requirements, in addition to plant and infrastructure expansion to accommodate growth. The most significant CIP cash expenditures, in addition to the Chaparral Water Treatment Plant noted above, forecasted in the 5-year plan include: Arsenic Mitigation Treatment ($21 million), the CAP Water Connection from Shea to McDonald ($9 million), the 91st Avenue Wastewater Treatment Plant expansion and improvements ($15 million), and the Water Reclamation Plant Phase 3 Expansion ($10 million).

- The acquisition of an additional 677 acres of land, totaling $60.8 million, for inclusion in the McDowell Sonoran Preserve.

- Construction continued on Scottsdale Road from Indian Bend to Gold Dust Road totaling $7.1 million in expenditures this year.

- Costs associated with the City's acquisition of a new fire department included expenditures related to enhanced fire service communications and transition costs in the amount of $3.2 million and $5.3 million, respectively.

- The acquisition of a building for the new police/fire headquarters for $7.7 million.

- The City purchased a 42 acre parcel of property, known as Los Arcos, at a cost of $41.8 million for the development of the ASU Scottsdale Center for New Technology and Innovation.

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 2005 and 2004, the City had total long-term obligations outstanding of $766.6 million and $737.6 million, respectively. Of these amounts, $378.6 million and $400.2 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 $388.0 million and $337.4 million, respectively.

Outstanding Debt

For the Years Ended June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 372,070	$ 389,598	$ 6,515	$ 10,651	$ 378,585	$ 400,249
Revenue Bonds	5,815	8,475	65,735	68,365	71,550	76,840
Municipal Property Corporation Bonds	61,253	4,850	79,430	83,365	140,683	88,215
Scottsdale Preserve Authority Bonds	83,385	85,980	-	-	83,385	85,980
Special Assessments Bonds	6,340	8,755	-	-	6,340	8,755
Certificates of Participation	7,650	-	-	-	7,650	-
Community Facilities Districts General Obligation Bonds	43,480	44,950	-	-	43,480	44,950
Add Deferred Issuance Premiums	11,868	8,741	6,059	6,617	17,927	15,358
Less Deferred Amounts on Refunding	(11,693)	(9,153)	(1,530)	(1,819)	(13,223)	(10,972)
Total Bonds Payable	580,168	542,196	156,209	167,179	736,377	709,375
Contracts Payable	14,324	13,702	-	-	14,324	13,702
Capital Lease	-	-	-	-	-	-
Compensated Absences	13,900	13,038	1,971	1,531	15,871	14,569
Total Long-Term Liabilities	$ 608,392	$ 568,936	$ 158,180	$ 168,710	$ 766,572	$ 737,646

During fiscal years 2005 and 2004, the City's total bonded debt increased by approximately $27.0 million and $111.6 million, respectively. Although the City reduced several bond payable balances, the key contributors to the increase were the issuance of new Municipal Property Corporation bonds in the amount of $60.7 million and Certificates of Participation in the amount of $7.7 million during fiscal year 2005.

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, 2005 and 2004 is $195.8 million and $163.5 million, respectively, in the 6% capacity and $554.9 million and $475.3 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 XIVa in the statistical section of this report.

The City's ratings on uninsured General Obligation Bonds as provided above were affirmed by the Rating Agencies in February 2005 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 with the latest ratings shown in the schedule below.

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, 2005

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

Economic Factors and Next Year's Budget and Rates

The City of Scottsdale's fiscal year 2006 budget reflects continuing strength in the City's economy, reinforced by positive trends at the state and national levels. Modest improvements projected in the City's revenues, combined with savings carried over from fiscal year 2005, will allow Scottsdale to balance its budget, meet its most pressing needs and fund the City's highest priorities for fiscal year 2006. These needs include a new municipal fire department, additional police officers, added operating costs related to the opening of new City facilities, a continued focus on code enforcement and property maintenance in the mature portions of the City, and continued emphasis on economic vitality and revitalization.

With improved economic conditions, the City has an opportunity to address programs not funded in recent budgets. At the same time, the long-range financial outlook requires conservative focus only on the highest Council and citizen priorities. All areas of the City have pent-up demands and it is not possible to address them all.

The revenue forecasts used in the budget are cautiously optimistic. There is no assumption that the City has returned to the extraordinary economic conditions of the 1990s. The City is past its historic period of peak expansion and the long-term budget plans must recognize that fact.

In addition to the factors mentioned above, all of the following factors were considered in preparing the City's budget for fiscal year 2006:

The City continued to use a zero based, "program budget" approach, which focuses on the quality of each service citizens receive from the City, whether the service is provided by one department or several. The staff also continued to develop a more realistic and precise plan for continued investment in the City's basic infrastructure and public facilities, combined with a more comprehensive analysis of maintenance and operating costs.

Under the adopted budget, General Fund expenditures, debt payments and transfers-out to other funds increase from $228.5 million in the current fiscal year to $255.9 million. The largest single factor in the increase is the addition of approximately 119 full-time equivalent positions, most of which are for front line employees who will provide direct services to citizens or provide basic support services for the staff serving the public. Included in the new full time equivalent positions are the following types of staff:

- **Staffing for new or expanded City facilities**, mainly funded by voter-approved bonds, which are scheduled to open in the coming year. These include a new sports complex, senior center and aquatics center.
- **Public safety positions, a significant number of them funded through the voter-approved public safety tax**. These include increases in the number of patrol officers and other personnel to improve police services.

- **Staff needed to continue the City's emphasis on revitalization**. These positions include downtown maintenance workers and code enforcement inspectors.
- **Sufficient staff to meet customer service needs** in such areas as after-school programs for youth, processing of utility payments and compliance with Americans with Disabilities Act requirements.
- **Staff to meet "internal" service demands**. These are positions in the legal, financial and information systems areas that support the day-to-day needs of other operating departments.

A separate, key component of the annual financial plan is the City's five-year Capital Improvement Plan (CIP) for infrastructure and public facilities including roads, water and sewer improvements, parks, buildings and information technology. The adopted CIP appropriation for fiscal year 2006 is $899.7 million, which includes $415.8 million (or 46.2 percent of the total) re-budgeted from the prior year. Under Arizona law, the City must re-budget for a capital project until it is completed. Some examples of major projects included in the CIP budget are:

- **Community Facilities** – Improvements to the Civic Center Library, renovation of the Scottsdale Center for the Performing Arts, expansion of the spring training facilities, additional ball fields for Vista Del Camino and the construction of a multi-purpose building at WestWorld.
- **Preservation** – Construction of trails supporting the gateway to the preserve and expansion of preserve lands.
- **Drainage and Flood Control** – Drainage improvement to several areas within Scottsdale including the TPC, Indian School Road, Pima Road, North Scottsdale Road and the Upper Camelback Wash.
- **Public Safety** – The addition of a fire station for the South Quadrant and expansion of Fire Station #604, as well as construction to the District 1 Police Facilities.
- **Service Facilities** – The addition of new parking garages on North Marshall Way and the South Canal Bank, as well as maintenance to community service facilities.
- **Transportation** – Improvements to several main Scottsdale thorough ways including Indian Bend Road, Indian School Road, Scottsdale Road, Thompson Peak Parkway and Hayden Road. Additionally, enhancements to bicycle lanes and pedestrian paths will be made on Thomas and McDowell Roads. There will also be improvements made to bus stops around the City and a transit passenger facility will be added to the ASU Scottsdale Center.
- **Water Services** – Expansion and regulatory compliance to the CAP Plant, as well as the addition of arsenic mitigation facilities for the City's water system.

The adopted budget includes funding for the City's new municipal Fire Department which began operations in July 2005. The total Fire Department budget is $26.6 million and includes 257 positions approved by City Council on September 7, 2004. The positions were added in fiscal year 2005 to accommodate required firefighter training prior to their July 2005 start date. In fiscal year 2005 the City Council also approved Fire Department enhancements beyond the current service levels, such as staffing levels (adding a 4th firefighter on a truck) and work hours (56 hour work week). The enhancements are reflected in the adopted budget.

The adopted budget continues the practice of setting aside a reserve equal to 10 percent of the General Fund and Highway User Fund program budgets to ensure the City can provide basic services in the event of major emergencies.

Requests for Information

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

City of Scottsdale
Financial Services Department
Accounting Division
7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

(480) 312-2437

Or visit our website at:

http://www.scottsdaleaz.gov/finance/

Basic Financial Statements

Statement of Net Assets

June 30, 2005 (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	$ 280,955	$ 110,847	$ 391,802
Cash with Fiscal Agent	67,760	37,485	105,245
Receivable (net of uncollectible amounts of $11,278)			
Property Taxes and Penalties	7,423	-	7,423
Other Local Taxes	19,567	-	19,567
Intergovernmental	23,440	798	24,238
Charges for Services	-	13,996	13,996
Interest and Other	13,919	1,580	15,499
Supplies Inventory	422	-	422
Restricted Cash, Cash Equivalents, and Investments:			
Customer Advances and Deposits	-	1,366	1,366
Total Current Assets	413,486	166,072	579,558
Noncurrent Assets			
Equity in Joint Venture	-	87,186	87,186
Deferred Charges	2,315	408	2,723
Restricted Cash, Cash Equivalents, and Investments:			
Deferred Revenue	-	5,390	5,390
Water and Sewer System Replacement	-	17,592	17,592
Acquisition and Construction Reserve Development Fees	-	5,880	5,880
Capital Assets			
Land, Water Rights, and Construction in Progress	641,039	239,755	880,794
Facilities, Infrastructure, and Equipment (net of depreciation)	1,596,786	672,887	2,269,673
Total Capital Assets (net of accumulated depreciation)	2,237,825	912,642	3,150,467
Total Noncurrent Assets	2,240,140	1,029,098	3,269,238
Total Assets	2,653,626	1,195,170	3,848,796
LIABILITIES			
Current Liabilities			
Accounts Payable	21,984	21,138	43,122
Accrued Payroll and Benefits	8,788	923	9,711
Accrued Compensated Absences	2,126	276	2,402
Claims Payable	15,565	-	15,565
Due to Other Governments	57	-	57
Customer Advances and Deposits	-	1,366	1,366
Matured Bonds, Loans, Other Payables	29,880	11,140	41,020
Matured Bonds, Loans, Other Interest Payable	12,931	3,895	16,826
Unearned Revenue	1,483	-	1,483
Guaranty and Other Deposits	3,212	-	3,212
Other Liabilities	864	-	864
Total Current Liabilities	96,890	38,738	135,628
Noncurrent Liabilities			
Accrued Compensated Absences-Due within One Year	5,795	679	6,474
Accrued Compensated Absences-Due in More Than One Year	8,105	1,292	9,397
Deferred Revenue	-	5,390	5,390
Bonds, Loans, and Other Payables-Due within One Year	27,630	15,670	43,300
Bonds, Loans, and Other Payables-Due in More Than One Year	566,862	140,539	707,401
Total Noncurrent Liabilities	608,392	163,570	771,962
Total Liabilities	705,282	202,308	907,590
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,657,747	756,433	2,414,180
Restricted			
Debt Service	10,613	-	10,613
Transportation and Preserve Privilege Tax Activities	45,158	-	45,158
Capital Projects	15,552	-	15,552
Grants	561	-	561
Streetlight and Service District	911	-	911
Water and Sewer System Replacement	-	17,592	17,592
Acquisition and Construction	-	5,880	5,880
Unrestricted	217,802	212,957	430,759
Total Net Assets	$ 1,948,344	$ 992,862	$ 2,941,206

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

Statement of Activities

For the Year Ended June 30, 2005 (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	$ 30,943	$ 12,106	$ 1,890	$ 20,411	$ 3,464	$ -	$ 3,464
Police	63,076	11,514	1,660	172	(49,730)	-	(49,730)
Financial Services	8,315	-	-	-	(8,315)	-	(8,315)
Transportation	85,835	-	14,738	51,426	(19,671)	-	(19,671)
Community Services	57,519	3,914	8,557	1,083	(43,965)	-	(43,965)
Information Systems	7,941	-	-	-	(7,941)	-	(7,941)
Fire	28,620	-	8	-	(28,612)	-	(28,612)
Municipal Services	16,520	-	-	-	(16,520)	-	(16,520)
Citizen and Neighborhood Resources	3,496	-	-	-	(3,496)	-	(3,496)
Human Resources	3,333	-	12	-	(3,321)	-	(3,321)
Economic Vitality	8,026	-	-	-	(8,026)	-	(8,026)
Planning and Development	12,522	18,188	-	-	5,666	-	5,666
Streetlight and Services Districts	1,094	998	-	-	(96)	-	(96)
Interest on Long-term Debt	32,466	-	-	-	(32,466)	-	(32,466)
Total Governmental Activities	359,706	46,720	26,865	73,092	(213,029)	-	(213,029)
Business-Type Activities							
Water Utility	59,723	72,612	-	20,252	-	33,141	33,141
Sewer Utility	28,324	27,503	-	15,656	-	14,835	14,835
Airport	3,346	3,162	-	2,405	-	2,221	2,221
Solid Waste	15,508	16,984	-	-	-	1,476	1,476
Total Business-Type Activities	106,901	120,261	-	38,313	-	51,673	51,673
Total Government	$ 466,607	$ 166,981	$ 26,865	$ 111,405	(213,029)	51,673	(161,356)
General Revenues							
Taxes							
Property Taxes					48,416	-	48,416
Sales and Use Taxes					160,253	-	160,253
Franchise Taxes					8,656	-	8,656
Intergovernmental							
State Shared Sales					18,779	-	18,779
State Revenue Sharing					18,634	-	18,634
Other					10,933	-	10,933
Interest and Investment Income					6,765	4,288	11,053
Other Revenue					4,941	821	5,762
Loss on Sale of Capital Assets					(841)	(977)	(1,818)
Transfers					9,567	(9,567)	-
Total General Revenues and Transfers					286,103	(5,435)	280,668
Change in Net Assets					73,074	46,238	119,312
Net Assets - Beginning					1,875,270	946,624	2,821,894
Net Assets - Ending					$ 1,948,344	$ 992,862	$ 2,941,206

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

Balance Sheet

Governmental Funds
June 30, 2005 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Preserve Privilege Tax Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	$ 71,717	$ 5,109	$ 106,218	$ -	$ 65,492	$ 248,536
Cash with Fiscal Agent	398	27,153	20,089	-	20,120	67,760
Receivables (net of allowance for uncollectibles)						
Interest	360	-	362	-	385	1,107
Privilege Tax	8,678	-	-	-	4,227	12,905
Hotel/Motel Tax	399	-	-	-	-	399
Property Tax	431	631	-	-	162	1,224
State Shared Sales Tax	1,656	-	-	-	-	1,656
Franchise Fee	2,118	-	-	-	-	2,118
Court Receivable	6,199	-	-	-	-	6,199
Highway User Tax	-	-	-	-	1,495	1,495
Auto Lieu Tax	994	-	-	-	-	994
Intergovernmental	-	-	-	-	3,391	3,391
Grants	-	-	-	-	384	384
Special Assessments	-	-	-	-	6,265	6,265
Miscellaneous	4,988	-	8	-	614	5,610
Due from Other Funds	189	-	-	-	18,062	18,251
Supplies Inventory	153	-	-	-	-	153
Total Assets	$ 98,280	$ 32,893	$ 126,677	$ -	$ 120,597	$ 378,447

(continued)

Balance Sheet

Governmental Funds
June 30, 2005 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Preserve Privilege Tax Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	$ 3,164	$ -	$ 12,953	$ 306	$ 4,732	$ 21,155
Accrued Payroll and Benefits	10,107	-	63	-	505	10,675
Due to Other Funds	-	-	-	18,062	189	18,251
Matured Bond Interest Payable	-	8,294	-	-	4,637	12,931
Matured Bonds Payable	-	18,825	-	-	11,055	29,880
Deferred Revenue						
Property Tax	128	172	-	-	86	386
Special Assessments	-	-	-	-	6,265	6,265
Court	6,199	-	-	-	-	6,199
Tax Audit	2,333	-	-	-	-	2,333
Intergovernmental	80	-	-	-	1,125	1,205
Other	278	-	-	-	-	278
Due to Other Governments	28	-	29	-	-	57
Guaranty and Other Deposits	1,489	-	11	-	1,712	3,212
Other	830	-	-	-	34	864
Total Liabilities	24,636	27,291	13,056	18,368	30,340	113,691
Fund Balances						
Reserved for						
Streetlight and Services Districts	872	-	-	-	-	872
Debt Service	-	5,602	-	-	5,011	10,613
Unreserved, Reported in						
General Fund - Designated	29,859	-	-	-	-	29,859
General Fund - Undesignated	42,913	-	-	-	-	42,913
Capital Projects Funds	-	-	113,621	(18,368)	53,373	148,626
Special Revenue Funds	-	-	-	-	31,873	31,873
Total Fund Balances	73,644	5,602	113,621	(18,368)	90,257	264,756
Total Liabilities and Fund Balances	$ 98,280	$ 32,893	$ 126,677	$ -	$ 120,597	$ 378,447

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, 2005 (in thousands of dollars)

Fund Balances -Total Governmental Funds	$ 264,756
Amounts reported for governmental activities in the statement of net assets are different because (see Section II A):	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,213,182
Bond issuance costs are not financial resources and, therefore, are not reported in the funds.	2,315
Long-term receivables are not due and receivable in the current period and, therefore, are not reported in the funds.	19,665
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(607,996)
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.	15,183
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.	41,239
Net Assets of Governmental Activities	$ 1,948,344

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, 2005 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Preserve Privilege Tax Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes - Local						
Property	$ 17,451	$ 26,602	$ -	$ -	$ 4,196	$ 48,249
Transaction Privilege	102,793	-	-	-	49,416	152,209
Transient Occupancy	7,939	-	-	-	-	7,939
Light and Power Franchise	5,596	-	-	-	-	5,596
Cable TV Franchise	2,859	-	-	-	-	2,859
Salt River Project In-Lieu	201	-	-	-	-	201
Other Taxes	1,136	-	-	-	-	1,136
Taxes - Intergovernmental						
State-Shared Sales	18,779	-	-	-	-	18,779
State Revenue Sharing	18,634	-	-	-	-	18,634
Auto Lieu Tax	8,678	-	-	-	-	8,678
Highway User Tax	-	-	-	-	14,738	14,738
Local Transportation Assistance Fund	-	-	-	-	1,119	1,119
Business and Liquor Licenses	1,633	-	-	-	-	1,633
Charges for Current Services						
Building and Related Permits	18,164	-	-	-	24	18,188
Recreation Fees	2,450	-	-	-	824	3,274
Westworld Equestrian Facility Fees	1,838	-	-	-	-	1,838
Fines, Fees and Forfeitures						
Court Fines	5,321	-	-	-	37	5,358
Parking	187	-	-	-	-	187
Photo Radar	2,557	-	-	-	-	2,557
Court Enhancement	-	-	-	-	907	907
Library	640	-	-	-	-	640
Special Assessments	13	-	-	-	2,016	2,029
Property Rental	3,243	-	-	-	374	3,617
Interest Earnings (Loss)	1,987	-	1,924	(318)	2,460	6,053
Intergovernmental						
Federal Grants	-	-	-	-	8,600	8,600
State Grants	-	-	190	-	758	948
Miscellaneous	645	-	-	-	1,578	2,223
Developer Contributions	77	-	1,351	-	3,280	4,708
Streetlight and Services Districts	998	-	-	-	-	998
Contributions and Donations	26	-	244	-	647	917
Reimbursements from Outside Sources	244	-	28	-	189	461
Indirect Costs	8,635	-	-	-	-	8,635
Other	4,818	-	4,215	-	46	9,079
Total Revenues	237,542	26,602	7,952	(318)	91,209	362,987

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Preserve Privilege Tax Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
EXPENDITURES						
Current						
General Government	20,753	-	-	-	1,040	21,793
Police	59,137	-	-	-	737	59,874
Financial Services	7,631	-	-	-	-	7,631
Transportation	-	-	-	-	8,760	8,760
Community Services	41,176	-	-	-	8,765	49,941
Information Systems	7,674	-	-	-	-	7,674
Fire	21,320	-	-	-	-	21,320
Municipal Services	513	-	-	-	11,300	11,813
Citizen and Neighborhood Resources	2,820	-	-	-	11	2,831
Human Resources	3,253	-	-	-	8	3,261
Economic Vitality	6,506	-	-	-	-	6,506
Planning and Development	12,099	-	-	-	12	12,111
Streetlight and Services Districts	1,094	-	-	-	-	1,094
Debt Service						
Principal	215	18,825	-	-	14,133	33,173
Interest and Fiscal Charges	4,132	18,216	-	-	9,600	31,948
Bond Issuance Costs	-	376	502	-	-	878
Capital Improvements	91	-	115,103	60,785	37,606	213,585
Total Expenditures	188,414	37,417	115,605	60,785	91,972	494,193
Excess (Deficiency) of Revenues Over Expenditures	49,128	(10,815)	(107,653)	(61,103)	(763)	(131,206)
OTHER FINANCING SOURCES (USES)						
Transfers in	8,254	12,825	70,321	4,786	45,597	141,783
Transfers out	(53,248)	-	(60)	-	(79,976)	(133,284)
Refunding Bonds Issued	-	74,630	-	-		74,630
Long-term Capital-Related Debt Issued	7,650	-	60,705	-	-	68,355
Premium on Bonds Issued	-	3,078	1,458	-	-	4,536
Payment to Bond Refunding Escrow Agent	-	(77,584)	-	-	-	(77,584)
Total Other Financing Sources and (Uses)	(37,344)	12,949	132,424	4,786	(34,379)	78,436
Net Change in Fund Balances	11,784	2,134	24,771	(56,317)	(35,142)	(52,770)
Fund Balances - Beginning	61,860	3,468	88,850	37,949	125,399	317,526
Fund Balances - Ending	$ 73,644	$ 5,602	$ 113,621	$ (18,368)	$ 90,257	$ 264,756

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

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

For the Year Ended June 30, 2005 (in thousands of dollars)

Net Change in Fund Balances - Total Governmental Funds	$	(52,770)
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.		100,334
Donations of capital assets are not reflected on the governmental fund statements but are shown in the statement of activities.		47,538
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.		(788)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		16,371
Bond issuance costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net assets. This is the amount by which current year bond issuance costs exceed amortization expense in the current period.		690
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.		(36,764)
Additional accrued interest calculated on bonds and notes payable.		(330)
Long-term contracts initiated during the current year are not reported in governmental funds and thus do not contribute to the change in fund balance. In the government-wide statements, however, entering into a contract payable increases long-term liabilities in the statement of net assets.		(1,500)
The net revenues of certain activities of internal service funds is reported with governmental activities.		293
Changes in Net Assets of Governmental Activities	$	73,074

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

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 17,630	$ 17,630	$ 17,451	$ -	$ 17,451	$ (179)
Transaction Privilege	92,597	92,597	102,793	-	102,793	10,196
Transient Occupancy	6,732	6,732	7,939	-	7,939	1,207
Light and Power Franchise	5,216	5,216	5,596	-	5,596	380
Cable TV Franchise	2,600	2,600	2,859	-	2,859	259
Salt River Project In-Lieu	203	203	201	-	201	(2)
Other Taxes	1,113	1,113	1,136	-	1,136	23
Taxes - Intergovernmental						
State-Shared Sales	16,539	16,539	18,779	-	18,779	2,240
State Revenue Sharing	18,017	18,017	18,634	-	18,634	617
Auto Lieu Tax	7,844	7,844	8,678	-	8,678	834
Business and Liquor Licenses	1,827	1,827	1,633	-	1,633	(194)
Charges for Current Services						
Building and Related Permits	14,250	14,250	18,164	-	18,164	3,914
Recreation Fees	2,238	2,238	2,450	-	2,450	212
Westworld Equestrian Facility Fees	1,587	1,587	1,838	-	1,838	251
Fines, Fees and Forfeitures						
Court Fines	3,917	3,917	5,321	-	5,321	1,404
Parking	209	209	187	-	187	(22)
Photo Radar	1,118	1,118	2,557	-	2,557	1,439
Library	405	585	640	-	640	55
Special Assessments	-	-	-	13	13	-
Property Rental	3,020	3,020	3,243	-	3,243	223
Interest Earnings	1,650	1,650	2,275	(288)	1,987	625
Intergovernmental Miscellaneous	1,321	1,321	645	-	645	(676)
Developer Contributions	-	-	-	77	77	-
Streetlight and Services Districts	1,170	1,170	998	-	998	(172)
Contributions and Donations	-	-	-	26	26	-
Reimbursements from Outside Sources	180	-	244	-	244	244
Indirect Costs	8,635	8,635	8,635	-	8,635	-
Other	1,020	1,020	4,818	-	4,818	3,798
Total Revenues	211,038	211,038	237,714	(172)	237,542	26,676
EXPENDITURES						
Current						
General Government	20,714	20,897	20,499	254	20,753	398
Police	61,057	60,257	58,807	330	59,137	1,450
Financial Services	7,679	7,679	7,460	171	7,631	219
Community Services	41,875	41,825	40,952	224	41,176	873
Information Systems	8,064	8,033	7,659	15	7,674	374
Fire	21,054	21,311	21,311	9	21,320	-
Municipal Services	538	538	508	5	513	30
Citizen and Neighborhood Resources	3,019	2,966	2,820	-	2,820	146
Human Resources	3,432	3,371	3,243	10	3,253	128
Economic Vitality	6,280	7,025	6,503	3	6,506	522
Planning and Development	12,757	12,757	12,003	96	12,099	754
Streetlight and Services District	1,220	1,220	1,094	-	1,094	126
Debt Service						
Principal	2,017	2,017	215	-	215	1,802
Interest and Fiscal Charges	2,526	2,526	4,132	-	4,132	(1,606)
Capital Improvements	-	-	-	91	91	-
Total Expenditures	192,232	192,422	187,206	1,208	188,414	5,216
Excess (Deficiency) of Revenues Over Expenditures	18,806	18,616	50,508	(1,380)	49,128	31,892
OTHER FINANCING SOURCES (USES)						
Transfers In	7,514	7,514	8,254	-	8,254	740
Transfers Out	(26,320)	(26,130)	(53,248)	-	(53,248)	(27,118)
Long-Term Capital-Related Debt Issued	-	-	7,650	-	7,650	7,650
Total Other Financing Sources and (Uses)	(18,806)	(18,616)	(37,344)	-	(37,344)	(18,728)
Net Change in Fund Balance	-	-	13,164	(1,380)	11,784	13,164
Fund Balance - Beginning	-	-	61,860	-	61,860	61,860
Fund Balance - Ending	$ -	$ -	$ 75,024	$ (1,380)	$ 73,644	$ 75,024

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, 2005 (in thousands of dollars)

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded for budget purposes:		
Unrealized Loss on Investments	$	(288)
Miscellaneous Items		116
Total Revenue Reconciling Items:		(172)
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:		
Claims and Compensated Absences		1,117
Capital Improvement		91
Total Expenditure Reconciling Items:		1,208
Net Decrease in Fund Balance - Budget to GAAP	$	(1,380)

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

Statement of Net Assets

Proprietary Funds
June 30, 2005 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
ASSETS					
Current Assets					
Cash and Investments	$ 103,530	$ 1,750	$ 5,567	$ 110,847	$ 32,419
Cash with Fiscal Agent	37,317	-	168	37,485	-
Receivable (net of allowance for uncollectibles)					
Charges for Services	11,610	-	2,386	13,996	-
Intergovernmental	44	754	-	798	-
Interest	644	4	25	673	133
Miscellaneous	630	230	47	907	804
Supplies Inventory	-	-	-	-	269
Restricted Cash, Cash Equivalents, and Investments:					
Customer Advances and Deposits	1,305	61	-	1,366	-
Total Current Assets	155,080	2,799	8,193	166,072	33,625
Noncurrent Assets					
Equity in Joint Venture	87,186	-	-	87,186	-
Deferred Charges	408	-	-	408	-
Restricted Cash, Cash Equivalents, and Investments:					
Deferred Revenue	5,390	-	-	5,390	-
Water and Sewer System Replacement	17,592	-	-	17,592	-
Acquisition and Construction Reserve	5,880	-	-	5,880	-
Capital Assets					
Land	13,390	9,564	1,111	24,065	-
Water Rights	64,688	-	-	64,688	-
Water System	551,796	-	-	551,796	-
Sewer System	327,792	-	-	327,792	-
Buildings and Improvements	-	12,577	2,997	15,574	1,846
Motor Vehicles	-	-	-	-	53,608
Machinery and Equipment	3,930	838	1,905	6,673	408
Furniture and Fixtures	621	-	-	621	22
Construction in Progress	149,347	1,655	-	151,002	1,041
Less Accumulated Depreciation	(223,447)	(4,257)	(1,865)	(229,569)	(32,282)
Total Capital Assets (net of accumulated depreciation)	888,117	20,377	4,148	912,642	24,643
Total Noncurrent Assets	1,004,573	20,377	4,148	1,029,098	24,643
Total Assets	$ 1,159,653	$ 23,176	$ 12,341	$ 1,195,170	$ 58,268

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

(continued on next page)

Statement of Net Assets

Proprietary Funds
June 30, 2005 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 20,192	$ 555	$ 391	$ 21,138	$ 829
Accrued Payroll and Benefits	645	44	234	923	179
Accrued Compensated Absences	190	13	73	276	60
Claims Payable	-	-	-	-	15,565
Customer Advances and Deposits	1,305	61	-	1,366	-
Matured Bonds Payable	10,885	-	255	11,140	-
Matured Bond Interest Payable	3,853	-	42	3,895	-
Total Current Liabilities	37,070	673	995	38,738	16,633
Noncurrent Liabilities					
Accrued Compensated Absences	1,324	72	575	1,971	396
Deferred Revenue	5,390	-	-	5,390	-
Bonds Payable - Due within One Year	14,185	-	1,485	15,670	-
Bonds Payable - Due in More Than One Year	140,539	-	-	140,539	-
Total Noncurrent Liabilities	161,438	72	2,060	163,570	396
Total Liabilities	198,508	745	3,055	202,308	17,029
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	733,393	20,377	2,663	756,433	24,643
Restricted for Water and Sewer System Replacement	17,592	-	-	17,592	-
Restricted for Acquisition and Construction	5,880	-	-	5,880	-
Unrestricted	204,280	2,054	6,623	212,957	16,596
Total Net Assets	$ 961,145	$ 22,431	$ 9,286	$ 992,862	$ 41,239

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, 2005 (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	$ 67,393	$ -	$ -	$ 67,393	$ -
Sewer Service Fees	26,959	-	-	26,959	-
Proprietary - Non-Potable Water Fees	4,878	-	-	4,878	-
Groundwater Treatment Plant	885	-	-	885	-
Solid Waste Fees	-	-	16,984	16,984	-
Airport Fees	-	3,162	-	3,162	-
Other Services	-	-	-	-	29,909
Other	820	-	1	821	839
Total Operating Revenues	100,935	3,162	16,985	121,082	30,748
Operating Expenses					
Costs for Sales and Services					
Water Operations	35,184	-	-	35,184	-
Sewer Operations	14,931	-	-	14,931	-
Solid Waste Operations	-	-	13,330	13,330	-
Airport Operations	-	2,160	-	2,160	-
Other Services	-	-	-	-	29,378
Indirect Costs	6,298	467	1,870	8,635	-
Depreciation	25,223	719	201	26,143	5,322
Total Operating Expenses	81,636	3,346	15,401	100,383	34,700
Operating Income (Loss)	19,299	(184)	1,584	20,699	(3,952)
Non-Operating Revenues (Expenses)					
Property Tax	-	-	-	-	404
Investment Income	4,143	21	124	4,288	712
Interest Expense	(6,411)	-	(107)	(6,518)	-
Gain (Loss) on Sale of Capital Assets	(501)	(472)	(4)	(977)	41
Net Non-Operating Revenues (Expenses)	(2,769)	(451)	13	(3,207)	1,157
Income (Loss) Before Contributions and Transfers	16,530	(635)	1,597	17,492	(2,795)
Capital Contributions	35,908	2,405	-	38,313	2,020
Transfers In	-	114	-	114	3,418
Transfers Out	(8,639)	(292)	(750)	(9,681)	(2,350)
Change in Net Assets	43,799	1,592	847	46,238	293
Total Net Assets - Beginning	917,346	20,839	8,439	946,624	40,946
Total Net Assets - Ending	$ 961,145	$ 22,431	$ 9,286	$ 992,862	$ 41,239

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, 2005 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities					
Cash Received from Customers	$ 99,124	$ 3,165	$ 16,936	$ 119,225	$ 29,705
Cash Paid to Suppliers	(35,471)	(1,322)	(10,433)	(47,226)	(29,612)
Cash Paid to Employees	(11,830)	(808)	(4,468)	(17,106)	711
Other Operating	523	(60)	(1)	462	815
Net Cash Provided by Operating Activities	52,346	975	2,034	55,355	1,619
Cash Flows from Non-Capital Financing Activities					
Property Tax	-	-	-	-	422
Transfers In	-	114	-	114	3,418
Transfers Out	(8,639)	(292)	(750)	(9,681)	(2,350)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(8,639)	(178)	(750)	(9,567)	1,490
Cash Flows from Capital and Related Financing Activities					
Capital Contributions from Other					
Water and Sewer Development Fees	20,155	-	-	20,155	-
Capital Grants	964	2,050	-	3,014	-
Acquisition and Construction of Property and Equipment	(116,124)	(1,965)	-	(118,089)	(2,611)
Principal Payments on Capital Debt	(8,805)	-	(245)	(9,050)	-
Interest Paid on Capital Debt	(6,365)	-	(113)	(6,478)	-
Sale of Capital Assets	123	-	-	123	79
Net Cash Provided by (Used for) Capital and Related Financing Activities	(110,052)	85	(358)	(110,325)	(2,532)
Cash Flows from Investing Activities					
Proceeds from the Sale of Investments	-	-	16	16	-
Income Received on Investments	4,158	19	118	4,295	696
Net Cash Provided by (Used for) Investing Activities	4,158	19	134	4,311	696
Net Increase in Cash and Cash Equivalents	(62,187)	901	1,060	(60,226)	1,273
Cash and Cash Equivalents at Beginning of Year	233,201	910	4,549	238,660	31,146
Cash and Cash Equivalents at End of Year	$ 171,014	$ 1,811	$ 5,609	$ 178,434	$ 32,419

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, 2005 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash and Cash Equivalents at End of Year Includes					
Cash and Investments	$ 103,530	$ 1,750	$ 5,567	$ 110,847	$ 32,419
Deduction for Long-term Investments	-	-	(126)	(126)	-
Cash with Fiscal Agent	37,317	-	168	37,485	-
Restricted Cash and Investments	30,167	61	-	30,228	-
Total Cash and Cash Equivalents	$ 171,014	$ 1,811	$ 5,609	$ 178,434	$ 32,419
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	$ 19,299	$ (184)	$ 1,584	$ 20,699	$ (3,952)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities					
Depreciation and Amortization	25,223	719	201	26,143	5,322
Changes In Assets and Liabilities Sources (Uses) of Cash					
Accounts Receivable	(1,348)	-	(48)	(1,396)	-
Miscellaneous Receivables	(297)	(60)	(2)	(359)	(228)
Supplies Inventory				-	72
Accounts Payable	8,784	488	95	9,367	(597)
Accrued Payroll and Benefits	328	9	204	541	115
Claims Payable	-	-	-	-	887
Deferred Revenue	313	-	-	313	-
Other Liabilities	44	3	-	47	-
Total Adjustments	33,047	1,159	450	34,656	5,571
Net Cash Provided by Operating Activities	$ 52,346	$ 975	$ 2,034	$ 55,355	$ 1,619
Supplemental Disclosure of Non-Cash Financing Activities					
Additions to Property, Plant, and Equipment					
Contributions from Developers	$ 14,906	$ -	$ -	$ 14,906	$ -
Contributions from Other Government Units	-	-	-	-	2,020
Amortization of Deferred Charges	(204)	-	-	(204)	-
Accretion on Capital Appreciation Bonds	439	-	-	439	-
Loss on Sale of Capital Assets	(624)	(472)	(4)	(1,100)	-
Total Non-Cash Financing Activities	$ 14,517	$ (472)	$ (4)	$ 14,041	$ 2,020

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

Statement of Fiduciary Net Assets

Fiduciary Funds
June 30, 2005 (in thousands of dollars)

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 23	$ 4,822
Total Assets	23	4,822
LIABILITIES		
Accounts Payable	-	101
Designated Escrow Payable	-	4,721
Total Liabilities	-	4,822
NET ASSETS		
Held in Trust for Other Purposes	$ 23	$ -

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, 2005 (in thousands of dollars)

	Private Purpose Trust Funds
ADDITIONS	
Contributions:	
Private Donations	$ 129
Investment Earnings:	
Interest	3
Total Additions	132
DEDUCTIONS	
Scholarships	6
Redevelopment Expenses	473
Total Deductions	479
Change in Net Assets	(347)
Net Assets - Beginning	370
Net Assets - Ending	$ 23

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, Arizona (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, Arizona (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 and proprietary fund type as if it were part of the City's operations.

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

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

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

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

The *Preservation Privilege Tax Capital Projects Fund* accounts for the resources used to acquire, and improve land within the McDowell Sonoran Preserve. Resources are provided by the proceeds from the sale of bonds and the .15% 2004-approved Preserve Privilege Tax. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied.

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their

business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first; then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

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

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, 2005.

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

4. Restricted Assets

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

5. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

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

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

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 and proprietary 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, 2005, 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.

9. Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – The category represents net assets of the City, not restricted for any project or other purpose.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The City's Governmental funds fund balances, $264,756, differs from net assets of governmental activities, $1,948,344, 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	$ 248,536	$ -	$ 32,419	$ -	$ 280,955
Cash with Fiscal Agent	67,760	-	-	-	67,760
Receivables (net of allowance for uncollectibles)					
Interest	1,107	-	133	-	1,240
Privilege Tax	12,905	-	-	-	12,905
Hotel/Motel Tax	399	-	-	-	399
Property Tax	1,224	-	-	-	1,224
State Shared Sales Tax	1,656	-	-	-	1,656
Franchise Fee	2,118	-	-	-	2,118
Court Receivable	6,199	-	-	-	6,199
Highway User Tax	1,495	-	-	-	1,495
Auto Lieu Tax	994	-	-	-	994
Intergovernmental	3,391	19,665	-	-	23,056
Grants	384	-	-	-	384
Special Assessments	6,265	-	-	-	6,265
Miscellaneous	5,610	-	804	-	6,414
Due from Other Funds/Internal Balances	18,251	-	-	(18,251)	-
Supplies Inventory	153	-	269	-	422
Capital Assets (net of accumulated depreciation)	-	2,213,182	24,643	-	2,237,825
Deferred charges and other assets	-	2,315	-	-	2,315
Total Assets	$ 378,447	$ 2,235,162	$ 58,268	$ (18,251)	$ 2,653,626
LIABILITIES					
Accounts Payable	$ 21,155	$ -	$ 829	$ -	$ 21,984
Accrued Payroll and Benefits	10,675	-	179	(2,066)	8,788
Accrued Compensated Absences - Current	-	-	60	2,066	2,126
Accrued Compensated Absences - Due Within One Year	-	5,642	153	-	5,795
Accrued Compensated Absences - Due in More Than One Year	-	7,862	243	-	8,105
Claims Payable	-	-	15,565	-	15,565
Due to Other Funds	18,251	-	-	(18,251)	-
Matured Bond Interest Payable	12,931	-	-	-	12,931
Matured Bonds Payable	29,880	-	-	-	29,880
Deferred Revenue					
Property Tax	386	(386)	-	-	-
Special Assessments	6,265	(6,265)	-	-	-
Court	6,199	(6,199)	-	-	-
Tax Audit	2,333	(2,333)	-	-	-
Intergovernmental	1,205	-	-	-	1,205
Other	278	-	-	-	278
Due to Other Governments	57	-	-	-	57
Guaranty and Other Deposits	3,212	-	-	-	3,212
Other	864	-	-	-	864
Bonds, Loans, Capital Leases, and Other Payables	-	594,492	-	-	594,492
Total Liabilities	113,691	592,813	17,029	(18,251)	705,282
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	264,756	1,642,349	41,239	-	1,948,344
Total Liabilities and Fund Balances/Net Assets	$ 378,447	$ 2,235,162	$ 58,268	$ (18,251)	$ 2,653,626

(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	$	3,168,193
Accumulated depreciation		(955,011)
	$	2,213,182

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 @ 7/1/04	$	1,625
Bond issuance cost for FY 2005		878
Amortization of bond issuance costs		(188)
	$	2,315

Long-term receivables applicable to the City's governmental activities are not due and receivable in the current period and accordingly are not reported as fund receivables in the governmental funds. All receivables, both current and long-term, are reported in the statement of net assets.

	$	19,665

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 ($77,584) to be placed in escrow for payment of the old debt ($73,570) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was $4,014 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, 2005 were:

Contract payables	$	(14,324)
Bonds payable		(579,993)
Deferred amount on refunding		11,693
Deferred issuance premium		(11,868)
Accrued vacation and sick leave pay		(13,504)
	$	(607,996)

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

Deferred special assessment revenue	$	6,265
Deferred court revenue		6,199
Deferred tax revenue		2,719
	$	15,183

(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.

	$	41,239

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, $(52,770), differs from the change in net assets for the governmental activities, $73,074, 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	$ 48,249	$ (237)	$ -	$ 404	$ -	$ 48,416
Transaction Privilege	152,209	105	-	-	-	152,314
Transient Occupancy	7,939	-	-	-	-	7,939
Light and Power Franchise	5,596	-	-	-	-	5,596
Cable TV Franchise	2,859	-	-	-	-	2,859
Salt River Project In-Lieu	201	-	-	-	-	201
Other Taxes	1,136	-	-	-	-	1,136
Taxes - Intergovernmental:						
State-Shared Sales	18,779	-	-	-	-	18,779
State Revenue Sharing	18,634	-	-	-	-	18,634
Auto Lieu Tax	8,678	-	-	-	-	8,678
Highway User Tax	14,738	-	-	-	-	14,738
Local Transportation Assistance Fund	1,119	-	-	-	-	1,119
Business and Liquor Licenses	1,633	-	-	-	-	1,633
Charges for Current Services:						
Building and Related Permits	18,188	-	-	-	-	18,188
Recreation Fees	3,274	-	-	-	-	3,274
Westworld Equestrian Facility Fees	1,838	-	-	-	-	1,838
Fines and Forfeitures:						
Court Fines	5,358	2,230	-	-	-	7,588
Parking	187	221	-	-	-	408
Photo Radar	2,557	54	-	-	-	2,611
Court Enhancement	907	-	-	-	-	907
Library	640	-	-	-	-	640
Special Assessments	2,029	(1,667)	-	-	-	362
Property Rental	3,617	-	-	-	-	3,617
Interest Earnings	6,053	-	-	712	-	6,765
Intergovernmental:						
Federal Grants	8,600	-	-	-	-	8,600
State Grants	948	-	-	-	-	948
Miscellaneous	2,223	19,665	-	-	-	21,888
Developer Contributions	4,708	-	-	-	-	4,708
Streetlight and Services Districts	998	-	-	-	-	998
Contributions and Donations	917	-	-	-	-	917
Reimbursements from Outside Sources	461	-	-	-	-	461
Indirect Costs	8,635	-	-	-	-	8,635
Other	9,079	(4,000)	(4,216)	-	-	863
Total	362,987	16,371	(4,216)	1,116	-	376,258

(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	$ 21,793	$ 132	$ 8,472	$ 546	$ -	$ 30,943
Police	59,874	(266)	1,926	1,542	-	63,076
Financial Services	7,631	124	457	103	-	8,315
Transportation	8,760	(27)	76,819	283	-	85,835
Community Services	49,941	412	6,753	413	-	57,519
Information Systems	7,674	89	134	44	-	7,941
Fire	21,320	34	7,159	107	-	28,620
Municipal Services	11,813	168	3,792	747	-	16,520
Citizen and Neighborhood Resources	2,831	15	624	26	-	3,496
Human Resources	3,261	21	34	17	-	3,333
Economic Vitality	6,506	13	3	4	1,500	8,026
Planning and Development	12,111	73	218	120	-	12,522
Streetlight and Services Districts	1,094	-	-	-	-	1,094
Debt Service:						
Principal	33,173	-	-	-	(33,173)	-
Interest and Fiscal Charges	31,948	-	-	-	518	32,466
Bond Issuance Costs	878	-	-	-	(878)	-
Capital Improvements	213,585	-	(213,585)	-	-	-
Total Expenditures/Expenses	494,193	788	(107,194)	3,952	(32,033)	359,706
OTHER FINANCING USES/CHANGES IN NET ASSETS						
Net Transfers (to) From Other Funds	8,499	-	(1,762)	2,830	-	9,567
Capital Contibutions	-	-	47,538	258	-	47,796
Sales of Capital Assets	-	-	(882)	41	-	(841)
Refunding Bonds Issued	74,630	-	-	-	(74,630)	-
Long-term Capital-Related Debt Issued	68,355	-	-	-	(68,355)	-
Premium on Bonds Issued	4,536	-	-	-	(4,536)	-
Payment to Bond Refunding Escrow Agent	(77,584)	-	-	-	77,584	-
Total	78,436	-	44,894	3,129	(69,937)	56,522
Net Change for the Year	$ (52,770)	$ 15,583	$ 147,872	$ 293	$ (37,904)	$ 73,074

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	$	(237)
Court revenue		2,505
Tax audit revenue		105
Special Assessment revenue		(1,667)
Intergovernmental revenue		19,665
Note Receivable revenue		(4,000)
	$	16,371

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	$	(788)

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

Capital expenditures	$	185,103
Depreciation Expenses		(83,887)
Loss on disposal of capital assets		(882)
Difference	$	100,334

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	$	47,538

(5) Internal Service funds are used by management to charge the costs of certain activities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. Capital assets contributed by the governmental funds ($1,762) 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	$	293

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 2005	$	878
Amortization of bond issuance costs		(188)
Difference	$	690

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	$	77,584
Principal payments made		33,173
	$	110,757

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

Amortization of deferred charges on refundings	$	(1,474)
Interest accretion and amortization		(265)
Amortization of bond premium and discounts		1,409
	$	(330)

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:

Certificates of Participation	$	(7,650)
Refunding General Obligation Bonds		(74,630)
Revenue Bonds		(60,705)
Premium on Bonds		(4,536)
	$	(147,521)

Long-term contracts initiated during the current year are not reported in governmental funds and thus do not contribute to the change in fund balance. In the government-wide statements, however, entering into a contract payable increases long-term liabilities in the statement of net assets and incurs an expense.

		(1,500)
	$	(1,500)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2004/05. The 2004/05 budget appropriation is established and reflected in the financial statements as follows:

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

The Community Development Block Grant, Home, Grants, Section 8, and Special Programs Special Revenue Funds, Community Facilities Districts Funds, Capital Projects Funds, Internal Service Funds, and Trust and Agency Funds have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds. Budgets for the Community Development Block Grant, Grants, and Section 8 Funds are established pursuant to the terms of the related grant awards. Budgets for the Community Facilities Districts are established in

accordance with Arizona Revised Statutes, which do not require their inclusion in the City budget or adoption by the City Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized. Budgets for Internal Service Funds are established in order to help departments control operational costs. Budgets for Trust and Agency Funds are established in accordance with the trust/agency agreements.

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

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

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 2004/05, 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, contracts or other commitments.

B. Excess of Expenditures over Appropriations

The Special Assessments Debt Service Fund exceeded its Debt Service Expenditures appropriation by $23,000. This over expenditure was funded by available fund balance.

The Scottsdale Preserve Authority Debt Service Fund exceeded its Debt Service Expenditures appropriation by $171,000. This over expenditure was funded by available fund balance.

The Water and Sewer Utility Enterprise Fund exceeded its expense appropriation for Water operations by $1,008,000 and Sewer operations by $3,495,000. This over expenditure was funded by available net assets.

The Airport Enterprise Fund exceeded its expense appropriation by $721,000. This over expenditure was funded by available net assets.

The Solid Waste Enterprise Fund exceeded its expense appropriation by $233,000. This over expenditure was funded by available net assets.

C. Deficit Fund Equity

The Section 8 Housing Fund had a deficit fund balance of $76,000 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.

The Preserve Privilege Tax Capital Projects Fund had a deficit fund balance of $18,368,000 caused by the purchase of land prior to the issuance of debt. The deficit fund balance will be funded through the sale of debt as stipulated in the City Council approved debt reimbursement agreement.

D. Fund Balance/Net Assets Reservations and Designations

Only restrictions imposed by external sources are shown as restricted net assets on the government-wide financial statements. Reservations or designations of fund balances are shown in aggregate on the governmental fund financial statements, but not on the proprietary fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government's intended use of those net assets. Designations are created by administrative policy. The following are the reservations and designations of fund balance/net assets included in the unreserved fund balance/net assets at June 30, 2005:

Fund Balance Reservations and Designations (in thousands of dollars)	Major	Nonmajor
General Fund		
Designated for Economic Stabilization Reserve	$ 24,859	
Designated for Economic Investment	5,000	
Total Designated	$ 29,859	
Debt Service		
Reserved for Debt Service	$ 5,602	$ 5,011

Restricted Net Asset and Unrestricted Net Asset Designations	
Water and Sewer	
Restricted for Repair and Replacement	$ 17,592
Restricted for Acquisition and Construction	5,880
Total Restricted	$ 23,472

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

Water and Sewer	
Designated for Operating Reserve	$ 9,840
Solid Waste	
Designated for Operating Reserve	$ 3,765
Airport	
Designated for Operating Reserve	$ 511
Self-Insurance	
Designated for General Liability Claims	$ 3,660
Designated for Benefits	1,892
	$ 5,552
Fleet Management	
Designated for Capital Equipment Replacement	$ 9,359

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.

Deposits

At June 30, 2005, the carrying amount of the City's deposits was $130,386,057, and the bank balance was $128,827,354. The $1,558,703 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, 2005, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk.

Interest Rate Risk

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

Credit Risk

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

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

Investments

The City's investments at June 30,2005, are summarized below.

(in thousands of dollars)		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1 - 2	2 - 3
U.S. Treasuries	$ 108,857	$ 19,962	$ 79,079	$ 9,816
U.S. Agencies	288,694	123,377 *	160,330 **	4,987 ***
Local Government Investment Pool	3,708	3,708	-	-
Guaranteed Investment Contracts	475	475	-	-
Total Investments	$ 401,734	$ 147,522	$239,409	$ 14,803

*$108,547 of these bonds are callable July 12, 2005 to December 2, 2005
**$110,889 of these bonds are callable July 4, 2005 to November 17, 2005
***These bonds are callable July 19, 2005

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

Carrying Amount of City Deposits	$	130,386
Investments		401,734
Total Cash and Investments	$	532,120

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

Primary Government		
Cash and Investments	$	391,802
Cash with Fiscal Agent		105,245
Restricted Cash		30,228
Handicap Scholarship Private Purpose Trust Fund		4
Scottsdale Memorial Hospital Redevelopment		
Private Purpose Trust Fund		19
Family Self-Sufficiency Agency Fund		101
Retainage Escrow Agency Fund		4,721
Total Cash and Investments	$	532,120

Investment income comprises the following for the year ended June 30, 2005 (in thousands of dollars):

Net Interest and Dividends	$	12,440
Net Decrease in the Fair Value of Investments		(1,387)
Total Net Investment Income	$	11,053

The net decrease in the fair value of investments during fiscal year 2004-2005 was $1,386,909. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2005, was $4,713,601.

In the previous year, the City reported a decrease in fair value of $7,864,309 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants and others in May 2003. The case is presently pending in federal court in Ohio. No reliable assessment of the litigation outcome is available; however, the City has received $900,101 plus interest of $2,643 as a partial recovery.

B. Receivables

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

(in thousands of dollars)

Governmental and Governmental Activities Internal Service Funds:

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Nonmajor and Other Funds	Total Governmental Funds
Receivables					
Property Taxes and Penalties:					
Property	$ 431	$ 631	$ -	$ 162	$ 1,224
Court	17,477	-	-	-	17,477
Subtotal Property Taxes and Penalties	17,908	631	-	162	18,701
Other local taxes:					
Privilege	8,678	-	-	4,227	12,905
Hotel/Motel	399	-	-	-	399
State Shared Sales Tax	1,656	-	-	-	1,656
Franchise Fee	2,118	-	-	-	2,118
Auto Lieu	994	-	-	-	994
Highway User	-	-	-	1,495	1,495
Subtotal Other Local Taxes	13,845	-	-	5,722	19,567
Intergovernmental/Grants	-	-	-	3,775	3,775
Interest and Other:					
Interest	360	-	362	518	1,240
Special Assessments	-	-	-	6,265	6,265
Miscellaneous	4,988	-	8	1,418	6,414
Subtotal Interest and Other	5,348	-	370	8,201	13,919
Gross Receivable	37,101	631	370	17,860	55,962
Less: Allowance for Uncollectibles	(11,278)	-	-	-	(11,278)
Net Total Receivables	$ 25,823	$ 631	$ 370	$ 17,860	$ 44,684

Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total Enterprise Fund
Receivables				
Charges for services	$ 11,610	$ -	$ 2,386	$ 13,996
Intergovernmental	44	754	-	798
Interest	644	4	25	673
Miscellaneous	630	230	47	907
Gross Receivable	12,928	988	2,458	16,374
Net Total Receivables	$ 12,928	$ 988	$ 2,458	$ 16,374

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	$ 386	$ -
Special Assessments	6,265	-
Court	6,199	-
Tax Audit	2,333	-
Intergovernmental	-	1,205
Other		
Community Services	-	278
	$ 15,183	$ 1,483

C. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows (in thousands of dollars):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 413,520	$ 106,880	$ (5,812)	$ 514,588
Construction In Progress	66,165	186,699	(126,413)	126,451
Total Capital Assets, Not Being Depreciated:	479,685	293,579	(132,225)	641,039
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	260,709	10,420	(557)	270,572
Streets and Storm Drains	2,150,431	53,046	-	2,203,477
Vehicles	46,233	4,437	(713)	49,957
Maintenance by Fleet	3,660	-	(9)	3,651
Machinery and Equipment	51,506	7,476	(2,560)	56,422
Total Capital Assets, Being Depreciated:	2,512,539	75,379	(3,839)	2,584,079
Less Accumulated Depreciation for:				
Buildings and Land Improvements	124,958	9,891	(462)	134,387
Streets and Storm Drains	716,442	69,236	-	785,678
Vehicles	24,322	4,864	(675)	28,511
Maintenance by Fleet	2,121	356	(9)	2,468
Machinery and Equipment	33,699	4,862	(2,312)	36,249
Total Accumulated Depreciation:	901,542	89,209	(3,458)	987,293
Total Capital Assets, Being Depreciated, Net:	1,610,997	(13,830)	(381)	1,596,786
Governmental Activities Capital Assets, Net:	$ 2,090,682	$ 279,749	$ (132,606)	$ 2,237,825

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 24,162	$ -	$ (97)	$ 24,065
Water Rights	64,688	-	-	64,688
Construction In Progress	52,208	104,351	(5,557)	151,002
Total Capital Assets, Not Being Depreciated:	141,058	104,351	(5,654)	239,755
Capital Assets, Being Depreciated:				
Water System	541,457	11,601	(1,262)	551,796
Sewer System	320,388	7,404	-	327,792
Buildings and Land Improvements	16,506	689	(1,621)	15,574
Machinery and Equipment	5,943	865	(135)	6,673
Furniture, Fixtures and Office Equipment	666		(45)	621
Total Capital Assets, Being Depreciated:	884,960	20,559	(3,063)	902,456
Less Accumulated Depreciation for:				
Water System	135,045	16,291	(747)	150,589
Sewer System	61,651	8,696	-	70,347
Buildings and Land Improvements	5,749	828	(1,149)	5,428
Machinery and Equipment	2,555	279	(133)	2,701
Furniture, Fixtures and Office Equipment	488	49	(33)	504
Total Accumulated Depreciation:	205,488	26,143	(2,062)	229,569
Total Capital Assets, Being Depreciated, Net	679,472	(5,584)	(1,001)	672,887
Business-Type Activities Capital Assets, Net	$ 820,530	$ 98,767	$ (6,655)	$ 912,642

During fiscal year 2004/05, the Water and Sewer Utility Enterprise Fund capitalized net interest costs of $2,254,986. Total interest expense in this fund before capitalization was $8,665,891.

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

Governmental Activities	
General Government	$ 5,420
Police	1,454
Financial Services	191
Transportation	66,622
Community Services	3,673
Information Services	3,165
Fire	299
Municipal Services	2,961
Citizen and Neighborhoods Resources	7
Human Resources	34
Economic Vitality	3
Planning and Development	58
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,322
Total Depreciation Expense - Government Activities	$ 89,209

Business-Type Activities		
Water and Sewer System	$	25,223
Airport		719
Solid Waste		201
Total Depreciation Expense - Business-Type Activities	$	26,143

Construction Commitments

The City has active construction projects as of June 30, 2005. At year-end the government's commitments with contractors for specific projects are as follows (in thousands of dollars):

Construction Commitments	Spent to Date	Remaining Commitment
Streets	$ 72,053	$ 7,962
Traffic	23,137	2,859
Improvement District	11,867	-
Fire	20,313	775
Police	4,691	3,087
Drain/Flood Control	9,722	1,192
Community	52,091	7,116
Parks/Recreation	25,850	22,014
Municipal Facilities	7,916	1,052
Technology	14,874	4,252
Libraries	1,571	522
Airport	2,408	477
Transit	7,482	2,320
Water System	207,844	61,646
Sewer System	107,477	9,616
	$ 569,296	$ 124,890

The improvement district portion of the commitment is financed by improvement district bonds. The traffic commitments are being financed by the .2% transportation 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 Other Funds

"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, 2005, is as follows:

Receivable Fund (in thousands of dollars)	Amount	Payable Fund (in thousands of dollars)	Amount
General	$ 189	Nonmajor Governmental Funds	$ 189
Nonmajor Governmental Fund	18,062	Preserve Privilege Tax Capital Project Fund	18,062
Total	$ 18,251	Total	$ 18,251

The Preserve Privilege Tax Capital Projects Fund had a deficit cash balance of $18,062,000 caused by the purchase of land prior to the issuance of debt. The deficit cash balance will be funded through the sale of debt as stipulated in the City Council approved debt reimbursement agreement.

Interfund Transfers

Transfers are used to fund capital projects and debt service, reallocate special revenue funds to operating centers or other operations and for indirect administrative cost allocations (including in-lieu property tax and franchise fees) charges to Enterprise Funds. During the year $39.9 million was transferred from the General Fund to the General CIP Construction Capital Project Fund to fund pay-as-you-go capital projects.

Net transfers (in thousands of dollar):

Transfers Out From:		Transfers In To:	
Major Governmental Funds		Major Governmental Funds	
General	$ 53,248	Capital Projects	
		General CIP Construction	$ 39,888
		Preserve Privilege Tax	2,204
		Major Enterprise Funds	
		Airport	114
		Nonmajor Governmental Funds	7,981
		Internal Service Funds	3,061
Capital Projects			
General CIP Construction	60	Nonmajor Governmental funds	60
Total Major Governmental Funds	53,308	Total Major Governmental Funds	53,308

(continued)

Transfers Out From:		Transfers In To:	
Major Enterprise Funds			
Water and Sewer	$ 8,639	**Major Governmental Funds**	
		General Fund	$ 7,666
		Capital Projects	
		General CIP Construction	840
		Internal Service	133
Airport	292	**Major Governmental Funds**	
		General Fund	127
		Capital Projects	
		General CIP Construction	162
		Internal Service	3
Solid Waste	750	**Major Governmental Funds**	
		General Fund	395
		Capital Projects	
		General CIP Construction	169
		Internal Service	186
Total Major Enterprise Funds	9,681	Total Major Enterprise Funds	9,681
Nonmajor Governmental Funds	79,976	**Major Governmental Funds**	
		General Fund	59
		Debt Service	
		General Obligation Bond	12,825
		Capital Projects	
		General CIP Construction	26,934
		Preserve Privilege Tax	2,582
		Nonmajor Governmental funds	37,556
		Internal Service	20
Total Nonmajor Governmental Funds	79,976	Total Nonmajor Governmental Funds	79,976
Internal Service	2,350	**Major Governmental Funds**	
		General Fund	7
		Capital Projects	
		General CIP Construction	2,328
		Internal Service	15
Total Internal Service Funds	2,350	Total Internal Service Funds	2,350
Total	$ 145,315	Total	$ 145,315

E. Operating Leases

The City has entered into rental agreements of retail and parking facilities. Rental payments on these facilities during the 2004-2005 fiscal year were $3,933,269. Payments are contingent upon sales tax revenues received on the properties; thus, future payments cannot be determined.

F. Bonds, Loans, and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2005. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2005.

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, 2005, the City had $282,200,000 of unissued various purpose GO bonds, which were authorized in September 2000. The City had no unissued Preservation GO bonds from the September 1999 authorization. In May 2004 voters authorized $500,000,000 of additional Preservation GO bonds, as well as an additional .15% sales tax increase to be used to finance Preserve land acquisitions. GO bonds are backed by the full faith and credit of the City, and are repaid through the City's levying of property (ad valorem) taxes. However, the Preservation GO bonds are repaid through the two-tenths of one percent City sales tax approved by voters in September 1996 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve. Additionally, a portion of the City's GO bonds are recorded in the Water Enterprise Fund as described below, and are repaid through revenues of that fund unless such revenues are insufficient.

HURF Revenue Bonds

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

Municipal Property Corporation Bonds

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. Most of these bonds are recorded as governmental activities long-term debt. The 1995 MPC Transfer Station bonds, however, are recorded in and paid out of revenues of the Solid Waste Enterprise Fund. The 2001 MPC Scottswater bonds are recorded in and paid out of the revenues of the Water Enterprise Fund. The 2004 MPC bonds are recorded in and paid out of the revenues of the Water and Sewer Enterprise Funds.

Scottsdale Preserve Authority Bonds

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

Water and Sewer Revenue Bonds

Water and sewer revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing and equipping of water and sewer facilities and related systems. The water and sewer revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water and sewer utility system, and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Water and sewer revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2005, the funds reserved for this purpose were $17,591,766.

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, 2005, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, were adequate for the scheduled maturities of the bonds payable and the related interest.

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

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

At June 30, 2005, there were 2 separate series of special assessment improvement bonds outstanding, each series issued as serial bonds to be repaid over 10 years.

Certificates of Participation

Certificates of Participation are issued to finance acquisition and improvements of real property that is leased to the City. The City's obligation to make lease payments are subject to, and dependent upon, annual appropriations made by the City Council. In the event any such appropriation is not made, the lease will terminate and the lessor will have legal right to take possession of the property. The City's obligation to make lease payments does not constitute a debt or liability of the City within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the City is pledged to make payments of principal or interest due with respect to the Certificates of Participation. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

Community Facilities Districts General Obligation Bonds

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

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

CFD Advance Refundings

There were no refundings during fiscal year 2004/05. 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, 2005, and net of any amounts to be paid or retired by the trustee on July 1, 2005 (in thousands of dollars).

	Refunded in Prior Year (in thousands of dollars)
McDowell Mountain Ranch CFD:	
General Obligation Series 1997	$ 6,910
Scottsdale Mountain CFD:	
General Obligation Series Series 1993B	45
Total CFD Bonds Refunded in Prior Years	$ 6,955

Bonds payable at June 30, 2005, are comprised of the following:

Classified in Governmental 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. On June 15, 2004, $2,505,000 due 2007 through 2009 were defeased. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	$ 10,540
1993A Refunding Bonds due in annual installments of $475,000 to $5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. $1,315,000 of these bonds are recorded in and paid out of the Water Fund. On September 26, 2003, $13,355,000 due 2004 and 2007 through 2011 were refunded. The original issue amount for the 1993A Refunding Bonds was $24,265,000.	140
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.	-
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.	19,685
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.	7,235
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.	4,500
1999 Preservation Bonds (issued November 16, 1999) due in annual installments of $800,000 to $4,225,000 through July 1, 2024; interest at 7.5 percent to 5.0 percent. On July 18, 2001, $32,375,000 due 2012 through 2022 were refunded, on September 26, 2002, an additional $4,125,000 due 2010 and 2011 were refunded, and on March 29, 2005 an additional $8,225,000 due 2023 and 2024 were refunded. Original issue amount $59,600,000.	7,150
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, and on March 29,2005 an additional $22,680,000 due 2013 through 2024 were refunded. Original issue amount $35,000,000.	4,520

2001 Refunding Bonds (issued July 18, 2001) due in annual installments of $70,000 to $5,030,000 through July 1, 2022; interest at 3.875 percent to 5.375 percent. On April 15, 2004, $5,490,000 due 2010 and 2014 through 2018 were defeased. Original issue amount $51,155,000.		38,625
2002 Various Purpose Bonds (issued May 16, 2002) due in annual installments of $1,740,000 to $5,000,000 through July 1, 2024; interest at 4 percent to 5 percent. On June 15, 2004 due 2010 through 2011 were defeased, and on March 29, 2005 an additional $42,665,000 due 2012 through 2019 and 2021 through 2024 were refunded. Original issue amount $68,000,000.		16,610
2002 Refunding Bonds (issued September 26, 2002) due in annual installments of $1,625,000 to $8,795,000 through July 1, 2019; interest at 2 percent to 5 percent. On April 15, 2004, $1,510,000 due 2010 were defeased. Original issue amount $72,000,000.		61,660
2003 Refunding Bonds (issued September 24, 2003) due in annual installments of $45,000 to $5,515,000 through July 1, 2013; interest at 2 percent to 4.5 percent. Original issue amount $16,265,000.		14,975
2004 Various Purpose Bonds (issued May 13, 2004) due in annual installments of $1,600,000 to $30,300,000 through July 1, 2025; interest at 3 percent to 5 percent. Original issue amount $113,400,000.		111,800
2005 Refunding Bonds (issued March 29, 2005) due in annual installments of $2,715,000 to $11,075,000 through July 1, 2024; interest at 3.85 percent to 5 percent. Original issue amount $74,630,000.		74,630
Total General Obligation Bonds Outstanding	$	372,070

The 1999 and 2001 Preservation Bonds of $18,400,000 and $29,210,000, respectively, and portions of the 2001 Refunding Bonds, 2002 Various Purpose Bonds, 2002 Refunding Bonds, 2004 Various Purpose Bonds and 2005 Refunding Bonds of $33,235,000, $40,000,000, $8,100,000, $65,400,000 and $66,090,000, 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.	$	5,815

Municipal Property Corporation Bonds

1993 Municipal Property Corporation Refunding Bonds due in annual installments of $515,000 to $4,170,000 through July 1, 2005; interest at 4.25 percent to 5.375 percent. Original issue amount, $29,475,000.	$	-
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.		520
2004A Municipal Property Corporation Excise Tax Revenue Bonds (issued September 15, 2004) due in annual installments of $920,000 to $2,715,000 through July 1, 2034; interest at 3.25 percent to 5.25 percent. Original issue amount, $40,760,000.		40,760
2005 Municipal Property Corporation Excise Tax Revenue Bonds (issued June 15, 2005) due in annual installments of $35,026 to $4,925,019 through July 1, 2021; interest at 3.22 percent to 5 percent. Original issue amount, $19,945,322.		19,973
Total MPC Bonds Outstanding	$	61,253

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.	$	-
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of $1,015,000 to $6,585,000 beginning July 1, 1999, through July 1, 2024; interest at 6.0 percent to 4.75 percent. On March 30, 2004, $22,770,000 due 2009 through 2016 were refunded. Original issue amount $77,000,000.		43,225
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.		17,235
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of $75,000 to $3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount $22,925,000.		22,925
Total Scottsdale Preserve Authority Bonds	$	83,385

Special Assessment Bonds

Special Assessment Bonds issued March 31, 1994, through December 20, 2001, maturing January 1, 2004, through January 1, 2013; due in annual installments of $15,000 to $1,575,000; interest at 4.5 percent to 5.7 percent. Total original issue amount, $38,215,000.	$	6,340

Certificates of Participation

2005 Certificates of Participation issued January 26, 2005, due in annual installments of $223,832 to $450,965 beginning January 1, 2006, through July 1, 2015. Original issue amount $7,650,000.	$	7,650

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.	$	4,595
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.		3,030
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.		16,805
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.		3,000
2002 Scottsdale Mountain Community Facilities District General Obligation Refunding Bonds (issued May 15, 2002) due in annual installments of $160,000 to $455,000 beginning July 15, 2003 through July 15, 2018; interest at 3.0 percent to 4.7 percent. Original issue amount $5,375,000.		4,600
2002 DC Ranch Community Facilities District General Obligation Bonds (issued December 17, 2002) due in annual installments of $245,000 to $1,395,000 beginning July 15, 2004 through July 15, 2027. Interest at 3% to 5%. Original issue amount $12,165,000.		11,450
Total Community Facilities Districts General Obligation Bonds Outstanding	$	43,480
Total Bonds Payable Recorded in Governmental Activities	$	579,993

Classified in Governmental 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. The original issue amount for the 1993 Refunding Bonds was $45,015,000.	$ 5,200
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	$ 6,515

Water and Sewer Revenue Bonds	
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.	$ 5,600
1989 Water and Sewer Revenue Bonds (Series D issued November 1, 1997) due in annual installments of $425,000 to $1,375,000 through July 1, 2022; interest at 4.75 percent to 7.25 percent. On March 30, 2004, $6,775,000 due 2009 through 2016 were refunded. Original issue amount $20,000,000.	9,200
1989 Water and Sewer Revenue Bonds (Series E issued December 2, 1998) due in annual installments of $1,015,000 to $4,615,000 through July 1, 2023; interest at 4.5 percent to 7.0 percent. On March 30, 2004, $9,210,000 due 2009 through 2013 were refunded. Original issue amount $50,000,000.	32,135
2004 Water and Sewer Revenue Refunding Bonds (Series 2004 issued March 30, 2004) due in annual installments of $80,000 to $3,175,000 through July 1, 2016 ; interest at 2 percent to 5 percent. $2,907,520 of these bonds are recorded in and paid out of the Water Enterprise Fund, and $15,972,480 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount $18,880,000.	18,800
Total Water and Sewer Revenue Bonds Outstanding	$ 65,735

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.	$	1,485
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.		5,135
2004 Municipal Property Corporation Excise Tax Revenue Bonds (Series 2004 issued May 13, 2004) due in annual installments of $2,190,000 to $5,435,000 through July 1, 2024; interest at 3.25 percent to 5.25 percent. $55,000,000 of these bonds are recorded in and paid out of the Water Enterprise Fund, and $20,000,000 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount $75,000,000.		72,810
Total Municipal Property Corporation Bonds Outstanding	$	79,430
Total Bonds Payable Recorded in Business-type Activities	$	151,680
Total Long-term Portion of Bonds Payable	$	731,673

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, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2005 (in thousands of dollars):

General Obligation Bonds Issued to Provide Water, Sewer, Light,			General Obligation Bonds Issued for All Other Purposes		
20% Constitutional Limit	$	868,691	6% Constitutional Limit	$	260,607
Less General Obligation 20% Bonds Outstanding		(313,786)	Less General Obligation 6% Bonds Outstanding		(64,799)
Available 20% Limitation Borrowing Capacity	$	554,905	Available 6% Limitation Borrowing Capacity	$	195,808

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City's outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2005.

Advance Refundings and Defeasances

During the year ended June 20, 2005, the City issued $74,630,000 of General Obligation Refunding Bonds, Series 2005, (advance refunding) dated March 29, 2005, with an average interest rate of 3.88%, to refund $73,570,000 of Series 1999, Series 2001 and 2002 General Obligation Bonds with an average interest rate of 4.839%. The City will reduce its total debt service payments over the next 19 years by approximately $4,464,016, and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,204,338.

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, 2005, and net of any amounts to be paid or retired by the trustee on July 1, 2005 (in thousands of dollars).

Refunded in Year Ended June 30, 2005 (in thousands of dollars)		
1999 Preservation GO Bonds	$	8,225
2001 Preservation GO Bonds		22,680
2002 GO Bonds		42,665
	$	73,570

Refunded in Prior Years (in thousands of dollars)		
1998 General Obligation Bonds	$	8,180
1999A General Obligation Bonds		15,525
1999 General Obligation Bonds		40,600
1999 Preservation General Obligation Bonds		4,125
2001 Preservation General Obligation Bonds		26,600
2002 General Obligation Bonds		42,665
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds		22,770
1997 Water and Sewer Revenue Bonds		6,775
1998 Water and Sewer Revenue Bonds		9,210
	$	176,450

Contracts Payable

The City has entered into various purchase contracts related to economic development, acquisition of water system facilities, acquisition of recreational facilities and patents. The contract for the acquisition of water system facilities is payable only from the operating revenue of the water and sewer utility system. The following is a summary of debt service to maturity for all long-term contracts payable at June 30, 2005.

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.	$ 3,176
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.	193
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.	3
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.	1,650
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.	1,540
Contract payables for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through January 2010; interest at 10.0 percent.	67
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.	6,195
Contract payable for marketing of car dealerships located in southern Scottsdale; due in annual installments beginning January 2006; non-interest bearing.	1,500
Total Contracts Payable Recorded in Governmental Activities	$ 14,324

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, 2005 (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	$ 389,598	$ 74,867	$ (92,395)	$ 372,070	$ 17,705
HURF Revenue Bonds	8,475	-	(2,660)	5,815	2,825
Municipal Property Corporation Bonds	4,850	60,733	(4,330)	61,253	170
Scottsdale Preserve Authority Bonds	85,980	-	(2,595)	83,385	2,815
Special Assessments Bonds	8,755	-	(2,415)	6,340	835
Certificates of Participation	-	7,650	-	7,650	560
Community Facilities Districts General Obligation Bonds	44,950	-	(1,470)	43,480	1,535
Add Deferred Issuance Premiums	8,741	4,536	(1,409)	11,868	-
Less Deferred Amounts on Refunding	(9,153)	(4,014)	1,474	(11,693)	-
Total Bonds Payable	542,196	143,772	(105,800)	580,168	26,445
Contracts Payable	13,702	1,500	(878)	14,324	1,185
Compensated Absences	13,038	8,296	(7,434)	13,900	5,795
Governmental Activity Long-term Liabilities	$ 568,936	$ 153,568	$ (114,112)	$ 608,392	$ 33,425

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, 2005, $396,455 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. The compensated absences presented in this note are net of the current liability of $2,066,131 in the governmental funds, $60,000 in the Internal Service funds and $275,872 in the Enterprise funds.

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Business-type Activities:					
Bonds Payable:					
General Obligation Bonds	$ 10,651	$ 439	$ (4,575)	$ 6,515	$ 6,515
Water and Sewer Revenue Bonds	68,365	-	(2,630)	65,735	3,330
Municipal Property Corporation Bonds	83,365	-	(3,935)	79,430	5,825
Add Deferred Issuance Premiums	6,617	-	(558)	6,059	-
Less Deferred Amounts on Refunding	(1,819)	-	289	(1,530)	-
Total Bonds Payable	167,179	439	(11,409)	156,209	15,670
Compensated Absences	1,531	1,011	(571)	1,971	679
Business-type Activity Long-term Liabilities	$ 168,710	$ 1,450	$ (11,980)	$ 158,180	$ 16,349

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2005. Deferred issuance costs and deferred amounts on refunding are not included.

Governmental Activities
(in thousands of dollars)

	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		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	$ 7,226	$ 14,439	$ 21,665	$ 10,479	$ 2,951	$ 13,430	$ 17,705	$ 17,390	$ 35,095
2007	8,315	14,065	22,380	11,575	2,444	14,019	19,890	16,509	36,399
2008	7,790	13,634	21,424	10,165	1,931	12,096	17,955	15,565	33,520
2009	10,595	13,237	23,832	8,220	1,492	9,712	18,815	14,729	33,544
2010	12,575	12,753	25,328	6,865	1,095	7,960	19,440	13,848	33,288
2011-2015	88,575	51,060	139,635	9,970	3,474	13,444	98,545	54,534	153,079
2016-2020	80,285	31,964	112,249	7,525	351	7,876	87,810	32,315	120,125
2021-2025	91,910	14,008	105,918	-	-	-	91,910	14,008	105,918
Total	$ 307,271	$ 165,160	$ 472,431	$ 64,799	$ 13,738	$ 78,537	$ 372,070	$ 178,898	$ 550,968

	Highway User Revenue Bonds			Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	$ 2,825	$ 316	$ 3,141	$ 170	$ 2,215	$ 2,385	$ 2,815	$ 3,990	$ 6,805
2007	2,990	165	3,155	170	2,197	2,367	2,965	3,836	6,801
2008	-	-	-	384	2,211	2,595	3,110	3,672	6,782
2009	-	-	-	35	2,188	2,223	3,260	3,500	6,760
2010	-	-	-	1,223	2,240	3,463	3,365	3,367	6,732
2011-2015	-	-	-	7,214	12,248	19,462	19,015	14,373	33,388
2016-2020	-	-	-	22,371	16,847	39,218	24,400	9,166	33,566
2021-2025	-	-	-	9,333	6,828	16,161	24,455	2,828	27,283
2026-2030	-	-	-	10,220	4,025	14,245	-	-	-
2031-2035	-	-	-	10,105	1,294	11,399	-	-	-
Capital Appreciation **				28	(28)	-	-	-	-
Total	$ 5,815	$ 481	$ 6,296	$ 61,253	$ 52,265	$ 113,518	$ 83,385	$ 44,732	$ 128,117

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

	Special Assessment Bonds			Certificates of Participation			Community Facilities Districts General Obligation Bonds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	$ 835	$ 267	$ 1,102	$ 560	$ 357	$ 917	$ 1,535	$ 2,121	$ 3,656
2007	835	229	1,064	689	228	917	1,615	2,045	3,660
2008	835	191	1,026	712	205	917	1,685	1,978	3,663
2009	835	154	989	735	182	917	1,760	1,907	3,667
2010	750	118	868	760	157	917	1,870	1,830	3,700
2011-2015	2,250	152	2,402	4,194	389	4,583	10,730	7,785	18,515
2016-2020	-	-	-	-	-	-	12,295	4,974	17,269
2021-2025	-	-	-	-	-	-	9,265	1,905	11,170
2026-2030	-	-	-	-	-	-	2,725	206	2,931
Total	$ 6,340	$ 1,111	$ 7,451	$ 7,650	$ 1,518	$ 9,168	$ 43,480	$ 24,751	$ 68,231

(continued)

Governmental Activities (concluded)
(in thousands of dollars)

Fiscal Year	Contracts Payable			Total		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 1,185	$ 464	$ 1,649	$ 27,630	$ 27,120	$ 54,750
2007	1,218	430	1,648	30,372	25,639	56,011
2008	1,257	393	1,650	25,938	24,215	50,153
2009	1,339	355	1,694	26,779	23,015	49,794
2010	1,290	314	1,604	28,698	21,874	50,572
2011-2015	3,638	931	4,569	145,586	90,412	235,998
2016-2020	1,177	529	1,706	148,053	63,831	211,884
2021-2025	1,354	352	1,706	136,317	25,921	162,238
2026-2030	1,373	127	1,500	14,318	4,358	18,676
2031-2035	493	3	496	10,598	1,297	11,895
Capital Appreciation	-	-	-	28	(28)	-
Total	$ 14,324	$3,898	$ 18,222	$ 594,317	$ 307,654	$ 901,971

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
2006	$ 6,515	$ 340	$ 6,855	$ 6,515	$ 340	$ 6,855
Total	$ 6,515	$ 340	$ 6,855	$ 6,515	$ 340	$ 6,855

Business-type Activities
(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
2006	$ 3,330	$ 3,182	$ 6,512	$ 5,825	$ 3,893	$ 9,718	$ 15,670	$ 7,415	$ 23,085
2007	3,475	2,997	6,472	4,535	3,699	8,234	8,010	6,696	14,706
2008	3,635	2,801	6,436	4,735	3,472	8,207	8,370	6,273	14,643
2009	3,785	2,598	6,383	2,980	3,254	6,234	6,765	5,852	12,617
2010	3,260	2,420	5,680	3,080	3,105	6,185	6,340	5,525	11,865
2011-2015	16,835	9,613	26,448	17,120	13,105	30,225	33,955	22,718	56,673
2016-2020	18,215	5,660	23,875	20,840	8,479	29,319	39,055	14,139	53,194
2021-2025	13,200	1,227	14,427	20,315	2,673	22,988	33,515	3,900	37,415
Total	$ 65,735	$ 30,498	$ 96,233	$ 79,430	$ 41,680	$ 121,110	$ 151,680	$ 72,518	$ 224,198

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to public, property, and aviation premises liability, self-insured benefits and workers compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City is self-insured for the first $2,000,000 of public liability, the first $100,000 of property coverage, the first $300,000 of health benefits claims and the first $600,000 of workers compensation. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance. During the fiscal year ending June 30, 2005, the global property-casualty insurance marketplace eased slightly from the September 11th terrorist attack downturn allowing the City to purchase an additional $10 million of liability insurance raising the total to $50 million. As for claim expenditures, settlements for each of the past five fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

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, 2005, the general liability claims payable totaled $10,440,416 and the self-insured benefits claims payable totaled $5,125,000. The City began to administer all self-insured health and dental plans in January of 2004.

	Years Ended June 30	
(in thousands of dollars)	2005	2004
Claims Payable, July 1	$ 14,678	$ 8,839
Current Year Claims Incurred	18,016	14,980
Current Year Claim Payments	(17,129)	(9,141)
Claims Payable, June 30	$ 15,565	$ 14,678

In addition, the actuarial assumption includes a recommendation that the City retain a cash balance equal to the estimated full and present value of general risk claims and a corridor and premium stabilization reserve for the self-insured health benefits. At June 30, 2005, the recommended present value, assuming a 3.0% interest rate is, $9,511,976 for all lines of pending claims and the claims incurred, corridor reserve and premium stabilization reserve total $2,012,000 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 Road 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 November 2003, Rural/Metro Corporation, the City's provider of Fire protection and related services, informed the City that it would not extend its contractual relationship further than June 2005. The City formed a municipal fire department that began operations on July 1, 2005.

The City has a Service Agreement with the Scottsdale Cultural Council (Council) that provides that the Council will manage the arts and cultural affairs within the Scottsdale community for a ten-year period, automatically renewable for two five-year periods. In return, the City will pay service fees to the Council based on the Service Agreement between the City and the Council. Payments to Scottsdale Cultural Council amounted to $2,864,014 for the year ended June 30, 2005. Annual amounts due in fiscal year 2005/06 will approximate $3,036,934.

The City has a Service Agreement with the Scottsdale Convention and Visitors' Bureau (SCVB) that provides that SCVB will manage the tourism promotion within the Scottsdale community for a ten-year period. In return, the City will pay service fees to SCVB based on the Service Agreement with the City. Payments to SCVB amounted to $5,309,145 for the year ended June 30, 2005. The annual amount due in fiscal year 2005/06 will be $5,659,274.

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, 2005, is $8,943,339.

The City has entered into several agreements whereby it will reimburse developers a portion of the sales tax collected on their site for a time period up to a maximum dollar amount. The funding source for the reimbursements will come from sales tax collected on the site over the life of the agreement. The City does not become liable under the agreements until the developer has collected and remitted the tax to the City. The City's maximum contingent liability at June 30, 2005, is $8,773,647.

D. Joint Venture

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

The City records its share of SROG's cash operating expenses, and its equity in the joint venture in the City's Water and Sewer Utility Fund. For the year ended June 30, 2004, (the latest audited information available from SROG), the City's net investment in SROG was $62,998,000. SROG's net cash operating expenses for the year ended June 30, 2004, were $27,507,218, of which the City's share was $3,750,024, or 13.6 percent. For the year ended June 30, 2005, the City paid $16,242,132 for SROG capital contributions, and $5,957,712 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 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, 2005, 2004, and 2003, were 5.70% (5.20% retirement and .50% long-term disability) 5.70% and 2.49%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2005, 2004, and 2003 were $4,944,354, $4,680,164, and $2,034,363, 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 and firefighters) 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 for both police and fire 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 for police is 8.96% of annual covered payroll, consisting of 10.65% for normal cost and (1.69%) for amortization of unfunded actuarial accrued liability. Contribution rates for police were 7.77% and 5.37% in 2004 and 2003, respectively. The City's current contribution rate for fire is 11.03% of annual covered payroll, which covers all normal costs. The City had no contribution rates for fire in 2004 or 2003 because they contracted this service out to a third party vendor.

Annual Pension Cost

For 2005, the City's annual pension costs of $2,101,804 for police and $38,595 for fire were equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the individual entry-age actuarial cost method.

The actuarial assumptions for both police and fire include (a) a rate of return on the investment of present and future assets of 8.75% per year compounded annually, (b) projected salary increases of 6.25% per year compounded annually, attributable to inflation and other across-the-board factors, and (c) additional projected salary increases ranging from 6.25% to 9.25% per year, attributable to seniority/merit. Included in (b) is an inflation component of 5.25%. The actuarial value of PSPRS assets was determined using techniques that

smooth the market value of assets over a 4-year period. PSPRS' unfunded accrued liability is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period at July 1, 2005 was 20 years.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	1,159	100%	-
2004	1,794	100%	-
2005	2,102	100%	-

Because the department was formed during fiscal year 2005, actuarial information on the fire department is not available.

Elected Officials' Retirement Plan

Plan Description

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

Funding Policy

Covered employees are required by state statute to contribute an amount equal to 7.00% of gross salary. Incorporated city or town employers are required to contribute an amount sufficient to meet both the normal cost of a level-cost method attributable to the EORP, plus the amount required to amortize the unfunded accrued liability for the employer. Such amount is to be determined each year by actuarial valuation and paid as a level percent of compensation. The contribution requirements for plan members are established and may be amended by the Fund Manager, a five-member board. The City's rates for fiscal years ended June 30, 2005, 2004, and 2003, were 13.49%, 13.49%, and 6.97%, respectively. The City's contributions to EORP for the years ending June 30, 2005, 2004, and 2003 were $19,425, $19,658, and $10,036, respectively, equal to the required contributions for each year.

G. Other Post-Employment Benefits

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

Twenty-two participants were added during fiscal year 2004/05 increasing the total number of participants to 111 at fiscal year-end. The projected liability, as of June 30, 2005, for medical conversion was $7,557,000. Of this liability, $6,884,000 is considered payable in greater than one year and is not reflected as a current expenditure in the governmental fund statements. The projected liability is based on a January 1, 2005, actuarial valuation, as

adjusted, based on the actuarial projection that for every additional 100 participants, future normal costs increase by an additional 3% per annum. Significant actuarial assumptions of the January 1, 2005 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 3.0 percent annually, c) salaries increase at a rate of 4.5% to 6.9% based on years of service per annum, d) projected unit credit cost method based on participant data as of January 1, 2005.

Required Supplementary Information

Public Safety Personnel Retirement System
(Police)
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)
1999	72,177	57,828	124.8%	(14,349)	16,187	-
2000	84,435	65,021	129.9%	(19,414)	18,547	-
2001	93,684	73,216	128.0%	(20,468)	20,406	-
2002	94,784	80,997	117.0%	(13,787)	20,930	-
2003	98,287	91,841	107.0%	(6,446)	21,996	-
2004	99,394	103,136	96.4%	3,742	22,647	16.5%

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

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

Highway User Fuel Tax Fund

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

Community Development Block Grant Fund

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

Home Fund

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

Grants Fund

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

Section 8 Fund

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

Preserve Privilege Tax Fund

This fund receives a 0.35 percent Preservation Privilege (Sales) Tax revenue approved by the voters in 1995 (.2%) and 2004 (.15%). Revenues are transferred to Capital Projects Funds for land purchase and improvements in the McDowell Sonoran Preserve or are used for related debt service payments.

Transportation Privilege Tax Fund

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

Special Programs Fund

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

DEBT SERVICE FUNDS

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

Municipal Property Corporation Fund

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

Special Assessments Fund

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

Community Facilities Districts Funds:

Scottsdale Mountain Community Facilities District Fund

McDowell Mountain Community Facilities District Fund

DC Ranch Community Facilities District Fund

Via Linda Road Community Facilities District Fund

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

Scottsdale Preserve Authority Fund

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

CAPITAL PROJECTS FUNDS

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

General Obligation Bond Fund

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

Municipal Property Corporation Bond Fund

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

Transportation Privilege Tax Fund

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

Community Facilities Districts Funds:

McDowell Mountain Community Facilities District Fund

DC Ranch Community Facilities District Fund

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

Combining Balance Sheet

Nonmajor Governmental Funds
June 30, 2005 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	$ 11,114	$ 721	$ 53,657	$ 65,492
Cash with Fiscal Agent	2,890	16,776	454	20,120
Receivables				
Interest	57	-	328	385
Privilege Tax	4,227	-	-	4,227
Property Tax	-	162	-	162
Highway User Tax	1,495	-	-	1,495
Intergovernmental	1,091	-	2,300	3,391
Grants	384	-	-	384
Special Assessments	-	6,265	-	6,265
Miscellaneous	76	280	258	614
Due from Other Funds	18,062	-	-	18,062
Total Assets	$ 39,396	$ 24,204	$ 56,997	$ 120,597
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 1,602	$ 26	$ 3,104	$ 4,732
Accrued Payroll and Benefits	474	-	31	505
Due to Other Funds	189	-	-	189
Matured Bond Interest Payable	230	4,407	-	4,637
Matured Bonds Payable	2,660	8,395	-	11,055
Deferred Revenue				
Property Tax	-	86	-	86
Special Assessments	-	6,265	-	6,265
Intergovernmental	1,125	-	-	1,125
Guaranty and Other Deposits	1,223	-	489	1,712
Other	20	14	-	34
Total Liabilities	7,523	19,193	3,624	30,340
Fund Balances				
Reserved for				
Debt Service	-	5,011	-	5,011
Unreserved, Undesignated	31,873	-	53,373	85,246
Total Fund Balances	31,873	5,011	53,373	90,257
Total Liabilities and Fund Balances	$ 39,396	$ 24,204	$ 56,997	$ 120,597

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

Nonmajor Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes - Local				
Property	$ -	$ 4,196	$ -	$ 4,196
Transaction Privilege	49,416	-	-	49,416
Taxes - Intergovernmental				
Highway User Tax	14,738	-	-	14,738
Local Transportation Assistance Fund	1,119	-	-	1,119
Charges for Current Services				
Building and Related Permits	24	-	-	24
Recreation Fees	824	-	-	824
Fines, Fees and Forfeitures				
Court Fines	37	-	-	37
Court Enhancement	907	-	-	907
Special Assessments	-	2,016	-	2,016
Property Rental	94	280	-	374
Interest Earnings	566	91	1,803	2,460
Intergovernmental				
Federal Grants	7,583	-	1,017	8,600
State Grants	758	-	-	758
Miscellaneous	1,268	310	-	1,578
Developer Contributions	-	-	3,280	3,280
Contributions and Donations	647	-	-	647
Reimbursements From Outside Sources	166	2	21	189
Other	46	-	-	46
Total Revenues	78,193	6,895	6,121	91,209

(continued)

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

Nonmajor Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
EXPENDITURES				
Current				
General Government	941	99	-	1,040
Police	737	-	-	737
Transportation	8,760	-	-	8,760
Community Services	8,765	-	-	8,765
Municipal Services	11,300	-	-	11,300
Citizen and Neighborhood Resources	11	-	-	11
Human Resources	8	-	-	8
Planning and Development	12	-	-	12
Debt Service				
Principal	3,290	10,843	-	14,133
Interest and Fiscal Charges	785	8,815	-	9,600
Capital Improvements	2,072	-	35,534	37,606
Total Expenditures	36,681	19,757	35,534	91,972
Excess (Deficiency) of Revenues Over Expenditures	41,512	(12,862)	(29,413)	(763)
OTHER FINANCING SOURCES (USES)				
Transfers In	10,067	12,284	23,246	45,597
Transfers Out	(41,828)	(65)	(38,083)	(79,976)
Total Other Financing Sources and (Uses)	(31,761)	12,219	(14,837)	(34,379)
Net Change in Fund Balances	9,751	(643)	(44,250)	(35,142)
Fund Balances - Beginning	22,122	5,654	97,623	125,399
Fund Balances - Ending	$ 31,873	$ 5,011	$ 53,373	$ 90,257

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds
June 30, 2005 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Transportation Privilege Tax	Special Programs	Total
ASSETS									
Cash and Investments	$ 318	$ -	$ -	$ 158	$ -	$ 3,817	$ 8	$ 6,813	$ 11,114
Cash with Fiscal Agent	2,890	-	-	-	-	-	-	-	2,890
Receivables									
Interest	-	-	-	-	-	44	1	12	57
Privilege Tax	-	-	-	-	-	2,688	1,539	-	4,227
Highway User Tax	1,495	-	-	-	-	-	-	-	1,495
Intergovernmental	-	-	-	-	-	-	-	1,091	1,091
Grants	-	197	-	119	68	-	-	-	384
Miscellaneous	4	-	-	19	-	-	-	53	76
Due from Other Funds	-	-	-	-	-	18,062	-	-	18,062
Total Assets	$ 4,707	$ 197	$ -	$ 296	$ 68	$ 24,611	$ 1,548	$ 7,969	$ 39,396
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts Payable	$ 1,383	$ 109	$ -	$ 16	$ -	$ -	$ -	$ 94	$ 1,602
Accrued Payroll and Benefits	388	18	-	13	25	-	-	30	474
Due to Other Funds	-	70	-	-	119	-	-	-	189
Matured Bond Interest Payable	230	-	-	-	-	-	-	-	230
Matured Bonds Payable	2,660	-	-	-	-	-	-	-	2,660
Deferred Revenue									
Intergovernmental	-	-	-	34	-	-	-	1,091	1,125
Guaranty and Other Deposits	34	-	-	-	-	-	-	1,189	1,223
Other	-	-	-	-	-	-	-	20	20
Total Liabilities	4,695	197	-	63	144	-	-	2,424	7,523
Fund Balances									
Unreserved, Undesignated	12	-	-	233	(76)	24,611	1,548	5,545	31,873
Total Fund Balances (Deficit)	12	-	-	233	(76)	24,611	1,548	5,545	31,873
Total Liabilities and Fund Balances	$ 4,707	$ 197	$ -	$ 296	$ 68	$ 24,611	$ 1,548	$ 7,969	$ 39,396

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

Nonmajor Special Revenue Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Transportation Privilege Tax	Special Programs	Total
REVENUES									
Taxes - Local									
Transaction Privilege	$ -	$ -	$ -	$ -	$ -	$ 31,301	$ 18,115	$ -	$ 49,416
Taxes - Intergovernmental									
Highway User Tax	14,738	-	-	-	-	-	-	-	14,738
Local Transportation Assistance Fund	1,119	-	-	-	-	-	-	-	1,119
Charges for Current Services									
Building and Related Permits	-	-	-	-	-	-	-	24	24
Recreation Fees	-	-	-	-	-	-	-	824	824
Fines, Fees and Forfeitures									
Court Fines	-	-	-	-	-	-	-	37	37
Court Enhancement Fee	-	-	-	-	-	-	-	907	907
Property Rental	-	-	-	-	-	-	-	94	94
Interest Earnings	-	-	-	1	4	489	2	70	566
Intergovernmental									
Federal Grants	141	1,269	261	398	5,514	-	-	-	7,583
State Grants	521	-	-	237	-	-	-	-	758
Miscellaneous	-	-	-	634	-	-	-	634	1,268
Contributions and Donations	-	-	-	127	-	-	-	520	647
Reimbursements From Outside Sources	165	-	-	-	1	-	-	-	166
Other	5	-	-	-	6	-	-	35	46
Total Revenues	16,689	1,269	261	1,397	5,525	31,790	18,117	3,145	78,193
EXPENDITURES									
Current									
General Government	-	-	-	676	-	1	-	264	941
Police	-	-	-	361	-	-	-	376	737
Transportation	8,760	-	-	-	-	-	-	-	8,760
Community Services	-	1,269	261	68	5,595	-	-	1,572	8,765
Municipal Services	11,300	-	-	-	-	-	-	-	11,300
Citizen and Neighborhood Resources	-	-	-	-	-	-	-	11	11
Human Resources	-	-	-	5	-	-	-	3	8
Planning and Development	-	-	-	-	-	-	-	12	12
Debt Service									
Principal	2,660	-	-	-	-	630	-	-	3,290
Interest and Fiscal Charges	460	-	-	-	-	325	-	-	785
Capital Improvements	1,753	-	-	171	-	-	-	148	2,072
Total Expenditures	24,933	1,269	261	1,281	5,595	956	-	2,386	36,681
Excess (Deficiency) of Revenues Over Expenditures	(8,244)	-	-	116	(70)	30,834	18,117	759	41,512
OTHER FINANCING SOURCES (USES)									
Transfers In	8,023	-	-	21	-	-	-	2,023	10,067
Transfers Out	(102)	-	-	(306)	-	(22,421)	(18,072)	(927)	(41,828)
Total Other Financing Sources and (Uses)	7,921	-	-	(285)	-	(22,421)	(18,072)	1,096	(31,761)
Net Change in Fund Balances	(323)	-	-	(169)	(70)	8,413	45	1,855	9,751
Fund Balances - Beginning	335	-	-	402	(6)	16,198	1,503	3,690	22,122
Fund Balances - Ending	$ 12	$ -	$ -	$ 233	$ (76)	$ 24,611	$ 1,548	$ 5,545	$ 31,873

Highway User Fuel Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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						
Highway User Tax	$ 13,917	$ 13,917	$ 14,738	$ -	$ 14,738	$ 821
Local Transportation Assistance Fund	1,146	1,146	1,119	-	1,119	(27)
Intergovernmental						
Federal Grants	-	-	-	141	141	-
State Grants	-	-	-	521	521	-
Reimbursement From Outside Sources	-	-	-	165	165	-
Other	-	-	-	5	5	-
Total Revenues	15,063	15,063	15,857	832	16,689	794
EXPENDITURES						
Current						
Transportation	10,564	10,988	8,760	-	8,760	2,228
Municipal Services	9,725	9,653	11,300	-	11,300	(1,647)
Debt Service						
Principal	2,660	2,660	2,660	-	2,660	-
Interest and Fiscal Charges	460	460	460	-	460	-
Capital Improvements	1,743	1,743	1,753	-	1,753	(10)
Total Expenditures	25,152	25,504	24,933	-	24,933	571
Excess (Deficiency) of Revenues Over Expenditures	(10,089)	(10,441)	(9,076)	832	(8,244)	1,365
OTHER FINANCING SOURCES (USES)						
Transfers In	10,164	10,515	8,023	-	8,023	(2,492)
Transfers Out	(75)	(74)	(102)	-	(102)	(28)
Total Other Financing Sources and Uses	10,089	10,441	7,921	-	7,921	(2,520)
Net Change in Fund Balance	-	-	(1,155)	832	(323)	(1,155)
Fund Balance - Beginning	-	-	335	-	335	335
Fund Balance - Ending	$ -	$ -	$ (820)	$ 832	$ 12	$ (820)

Explanation of Differences:

The City does not budget for certain revenues:	
Grants	$ 662
Reimbursement From Outside Sources	165
Other	5
	832
Net Increase in Fund Balance - Budget to GAAP	$ 832

Preserve Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 28,466	$ 28,466	$ 31,301	$ -	$ 31,301	$ 2,835
Interest Earnings	520	520	489	-	489	(31)
Total Revenues	28,986	28,986	31,790	-	31,790	2,804
EXPENDITURES						
Current						
General Government	-	-	-	1	1	-
Debt Service						
Principal	630	630	630	-	630	-
Interest and Fiscal Charges	325	325	325	-	325	-
Total Expenditures	955	955	955	1	956	-
Excess (Deficiency) of Revenues Over Expenditures	28,031	28,031	30,835	(1)	30,834	2,804
OTHER FINANCING SOURCES (USES)						
Transfers Out	(28,031)	(28,031)	(22,421)	-	(22,421)	5,610
Total Other Financing Sources and Uses	(28,031)	(28,031)	(22,421)	-	(22,421)	5,610
Net Change in Fund Balance	-	-	8,414	(1)	8,413	8,414
Fund Balance - Beginning	-	-	16,198	-	16,198	16,198
Fund Balance - Ending	$ -	$ -	$ 24,612	$ (1)	$ 24,611	$ 24,612

Explanation of Differences:

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

Audit Expense	$ 1
Net (Decrease) in Fund Balance - Budget to GAAP	$ (1)

Transportation Privilege Tax - Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 16,181	$ 16,181	$ 18,115	$ -	$ 18,115	$ 1,934
Interest Earnings	-	-	-	2	2	-
Total Revenues	16,181	16,181	18,115	2	18,117	1,934
EXPENDITURES						
Total Expenditures	-	-	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	16,181	16,181	18,115	2	18,117	1,934
OTHER FINANCING SOURCES (USES)						
Transfers Out	(16,181)	(16,181)	(18,072)	-	(18,072)	(1,891)
Total Other Financing Sources and Uses	(16,181)	(16,181)	(18,072)	-	(18,072)	(1,891)
Net Change in Fund Balance	-	-	43	2	45	43
Fund Balance - Beginning	-	-	1,503	-	1,503	1,503
Fund Balance - Ending	$ -	$ -	$ 1,546	$ 2	$ 1,548	$ 1,546

Explanation of Differences:

Items recorded as revenues for GAAP purposes:	
Unrealized Loss on Investments	$ 2
Net Increase in Fund Balance - Budget to GAAP	$ 2

Combining Balance Sheet

Nonmajor Debt Service Governmental Funds
June 30, 2005 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Scottsdale Preserve Authority	Total
ASSETS								
Cash and Investments	$ 343	$ 378	$ -	$ -	$ -	$ -	$ -	$ 721
Cash with Fiscal Agent	5,421	143	987	2,206	2,529	817	4,673	16,776
Receivables (net of allowance for uncollectibles)								
Property Tax	-	-	21	43	84	14	-	162
Special Assessments	-	6,265	-	-	-	-	-	6,265
Miscellaneous	280	-	-	-	-	-	-	280
Total Assets	$ 6,044	$ 6,786	$ 1,008	$ 2,249	$ 2,613	$ 831	$ 4,673	$ 24,204
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	$ -	$ 10	$ 4	$ 4	$ 4	$ 4	$ -	$ 26
Matured Bond Interest Payable	1,091	143	103	416	489	87	2,078	4,407
Matured Bonds Payable	4,330	-	285	600	485	100	2,595	8,395
Deferred Revenue								
Property Tax	-	-	10	17	51	8	-	86
Special Assessments	-	6,265	-	-	-	-	-	6,265
Other	-	14	-	-	-	-	-	14
Total Liabilities	5,421	6,432	402	1,037	1,029	199	4,673	19,193
Fund Balances								
Reserved for								
Debt Service	623	354	606	1,212	1,584	632	-	5,011
Total Fund Balances	623	354	606	1,212	1,584	632	-	5,011
Total Liabilities and Fund Balances	$ 6,044	$ 6,786	$ 1,008	$ 2,249	$ 2,613	$ 831	$ 4,673	$ 24,204

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

Nonmajor Debt Service Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Scottsdale Preserve Authority	Total
REVENUES								
Taxes - Local								
Property	$ -	$ -	$ 614	$ 1,654	$ 1,628	$ 300	$ -	$ 4,196
Special Assessments	-	2,016	-	-	-	-	-	2,016
Property Rental	280	-	-	-	-	-	-	280
Interest Earnings	-	-	11	21	31	28	-	91
Intergovernmental								
Miscellaneous	308	-	-	2	-	-	-	310
Reimbursements from Outside Sources	-	2	-	-	-	-	-	2
Total Revenues	588	2,018	625	1,677	1,659	328	-	6,895
EXPENDITURES								
Current								
General Government	-	5	10	35	33	16	-	99
Debt Service								
Principal	4,330	2,448	285	600	485	100	2,595	10,843
Interest and Fiscal Charges	1,806	362	210	833	993	174	4,437	8,815
Total Expenditures	6,136	2,815	505	1,468	1,511	290	7,032	19,757
Excess (Deficiency) of Revenues Over Expenditures	(5,548)	(797)	120	209	148	38	(7,032)	(12,862)
OTHER FINANCING SOURCES (USES)								
Transfers In	5,270	-	-	-	-	-	7,014	12,284
Transfers Out	(51)	-	-	(7)	(7)	-		(65)
Total Other Financing Sources and (Uses)	5,219	-	-	(7)	(7)	-	7,014	12,219
Net change in Fund Balances	(329)	(797)	120	202	141	38	(18)	(643)
Fund Balances - Beginning	952	1,151	486	1,010	1,443	594	18	5,654
Fund Balances - Ending	$ 623	$ 354	$ 606	$ 1,212	$ 1,584	$ 632	$ -	$ 5,011

General Obligation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 26,859	$ 26,859	$ 26,602	$ -	$ 26,602	$ (257)
Total Revenues	26,859	26,859	26,602	-	26,602	(257)
EXPENDITURES						
Debt Service						
Principal	18,202	18,202	18,825	-	18,825	(623)
Interest and Fiscal Charges	21,770	21,770	18,216	-	18,216	3,554
Bond Issuance Costs	-	-	376	-	376	(376)
Total Expenditures	39,972	39,972	37,417	-	37,417	2,555
Excess (Deficiency) of Revenues Over Expenditures	(13,113)	(13,113)	(10,815)	-	(10,815)	2,298
OTHER FINANCING SOURCES (USES)						
Transfers In	13,113	13,113	12,825	-	12,825	(288)
Refunding Bonds Issued	-	-	74,630	-	74,630	74,630
Premium on Refunding Debt	-	-	3,078	-	3,078	3,078
Payment to Bond Refunding Escrow Agent	-	-	(77,584)	-	(77,584)	(77,584)
Total Other Financing Sources and Uses	13,113	13,113	12,949	-	12,949	(164)
Net Change in Fund Balance	-	-	2,134	-	2,134	2,134
Fund Balance - Beginning	-	-	3,468	-	3,468	3,468
Fund Balance - Ending	$ -	$ -	$ 5,602	$ -	$ 5,602	$ 5,602

Municipal Property Corporation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 350	$ 350	$ 280	$ -	$ 280	$ (70)
Intergovernmental	-	-	308	-	308	308
Total Revenues	350	350	588	-	588	238
EXPENDITURES						
Debt Service						
Principal	4,455	4,455	4,330	-	4,330	125
Interest and Fiscal Charges	3,116	2,896	1,806	-	1,806	1,090
Total Expenditures	7,571	7,351	6,136	-	6,136	1,215
Excess (Deficiency) of Revenues Over Expenditures	(7,221)	(7,001)	(5,548)	-	(5,548)	1,453
OTHER FINANCING SOURCES (USES)						
Transfers In	7,221	7,001	5,270	-	5,270	(1,731)
Transfers Out	-	-	(51)		(51)	(51)
Total Other Financing Sources and Uses	7,221	7,001	5,219	-	5,219	(1,782)
Net Change in Fund Balance	-	-	(329)	-	(329)	(329)
Fund Balance - Beginning	-	-	952	-	952	952
Fund Balance - Ending	$ -	$ -	$ 623	$ -	$ 623	$ 623

Special Assessments Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 2,792	$ 2,792	$ 2,016	$ -	$ 2,016	$ (776)
Reimbursements from Outside Sources	-	-	-	2	2	-
Total Revenues	2,792	2,792	2,016	2	2,018	(776)
EXPENDITURES						
Current:						
General Government	-	-	5	-	5	(5)
Debt Service						
Principal	2,438	2,438	2,448	-	2,448	(10)
Interest and Fiscal Charges	354	354	362	-	362	(8)
Total Expenditures	2,792	2,792	2,815	-	2,815	(23)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(799)	2	(797)	(799)
Fund Balance - Beginning	-	-	1,151	-	1,151	1,151
Fund Balance - Ending	$ -	$ -	$ 352	$ 2	$ 354	$ 352

The City does not budget for certain revenues:

Reimbursement From Outside Sources	$ 2
	2
Net Increase in Fund Balance - Budget to GAAP	$ 2

Scottsdale Preserve Authority Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005 (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	2,595	2,595	2,595	-	2,595	-
Interest and Fiscal Charges	4,266	4,266	4,437	-	4,437	(171)
Total Expenditures	6,861	6,861	7,032	-	7,032	(171)
Excess (Deficiency) of Revenues Over Expenditures	(6,861)	(6,861)	(7,032)	-	(7,032)	(171)
OTHER FINANCING SOURCES (USES)						
Transfers In	6,861	6,861	7,014	-	7,014	153
Total Other Financing Sources and Uses	6,861	6,861	7,014	-	7,014	153
Net Change in Fund Balance	-	-	(18)	-	(18)	(18)
Fund Balance - Beginning	-	-	18	-	18	18
Fund Balance - Ending	$ -	$ -	$ -	$ -	$ -	$ -

Combining Balance Sheet

Nonmajor Capital Projects Governmental Funds
June 30, 2005 (in thousands of dollars)

	General Obilgation Bond	Municipal Property Corporation	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
ASSETS						
Cash and Investments	$ 15,249	$ 125	$ 38,283	$ -	$ -	$ 53,657
Cash with Fiscal Agent	-	-	-	102	352	454
Receivables						
Interest	176	2	150	-	-	328
Intergovernmental	-	-	2,300	-	-	2,300
Miscellaneous	-	-	258	-	-	258
Total Assets	$ 15,425	$ 127	$ 40,991	$ 102	$ 352	$ 56,997
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	$ -	$ -	$ 3,104	$ -	$ -	$ 3,104
Accrued Payroll and Benefits	-	-	31	-	-	31
Guaranty and Other Deposits	-	-	489	-	-	489
Total Liabilities	-	-	3,624	-	-	3,624
Fund Balances						
Unreserved, Undesignated	15,425	127	37,367	102	352	53,373
Total Fund Balances	15,425	127	37,367	102	352	53,373
Total Liabilities and Fund Balances	$ 15,425	$ 127	$ 40,991	$ 102	$ 352	$ 56,997

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

Nonmajor Capital Projects Governmental Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	General Obilgation Bond	Municipal Property Corporation	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
REVENUES						
Interest Earnings	$ 979	$ 11	$ 791	$ 1	$ 21	$ 1,803
Intergovernmental						
Federal Grants	-	-	1,017	-	-	1,017
Developer Contributions	-	-	1,669	-	1,611	3,280
Reimbursements from Outside Sources	-	-	21	-	-	21
Total Revenues	979	11	3,498	1	1,632	6,121
EXPENDITURES						
Capital Improvements	-	-	27,491	1	8,042	35,534
Total Expenditures	-	-	27,491	1	8,042	35,534
Excess (Deficiency) of Revenues Over Expenditures	979	11	(23,993)	-	(6,410)	(29,413)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	23,232	7	7	23,246
Transfers Out	(34,893)	(548)	(2,642)	-	-	(38,083)
Total Other Financing Sources and (Uses)	(34,893)	(548)	20,590	7	7	(14,837)
Net Change in Fund Balances	(33,914)	(537)	(3,403)	7	(6,403)	(44,250)
Fund Balances - Beginning	49,339	664	40,770	95	6,755	97,623
Fund Balances - Ending	$ 15,425	$ 127	$ 37,367	$ 102	$ 352	$ 53,373

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 67,057	$ 67,057	$ 67,393	$ -	$ 67,393	$ 336
Sewer Service Fees	26,081	26,081	26,959	-	26,959	878
Proprietary - Non-Potable Water Fees	4,326	4,326	4,878	-	4,878	552
Groundwater Treatment Plant	881	881	885	-	885	4
Investment Income	1,099	1,099	4,568	(425)	4,143	3,469
Capital Contributions	-	-	-	35,908	35,908	-
Other	1,367	1,367	820	-	820	(547)
Total Revenues	100,811	100,811	105,503	35,483	140,986	4,692
Expenses						
Cost of Sales and Services						
Water Operations	34,021	33,871	34,879	305	35,184	(1,008)
Sewer Operations	11,419	11,437	14,932	(1)	14,931	(3,495)
Debt Service and Reserves	18,910	18,910	17,296	(10,885)	6,411	1,614
Depreciation and Amortization	-	-	-	25,223	25,223	-
Indirect Costs	6,298	6,298	6,298	-	6,298	-
Loss on Sale of Capital Assets	-	-	-	501	501	-
Transfers Out	8,868	8,868	8,639	-	8,639	229
Total Expenses	79,516	79,384	82,044	15,143	97,187	(2,660)
Change in Net Assets	$ 21,295	$ 21,427	$ 23,459	$ 20,340	$ 43,799	$ 2,032

(continued on next page)

Water and Sewer Utility Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2005 (in thousands of dollars)

Explanation of Differences:

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

Loss on Investments	$	(425)
Capital Contributions		35,908
Total Revenue Reconciling Items:		35,483

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

Compensated Absences		304
Debt Service Principal Payments		(10,885)
Depreciation and Amortization Expense		25,223
Loss on Sale of Capital Assets		501
Total Expenditure Reconciling Items:		15,143

Net Increase in Net Assets - Budget to GAAP	$	20,340

Airport Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2005 (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	$ 2,853	$ 2,853	$ 3,162	$ -	$ 3,162	$ 309
Investment Income	20	20	27	(6)	21	7
Capital Contributions	-	-	-	2,405	2,405	-
Transfers In	106	106	114	-	114	8
Total Revenues	2,979	2,979	3,303	2,399	5,702	324
Expenses						
Cost of Sales and Services						
Airport Operations	1,449	1,449	2,157	3	2,160	(708)
Depreciation	-	-	-	719	719	-
Indirect Costs	467	467	467	-	467	-
Loss on Sale of Capital Assets	-	-	-	472	472	-
Transfers Out	279	279	292	-	292	(13)
Total Expenses	2,195	2,195	2,916	1,194	4,110	(721)
Change in Net Assets	$ 784	$ 784	$ 387	$ 1,205	$ 1,592	$ (397)

Explanation of Differences:

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

Loss on Investments	$ (6)
Capital Contributions	2,405
Total Revenue Reconciling Items:	2,399

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

Compensated Absences	3
Depreciation Expense	719
Loss on Sale of Capital Assets	472
Total Expenditure Reconciling Items:	1,194
Net increase in Net Assets - Budget to GAAP	$ 1,205

Solid Waste Enterprise Fund

Schedule of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2005 (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	$ 16,722	$ 16,722	$ 16,984	$ -	$ 16,984	$ 262
Investment Income	40	40	143	(19)	124	103
Other	-	-	1	-	1	1
Total Revenues	16,762	16,762	17,128	(19)	17,109	366
Expenses						
Cost of Sales and Services						
Solid Waste Operations	12,979	12,985	13,117	213	13,330	(132)
Debt Service and Reserves	343	343	362	(255)	107	(19)
Depreciation	-	-	-	201	201	-
Indirect Costs	1,870	1,870	1,870	-	1,870	-
Loss on Sale of Capital Assets	-	-	-	4	4	-
Transfers Out	668	668	750	-	750	(82)
Total Expenses	15,860	15,866	16,099	163	16,262	(233)
Change in Net Assets	$ 902	$ 896	$ 1,029	$ (182)	$ 847	$ 133

Explanation of Differences:

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

Loss on Investments	$ (19)
Total Revenue Reconciling Items:	(19)

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

Compensated Absences	213
Debt Service Principal Payments	(255)
Depreciation Expense	201
Loss on Sale of Capital Assets	4
Total Expenditure Reconciling Items:	163
Net (Decrease) in Net Assets - Budget to GAAP	$ (182)

INTERNAL SERVICE FUNDS

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

Fleet Management Fund

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

Self-Insurance Fund

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

Combining Statement of Net Assets

Internal Service Funds
June 30, 2005 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total
ASSETS			
Current Assets			
Cash and Investments	$ 11,836	$ 20,583	$ 32,419
Receivables (net of allowance for uncollectibles)			
Interest	50	83	133
Miscellaneous	32	772	804
Supplies Inventory	269	-	269
Total Current Assets	12,187	21,438	33,625
Noncurrent Assets			
Capital Assets			
Buildings and Improvements	1,846	-	1,846
Motor Vehicles	53,608	-	53,608
Machinery and Equipment	408	-	408
Furniture and Fixtures	-	22	22
Construction in Progress	1,041	-	1,041
Less Accumulated Depreciation	(32,260)	(22)	(32,282)
Total Capital Assets (net of accumulated depreciation)	24,643	-	24,643
Total Noncurrent Assets	24,643	-	24,643
Total Assets	36,830	21,438	58,268
LIABILITIES			
Current Liabilities			
Accounts Payable	668	161	829
Accrued Payroll and Benefits	134	45	179
Accrued Compensated Absences	45	15	60
Claims Payable	-	15,565	15,565
Total Current Liabilities	847	15,786	16,633
Noncurrent Liabilities			
Accrued Compensated Absences	296	100	396
Total Noncurrent Liabilities	296	100	396
Total Liabilities	1,143	15,886	17,029
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	24,643	-	24,643
Unrestricted	11,044	5,552	16,596
Total Net Assets	$ 35,687	$ 5,552	$ 41,239

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

Internal Service Funds

For the Year Ended June 30, 2005 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total
Operating Revenues			
Charges for Sales and Services			
Billings To User Programs	$ 11,429	$ 15,980	$ 27,409
Self Insurance Contributions-Employee	-	2,500	2,500
Other	165	674	839
Total Operating Revenues	11,594	19,154	30,748
Operating Expenses			
Costs of Sales and Services			
Fleet Management Operations	7,386	-	7,386
Self-Insurance Administration	-	2,556	2,556
Self-Insurance Claims	-	4,359	4,359
Self-Insurance Benefits	-	13,657	13,657
Insurance and Bond Premiums	-	1,420	1,420
Depreciation	5,322	-	5,322
Total Operating Expenses	12,708	21,992	34,700
Operating Income (Loss)	(1,114)	(2,838)	(3,952)
Non-Operating Revenues			
Property Tax	-	404	404
Investment Income	269	443	712
Gain on Sale of Capital Assets	41	-	41
Total Non-Operating Revenues	310	847	1,157
Income (Loss) Before Contributions and Transfers	(804)	(1,991)	(2,795)
Capital Contributions	2,020	-	2,020
Transfers In	1,273	2,145	3,418
Transfers Out	(2,339)	(11)	(2,350)
Change in Net Assets	150	143	293
Total Net Assets - Beginning	35,537	5,409	40,946
Total Net Assets - Ending	$ 35,687	$ 5,552	$ 41,239

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2005 (in thousands of dollars)

	Fleet Management	Self-Insurance	Total
Cash Flows from Operating Activities			
Cash Received from Customers	$ 11,429	$ 18,276	$ 29,705
Cash Paid to Suppliers	(7,880)	(21,732)	(29,612)
Cash Paid to Employees	66	645	711
Other Operating	141	674	815
Net Cash Provided by Operating Activities	3,756	(2,137)	1,619
Cash Flows from Non-Capital Financing Activities			
Property Tax	-	422	422
Transfers In	1,273	2,145	3,418
Transfers Out	(2,339)	(11)	(2,350)
Net Cash Provided by (Used) for Non-Capital Financing Activities	(1,066)	2,556	1,490
Cash Flows from Capital and Related			
Financing Activities			
Acquisition and Construction of Property and Equipment	(2,611)	-	(2,611)
Sale of Capital Assets	79	-	79
Net Cash (Used) for Capital and Related Financing Activities	(2,532)	-	(2,532)
Cash Flows from Investing Activities			
Income Received on Investments	261	435	696
Net Increase (Decrease) in Cash and Cash Equivalents	419	854	1,273
Cash and Cash Equivalents at Beginning of Year	11,417	19,729	31,146
Cash and Cash Equivalents at End of Year	$ 11,836	$ 20,583	$ 32,419
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	$ (1,114)	$ (2,838)	$ (3,952)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities			
Depreciation	5,322	-	5,322
Changes in Assets and Liabilities Sources (Uses) of Cash			
Miscellaneous Receivables	(24)	(204)	(228)
Supplies Inventory	72	-	72
Accounts Payable	(566)	(31)	(597)
Accrued Payroll and Benefits	66	49	115
Claims Payable	-	887	887
Total Adjustments	4,870	701	5,571
Net Cash Provided by Operating Activities	$ 3,756	$ (2,137)	$ 1,619
Supplemental Disclosure of Noncash Financing Activities			
Additions to Property, Plant, and Equipment			
Contributions from Other Government Units	$ 2,020	$ -	$ 2,020
Total Non-Cash Financing Activities	$ 2,020	$ -	$ 2,020

FIDUCIARY FUNDS

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

Handicap Scholarship Private Purpose Trust Fund

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

Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund

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

Family Self-Sufficiency Agency Fund

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

Retainage Escrow Agency Fund

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

Combining Statement of Fiduciary Net Assets

Fiduciary Funds
June 30, 2005 (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	$ 4	$ 19	$ 23	$ 101	$ 4,721	$ 4,822
Total Assets	4	19	23	101	4,721	4,822
LIABILITIES						
Accounts Payable	-	-	-	101	-	101
Designated Escrow Payable	-	-	-	-	4,721	4,721
Total Liabilities	-	-	-	101	4,721	4,822
NET ASSETS						
Held in Trust for Other Purposes	$ 4	$ 19	$ 23	$ -	$ -	$ -

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds
For the Year Ended June 30, 2005 (in thousands of dollars)

	Handicap Scholarship Private Purpose Trust Fund	Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund	Total
ADDITIONS			
Contributions:			
Private Donations	$ 4	$ 125	$ 129
Investment Earnings:			
Interest	-	3	3
Total Additions	4	128	132
DEDUCTIONS			
Scholarships	6	-	6
Redevelopment Expenses	-	473	473
Total Deductions	6	473	479
Change in Net Assets	(2)	(345)	(347)
Net Assets - Beginning	6	364	370
Net Assets - Ending	$ 4	$ 19	$ 23

Combining Statement of Changes in Assets and Liabilities

Fiduciary Funds

For the Year Ended June 30, 2005 (in thousands of dollars)

	Family Self-Sufficiency				Retainage Escrow			
	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS								
Cash and Cash Equivalents	$ 84	$ 42	$ 25	$ 101	$ 1,513	$ 4,721	$ 1,513	$ 4,721
Total Assets	$ 84	$ 42	$ 25	$ 101	$ 1,513	$ 4,721	$ 1,513	$ 4,721
LIABILITIES								
Accounts Payable	$ 84	$ 42	$ 25	$ 101	$ -	$ -	$ -	$ -
Designated Escrow Payable	-	-	-	-	1,513	4,721	1,513	4,721
Total Liabilities	$ 84	$ 42	$ 25	$ 101	$ 1,513	$ 4,721	$ 1,513	$ 4,721

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, 2005 (in thousands of dollars)

	July 1, 2004	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2005	Governmental Activities	Business Type-Activities	Final Payment Date
GENERAL OBLIGATION BONDS										
Governmental Fund Type:										
1993 Refunding	$ 12,768	$ -	$ 2,465	$ -	$ -	$ 237	$ 10,540	$ 10,540	$ -	07/01/09
1993A GO Refunding	2,510	-	2,370	-	-	-	140	140	-	07/01/11
1997 Series H - Roads/ Strm Sew/ Pima	1,235	-	1,235	-	-	-	-	-	-	07/01/16
1997 GO Refunding	19,770	-	85	-	-	-	19,685	19,685	-	07/01/14
1989 Series I (1998)	8,090	-	855	-	-	-	7,235	7,235	-	07/01/18
1999A GO / Pima Road	5,500	-	1,000	-	-	-	4,500	4,500	-	07/01/19
1999 GO Preservation	16,925	-	1,550	-	8,225	-	7,150	7,150	-	07/01/24
2001 GO Preservation	28,225	-	1,025	-	22,680	-	4,520	4,520	-	07/01/24
2001 GO Refunding Various Purpose	17,062	-	2,730	-	-	(4,422)	9,910	9,910	-	07/01/24
2001 GO Refunding Preservation	24,293	-	-	-	-	4,422	28,715	28,715	-	07/01/24
2002 GO Various Purpose	21,295	-	2,020	-	8,420	-	10,855	10,855	-	07/01/24
2002 GO Preservation	40,000	-	-	-	34,245	-	5,755	5,755	-	07/01/24
2002 GO Refunding Various Purpose	55,405	-	1,845	-	-	-	53,560	53,560	-	07/01/19
2002 GO Refunding Preservation	8,100	-	-	-	-	-	8,100	8,100	-	07/01/19
2003 GO Refunding Various Purpose	15,020	-	45	-	-	-	14,975	14,975	-	07/01/13
2004 GO Various Purpose	48,000	-	-	-	-	-	48,000	48,000	-	07/01/25
2004 GO Preservation	65,400	-	1,600	-	-	-	63,800	63,800	-	07/01/25
2005 GO Refunding Various Purpose	-	-	-	8,540	-	-	8,540	8,540	-	07/01/24
2005 GO Refunding Preservation	-	-	-	66,090	-	-	66,090	66,090	-	07/01/24
2001 GO Refunding Series Deferred Issuance Premium	1,180	-	-	-	-	(115)	1,065	1,065	-	
2001 GO Series Deferred Amount on Refunding	(1,925)	-	-	-	-	187	(1,738)	(1,738)	-	
2002 GO Refunding Series Deferred Issuance Premium	3,374	-	-	-	-	(754)	2,620	2,620	-	
2002 GO Series Deferred Amount on Refunding	(3,433)	-	-	-	-	766	(2,667)	(2,667)	-	
2003 GO Series Deferred Amount on Refunding	(312)	-	-	-	-	59	(253)	(253)	-	
2003 GO Refunding Series Deferred Issuance Premium	426	-	-	-	-	(80)	346	346	-	
2004 GO Series Deferred Issuance Premium	1,026	-	-	-	-	(51)	975	975	-	
2005 GO Series Deferred Amount on Refunding	-	-	-	(4,014)	-	70	(3,944)	(3,944)	-	
2005 GO Refunding Series Deferred Issuance Premium	-	-	-	3,078	-	(53)	3,025	3,025	-	
Subtotal	389,934	-	18,825	73,694	73,570	266	371,499	371,499	-	
Business Type - General Obligation Bonds										
1993 Refunding	9,336	-	4,575	-	-	439	5,200	-	5,200	07/01/06
1993 A GO Refunding	1,315	-	-	-	-	-	1,315	-	1,315	07/01/06
Subtotal	10,651	-	4,575	-	-	439	6,515	-	6,515	
Total General Obligation Bonds	$ 400,585	$ -	$ 23,400	$ 73,694	$ 73,570	$ 705	$ 378,014	$ 371,499	$ 6,515	
REVENUE BONDS										
Governmental Fund Type										
Highway User Revenue Fund Bonds										
1993 HURF Refunding	$ 8,475	$ -	$ 2,660	$ -	$ -	$ -	$ 5,815	$ 5,815	$ -	07/01/07
Subtotal	8,475	-	2,660	-	-	-	5,815	5,815	-	
Business Type - Revenue Bonds										
1996 Utility Revenue Series Refunding	6,175	-	575	-	-	-	5,600	-	5,600	07/01/14
1989 Utility Series D (1998)	9,775	-	575	-	-	-	9,200	-	9,200	07/01/22
1989 Utility Series E (1998)	33,535	-	1,400	-	-	-	32,135	-	32,135	07/01/23
2004 Utility Revenue Series Refunding	18,880	-	80	-	-	-	18,800	-	18,800	07/01/16
1996 Revenue Series Deferred Amount on Refunding	(197)	-	-	-	-	41	(156)	-	(156)	
2004 Revenue Series Deferred Amount on Refunding	(1,622)	-	-	-	-	248	(1,374)	-	(1,374)	
2004 Refunding Series Deferred Issuance Premium	1,788	-	-	-	-	(274)	1,514	-	1,514	
Subtotal	68,334	-	2,630	-	-	15	65,719	-	65,719	
Total Revenue Bonds	$ 76,809	$ -	$ 5,290	$ -	$ -	$ 15	$ 71,534	$ 5,815	$ 65,719	

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

Schedule of Changes in Long-Term Debt*

(continued here and on following page)

For the Year Ended June 30, 2005 (in thousands of dollars)

	July 1, 2004	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2005	Governmental Activities	Business Type-Activities	Final Payment Date
MUNICIPAL PROPERTY CORPORATION BONDS										
Governmental Fund Type:										
1993 Refunding	$ 4,170	$ -	$ 4,170	$ -	$ -	$ -	$ -	$ -	$ -	07/01/05
1998 MPC	680	-	160	-	-	-	520	520	-	07/01/08
2004A MPC	-	40,760	-	-	-	-	40,760	40,760	-	07/01/14
2005 MPC	-	19,945	-	-	-	28	19,973	19,973	-	07/01/34
2004 Series Deferred Issuance Premium	-	1,075	-	-	-	(27)	1,048	1,048	-	07/01/21
2005 Series Deferred Issuance Premium	-	383	-	-	-	-	383	383	-	
Subtotal	4,850	62,163	4,330	-	-	1	62,684	62,684	-	
Business Type - Municipal Property Corporation Bonds										
1995 Transfer Station	1,740	-	255	-	-	-	1,485	-	1,485	07/01/10
2001 Scottswater	6,625	-	1,490	-	-	-	5,135	-	5,135	07/01/08
2004 Water/Sewer	75,000	-	2,190	-	-	-	72,810	-	72,810	07/01/24
2001 Scottswater Deferred Issuance Premium	151	-	-	-	-	(37)	114	-	114	
2004 Water/Sewer Deferred Issuance Premium	4,678	-	-	-	-	(247)	4,431	-	4,431	
Subtotal	88,194	-	3,935	-	-	(284)	83,975	-	83,975	
Total Municipal Property Corporation Bonds	$ 93,044	$ 62,163	$ 8,265	$ -	$ -	$ (283)	$ 146,659	$ 62,684	$ 83,975	
SCOTTSDALE PRESERVE AUTHORITY BONDS										
Governmental Fund Type:										
1997 Excise Tax Revenue	$ 595	$ -	$ 595	$ -	$ -	$ -	$ -	$ -	$ -	07/01/05
1998 Excise Tax Revenue	45,155	-	1,930	-	-	-	43,225	43,225	-	07/01/24
2001 Excise Tax Revenue	17,305	-	70	-	-	-	17,235	17,235	-	07/01/22
2004 Excise Tax Refunding	22,925	-	-	-	-	-	22,925	22,925	-	07/01/16
2001 Excise Tax Revenue Deferred Issuance Premium	110	-	-	-	-	(6)	104	104	-	
2001 Excise Tax Revenue Deferred Amount on Refunding	(666)	-	-	-	-	37	(629)	(629)	-	
2004 Excise Tax Revenue Deferred Issuance Premium	2,530	-	-	-	-	(316)	2,214	2,214	-	
2004 Excise Tax Revenue Deferred Amount on Refunding	(2,385)	-	-	-	-	298	(2,087)	(2,087)	-	
Total Scottsdale Preserve Authority Bonds	$ 85,569	$ -	$ 2,595	$ -	$ -	$ 13	$ 82,987	$ 82,987	$ -	
SPECIAL ASSESSMENT BONDS										
Governmental Fund Type:										
Bell Road Series 101	$ 5	$ -	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	01/01/04
Desert Ranch Infrastructure Series 103	1,575	-	1,575	-	-	-	-	-	-	01/01/05
Pima Acres Paving & Drainage Series 105	425	-	85	-	-	-	340	340	-	01/01/09
Bell Road II Series 106	6,750	-	750	-	-	-	6,000	6,000	-	01/01/13
Total Special Assessment Bonds	$ 8,755	$ -	$ 2,415	$ -	$ -	$ -	$ 6,340	$ 6,340	$ -	
CERTIFICATES OF PARTICIPATION										
Governmental Fund Type:										
2005 Certificates of Participation	$ -	$ 7,650	$ -	$ -	$ -	$ -	$ 7,650	$ 7,650	$ -	01/01/15
Total Certificates of Participation	$ -	$ 7,650	$ -	$ -	$ -	$ -	$ 7,650	$ 7,650	$ -	

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

Schedule of Changes in Long-Term Debt*

For the Year Ended June 30, 2005 (in thousands of dollars)

	July 1, 2004	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2005	Governmental Activities	Business Type-Activities	Final Payment Date
COMMUNITY FACILITIES DISTRICT BONDS										
Governmental Fund Type:										
McDowell Mtn Ranch Refunding Series 1999	$ 17,405	$ -	$ 600	$ -	$ -	$ -	$ 16,805	$ 16,805	$ -	07/15/22
DC Ranch Series 1998	4,750	-	155	-	-	-	4,595	4,595	-	07/15/23
Via Linda Road Series 1999	3,130	-	100	-	-	-	3,030	3,030	-	07/15/23
DC Ranch Series 1999	3,085	-	85	-	-	-	3,000	3,000	-	07/15/24
Scottsdale Mountain Refunding Series 2002	4,885	-	285	-	-	-	4,600	4,600	-	07/15/18
DC Ranch Series 2002	11,695	-	245	-	-	-	11,450	11,450	-	07/15/27
Scottsdale Mountain 2002 Deferred Issuance Premium	32	-	-	-	-	(4)	28	28	-	
Scottsdale Mountain 2002 Deferred Amount on Refunding	(432)	-	-	-	-	57	(375)	(375)	-	
DC Ranch 2002 Deferred Issuance Premium	63	-	-	-	-	(3)	60	60	-	
Total Community Facilities District Bonds	44,613	-	1,470	-	-	50	43,193	43,193	-	
Total Bonds	$ 709,375	$ 69,813	$ 43,435	$ 73,694	$ 73,570	$ 500	$ 736,377	$ 580,168	$ 156,209	
CONTRACTS PAYABLE										
Governmental Fund Type:										
US Corps of Engineers	$ 3,242	$ -	$ 66	$ -	$ -	$ -	$ 3,176	$ 3,176	$ -	2032
Dial Corporation	230	-	37	-	-	-	193	193	-	2008
US Patent Office	5	-	2	-	-	-	3	3	-	2009
McDowell Sonoran Preserve	6,825	-	630	-	-	-	6,195	6,195	-	2013
Bureau of Reclamation\Westworld	1,595	-	55	-	-	-	1,540	1,540	-	2032
Bureau of Reclamation\TPC	1,705	-	55	-	-	-	1,650	1,650	-	2035
Underground Improvement District Series 104	100	-	33	-	-	-	67	67	-	01/01/13
Motor Mile Marketing	-	1,500	-	-	-		1,500	1,500	-	
Total Contracts	$ 13,702	$ 1,500	$ 878	$ -	$ -	$ -	$ 14,324	$ 14,324	$ -	
TOTAL BONDS AND CONTRACTS	$ 723,077	$ 71,313	$ 44,313	$ 73,694	$ 73,570	$ 500	$ 750,701	$ 594,492	$ 156,209	
Compensated Absences								13,900	1,971	
Total Long-Term Debt								$ 608,392	$ 158,180	

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

Statistical Section

Contents **Page**

Financial Trends 122

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity 132

These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale and use taxes.

Debt Capacity 136

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Economic and Demographic Information 142

These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information 144

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Scottsdale
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

Table I

	Fiscal Year			
	2002	2003	2004	2005
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	$ 1,429,495	$ 1,497,575	$ 1,548,486	$ 1,657,747
Restricted	133,460	117,801	199,767	72,795
Unrestricted	152,731	165,209	127,017	217,802
Total Governmental Activities Net Assets	$ 1,715,686	$ 1,780,585	$ 1,875,270	$ 1,948,344
Business-type Activities				
Invested in Capital Assets, Net of Related Debt	$ 629,106	$ 659,130	$ 653,351	$ 756,433
Restricted	16,399	16,721	20,842	23,472
Unrestricted	175,624	186,147	272,431	(1) 212,957
Total Business-type Activities Net Assets	$ 821,129	$ 861,998	$ 946,624	$ 992,862
Primary Government				
Invested in Capital Assets, Net of Related Debt	$ 2,058,601	$ 2,156,705	$ 2,201,837	$ 2,414,180
Restricted	149,859	134,522	220,609	96,267
Unrestricted	328,355	351,356	399,448	430,759
Total Primary Government Net Assets	$ 2,536,815	$ 2,642,583	$ 2,821,894	$ 2,941,206

(1) The increase from the prior period was caused by a substantial increase in capital asset contributions.

City of Scottsdale
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

Table IIa

	Fiscal Year				
	2002	2003	2004	2005	
Expenses					
Governmental Activities:					
General Government	$ 26,982	$ 22,776	$ 23,839	$ 30,943	
Police	52,719	54,469	60,027	63,076	
Financial Services	7,464	7,883	7,655	8,315	
Transportation	72,159	71,837	78,373	85,835	
Community Services	53,325	52,222	55,087	57,519	
Information Services	10,821	11,901	11,135	7,941	
Fire	16,494	18,127	19,570	28,620	(1)
Municipal Services	11,482	12,290	13,024	16,520	
Citizen and Neighborhood Resources	2,484	2,433	2,812	3,496	
Human Resources	-	3,601	3,462	3,333	
Economic Vitality	-	6,421	6,130	8,026	
Planning and Development	18,269	11,908	11,697	12,522	
Streetlight and Service Districts	1,044	1,099	1,024	1,094	
Interest on Long-term Debt	28,063	27,786	28,028	32,466	
Total Governmental Activities Expenses	301,306	304,753	321,863	359,706	
Business-type Activities:					
Water Utility	51,125	50,406	51,095	59,723	
Sewer Utility	24,007	22,862	24,678	28,324	
Airport	2,648	2,476	2,622	3,346	
Solid Waste	14,071	13,783	15,153	15,508	
Total Business-type Activities Expenses	91,851	89,527	93,548	106,901	
Total Primary Government Expenses	$ 393,157	$ 394,280	$ 415,411	$ 466,607	

(1) Increase from prior year was caused by the purchase of equipment, furnishing and clothing needed to start the city's Fire Department on July 1, 2005.

City of Scottsdale
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

Table IIb

	Fiscal Year			
	2002	2003	2004	2005
Program Revenue				
Governmental Activities:				
Charges for Services:				
General Government	$ 11,243	$ 11,402	$ 12,742	$ 12,106
Police	5,706	4,227	6,760	11,514
Community Services	3,229	3,405	3,759	3,914
Planning and Development	15,764	15,449	17,314	18,188
Streetlight and Service Districts	1,012	1,018	1,000	998
Operating Grants and Contributions	22,200	21,219	24,508	26,865
Capital Grants and Contributions	77,412	70,369	105,794	73,092
Total Governmental Activities Program Revenues	136,566	127,089	171,877	146,677
Business-type Activities:				
Charges for Services:				
Water Utility	68,064	66,626	70,613	72,612
Sewer Utility	24,017	25,316	25,587	27,503
Airport	1,689	2,424	2,936	3,162
Solid Waste	15,796	16,250	16,488	16,984
Capital Grants and Contributions	38,733	28,487	71,709	38,313
Total Business-type Activities Revenues	148,299	139,103	187,333	158,574
Total Primary Government Revenues	$ 284,865	$ 266,192	$ 359,210	$ 305,251
Net (Expense)/Revenue				
Governmental Activities	$ (164,740)	$ (177,664)	$ (149,986)	$ (213,029)
Business-type Activities	56,448	49,576	93,785	51,673
Total Primary Government Net Expense	$ (108,292)	$ (128,088)	$ (56,201)	$ (161,356)

City of Scottsdale
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

Table IIc

	Fiscal Year			
	2002	2003	2004	2005
Governmental Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes	$ 167,105	$ 167,153	$ 183,039	$ 217,325 (1)
Intergovernmental	44,918	46,971	45,163	48,346
Interest and Investment Income	11,485	4,108	2,655	6,765
Miscellaneous and Special Items	5,382	4,760	2,777	4,100
Transfers	6,288	10,955	11,037	9,567
Total Governmental Activities	235,178	233,947	244,671	286,103
Business-type Activities:				
Interest and Investment Income	5,820	1,493	973	4,288
Miscellaneous	874	755	905	(156)
Transfers	(6,289)	(10,955)	(11,037)	(9,567)
Total Business-type Activities:	405	(8,707)	(9,159)	(5,435)
Total Primary Government	$ 235,583	$ 225,240	$ 235,512	$ 280,668
Change in Net Assets				
Governmental Activities	$ 70,438	$ 56,283	$ 94,685	$ 73,074
Business-type Activities	56,853	40,869	84,626	46,238
Total Primary Government	$ 127,291	$ 97,152	$ 179,311	$ 119,312

(1) In May 2004, the City of Scottdale citizens approved an additional .15% Preservation Privilege Tax and a .10% Public Safety Tax. These taxes were effective July 1, 2004.

City of Scottsdale
Governmental Activities Tax Revenues By Source
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

Table III

Fiscal Year	Property	Sales and Use Taxes: Privilege & Use - General	Privilege & Use - McDowell Mtn (1)	Privilege & Use - Transportation	Privilege & Use - Public Safety (1)	Transient Occupancy
2002	$ 39,485	$ 81,871	$ 15,814	$ 15,587	$ -	$ 6,691
2003	42,218	79,483	15,645	15,335	-	6,688
2004	46,371	87,422	16,981	16,628	-	7,227
2005	48,416	94,407	31,301	18,115	8,491	7,939

Fiscal Year	Franchise Taxes: Cable TV Franchise	Franchise Taxes: Light & Power Franchise	Intergovernmental (1): State Shared Sales	Intergovernmental (1): State Revenue Sharing	Intergovernmental (1): Other
2002	$ 2,223	$ 5,238	$ 15,621	$ 21,142	$ 316
2003	2,440	5,147	15,853	21,574	414
2004	2,740	5,488	17,054	18,278	481
2005	2,859	5,596	18,779	18,634	1,136

(1) In May 2004, the City of Scottdale citizens approved an additional .15% Preservation Privilege Tax and a .10% Public Safety Tax. These taxes were effective July 1, 2004.

City of Scottsdale
Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IV

	Fiscal Year			
	2002	2003	2004	2005
General Fund				
Reserved	$ 2,006	$ 1,992	$ 2,153	$ 872
Unreserved	74,363	71,236	59,707 (1)	72,772
Total General Fund	$ 76,369	$ 73,228	$ 61,860	$ 73,644
All Other Governmental Funds				
Reserved	$ 12,880	$ 13,670	$ 9,122	$ 10,613
Unreserved, Reported in:				
Special Revenue Funds	25,775	24,553	22,122	31,873
Capital Project Funds	168,550	159,421	224,422 (2)	148,626
Total All Other Governmental Funds	$ 207,205	$ 197,644	$ 255,666	$ 191,112

(1) The decrease from prior period was caused by a defeasance of debt.
(2) The increase from prior period was caused by unspent bond proceeds that were received in the last quarter of the fiscal year.

City of Scottsdale
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table Va

	Fiscal Year			
	2002	2003	2004	2005
Revenues				
Taxes - Local	$ 164,775	$ 167,153	$ 182,362	$ 218,189
Taxes - Intergovernmental	57,176	59,694	58,716	61,948
Business and Liquor Licenses	1,815	1,816	1,813	1,633
Charges for Current Services	20,038	19,990	22,401	23,300
Fines, Fees and Forfeitures	5,234	6,047	6,921	9,649
Special Assessments	2,339	1,970	2,558	2,029
Property Rental	2,835	2,836	3,212	3,617
Interest Earnings	10,300	3,830	2,385	6,053
Intergovernmental	12,892	9,609	11,810	11,771
Developer Contributions	799	762	762	4,708
Streetlight and Services Districts	1,012	1,018	1,000	998
Contributions and Donations	367	439	647	917
Reimbursements from Outside Sources	118	1,032	1,659	461
Indirect Costs	7,960	8,045	8,729	8,635
Other	2,260	850	2,110	9,079
Total Revenues	289,920	285,091	307,085	362,987

City of Scottsdale
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table Vb

	Fiscal Year				
	2002	2003	2004	2005	
Expenditures					
General Government	19,528	16,010	16,121	21,793	
Police	49,362	52,371	55,510	59,874	
Financial Services	7,135	7,752	7,222	7,631	
Transportation	10,016	10,869	9,399	8,760	
Community Services	49,276	48,950	50,494	49,941	
Information Systems	7,380	7,386	7,328	7,674	
Fire	16,281	17,745	19,265	21,320	
Municipal Services	11,214	11,553	8,774	11,813	
Citizen and Neighborhood Resources	2,235	2,446	2,754	2,831	
Human Resources	-	3,375	3,290	3,261	
Economic Vitality	-	6,268	6,199	6,506	
Planning and Development	18,040	11,746	11,218	12,111	
Streetlight and Services Districts	1,044	1,099	1,024	1,094	
Debt Service:					
Principal	26,216	30,305	31,905	33,173	
Interest and Fiscal Charges	29,062	29,759	25,452	31,948	
Bond Issuance Costs	597	1,046	586	878	
Advance Refunding Escrow	339	-	-	-	
Capital Improvements	68,638	68,338	81,149	213,585	(1)
Total Expenditures	316,363	327,018	337,690	494,193	
Excess of Revenues over (under) Expenditures	(26,443)	(41,927)	(30,605)	(131,206)	

(1) The increase from prior period was caused by land purchases related to capital improvement projects.

City of Scottsdale
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table Vc

	Fiscal Year				
	2002	2003	2004	2005	
Other Financing Sources (Uses)					
Transfers in	71,095	107,441	137,043	141,783	
Transfers out	(60,408)	(91,582)	(126,269)	(133,284)	
Refunding Bonds Issued	74,025	102,570	39,190	74,630	
Long-term Capital-Related Debt Issued	75,500	12,165	113,400	68,355	
Premium on Bonds Issued	2,390	6,284	4,429	4,536	
Payment to Bond Refunding Escrow Agent	(75,025)	(108,077)	(90,534)	(77,584)	
Sale of Capital Assets	-	424	-	-	
Total Other Financing Sources and (Uses)	87,577	29,225	77,259	78,436	
Net Change in Fund Balances	$ 61,134	$ (12,702)	$ 46,654	$ (52,770)	(1)
Debt Service as a Percentage of Noncapital Expenditures	22.7%	23.6%	22.6%	23.5%	

(1) The change from the prior period was caused by the increase in spending for capital improvement projects.

City of Scottsdale
Governmental Activities Tax Revenues By Source
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table VI

Fiscal Year	Property	Sales and Use Taxes: Privilege & Use - General	Privilege & Use - McDowell Mtn (1)	Privilege & Use - Transportation	Privilege & Use - Public Safety (1)	Transient Occupancy
2002	38,413	80,297	15,814	15,587	-	6,691
2003	41,583	79,704	15,645	15,335	-	6,688
2004	46,088	86,547	16,981	16,628	-	7,227
2005	48,249	94,302	31,301	18,115	8,491	7,939

Fiscal Year	Franchise Taxes: Cable TV Franchise	Franchise Taxes: Light & Power Franchise	Intergovernmental: State Shared Sales	Intergovernmental: State Revenue Sharing	Intergovernmental: Other
2002	2,223	5,238	15,621	21,142	316
2003	2,440	5,147	15,853	21,574	414
2004	2,740	5,488	17,054	18,278	481
2005	2,859	5,596	18,779	18,634	1,136

(1) In May 2004, the City of Scottdale citizens approved an additional .15% Preservation Privilege Tax and a .10% Public Safety Tax. These taxes were effective July 1, 2004.

City of Scottsdale
Property Tax Rates
Direct and Overlapping Governments
Last Four Fiscal Years

Table VII

	City Direct Rate			Overlapping Rates													
				County-Wide Jurisdictions									Scottsdale Unified School District				
Fiscal Year	Operating Rate	Debt Service Rate	Total City Rate	County Operating Rate	County Debt Service Rate	Community College Rate	County Flood Rate	County Education Equalization Rate	Fire District Assistance Rate	Central AZ Project Rate	County Free Library Rate	Total County Rate	Operating Rate	Debt Service Rate	EVIT Rate	Total School Rate	Total Direct & Overlapping Rates
2002	$ 0.49	$ 0.67	$ 1.15	$ 1.18	$ 0.09	$ 1.11	$ 0.23	$ 0.50	$ 0.01	$ 0.13	$ 0.04	$ 3.29	$ 4.08	$ 1.36	$ 0.11	$ 5.55	$ 9.99
2003	0.51	0.65	1.15	1.21	0.08	1.11	0.21	0.49	0.01	0.13	0.04	3.28	3.94	1.36	0.11	5.41	9.85
2004	0.48	0.64	1.12	1.21	0.07	1.08	0.21	0.47	0.01	0.12	0.05	3.22	3.89	1.30	0.10	5.29	9.63
2005	0.45	0.62	1.07	1.21	-	1.04	0.21	0.46	0.01	0.12	0.05	3.09	3.77	1.26	0.10	5.13	9.30

Source: Maricopa County Department of Finance Publications On-Line "Tax Levy 2004"

City of Scottsdale
Principal Property Tax Payers
June 30, 2005
(in thousands)

Table VIII

Taxpayer	2005 Taxable Assessed Value	2005 Rank	2005 Percentage of Total Taxable Assessed Value	1996 Taxable Assessed Value	1996 Rank	1996 Percentage of Total Taxable Assessed Value
Arizona Public Service Company	$ 47,752	1	1.10%	$ 35,193	1	2.30%
Scottsdale Fashion Square	41,698	2	0.96%	16,740	4	1.09%
Qwest Communications, Inc.	36,168	3	0.83%	24,176	2	1.58%
DC Ranch, LLC	38,571	4	0.89%		-	-
First American Tax Valuation	25,008	5	0.58%	-	-	0.00%
Gainey Drive Associates	18,792	6	0.43%	13,887	6	0.91%
Scottsdale Acquisition LLC	15,497	7	0.36%	-	-	-
Southwest Gas Corporation	13,639	8	0.31%	5,952	11	0.39%
Marvin F Poer & Co.	10,371	9	0.24%	-	-	-
Pederson/BVT Promenade Associates	10,336	10	0.24%	-	-	-
Motorola GEG	-	-	-	20,121	3	1.32%
Scottsdale Princess Partnership	-	-	-	15,970	5	1.04%
Mayo Foundation	-	-	-	13,867	7	0.91%
Herberger Enterprises	-	-	-	10,631	8	0.69%
Business Realty of Arizona				8,152	9	0.53%
Scottsdale Sportsplex				5,991	10	0.39%

Source: 2005 information - The City of Scottsdale's Property Tax Auditor, as obtained from the Arizona Department of Revenue, Centrally Valued Property Department and the 2004 Maricopa County Treasurer's Roll.

Source: 1996 information - The City of Scottsdale's Property Tax Auditor, as obtained from the Arizona Department of Revenue, Division of Utilities and Mines and the tax rolls of the Maricopa County Assessor's Office.

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 2004/05 secondary assessed valuation of the Salt River Project within the City is $23,638,512. The estimated secondary in lieu contribution is $201,060.

City of Scottsdale
Assessed Value and Estimated Actual Value of Taxable Property
Last Four Fiscal Years
(in thousands)

Table IX

Fiscal Year Ended June 30th	Real Property: Residential Property	Real Property: Commercial Property	Real Property: Vacant Land	Real Property: Historic & Special Use	Personal Property: Assessed Value	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2002	$ 1,815,234	$ 923,764	$ 520,604	$ 1,090	$ 242,768	$ (225,510)	$ 3,277,950	$ 0.67	$ 25,085,079	13.1%
2003	1,921,093	1,045,250	615,184	1,483	247,739	(304,144)	3,526,605	0.65	26,545,415	13.3%
2004	2,373,446	1,043,384	656,600	1,575	256,958	(356,528)	3,975,435	0.64	28,138,139	14.1%
2005	2,460,307	1,205,827	809,560	2,213	257,783	(392,236)	4,343,454	0.62	33,248,352	13.1%

Source: AZ Department of Revenue/Property Tax Division, Abstract of the Assessment Roll 2004

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.

City of Scottsdale
Property Tax Levies and Collections
Last Four Fiscal Years
(in thousands)

Table X

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	$ 36,166	$ 34,895	96.5%	$ 964	$ 35,859	99.2%
2003	39,159	37,583	96.0%	999	38,582	98.5%
2004	42,756	40,739	95.3%	1,638	42,377	99.1%
2005	44,731	44,160	98.7%	304	44,464	99.4%

Source: Maricopa County Treasurer's Office 2005 Secured Tax Levy Report and the City of Scottsdale Financial Services Department. Amounts represent property taxes recorded in the General, Debt Service and the Self-Insurance Fund.

City of Scottsdale
Ratios of Outstanding Debt by Type
Last Four Fiscal Years
(in thousands)

Table XI

	Governmental Activities								Business-Type Activities					
Fiscal Year Ended June 30	General Obligation Bonds	Revenue Bonds	Municipal Property Corporation Bonds	Scottsdale Preserve Authority Bonds	Special Assessment Bonds	Certificates of Participation	Community Facilities District Bonds	Contracts Payable	General Obligation Bonds	Revenue Bonds	Municipal Property Corporation Bonds	Total Primary Government	Percentage of Personal Income	Per Capita
2002	$ 319,657	$ 13,385	$ 49,870	$ 90,585	$ 13,061	$ -	$ 34,935	$ 21,416	$ 18,315	$ 73,945	$ 11,555	$ 646,724	7.70%	$ 3,080
2003	305,003	10,990	41,955	88,270	11,140	-	46,355	19,627	14,323	71,230	10,010	618,903	7.04%	2,891
2004	389,598	8,475	4,850	85,980	8,755	-	44,950	13,702	10,651	68,365	83,365	718,691	7.85%	3,303
2005	372,070	5,815	61,253	83,385	6,340	7,650	43,480	14,324	6,515	65,735	79,430	745,997	7.84%	3,374

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

See Table XVI - Schedule of Demographic and Economic Statistics for personal income and population data.

City of Scottsdale
Ratios of General Bonded Debt Outstanding
Last Four Fiscal Years

Table XII

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2002	$ 319,657,000	$ 8,448,962	$ 311,208,038	9.5%	$ 1,445.33
2003	305,003,000	9,006,329	295,996,671	8.4%	1,351.95
2004	389,598,000	3,468,780	386,129,220	9.7%	1,774.86
2005	372,070,000	5,601,739	366,468,261	8.4%	1,657.25

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Table IX for property value data.
Population data can be found in the Schedule of Demographic and Economic Statistics on table XVI.

City of Scottsdale
Direct and Overlapping Governmental Activities Debt
As of June 30, 2005
(in thousands)

Table XIII

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Maricopa County	$ -	14.4460%	$ -
Maricopa County Community College District	424,710	14.4459%	61,353
Tempe Elementary School District No. 3	63,350	0.0002%	-
Balsz Elementary School District No. 31	17,215	4.7315%	815
Scottsdale Unified School District No. 48	343,605	69.0582%	237,287
Paradise Valley Unified School District No. 69	328,290	31.2815%	102,694
Cave Creek Unified School District No. 93	54,570	62.1738%	33,928
Fountain Hills Unified School District No. 98	27,990	2.3213%	650
Phoenix Union High School District No. 210	201,860	0.3097%	625
Tempe Union High School District No 213	171,130	0.0001%	-
East Valley Institute of Technology District No. 401	6,235	19.4579%	1,213
Scottsdale Mountain Community Facilities District	4,600	100.0000%	4,600
McDowell Mountain Community Facilities District	16,805	100.0000%	16,805
DC Ranch Community Facilities District	19,045	100.0000%	19,045
Via Linda Road Community Facilities District	3,030	100.0000%	3,030
Subtotal, overlapping debt			482,045
City direct debt	372,070	100.0000%	372,070
Total direct and overlapping debt			$ 854,115

Source: Maricopa County Assessor's Office

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Scottsdale. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

City of Scottsdale
Legal Debt Margin Information
Last Four Fiscal Years
(in thousands)

Table XIVa

	Fiscal Year			
	2002	2003	2004	2005
20% Limitation				
Debt Limit Equal to 20% of Assessed Valuation	$ 655,590	$ 705,321	$ 795,104	$ 868,691
Total Net Debt Applicable to 20% Limit	245,209	237,400	319,765	313,786
Legal 20% Debt Margin (Available Borrowing Capacity)	$ 410,381	$ 467,921	$ 475,339	$ 554,905
Total Net Debt Applicable to the 20% Limit as a Percentage of 20% Debt Limit	37.40%	33.66%	40.22%	36.12%
6% Limitation				
Debt Limit Equal to 6% of Assessed Valuation	$ 196,677	$ 211,596	$ 238,531	$ 260,607
Total Net Debt Applicable to 6% Limit	81,757	71,695	74,984	64,799
Legal 6% Debt Margin (Available Borrowing Capacity)	$ 114,920	$ 139,901	$ 163,547	$ 195,808
Total Net Debt Applicable to the 6% Limit as a Percentage of 6% Debt Limit	41.57%	33.88%	31.44%	24.86%

City of Scottsdale
Legal Debt Margin Information
Last Four Fiscal Years
(in thousands)

Table XIVb

Legal Debt Margin Calculation for Fiscal Year 2005	
Net Secondary Assessed Valuation as of June 30, 2005	$ 4,343,454
20% Limitation	
Debt Limit Equal to 20% of Assessed Valuation	868,691
Debt applicable to limit:	
General Obligation Bonds	313,786
Legal 20% Debt Margin (Available Borrowing Capacity)	$ 554,905
6% Limitation	
Debt Limit Equal to 6% of Assessed Valuation	$ 260,607
Debt applicable to limit:	
General Obligation Bonds	64,799
Legal 6% Debt Margin (Available Borrowing Capacity)	$ 195,808

Source: City of Scottsdale Financial Services

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.

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, Arizona.

City of Scottsdale
Pledged-Revenue Coverage
Last Four Fiscal Years
(in thousands)

Table XV

Fiscal Year Ended June 30	Water and Sewer Revenue Bonds								Highway User Revenue Bonds			
	Operating Revenue(1)	Less: Operating Expenses	Net Operating Revenue	Development Fee Revenue	Net Revenue	Debt Service Principal	Debt Service Interest	Coverage	Highway User Tax Revenue	Debt Service Principal	Debt Service Interest	Coverage
2002	$ 97,802	$ 49,840	$ 47,962	$ 15,087	$ 63,049	$ 2,595	$ 3,937	9.65	$ 12,574	$ 2,275	$ 828	4.05
2003	95,064	46,991	48,073	17,648	65,721	2,715	3,792	10.10	13,137	2,395	715	4.22
2004	97,813	49,662	48,151	21,574	69,725	2,860	3,159	11.58	14,034	2,515	592	4.52
2005	105,078	56,413	48,665	20,155	68,820	2,630	3,570	11.10	14,738	2,660	460	4.72

Fiscal Year Ended June 30	Special Assessment Bonds				Scottsdale Preserve Authority Bonds				Municipal Property Corporation Bonds			
	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage	0.2% Sales Tax	Debt Service Principal	Debt Service Interest	Coverage	Excise Tax	Debt Service (2) Principal	Debt Service (2) Interest	Coverage
2002	$ 2,339	$ 2,208	$ 393	0.90	$ 6,839	$ 2,185	$ 4,704	0.99	$ 188,548	$ 8,325	$ 3,775	15.58
2003	1,970	1,990	279	0.87	6,881	2,315	4,566	1.00	189,516	9,145	3,045	15.55
2004	2,558	2,425	492	0.88	6,267	2,445	3,825	1.00	199,889	7,170	1,108	24.15
2005	2,016	2,448	360	0.72	7,014	2,595	4,437	1.00	239,284	8,265	6,413	16.30

(1) Includes investment income.

(2) Includes debt service payments paid out of revenue from the Water and Sewer Fund.

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

City of Scottsdale
Demographic and Economic Statistics
Last Four Fiscal Years

Table XVI

Fiscal Year	Population (1)	Personal Income (2) (in thousands)	Per Capita Personal Income (3)	Median Age (4)	Education Level in Years of Schooling (5)	School Enrollment (6)	Unemployment Rate (7)
2002	209,960	$ 8,396,720	$ 39,992	41.1	13 to 16	27,436	4.1%
2003	214,090	8,787,110	41,044	40.5	13 to 16	27,479	3.6%
2004	217,555	9,158,195	42,096	40.2	13 to 16	27,328	3.9%
2005	221,130	9,515,538	43,148	39.9	13 to 16	26,559	2.9%

Data Sources:

1 Arizona Department of Economic Security
2 Sites USA (estimate)
3 Sites USA
4 US Census Bureau (estimate)
5 Sites USA
6 Arizona Department of Education
7 Arizona Department of Economic Security; Arizona Workforce

City of Scottsdale
Principal Employers
Current Year and Nine Years Ago

Table XVII

	2005			1996		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment***	**Employees**	**Rank**	**Percentage of Total City Employment***
Scottsdale Healthcare	4,400	1	3.58%	4,000	2	4.38%
General Dynamics	4,000	2	3.26%	-	-	-
Mayo Clinic - Scottsdale	3,995	3	3.25%	1,400	6	1.53%
Scottsdale Unified S.D.	3,500	4	2.85%	2,480	3	2.71%
City of Scottsdale	2,191	5	1.78%	1,544	5	1.69%
CareMark	1,636	6	1.33%	-	-	-
DMS Direct Marketing	1,500	7	1.22%	-	-	-
Scottsdale Insurance Co	1,300	8	1.06%	1,050	8	1.15%
Fairmont Princess Resort	1,200	9	0.98%	1,200	7	1.31%
The Vanguard Group	1,120	10	0.91%	-	-	-
Motorola	-	-	-	4,100	1	4.48%
PCS Health Systems	-	-	-	1,600	4	1.75%
Hyatt Regency Resort	-	-	-	771	9	0.84%
Dial Corporation	-	-	-	600	10	0.66%
Total	24,842		20.22%	18,745		20.50%

Source: City of Scottsdale, Economic Vitality Department
* 2005 labor force = 122,749; 1996 labor force = 91,420

City of Scottsdale
Full-time Equivalent City Government Employees by Function
Last Four Fiscal Years

Table XVIII

Function	Full-time Equivalent Employees as of June 30			
	2002	2003	2004	2005
General Government	196.5	195.5	196.5	202.0
Police	574.1	591.1	590.1	631.1
Financial Services	144.5	144.5	139.5	143.0
Transportation	35.0	34.0	24.0	25.0
Community Services	516.1	516.1	506.1	513.6
Information Systems	73.8	73.8	74.8	78.8
Fire	2.7	2.7	3.7	3.7
Municipal Services	132.8	132.8	135.8	139.8
Citizen and Neighborhood Resources	35.0	35.0	32.0	37.0
Human Resources	36.5	35.5	34.5	36.5
Economic Vitality	10.0	10.0	8.0	10.0
Planning and Development	157.0	151.0	140.0	140.0
Water Resources	139.0	136.0	136.0	139.0
Aviation	11.9	12.4	12.4	12.4
Solid Waste	77.3	80.3	79.3	79.3

Source: The City of Scottsdale's Budget Department.

City of Scottsdale
Operating Indicators by Function
Last Four Fiscal Years

Table XIX

Function	Fiscal Year 2002	2003	2004	2005
General Government				
Legislative and Constituent/Gov. Relations				
% of survey respondents rating the "Overall Quality of Life in Scottsdale" as good to excellent	No Survey	No Survey	90%	93%
City Clerk's Office				
# of legal postings	518	466	456	560
City Attorney's Office				
% of cases resolved at first court appearance (arraignment)	20%	26%	30%	30%
City Auditor's Office				
# of recommendations	60	162	85	132
City Court				
Charges filed / charges adjudicated (resolved)	114,514	96,995 / 94,045	129,888	134,793
City Manager's Office				
% of survey respondents rating "Your Neighborhood as a Place to Live" as good to excellent	No Survey	No Survey	86%	89%
Communications & Public Affairs				
News releases, media updates, traffic alerts, construction updates released to news media	277	215	247	200
WestWorld				
# of special events	49	55	55	53
Preservation				
Acres of land acquired for inclusion in the McDowell Sonoran Preserve	514	660	450	2,600
Police				
Scottsdale Uniform Crime Report, Part 1 (crimes per thousand)				
Scottsdale	44.86	46.44	46.90	45.30
Valley Average	70.49	71.44	68.60	62.30
Achieve the standard of six minutes or less for response to emergency calls for service (includes medical and accident related calls)	6:00	6:29	5:87	7:00
Provide initial contact to 100% of citizen traffic concerns within seven days	50%	60%	96%	100%
Financial Services				
# of Accounts Payable checks issued	35,636	35,344	34,547	35,500
# of purchase orders	8,531	10,212	12,254	14,705
# of water meters read annually	943,212	971,508	986,080	1,000,870
# customer contacts (utilities, taxes & licensing)	212,787	218,185	221,900	229,500

(continued)

City of Scottsdale
Operating Indicators by Function
Last Four Fiscal Years

Table XIX

Function	Fiscal Year 2002	2003	2004	2005
Transportation				
Total citywide transit ridership	1,780,578	1,917,011	1,917,000	1,955,351
Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies)	76	124	150	170
Scottsdale Airport - Takeoffs and Landings	181,657	197,483	195,276	208,106
Community Services				
# attending Parks & Recreation facilities, Human Services facilities and Libraries annually	6,817,413	7,485,295	7,565,511	7,640,000
# of square feet of medians and rights of way maintained	13,168,516	13,253,516	13,949,440	14,563,062
Facility inventory maintained (square feet)	1,551,620	1,755,162	1,807,298	1,825,564
Information Systems				
# of SPAM emails blocked (monthly) from being delivered to the City (An average of 30 seconds per email is expended by staff)	n/a	32,244	129,000	375,000
Annual Disk Storage size (DAS, NAS, and SAN) (Terabytes)	2.5	4.0	5.0	7.0
Fire				
# of responses to calls for emergency services	21,877	21,162	21,756	22,450
Responses per capita	0.10	0.09	0.09	0.10
Average response time to urban calls for service (minutes)	4:02	4:01	4:20	4:00
Water Service				
Water Service Connections	79,052	80,454	81,947	83,511
Drinking Water Supplied (million gallons per day)	70.4	67.6	70.0	67.7
Reclaimed Water Supplied (million gallons per day)	11.8	14.2	11.8	11.6
Sewer Service				
Sewer Service Connections	69,121	70,732	72,034	73,232
Sewage Treated (million gallons per day)	24.0	24.5	24.2	25.5
Municipal Services				
# of active Capital Projects	101	118	116	183
# of homes serviced by Residential Refuse Collection	70,546	72,166	73,602	75,102
# of citizens serviced annually by Household Hazardous Waste collection program	1,708	1,900	2,201	2,200

(continued)

City of Scottsdale
Operating Indicators by Function
Last Four Fiscal Years

Table XIX

Function	Fiscal Year 2002	2003	2004	2005
Citizen & Neighborhood Resources				
% increase of Neighborhood Watch groups annually	n/a	15%	37%	40%
# of new Code Enforcement cases processed per year	7,357	10,000	12,000	14,000
Human Resources				
# of new hires (FT & PT)	263	161	177	485
HR operating cost as a % of City payroll	3.1%	2.6%	2.4%	2.3%
Economic Vitality				
Targeted job creation - number of companies / number of jobs	10 / 1,305	17 / 1,716	23 / 2,032	14 / 1,600
Sales Tax growth (% annual change)	- 2%	0%	+ 9%	+ 10%
Bed Tax growth (% annual change)	- 13%	0%	+ 8%	+ 10%
Planning & Development Services				
Customer wait-time (in minutes) at One Stop Shop	n/a	n/a	45	25
Provide applicant with pre-application meeting within 30 days of submitting request.	n/a	n/a	90%	100%
% of inspections performed within 24 hours of the request	99%	99%	99%	100%

Source: The City of Scottsdale's Budget Department and applicable City departments.

City of Scottsdale
Capital Asset Statistics by Function
Last Four Fiscal Years

Table XX

Function	Fiscal Year 2002	2003	2004	2005
Public Safety				
Police:				
Stations	3	3	3	3
Police Vehicles	261	295	286	290
Fire Stations	10	12	12	13
Highways and Streets				
Streets (miles)	955	965	969	971
Streetlights	9,510	10,300	10,500	10,650
Traffic Signals	250	253	258	262
Culture and Recreation				
Parks	40	40	40	40
Parks Acreage	869	869	849	849
Swimming Pools	3	3	3	3
Tennis Courts	49	49	49	49
Community Centers	6	6	6	6
Water				
Water Mains (miles)	1,738	1,815	1,854	1,897
Fire Hydrants	8,659	8,928	9,193	9,541
Sewer				
Sanitary Sewers (miles)	1,155.0	1,262.0	1,280.0	1,287.4
Storm Sewers (miles)	68.7	68.7	137.7	142.8

Source: City of Scottsdale departments.