

City of Scottsdale, Arizona



**Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2006**

Prepared by:

Financial Services Department

Craig Clifford, CPA
Chief Financial Officer

Lisa Murphy, CPA
Accounting Director

City of Scottsdale, Arizona

Comprehensive Annual Financial Report For the Fiscal Year ended June 30, 2006

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Transmittal Letter

For the Fiscal Year
Ended June 30, 2006

City of Scottsdale
Scottsdale, Arizona

September 15, 2006

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, 2006, 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, Osuch & Company, PC, have issued an unqualified ("clean") opinion on the City of Scottsdale, Arizona's financial statements for the year ended June 30, 2006. 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 184.2 square miles, stretching 31 miles from north to south. Lying at an elevation of 1,260 feet above sea level, the City averages 314 days of sunshine and 7.74 inches of rainfall per year, with the average minimum and maximum temperatures ranging from 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 for 2006 was estimated at 226,390.

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 fiscal year (FY) 2005/06, 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's tax revenue base consists of a variety of tax categories, the most significant being revenue collections from retail sales, tourism, and construction activities. The City also benefits 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 and the attractive developments within Scottsdale continue to bring high-end residential growth and commercial development. Revitalization efforts have resulted in a rebirth of the City's downtown area, as well as renewed interest in redevelopment of the more mature, southern parts of the City. Scottsdale is past its historic period of peak expansion and the long-term economic outlook for the City must recognize this fact. Commercial successes are due, in part, to Scottsdale'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 a second consecutive year of double-digit growth in sales tax revenues in FY 2005/06 with an 11.1 percent increase over the prior year's 10.5 percent gain – both positive indicators that the local economy is expanding.

Employment and Job Growth

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 as of June 2006. Scottsdale recruited nine new, targeted firms and secured one expansion resulting in over 1,275 new jobs in FY 2005/06 with an average annual salary of \$56,000. 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 2005/06 included InNexus, Sankyo Pharmaceutical, Efunds, and Sanofi/Aventis. The City also benefited from the expansions of DHL.

Vacancy Rates

Scottsdale's citywide office vacancy rate was 13.5 percent at the end of FY 2005/06, well below the Valley-wide average. Scottsdale's weighted average rent was 10.1 percent higher than the Valley-wide average, evidence that Scottsdale remains an attractive city to conduct business.

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, with additional rooms coming into the market in 2007 and 2008. 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 12.6 percent in FY 2005/06 over the previous year – the third straight year of revenue growth after post 9/11 levels. Room rates and room occupancy are nearing the levels experienced by the industry in the late 1990s and the early 2000s. The current assessment for tourism in FY 2006/07 is that these positive trends will continue, although factors such as high energy costs, inflationary pressures, a slowing housing market, and geopolitical instability in the Middle East could all impact future industry performance.

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 2005/06. The Mayor and City Council 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 2005/06 budget and five-year 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. Scottsdale's financial forecast includes conservative revenue projections, 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 has and will continue to 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 five-year financial plan 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 4.75 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 2006/07 budget reflects an expanding economy at the local level, reinforced by positive overall indicators at the state and national levels. Current economic conditions allow the City to maintain its core services and to provide some enhancements to existing service levels. However, prudent long-term fiscal planning dictates a conservative approach to budgeting by funding only those enhancements that are financially sustainable. The FY 2006/07 budget funds City Council and citizen priorities, including additional police officers, operations for new community facilities, park expansions, and service level demands pertaining to social services, youth programs, revitalization efforts, and environmental preservation.

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, 2005. This was the 33rd 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, 2005 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning July 1, 2006. 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 in Fall 2005 on the City's outstanding general obligation bonds. These are the highest ratings possible and this distinction, originally earned by the City in 2001, is held by only a handful of local governments across the nation.

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, 2005

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.

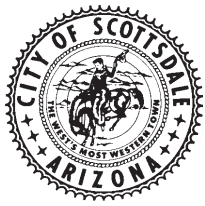


Carla E. Perry

President

Jeffrey R. Emer

Executive Director



**Comprehensive
Annual
Financial
Report**

For the Fiscal Year
Ended June 30, 2006

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
Tony Nelssen

Charter Offices

Deborah Robberson, City Attorney
Cheryl Dreska, 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
480-312-2800

Charter Offices

City Attorney - Deborah Robberson 480-312-7994
City Auditor - Cheryl Dreska 480-312-7867
City Clerk - Carolyn Jagger 480-312-2411
City Judge - B. Monte Morgan 480-312-2442
City Treasurer - Janet M. Dolan 480-312-2800

Administrative Support

Assistant
City Manager

Ed Gawf
480-312-4510

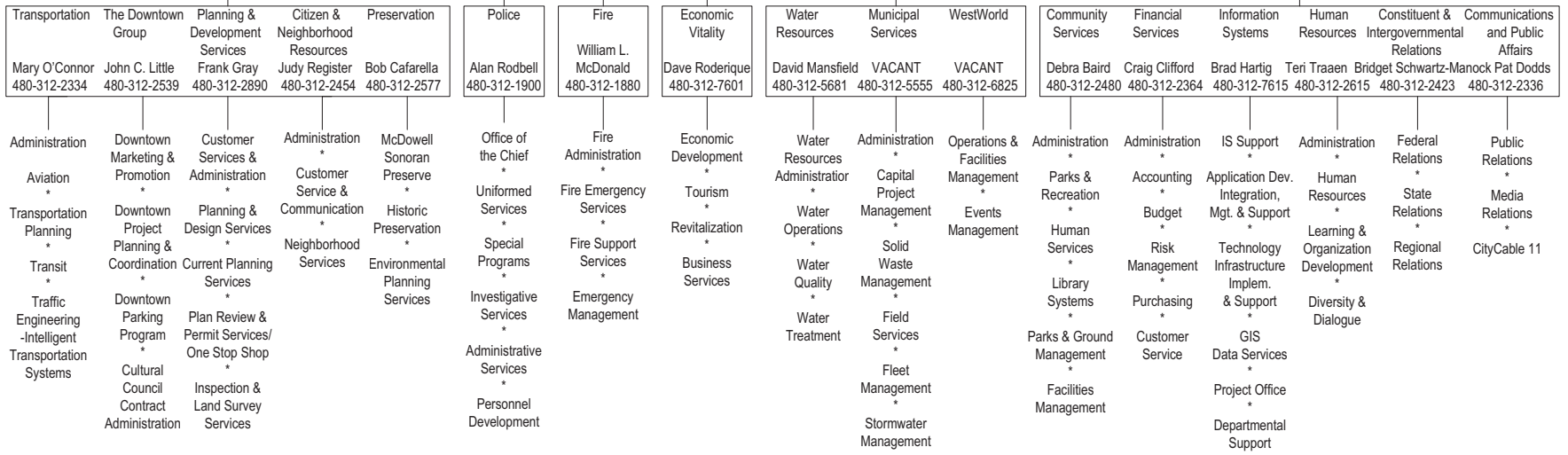
Executive Assistant
Kroy Ekblaw
480-312-7064

Assistant
City Manager

Roger Klingler
480-312-5830

Assistant
City Manager

Neal Shearer
480-312-2604



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, 2006, 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, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 the 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, 2006, 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, 2006, 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.

As discussed in note IV.A. to the financial statements, an adjustment was made by the City to correct an error in the previously issued financial statements.

The management's discussion and analysis on pages 11 through 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 89 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 financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical tables have 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 our report dated September 15, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 15, 2006

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, 2006 and 2005. 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 2006 are as follows:

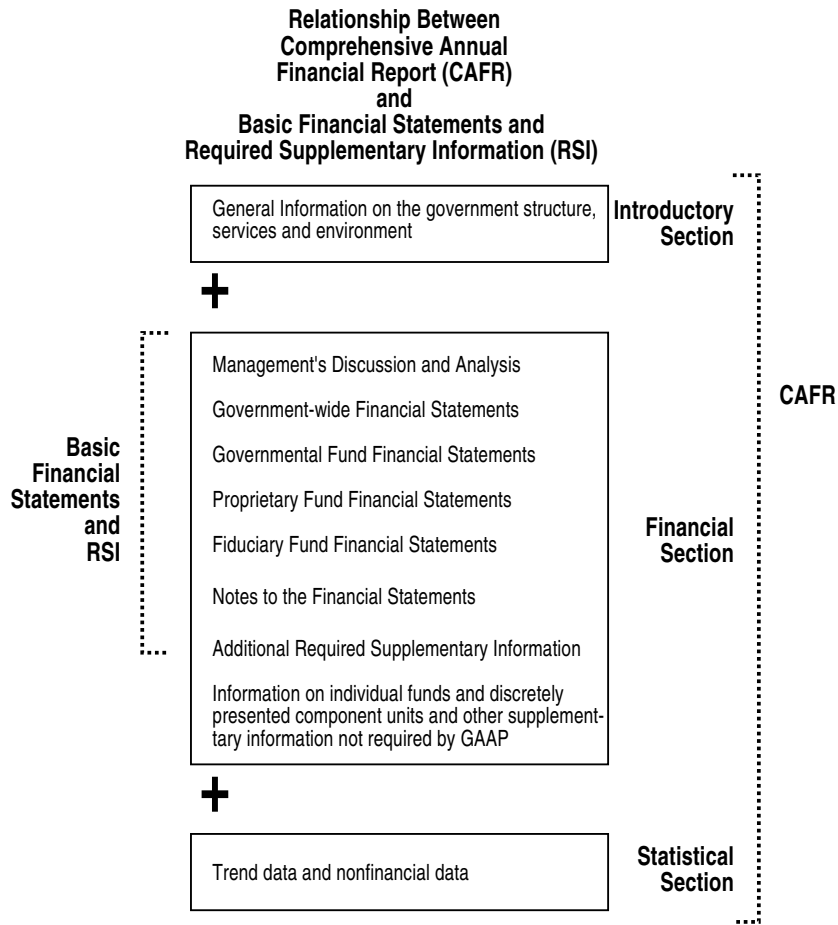
- The assets of the City exceeded its liabilities at the close of the fiscal years 2006 and 2005 by \$3.4 billion and \$3.1 billion (net assets), respectively. Of these amounts, \$316.7 million and \$430.8 million (unrestricted net assets), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$232.0 million and \$119.3 million during fiscal years 2006 and 2005, respectively.
- As of June 30, 2006 and 2005, the City's governmental funds reported combined ending fund balances of \$348.0 million and \$264.8 million, respectively. The increase is primarily due to bond issuances during fiscal year 2006. Approximately 93.1 percent of the fund balance at June 30, 2006, \$324.1 million, is unreserved fund balance available for spending at the government's discretion, compared to \$253.3 million at June 30, 2005.
- At the close of the current fiscal year, unreserved fund balance for the General Fund was \$93.2 million or 45.3 percent of total General Fund expenditures of \$205.7 million. At the close of fiscal year 2005, unreserved fund balance for the General Fund was \$72.8 million or 38.6 percent of total General Fund expenditures of \$188.4 million.
- During fiscal years 2006 and 2005, the City's total bonded debt increased by approximately \$247.2 million and \$27.0 million, respectively. Although the City reduced several bond payable balances, the key contributors to the increase were the issuance of new General Obligation bonds in the amount of \$145.0 million, Municipal Property Corporation bonds in the amount of \$134.8 (\$46.5 in Governmental activities and \$88.3 in Business-type activities) during fiscal year 2006.

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, Via Linda Road, and Waterfront Commercial 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, Via Linda Road and Waterfront Commercial 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 28 and 29 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) Capital Projects Fund, and General Obligation Bond Capital Projects Fund which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements in a separate section of this report.

The basic governmental fund financial statements begin on page 30 of this report.

Proprietary Funds

Proprietary Funds are generally used to account for services for which the City charges customers—either outside customers, 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 Proprietary 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 38 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 43 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 45 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 89 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 \$3.4 billion and \$3.1 billion at the close of the fiscal years 2006 and 2005, respectively.

Net Assets

For the Years Ended June 30, 2006 and 2005 (in thousands of dollars)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$ 497,118	\$ 415,801	\$ 307,886	\$ 282,528	\$ 805,004	\$ 698,329
Capital Assets*	2,685,292	2,442,117	1,039,230	912,642	3,724,522	3,354,759
Total Assets	3,182,410	2,857,918	1,347,116	1,195,170	4,529,526	4,053,088
Liabilities						
Long-term Liabilities Outstanding	740,077	608,392	231,584	163,570	971,661	771,962
Other Liabilities	138,135	96,890	42,248	38,738	180,383	135,628
Total Liabilities	878,212	705,282	273,832	202,308	1,152,044	907,590
Net Assets						
Invested in Capital Assets, Net of Related Debt*	2,029,375	1,877,955	806,749	756,433	2,836,124	2,634,388
Restricted*	197,691	78,794	27,000	23,472	224,691	102,266
Unrestricted	77,132	195,887	239,535	212,957	316,667	408,844
Total Net Assets	\$ 2,304,198	\$ 2,152,636	\$ 1,073,284	\$ 992,862	\$ 3,377,482	\$ 3,145,498

* The 2005 capital asset balance and restricted fund balance amounts were adjusted, see Prior Period Adjustment note page 60.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, and equipment) of \$2.8 billion (84.0 percent) and \$2.6 billion (83.8 percent), less any related outstanding debt used to acquire those assets, for the fiscal years 2006 and 2005, 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, \$224.7 million (6.7 percent) for fiscal year 2006 and \$102.3 million (3.3 percent) for fiscal year 2005 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2006 and 2005, \$316.7 million (9.4 percent) and \$408.8 million (13.0 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 \$232.0 million and \$119.3 million during the fiscal years 2006 and 2005, 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, 2006 and 2005 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	\$ 50,225	\$ 46,720	\$ 129,141	\$ 120,261	\$ 179,366	\$ 166,981
Operating Grants and Contributions	26,355	26,865	-	-	26,355	26,865
Capital Grants and Contributions	136,745	73,092	55,580	38,313	192,325	111,405
General Revenues						
Property Taxes	50,610	48,416	-	-	50,610	48,416
Business Taxes	190,121	168,909	119	-	190,240	168,909
Intergovernmental Taxes	54,481	48,346	-	-	54,481	48,346
Interest and Investment Income	13,714	6,765	6,581	4,288	20,295	11,053
Other	5,786	4,941	686	821	6,472	5,762
Total Revenues	528,037	424,054	192,107	163,683	720,144	587,737
Expenses						
General Government	42,729	30,943	-	-	42,729	30,943
Police	74,408	63,076	-	-	74,408	63,076
Financial Services	8,343	8,315	-	-	8,343	8,315
Transportation	82,047	85,835	-	-	82,047	85,835
Community Services	57,931	57,519	-	-	57,931	57,519
Information Systems	14,589	7,941	-	-	14,589	7,941
Fire	26,943	28,620	-	-	26,943	28,620
Municipal Services	14,746	16,520	-	-	14,746	16,520
Citizen and Neighborhood Resources	3,419	3,496	-	-	3,419	3,496
Human Resources	3,615	3,333	-	-	3,615	3,333
Economic Vitality	7,549	8,026	-	-	7,549	8,026
Planning and Development	12,883	12,522	-	-	12,883	12,522
Streetlight and Services Districts	617	1,094	-	-	617	1,094
Interest on Long-term Debt	37,192	32,466	-	-	37,192	32,466
Water Utility	-	-	53,961	59,723	53,961	59,723
Sewer Utility	-	-	27,854	28,324	27,854	28,324
Airport	-	-	2,922	3,346	2,922	3,346
Solid Waste	-	-	16,412	15,508	16,412	15,508
Total Expenses	387,011	359,706	101,149	106,901	488,160	466,607
Increase in Net Assets Before Special Items and Transfers	141,026	64,348	90,958	56,782	231,984	121,130
Gain/(Loss) on Sale of Capital Asset Transfers	-	(841)	-	(977)	-	(1,818)
	10,536	9,567	(10,536)	(9,567)	-	-
Increase in Net Assets	151,562	73,074	80,422	46,238	231,984	119,312
Net Assets at Beginning of Year *	2,152,636	2,079,562	992,862	946,624	3,145,498	3,026,186
Net Assets at End of Year	\$ 2,304,198	\$ 2,152,636	\$ 1,073,284	\$ 992,862	\$ 3,377,482	\$ 3,145,498

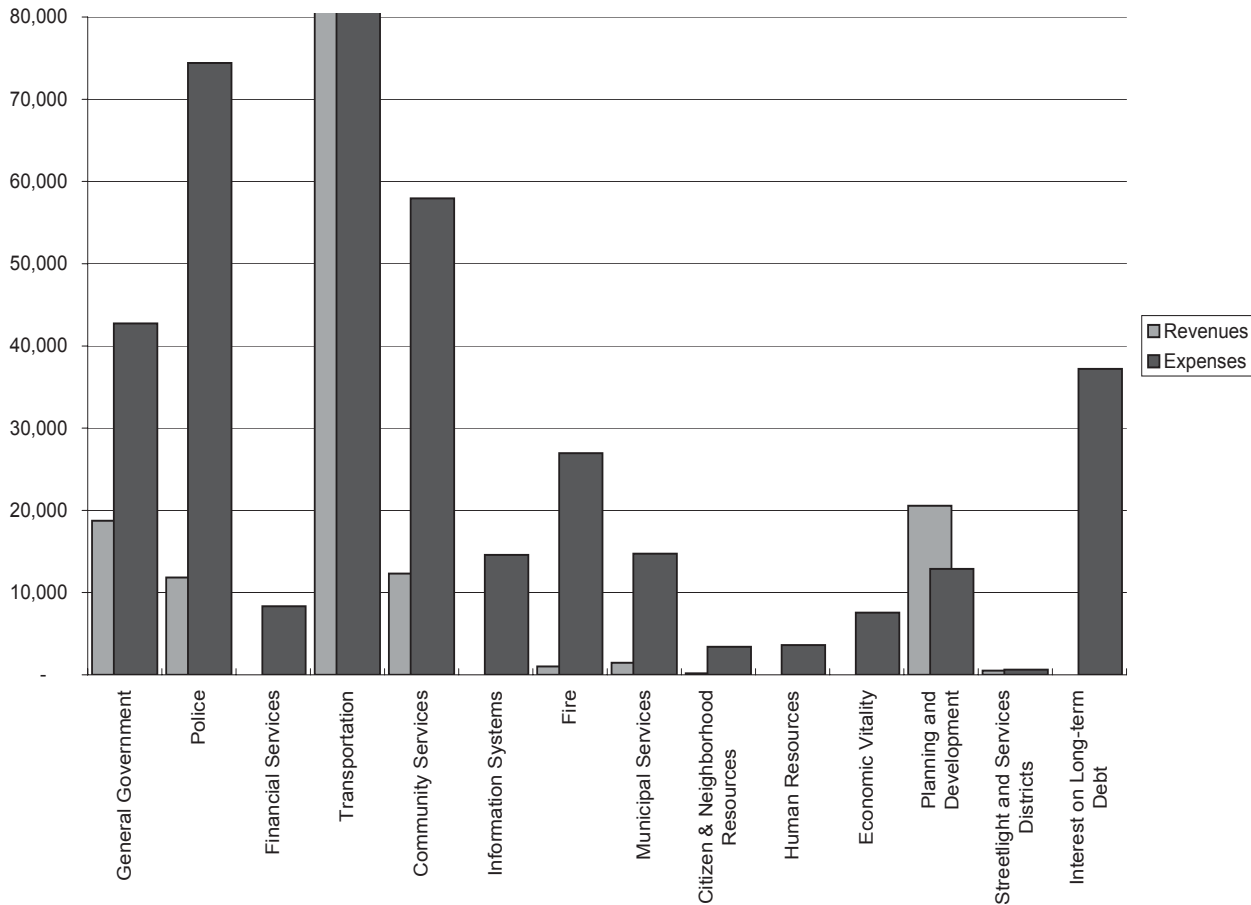
* The beginning net asset balance was adjusted, see Prior Period Adjustment note page 60.

Governmental activities

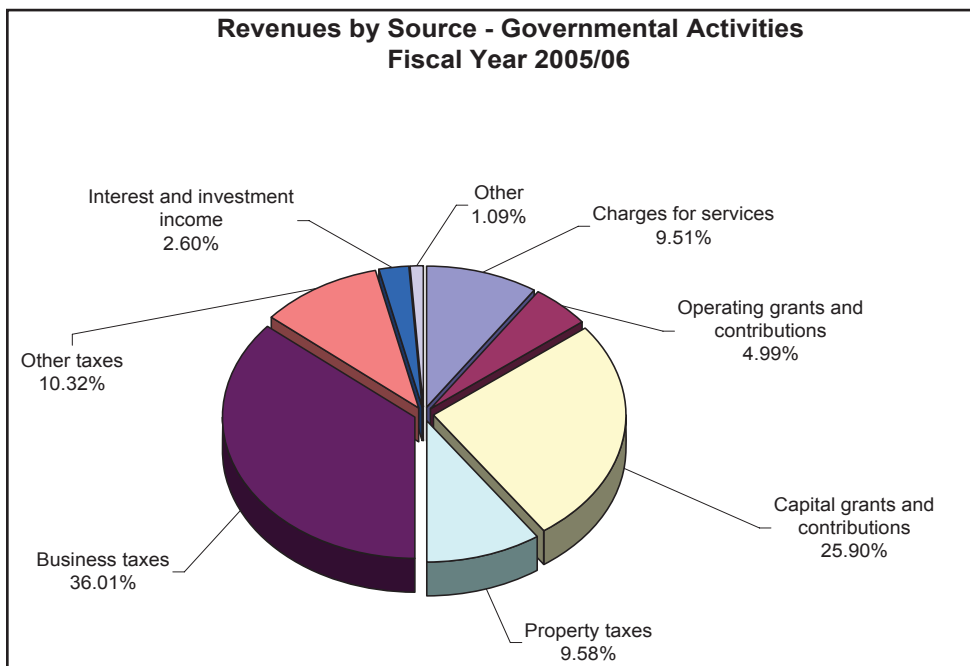
Governmental activities increased the City's net assets by \$151.6 million in fiscal year 2006 and \$73.1 million in fiscal year 2005, thereby accounting for 65.3 percent and 61.3 percent, respectively, of the total growth in the net assets of the City. The key factor of this increase is as follows:

City sales tax posted a year-over-year growth in the 2006 fiscal year resulting in an increase of 12.6 percent. Although the property tax rates decreased in both fiscal years 2006 and 2005 property tax revenues rose 4.5 percent and 4.4 percent, respectively, over the previous years due to increases in assessed valuation.

**Program Revenues and Expenses for Governmental Activities
Fiscal Year 2005-06
(in thousands)**



**Revenues by Source - Governmental Activities
Fiscal Year 2005/06**



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 (21.2 percent), followed by police (19.2 percent), and community services (15.0 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 (36.0 percent), followed by capital grants and contributions (25.9 percent), Intergovernmental taxes (10.3 percent) and property taxes (9.6 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.

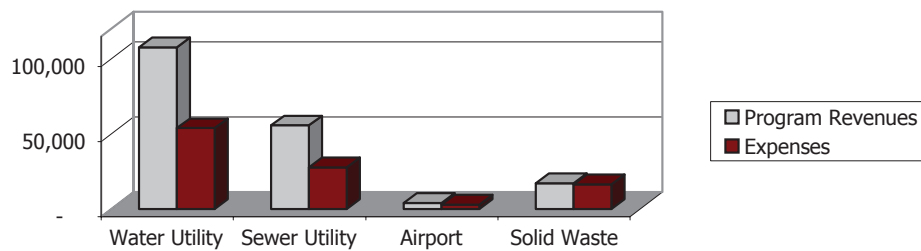
The City’s Community Services Department improves and preserves Scottsdale’s quality of life through development of safe and highly maintained facilities and imaginative services that provide opportunities for family interaction, cultural enrichment, and development of lifetime skills which build self-esteem, 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.

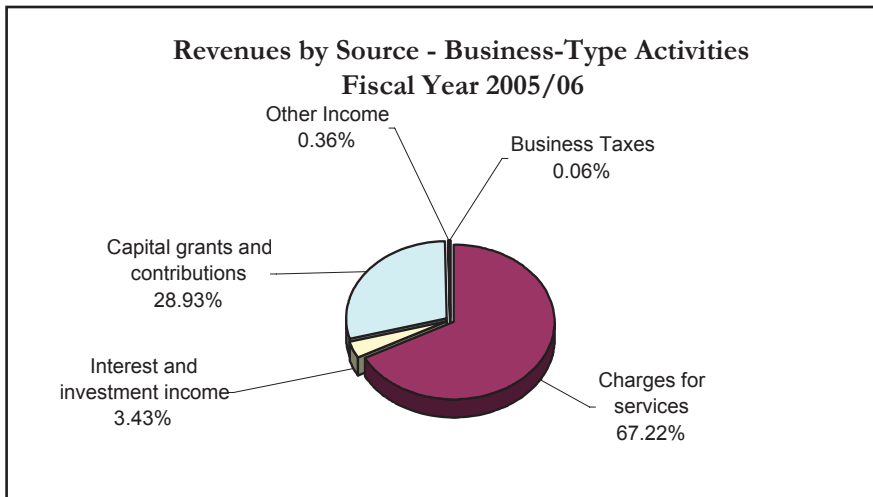
Business-Type activities

Business-type activities increased the City’s net assets in fiscal years 2006 and 2005 by \$80.4 million and \$46.2 million, respectively, accounting for 34.7 percent and 38.7 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 \$54.9 million and \$35.9 million in revenue for fiscal years 2006 and 2005, respectively. The majority of this amount is from infrastructure donated from developers and development fees received as development continues throughout the City.

Program Revenues and Expenses - Business-Type Activities
Fiscal Year 2005/06
(In Millions)





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 \$54.0 million and \$27.9 million, respectively, in fiscal year 2006, followed by Solid Waste with operating expenses of \$16.4 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 (67.3 percent) followed by capital grants and contributions (28.9 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 76,144 residential customers and 1,439 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 \$348.0 million, an increase of \$83.3 million in comparison to the combined ending fund balances for fiscal year 2005 of \$264.8 million. The increase in the current year's fund balance is primarily due to the sale of general obligation bonds during fiscal year 2006. Approximately \$324.1 million of the total for fiscal year 2006 and \$253.3 million of the total for fiscal year 2005 constitutes unreserved fund balance, which is available for spending at the City's discretion. Within the 324.1 million, \$189.9 million is reported in Capital Projects funds, \$91 million in Special Revenue funds and \$30 million is designated in the General Fund. 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 (\$23.1 million and \$10.6 million for fiscal years 2006 and 2005, respectively) or; (2) to pay for the ongoing cost of the streetlight and services districts (\$805,000 and \$872,000 for fiscal years 2006 and 2005, respectively).

Revenues for governmental functions overall totaled approximately \$392.2 million in fiscal year 2006, an increase of 8.0 percent (\$29.2 million) over the previous year total of \$363.0 million. In fiscal year 2006 expenditures for governmental functions, totaled \$513.0 million, an increase of 3.8 percent (\$18.8 million) over the fiscal year 2005 total of \$494.2 million. In the fiscal years ended June 30, 2006 and 2005 expenditures for governmental functions exceeded revenues by approximately \$120.8 million (30.8 percent) and \$131.2 million (31.1 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.

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 \$93.2 million, while total fund balance was \$94.0 million. The unreserved and total balances for the General Fund at the end of fiscal year 2005 were \$72.8 million and \$73.6 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 45.3 percent of the total General Fund expenditures of \$205.7 million in fiscal year 2005 and 38.6 percent of the total General Fund expenditures of \$188.4 million in fiscal year 2005. The total fund balance represents 45.7 percent and 39.1 percent of total fund expenditures for fiscal years 2006 and 2005, respectively. In fiscal year 2006 management has designated \$30.1 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.

The General Fund Balance increase in fiscal year 2006 by \$20.4 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, 2006, of \$56.6 million, an increase of 15.2 percent over the comparable figure from the prior year of \$49.1 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 \$12.4 million, an increase of \$6.8 million from the \$5.6 million at the end of fiscal year 2005.

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. At the end of the current fiscal year, the fund balance of the General CIP Construction Capital Project Fund was \$57.1 million, compared to a fund balance of \$113.6 million at the end of fiscal year 2005. The decrease in fund balance is primarily due increased capital expenditures as compared to prior years using carryover balances. Capital improvement expenditures in 2006 and 2005 were \$176.0 million and \$115.6 million, respectively, an increase of \$60.4 million, which is explained in greater detail in the Capital Assets section of this report.

The General Obligation Bond Capital Project Fund accounts for proceeds of the sale of 1989, 1992 and 2000 voter-approved general obligation bonds that are used for authorized capital improvements. At the end of the current fiscal year, the fund balance was \$95.0 million, an increase of \$79.6 million from the \$15.4 million at the end of fiscal year 2005, which is explained in detail in the Capital Assets section of this report.

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 2006 and 2005, the unrestricted net assets for the Water and Sewer Utility were \$230.5 million and \$204.3 million, respectively; Scottsdale Airport were \$3.5 million and \$2.1 million, respectively; and the Solid Waste Utility Fund were \$5.5 million and \$6.6 million, respectively. The Internal Service Funds, which are used to account for certain governmental activities, also had unrestricted net assets of \$15.8 million and \$16.6 million, respectively.

The total growth in net assets for the Enterprise Funds was \$80.4 million and \$46.2 million for fiscal years 2006 and 2005, 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 \$78.4 million due to capital contributions of \$54.9 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 2006, the net assets of the Handicap Scholarship Private Purpose Trust Fund totaled \$4,000. All other Fiduciary Funds have a zero balance due to completion of projects directly related to the redevelopment area.

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 2006, there was an 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 Photo Enforcement Loop 101 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 \$5.1 million and \$190,000 for fiscal years 2006 and 2005, respectively. The net increase/decrease is defined as follows:

\$ 904,000	General Government
4,767,000	Police
(17,000)	Financial Services
(595,000)	Community Services
(16,000)	Information Systems
109,000	Fire
(98,000)	Citizen & Neighborhood Resources

Actual revenues and other resources exceeded budgetary estimates by \$11.5 million in fiscal year 2006 and \$26.7 million in fiscal year 2005.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2006 and 2005, amount to \$3.7 billion and \$3.4 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 2006 and 2005 was 11.0 percent as shown in the table below.

Capital Assets, Net of Depreciation

June 30, 2006 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land*	\$ 898,941	\$ 718,880	\$ 24,822	\$ 24,065	\$ 923,763	\$ 742,945
Buildings and Land Improvements	150,789	136,185	11,778	10,146	162,567	146,331
Streets and Storm Drains	1,427,769	1,417,799	-	-	1,427,769	1,417,799
Machinery and Equipment	25,579	20,173	4,332	3,972	29,911	24,145
Water Rights	-	-	64,688	64,688	64,688	64,688
Water System	-	-	415,199	401,207	415,199	401,207
Sewer System	-	-	266,624	257,445	266,624	257,445
Motor Vehicles and Maintenance by Fleet	24,486	22,629	-	-	24,486	22,629
Furniture, Fixtures and Office Equipment	-	-	71	117	71	117
Construction in Progress	157,728	126,451	251,716	151,002	409,444	277,453
Total	\$ 2,685,292	\$ 2,442,117	\$ 1,039,230	\$ 912,642	\$ 3,724,522	\$ 3,354,759

*Adjustment made to 2005 ending balance related to capital asset additions, see Prior Period Adjustment note.

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

- Construction in progress on the Chaparral Water Treatment Plant – A multiple construction contract project accounting for total budgeted funds of approximately \$83.5 million with total expenditures for the current fiscal year of \$46.8 million. The project includes designing and constructing a 30.0 million gallon per day water treatment plant to treat the city's allocation of Salt River Project water. Currently the City of Phoenix provides treatment of this water.
- 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 (\$44.0 million), the 91st Avenue Wastewater Treatment Plant expansion and improvements (\$7.9 million), and the Water Reclamation Plant Phase 3 Expansion (\$5.6 million).
- Construction continued on Hayden Road, Cactus to Redfield totaling \$4.8 million in expenditures this year. The construction will add turn lanes at two major intersections, bike lanes, sidewalks, landscaping, convert a drainage channel to a culvert system and add intelligent transportation system improvements.
- The City purchased approximately 149 acres of West World property at a cost of \$80.3 million as part of a long-term strategy to meet parking and other needs at the Tournament Players Club and West World.
- Construction continued on the McDowell Mountain Ranch Park and Aquatic Center with expenditures totaling \$9.3 million this year.

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

Debt Administration

At the end of the fiscal years 2006 and 2005, the City had total long-term obligations outstanding of \$1,018.0 million and \$766.6 million, respectively. Of these amounts, \$499.4 million and \$378.6 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 \$518.6 million and \$388.0 million, respectively.

Outstanding Debt

For the Years Ended June 30, 2006 and 2005 (in thousands of dollars)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 499,365	\$ 372,070	\$ -	\$ 6,515	\$ 499,365	\$ 378,585
Revenue Bonds	2,990	5,815	62,405	65,735	65,395	71,550
Municipal Property Corporation Bonds	108,225	61,253	161,965	79,430	270,190	140,683
Scottsdale Preserve Authority Bonds	80,570	83,385	-	-	80,570	83,385
Special Assessments Bonds	5,505	6,340	-	-	5,505	6,340
Certificates of Participation	7,090	7,650	-	-	7,090	7,650
Community Facilities Districts General						
Obligation Bonds	41,945	43,480	-	-	41,945	43,480
Add Deferred Issuance Premiums	15,859	11,868	9,177	6,059	25,036	17,927
Less Deferred Amounts on Refunding	(10,234)	(11,693)	(1,245)	(1,530)	(11,479)	(13,223)
Total Bonds Payable	751,315	580,168	232,302	156,209	983,617	736,377
Contracts Payable	13,136	14,324	-	-	13,136	14,324
Capital Lease	-	-	179	-	179	-
Compensated Absences	18,889	13,900	2,181	1,971	21,070	15,871
Total Long-Term Liabilities	\$ 783,340	\$ 608,392	\$ 234,662	\$ 158,180	\$ 1,018,002	\$ 766,572

During fiscal years 2006 and 2005, the City's total bonded debt increased by approximately \$247.2 million and \$27.0 million, respectively. Although the City reduced several bond payable balances, the key contributors to the increase were the issuance of general obligation bonds, \$145 million, and Municipal Property Corporation bonds, \$135 million, during fiscal year 2006.

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, 2006 and 2005 is \$157.3 million and \$195.8 million, respectively, in the 6% capacity and \$574.6 million and \$554.9 million, respectively, in the 20% capacity. Additional information on the debt limitations and capacities may be found in Section IV of the Notes to the financial statements and also in Table XVIIa 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 December 2005 in conjunction with the issuance of General Obligation 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, 2006

	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 2007 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 2006, will allow Scottsdale to balance its budget and meet its most pressing needs. These needs include additional police officers, added operating costs related to the opening of new City facilities, continued emphasis on economic vitality and revitalization, and increased health care and retirement costs.

Current economic conditions allow the City to maintain core services and, in some cases, to provide enhancements to existing service levels. However, prudent long-term fiscal planning dictates that we remain conservative, focus on the highest Council and citizen priorities, and fund only those enhancements we can sustain financially.

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 2007:

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 \$256.5 million in fiscal year 2006 to \$291.9 million in fiscal year 2007. A major component of the increase is \$4.5 million in transfer out to the capital project fund for pay-as-you go capital projects.

All of the above factors were considered in preparing the City's budget for fiscal year 2007. The budget for fiscal year 2006/07 includes:

- **Community facilities** – staffing for the new McDowell Mountain Park and Aquatic Center, expansions at Chaparral park and Scottsdale Ranch park, and maintenance staff to handle the added facilities and the downtown Parking Program.
- **Public safety** – staff additions in this category are Police Department positions; they include a combination of patrol services, mounted patrol officers and other personnel to improve police services.
- **Citizen Services and Community Growth** – increased staff primarily to support planning and development workloads, the Victim's Advocate Program, youth activities and after school programs.
- **Internal service demands** – additional staffing to support the day-to-day needs of other operating departments such as Human Resources, Information Systems and Financial Services.
- **Health care costs** – the General Fund budget assumes increased health care costs of approximately \$2.5 million.

- **Retirement costs** – mandatory Arizona state retirement funding for civilian and public safety employees are expected to increase by \$1.9 million.

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 2007 is \$863.8 million, which includes \$498.6 million (or 57.7 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** – Acquire, preserve and restore desert lands along Scottsdale Road to promote its designation as a Scenic Corridor, infrastructure to support site development of the Sky Song facility, design and construction of the Arabian library (phase II).
- **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 North of the Loop 101, Granite Reef, Indian School Road, McDonald Drive corridor and North Scottsdale Road.
- **Public Safety** – Construction of the District 1 Police Facilities at the McKellips Service Center as well as construction of the Downtown Fire Station #602.
- **Service Facilities** – Major renovation of the existing TPC (Tournament Players Club) Desert Golf Course, access improvements of the common central pedestrian area of the TPC and maintenance to community service facilities.
- **Transportation** – Improvements to several main Scottsdale thorough ways including Bell Road, Frank Lloyd Wright Boulevard, McDonald Drive, Cactus and Hayden Road. Additionally, improvements will be made to various bus stops to construct shelters to provide weather protection, seating, bike racks and other amenities.
- **Water Services** – Expansion of the existing CAP Water Treatment Plant, modification and improvements to sewer lines to meet future demands.

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, 2006 (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 373,955	\$ 111,802	\$ 485,757
Cash with Fiscal Agent	53,322	47,430	100,752
Receivable (net of uncollectible amounts of \$13,828)			
Property Taxes and Penalties	8,135	-	8,135
Other Local Taxes	20,791	-	20,791
Intergovernmental	20,789	2	20,791
Charges for Services	-	12,973	12,973
Interest and Other	16,933	2,310	19,243
Supplies Inventory	746	-	746
Restricted Cash, Cash Equivalents, and Investments:			
Customer Advances and Deposits	-	1,408	1,408
Total Current Assets	494,671	175,925	670,596
Noncurrent Assets			
Equity in Joint Venture	-	98,044	98,044
Deferred Charges	2,447	945	3,392
Restricted Cash, Cash Equivalents, and Investments:			
Deferred Revenue	-	5,972	5,972
Water and Sewer System Replacement	-	18,562	18,562
Acquisition and Construction Reserve Development Fees	-	8,438	8,438
Capital Assets			
Land, Water Rights, and Construction in Progress	1,056,669	341,226	1,397,895
Facilities, Infrastructure, and Equipment (net of depreciation)	1,628,623	698,004	2,326,627
Total Capital Assets (net of accumulated depreciation)	2,685,292	1,039,230	3,724,522
Total Noncurrent Assets	2,687,739	1,171,191	3,858,930
Total Assets	3,182,410	1,347,116	4,529,526
LIABILITIES			
Current Liabilities			
Accounts Payable	22,244	10,944	33,188
Accrued Payroll and Benefits	4,982	377	5,359
Accrued Compensated Absences-Current	58	-	58
Accrued Compensated Absences-Due within One Year	9,416	1,000	10,416
Claims Payable	14,734	-	14,734
Due to Other Governments	110	-	110
Customer Advances and Deposits	5,031	1,408	6,439
Matured Bonds, Loans, Other Payables	25,386	14,185	39,571
Matured Bonds, Loans, Other Interest Payable	18,360	6,284	24,644
Bonds, Loans, and Other Payables-Due within One Year	33,847	8,050	41,897
Unearned Revenue	1,693	-	1,693
Other Liabilities	2,274	-	2,274
Total Current Liabilities	138,135	42,248	180,383
Noncurrent Liabilities			
Accrued Compensated Absences-Due in More Than One Year	9,473	1,181	10,654
Deferred Revenue	-	5,972	5,972
Bonds, Loans, and Other Payables-Due in More Than One Year	730,604	224,431	955,035
Total Noncurrent Liabilities	740,077	231,584	971,661
Total Liabilities	878,212	273,832	1,152,044
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,029,375	806,749	2,836,124
Restricted			
Debt Service	23,142	-	23,142
Transportation and Preserve Privilege Tax Activities	71,810	-	71,810
Capital Projects	95,398	-	95,398
Grants	100	-	100
Special Programs	6,436	-	6,436
Streetlight and Service District	805	-	805
Water and Sewer System Replacement	-	18,562	18,562
Acquisition and Construction	-	8,438	8,438
Unrestricted	77,132	239,535	316,667
Total Net Assets	\$ 2,304,198	\$ 1,073,284	\$ 3,377,482

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

Statement of Activities

For the Year Ended June 30, 2006 (in thousands of dollars)

Function/Programs	Expenses	Program Revenues		Governmental Activities	Business-type Activities	Total	
		Charges for Services	Operating Grants and Contributions				Capital Grants and Contributions
Governmental Activities							
General Government	\$ 42,729	\$ 13,783	\$ 859	\$ 4,086	\$ (24,001)	\$ -	\$ (24,001)
Police	74,408	9,938	1,823	73	(62,574)	-	(62,574)
Financial Services	8,343	-	-	-	(8,343)	-	(8,343)
Transportation	82,047	277	15,708	130,745	64,683	-	64,683
Community Services	57,931	4,028	7,893	388	(45,622)	-	(45,622)
Information Systems	14,589	-	-	-	(14,589)	-	(14,589)
Fire	26,943	1,010	3	-	(25,930)	-	(25,930)
Municipal Services	14,746	-	6	1,453	(13,287)	-	(13,287)
Citizen and Neighborhood Resources	3,419	163	10	-	(3,246)	-	(3,246)
Human Resources	3,615	-	-	-	(3,615)	-	(3,615)
Economic Vitality	7,549	-	-	-	(7,549)	-	(7,549)
Planning and Development	12,883	20,515	53	-	7,685	-	7,685
Streetlight and Services Districts	617	511	-	-	(106)	-	(106)
Interest on Long-term Debt	37,192	-	-	-	(37,192)	-	(37,192)
Total Governmental Activities	387,011	50,225	26,355	136,745	(173,686)	-	(173,686)
Business-Type Activities							
Water Utility	53,961	81,517	-	26,208	-	53,764	53,764
Sewer Utility	27,854	27,119	-	28,690	-	27,955	27,955
Airport	2,922	3,342	-	682	-	1,102	1,102
Solid Waste	16,412	17,163	-	-	-	751	751
Total Business-Type Activities	101,149	129,141	-	55,580	-	83,572	83,572
Total Government	\$ 488,160	\$ 179,366	\$ 26,355	\$ 192,325	(173,686)	83,572	(90,114)
General Revenues							
Taxes							
Property Taxes					50,610	-	50,610
Sales and Use Taxes					180,470	119	180,589
Franchise Taxes					9,651	-	9,651
Intergovernmental							
State Shared Sales					21,664	-	21,664
State Revenue Sharing					21,223	-	21,223
Other					11,594	-	11,594
Interest and Investment Income					13,714	6,581	20,295
Other Revenue					5,786	686	6,472
Transfers					10,536	(10,536)	-
Total General Revenues and Transfers					325,248	(3,150)	322,098
Change in Net Assets					151,562	80,422	231,984
Net Assets - Beginning					2,152,636	992,862	3,145,498
Net Assets - Ending					\$ 2,304,198	\$ 1,073,284	\$ 3,377,482

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

Balance Sheet

Governmental Funds

June 30, 2006 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	General Obligation Bond Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 84,905	\$ 11,957	\$ 60,125	\$ 94,502	\$ 91,073	\$ 342,562
Cash with Fiscal Agent	458	30,197	5,675	-	16,992	53,322
Receivables (net of allowance for uncollectibles)						
Interest	764	-	532	523	497	2,316
Privilege Tax	9,076	-	-	-	4,443	13,519
Hotel/Motel Tax	472	-	-	-	-	472
Property Tax	539	786	-	-	164	1,489
State Shared Sales Tax	1,859	-	-	-	-	1,859
Franchise Fee	2,481	-	-	-	-	2,481
Court Receivable	6,646	-	-	-	-	6,646
Highway User Tax	-	-	-	-	1,441	1,441
Auto Lieu Tax	1,019	-	-	-	-	1,019
Intergovernmental Grants	-	-	-	-	1,327	1,327
Special Assessments	-	-	-	-	96	96
Miscellaneous	8,550	4	14	-	5,436	5,436
Due from Other Funds	78	-	-	-	278	8,846
Supplies Inventory	320	-	-	-	-	78
Total Assets	\$ 117,167	\$ 42,944	\$ 66,346	\$ 95,025	\$ 121,747	\$ 443,229

(continued)

Balance Sheet

Governmental Funds

June 30, 2006 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	General Obligation Bond Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 3,010	\$ -	\$ 9,193	\$ -	\$ 8,947	\$ 21,150
Accrued Payroll and Benefits	4,816	-	12	-	143	4,971
Due to Other Funds	-	-	-	-	78	78
Matured Bond Interest Payable	122	12,492	-	-	5,746	18,360
Matured Bonds Payable	336	17,705	-	-	7,345	25,386
Deferred Revenue						
Property Tax	223	311	-	-	110	644
Special Assessments	-	-	-	-	5,436	5,436
Court	6,646	-	-	-	-	6,646
Tax Audit	3,403	-	-	-	-	3,403
Intergovernmental	-	-	-	-	1,354	1,354
Other	339	-	-	-	-	339
Due to Other Governments	82	-	28	-	-	110
Guaranty and Other Deposits	1,899	-	-	-	3,132	5,031
Other	2,243	-	-	-	31	2,274
Total Liabilities	23,119	30,508	9,233	-	32,322	95,182
Fund Balances						
Reserved for						
Streetlight and Services Districts	805	-	-	-	-	805
Debt Service	-	12,436	-	-	10,706	23,142
Unreserved, Reported in						
General Fund - Designated	30,073	-	-	-	-	30,073
General Fund - Undesignated	63,170	-	-	-	-	63,170
Capital Projects Funds	-	-	57,113	95,025	37,767	189,905
Special Revenue Funds	-	-	-	-	40,952	40,952
Total Fund Balances	94,048	12,436	57,113	95,025	89,425	348,047
Total Liabilities and Fund Balances	\$ 117,167	\$ 42,944	\$ 66,346	\$ 95,025	\$ 121,747	\$ 443,229

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, 2006 (in thousands of dollars)

Fund Balances -Total Governmental Funds	\$ 348,047
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.	2,659,918
Bond issuance costs are not financial resources and, therefore, are not reported in the funds.	2,447
Long-term receivables are not due and receivable in the current period and, therefore, are not reported in the funds.	19,366
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(782,876)
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.	16,129
Internal Service Funds are used by management to charge the costs of certain activities, such as, insurance and vehicles to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.	<u>41,167</u>
Net Assets of Governmental Activities	<u>\$ 2,304,198</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	General Obligation Bond Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes - Local						
Property	\$ 18,362	\$ 27,928	\$ -	\$ -	\$ 3,361	\$ 49,651
Transaction Privilege	114,927	-	-	-	55,503	170,430
Transient Occupancy	8,970	-	-	-	-	8,970
Light and Power Franchise	6,308	-	-	-	-	6,308
Cable TV Franchise	3,157	-	-	-	-	3,157
Salt River Project In-Lieu	186	-	-	-	-	186
Other Taxes	776	-	-	-	-	776
Taxes - Intergovernmental						
State-Shared Sales	21,664	-	-	-	-	21,664
State Revenue Sharing	21,223	-	-	-	-	21,223
Auto Lieu Tax	9,720	-	-	-	-	9,720
Highway User Tax	-	-	-	-	15,708	15,708
Local Transportation Assistance Fund	-	-	-	-	1,098	1,098
Business and Liquor Licenses	1,572	-	-	-	-	1,572
Charges for Current Services						
Building and Related Permits	20,477	-	-	-	38	20,515
Fire Fees	1,010	-	-	-	-	1,010
Recreation Fees	2,491	-	-	-	931	3,422
Westworld Equestrian Facility Fees	2,313	-	-	-	-	2,313
Fines, Fees and Forfeitures						
Code Enforcement	-	-	-	-	163	163
Court Fines	5,216	-	-	-	48	5,264
Parking	355	-	-	-	-	355
Photo Radar	2,947	-	-	-	-	2,947
Court Enhancement	-	-	-	-	925	925
Library	606	-	-	-	-	606
Special Assessments	-	-	-	-	1,106	1,106
Property Rental	3,463	-	-	-	710	4,173
Interest Earnings (Loss)	4,010	-	2,944	2,832	2,732	12,518
Intergovernmental						
Federal Grants	-	-	-	-	8,378	8,378
State Grants	-	-	77	-	322	399
Miscellaneous	699	-	-	-	3,653	4,352
Developer Contributions	53	-	307	-	32	392
Streetlight and Services Districts	511	-	-	-	-	511
Contributions and Donations	11	-	100	-	724	835
Reimbursements from Outside Sources	773	4	93	-	99	969
Indirect Costs	9,898	-	-	-	-	9,898
Other	548	-	-	-	96	644
Total Revenues	262,246	27,932	3,521	2,832	95,627	392,158

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	General Obligation Bond Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
EXPENDITURES						
Current						
General Government	22,083	-	-	-	1,433	23,516
Police	65,304	-	-	-	974	66,278
Financial Services	7,769	-	-	-	-	7,769
Transportation	-	-	-	-	10,099	10,099
Community Services	44,384	-	-	-	9,151	53,535
Information Systems	8,253	-	-	-	-	8,253
Fire	24,296	-	-	-	-	24,296
Municipal Services	582	-	-	-	8,268	8,850
Citizen and Neighborhood Resources	3,062	-	-	-	8	3,070
Human Resources	3,498	-	-	-	9	3,507
Economic Vitality	7,510	-	-	-	-	7,510
Planning and Development	12,415	-	-	-	21	12,436
Streetlight and Services Districts	617	-	-	-	-	617
Debt Service						
Principal	1,076	17,705	-	-	8,851	27,632
Interest and Fiscal Charges	4,618	21,198	-	-	10,566	36,382
Bond Issuance Costs	-	296	29	-	26	351
Capital Improvements	210	-	175,928	-	42,759	218,897
Total Expenditures	205,677	39,199	175,957	-	92,165	512,998
Excess (Deficiency) of Revenues Over Expenditures	56,569	(11,267)	(172,436)	2,832	3,462	(120,840)
OTHER FINANCING SOURCES (USES)						
Transfers In	8,147	15,267	70,071	1,003	53,155	147,643
Transfers Out	(44,312)	-	(2,333)	(49,235)	(44,633)	(140,513)
Long-term Capital-Related Debt Issued	-	-	46,500	125,000	20,000	191,500
Premium on Bonds Issued	-	2,834	1,690	-	977	5,501
Total Other Financing Sources and (Uses)	(36,165)	18,101	115,928	76,768	29,499	204,131
Net Change in Fund Balances	20,404	6,834	(56,508)	79,600	32,961	83,291
Fund Balances - Beginning	73,644	5,602	113,621	15,425	56,464	264,756
Fund Balances - Ending	\$ 94,048	\$ 12,436	\$ 57,113	\$ 95,025	89,425	\$ 348,047

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, 2006 (in thousands of dollars)

Net Change in Fund Balances - Total Governmental Funds	\$ 83,291
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.	109,183
Donations of capital assets are not reflected on the governmental fund statements but are shown in the statement of activities.	133,262
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.	(4,921)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	647
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.	132
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.	(169,369)
Additional accrued interest calculated on bonds and notes payable.	(591)
The net revenues of certain activities of internal service funds is reported with governmental activities.	<u>(72)</u>
Changes in Net Assets of Governmental Activities	<u>\$ 151,562</u>

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

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local						
Property	\$ 18,699	\$ 18,699	\$ 18,362	\$ -	\$ 18,362	\$ (337)
Transaction Privilege	106,345	106,345	114,927	-	114,927	8,582
Transient Occupancy	8,177	8,177	8,970	-	8,970	793
Light and Power Franchise	5,649	5,649	6,308	-	6,308	659
Cable TV Franchise	2,754	2,754	3,157	-	3,157	403
Salt River Project In-Lieu	203	203	186	-	186	(17)
Other Taxes	630	630	776	-	776	146
Taxes - Intergovernmental						
State-Shared Sales	19,026	19,026	21,664	-	21,664	2,638
State Revenue Sharing	20,512	20,512	21,223	-	21,223	711
Auto Lieu Tax	8,925	8,925	9,720	-	9,720	795
Business and Liquor Licenses	2,008	2,008	1,572	-	1,572	(436)
Charges for Current Services						
Building and Related Permits	15,500	15,500	20,477	-	20,477	4,977
Fire Fees	-	-	-	1,010	1,010	-
Recreation Fees	2,341	2,341	2,491	-	2,491	150
Westworld Equestrian Facility Fees	1,824	1,824	2,313	-	2,313	489
Fines, Fees and Forfeitures						
Court Fines	5,096	5,096	5,216	-	5,216	120
Parking	213	213	355	-	355	142
Photo Radar	12,512	12,512	2,947	-	2,947	(9,565)
Library	613	613	606	-	606	(7)
Property Rental	3,018	3,018	3,463	-	3,463	445
Interest Earnings	1,850	1,850	3,202	808	4,010	1,352
Intergovernmental						
Miscellaneous	-	-	-	699	699	-
Developer Contributions	-	-	-	53	53	-
Streetlight and Services Districts	550	550	511	-	511	(39)
Contributions and Donations	-	-	-	11	11	-
Reimbursements from Outside Sources	-	-	-	773	773	-
Indirect Costs	9,898	9,898	9,898	-	9,898	-
Other	1,020	1,020	548	-	548	(472)
Total Revenues	<u>247,363</u>	<u>247,363</u>	<u>258,892</u>	<u>3,354</u>	<u>262,246</u>	<u>11,529</u>
EXPENDITURES						
Current						
General Government	23,689	24,593	22,306	(223)	22,083	2,287
Police	66,223	70,989	65,731	(427)	65,304	5,258
Financial Services	8,396	8,379	7,814	(45)	7,769	565
Community Services	47,039	46,444	44,623	(239)	44,384	1,821
Information Systems	9,078	9,062	8,342	(89)	8,253	720
Fire	26,169	26,278	24,307	(11)	24,296	1,971
Municipal Services	490	490	532	50	582	(42)
Citizen and Neighborhood Resources	3,430	3,331	3,098	(36)	3,062	233
Human Resources	3,703	3,703	3,549	(51)	3,498	154
Economic Vitality	8,038	8,038	7,525	(15)	7,510	513
Planning and Development	13,590	13,590	12,531	(116)	12,415	1,059
Streetlight and Services Districts	590	590	617	-	617	(27)
Debt Service						
Principal	2,355	2,355	1,076	-	1,076	1,279
Interest and Fiscal Charges	3,189	3,189	4,618	-	4,618	(1,429)
Capital Improvements	-	-	-	210	210	-
Total Expenditures	<u>215,979</u>	<u>221,031</u>	<u>206,669</u>	<u>(992)</u>	<u>205,677</u>	<u>14,362</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,384</u>	<u>26,332</u>	<u>52,223</u>	<u>4,346</u>	<u>56,569</u>	<u>25,891</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	7,909	7,909	8,147	-	8,147	238
Transfers Out	(41,067)	(41,067)	(44,312)	-	(44,312)	(3,245)
Total Other Financing Sources and (Uses)	<u>(33,158)</u>	<u>(33,158)</u>	<u>(36,165)</u>	<u>-</u>	<u>(36,165)</u>	<u>(3,007)</u>
Net Change in Fund Balance	(1,774)	(6,826)	16,058	4,346	20,404	22,884
Fund Balance - Beginning	<u>59,249</u>	<u>59,249</u>	<u>73,644</u>	<u>-</u>	<u>73,644</u>	<u>14,395</u>
Fund Balance - Ending	<u>\$ 57,475</u>	<u>\$ 52,423</u>	<u>\$ 89,702</u>	<u>\$ 4,346</u>	<u>\$ 94,048</u>	<u>\$ 37,279</u>

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

General Fund

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

For the Year Ended June 30, 2006 (in thousands of dollars)

Explanation of Differences:

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

Change in Fair Value of Investments	\$	808
Miscellaneous Items		<u>2,546</u>

Total Revenue Reconciling Items:		<u>3,354</u>
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The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

Claims and Compensated Absences		(1,203)
Bad Debt Expense		1
Capital Improvement		<u>210</u>
Total Expenditure Reconciling Items:		<u>(992)</u>

Net Increase in Fund Balance - Budget to GAAP	\$	<u><u>4,346</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets

Proprietary Funds

June 30, 2006 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
ASSETS					
Current Assets					
Cash and Investments	\$ 103,405	\$ 3,402	\$ 4,995	\$ 111,802	\$ 31,393
Cash with Fiscal Agent	47,430	-	-	47,430	-
Receivable (net of allowance for uncollectibles)					
Charges for Services	11,480	-	1,493	12,973	-
Intergovernmental	2	-	-	2	-
Interest	1,015	12	38	1,065	242
Miscellaneous	974	212	59	1,245	93
Supplies Inventory	-	-	-	-	426
Restricted Cash, Cash Equivalents, and Investments:					
Customer Advances and Deposits	1,343	65	-	1,408	-
Total Current Assets	165,649	3,691	6,585	175,925	32,154
Noncurrent Assets					
Equity in Joint Venture	98,044	-	-	98,044	-
Deferred Charges	945	-	-	945	-
Restricted Cash, Cash Equivalents, and Investments:					
Deferred Revenue	5,972	-	-	5,972	-
Water and Sewer System Replacement	18,562	-	-	18,562	-
Acquisition and Construction Reserve	8,438	-	-	8,438	-
Capital Assets					
Land	14,147	9,564	1,111	24,822	-
Water Rights	64,688	-	-	64,688	-
Water System	582,245	-	-	582,245	-
Sewer System	345,834	-	-	345,834	-
Buildings and Improvements	-	15,054	2,997	18,051	1,846
Motor Vehicles	-	-	-	-	58,705
Machinery and Equipment	4,569	838	1,905	7,312	426
Furniture and Fixtures	621	-	-	621	-
Construction in Progress	251,343	373	-	251,716	-
Less Accumulated Depreciation	(248,933)	(5,064)	(2,062)	(256,059)	(35,603)
Total Capital Assets (net of accumulated depreciation)	1,014,514	20,765	3,951	1,039,230	25,374
Total Noncurrent Assets	1,146,475	20,765	3,951	1,171,191	25,374
Total Assets	\$ 1,312,124	\$ 24,456	\$ 10,536	\$ 1,347,116	\$ 57,528

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, 2006 (in thousands of dollars)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities					
Accounts Payable	\$ 10,530	\$ 65	\$ 349	\$ 10,944	\$ 1,094
Accrued Payroll and Benefits	273	15	89	377	67
Accrued Compensated Absences - Current	-	-	-	-	2
Accrued Compensated Absences - Due Within One Year	703	44	253	1,000	232
Due to Other Funds	-	-	-	-	-
Claims Payable	-	-	-	-	14,734
Customer Advances and Deposits	1,343	65	-	1,408	-
Matured Bonds Payable	14,185	-	-	14,185	-
Matured Bond Interest Payable	6,284	-	-	6,284	-
Bonds Payable - Due within One Year	8,050	-	-	8,050	-
Total Current Liabilities	41,368	189	691	42,248	16,129
Noncurrent Liabilities					
Accrued Compensated Absences -Due in More Than One Year	783	38	360	1,181	232
Deferred Revenue	5,972	-	-	5,972	-
Bonds Payable - Due in More Than One Year	224,431	-	-	224,431	-
Total Noncurrent Liabilities	231,186	38	360	231,584	232
Total Liabilities	272,554	227	1,051	273,832	16,361
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	782,033	20,765	3,951	806,749	25,374
Restricted for Water and Sewer					
System Replacement	18,562	-	-	18,562	-
Restricted for Acquisition and Construction	8,438	-	-	8,438	-
Unrestricted	230,537	3,464	5,534	239,535	15,793
Total Net Assets	\$ 1,039,570	\$ 24,229	\$ 9,485	\$ 1,073,284	\$ 41,167

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, 2006 (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	\$ 74,756	\$ -	\$ -	\$ 74,756	\$ -
Sewer Service Fees	27,119	-	-	27,119	-
Proprietary - Non-Potable Water Fees	5,956	-	-	5,956	-
Groundwater Treatment Plant	805	-	-	805	-
Solid Waste Fees	-	-	17,163	17,163	-
Airport Fees	-	3,342	-	3,342	-
Other Services	-	-	-	-	32,422
Other	681	-	5	686	989
Total Operating Revenues	<u>109,317</u>	<u>3,342</u>	<u>17,168</u>	<u>129,827</u>	<u>33,411</u>
Operating Expenses					
Costs for Sales and Services					
Water Operations	34,325	-	-	34,325	-
Sewer Operations	14,806	-	-	14,806	-
Solid Waste Operations	-	-	14,147	14,147	-
Airport Operations	-	1,480	-	1,480	-
Other Services	-	-	-	-	34,859
Indirect Costs	7,198	635	2,065	9,898	-
Depreciation	25,486	807	197	26,490	5,190
Total Operating Expenses	<u>81,815</u>	<u>2,922</u>	<u>16,409</u>	<u>101,146</u>	<u>40,049</u>
Operating Income (Loss)	<u>27,502</u>	<u>420</u>	<u>759</u>	<u>28,681</u>	<u>(6,638)</u>
Non-Operating Revenues (Expenses)					
Property Tax	-	-	-	-	701
Transaction Privilege Tax	-	119	-	119	-
Investment Income	6,331	64	186	6,581	1,196
Interest Expense	-	-	(3)	(3)	-
Gain on Sale of Capital Assets	-	-	-	-	94
Net Non-Operating Revenues (Expenses)	<u>6,331</u>	<u>183</u>	<u>183</u>	<u>6,697</u>	<u>1,991</u>
Income (Loss) Before Contributions and Transfers	<u>33,833</u>	<u>603</u>	<u>942</u>	<u>35,378</u>	<u>(4,647)</u>
Capital Contributions	54,898	682	-	55,580	1,169
Transfers In	-	597	-	597	3,696
Transfers Out	(10,306)	(84)	(743)	(11,133)	(290)
Change in Net Assets	<u>78,425</u>	<u>1,798</u>	<u>199</u>	<u>80,422</u>	<u>(72)</u>
Total Net Assets - Beginning	<u>961,145</u>	<u>22,431</u>	<u>9,286</u>	<u>992,862</u>	<u>41,239</u>
Total Net Assets - Ending	<u>\$ 1,039,570</u>	<u>\$ 24,229</u>	<u>\$ 9,485</u>	<u>\$ 1,073,284</u>	<u>\$ 41,167</u>

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, 2006 (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	\$ 109,043	\$ 3,364	\$ 18,044	\$ 130,451	\$ 32,581
Cash Paid to Suppliers	(53,255)	(1,736)	(11,423)	(66,414)	(32,232)
Cash Paid to Employees	(13,136)	(901)	(5,011)	(19,048)	(3,452)
Other Operating	680	-	5	685	1,541
Net Cash Provided by (Used for) Operating Activities	<u>43,332</u>	<u>727</u>	<u>1,615</u>	<u>45,674</u>	<u>(1,562)</u>
Cash Flows from Non-Capital					
Financing Activities					
Property Tax	-	-	-	-	701
Transaction Privilege Tax	-	119	-	119	-
Transfers In	-	597	-	597	3,696
Transfers Out	(10,306)	(84)	(743)	(11,133)	(290)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(10,306)</u>	<u>632</u>	<u>(743)</u>	<u>(10,417)</u>	<u>4,107</u>
Cash Flows from Capital and Related					
Financing Activities					
Bonds Proceeds	91,512	-	-	91,512	-
Capital Contributions from Other	-	-	-	-	-
Water and Sewer Development Fees	24,072	-	-	24,072	-
Capital Grants	62	1,436	-	1,498	-
Acquisition and Construction of Property and Equipment	(121,935)	(1,195)	-	(123,130)	(4,826)
Principal Payments on Capital Debt	(10,706)	-	(1,740)	(12,446)	-
Interest Paid on Capital Debt	(7,855)	-	(45)	(7,900)	-
Sale of Capital Assets	-	-	-	-	168
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(24,850)</u>	<u>241</u>	<u>(1,785)</u>	<u>(26,394)</u>	<u>(4,658)</u>
Cash Flows from Investing Activities					
Proceeds from the Sale of Investments	-	-	126	126	-
Income Received on Investments	5,960	56	173	6,189	1,087
Net Cash Provided by Investing Activities	<u>5,960</u>	<u>56</u>	<u>299</u>	<u>6,315</u>	<u>1,087</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,136	1,656	(614)	15,178	(1,026)
Cash and Cash Equivalents at Beginning of Year	<u>171,014</u>	<u>1,811</u>	<u>5,609</u>	<u>178,434</u>	<u>32,419</u>
Cash and Cash Equivalents at End of Year	<u>\$ 185,150</u>	<u>\$ 3,467</u>	<u>\$ 4,995</u>	<u>\$ 193,612</u>	<u>\$ 31,393</u>

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

(continued on next page)

Statement of Cash Flows

Proprietary Funds

(Concluded)

For the Year Ended June 30, 2006 (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	\$ 103,405	\$ 3,402	\$ 4,995	\$ 111,802	\$ 31,393
Cash with Fiscal Agent	47,430	-	-	47,430	-
Restricted Cash and Investments	34,315	65	-	34,380	-
Total Cash and Cash Equivalents	<u>\$ 185,150</u>	<u>\$ 3,467</u>	<u>\$ 4,995</u>	<u>\$ 193,612</u>	<u>\$ 31,393</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 27,502	\$ 420	\$ 759	\$ 28,681	\$ (6,638)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities					
Depreciation and Amortization	25,486	807	197	26,490	5,190
Changes In Assets and Liabilities Sources (Uses) of Cash					
Accounts Receivable	130	-	893	1,023	-
Miscellaneous Receivables	(344)	18	(12)	(338)	711
Supplies Inventory				-	(157)
Accounts Payable	(9,662)	(490)	(42)	(10,194)	265
Accrued Payroll and Benefits	(400)	(32)	(180)	(612)	(102)
Claims Payable	-	-	-	-	(831)
Deferred Revenue	582	-	-	582	-
Other Liabilities	38	4	-	42	-
Total Adjustments	<u>15,830</u>	<u>307</u>	<u>856</u>	<u>16,993</u>	<u>5,076</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 43,332</u>	<u>\$ 727</u>	<u>\$ 1,615</u>	<u>\$ 45,674</u>	<u>\$ (1,562)</u>
Supplemental Disclosure of Non-Cash Financing Activities					
Additions to Property, Plant, and Equipment					
Contributions from Developers	\$ 30,806	\$ -	\$ -	\$ 30,806	\$ -
Contributions from Other Government Units	-	-	-	-	1,169
Amortization of Deferred Charges	(286)	-	-	(286)	-
Total Non-Cash Financing Activities	<u>\$ 30,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,520</u>	<u>\$ 1,169</u>

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

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006 (in thousands of dollars)

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 4	\$ 5,281
Total Assets	<u>4</u>	<u>5,281</u>
LIABILITIES		
Accounts Payable	-	86
Designated Escrow Payable	-	5,195
Total Liabilities	<u>-</u>	<u>5,281</u>
NET ASSETS		
Held in Trust for Other Purposes	<u>\$ 4</u>	<u>\$ -</u>

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, 2006 (in thousands of dollars)

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private Donations	\$ 5
	<hr/>
Total Additions	5
	<hr/>
DEDUCTIONS	
Scholarships	5
Redevelopment Expenses	19
	<hr/>
Total Deductions	24
	<hr/>
Change in Net Assets	(19)
Net Assets - Beginning	23
	<hr/>
Net Assets - Ending	<u>\$ 4</u>

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Scottsdale, 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 accounting principles generally accepted in the United States of America (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.

Component Unit	Description and Criteria for Inclusion	Reporting Method	For Separate Financial Statements
City of Scottsdale Municipal Property Corporation (MPC)	<ul style="list-style-type: none"> Non-profit corporation created in 1967. Sole purpose is to construct, acquire, and equip buildings, structures or land improvements for the City. Governed by Board of Directors appointed by the City Council. For financial reporting purposes, transactions are included as a governmental and proprietary fund type, as if part of the City's operation. 	Blended	City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251
Scottsdale Preserve Authority (SPA)	<ul style="list-style-type: none"> Non-profit corporation created in 1997. Sole purpose is to finance land acquisitions for McDowell Sonoran Preserve. Governed by a Board of Directors appointed by the City Council. For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	Blended	City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251
Scottsdale Mountain Community Facilities District (CFD)	<ul style="list-style-type: none"> Formed by 1992 petition to City Council. Created to acquire and improve public infrastructure in specified land area. Able to levy taxes and issue bonds independent of the City. Property owners within the designated area are assessed for District taxes and costs of operation. City Council serves as the Board of Directors. The City has no liability for the District debt. For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	Blended	City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251

**Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

<p>McDowell Mountain Ranch Community Facilities District (CFD)</p>	<ul style="list-style-type: none"> • Formed by 1994 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for the District debt. • For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	<p>Blended</p>	<p>City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251</p>
<p>DC Ranch Community Facilities District (CFD)</p>	<ul style="list-style-type: none"> • Formed by 1997 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for the District debt. • For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	<p>Blended</p>	<p>City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251</p>
<p>Via Linda Road Community Facilities District (CFD)</p>	<ul style="list-style-type: none"> • Formed by 1998 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for the District debt. • For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	<p>Blended</p>	<p>City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251</p>
<p>Waterfront Commercial Community Facilities District (CFD)</p>	<ul style="list-style-type: none"> • Formed by 2005 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for the District debt. • For financial reporting purposes, transactions are included as a governmental fund type, as if part of the City's operation. 	<p>Blended</p>	<p>City of Scottsdale Finance Department Accounting Division 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251</p>

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. Except 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 *General Obligation Bond Capital Projects Fund* accounts for proceeds of the sale of 1989, 1992 and 2000 voter-approved general obligation bonds that are used for authorized capital improvements.

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 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, commercial paper, 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, 2006.

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. Customer advances, customer deposits and deferred revenue are also restricted.

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 two years. 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	Machinery and Equipment	5 to 20 Years
Sewer System	25 to 50 Years	Motor Vehicles	3 to 15 Years
Buildings and Improvements ...	25 to 50 Years	Furniture, Fixtures, and	
Land Improvements	25 Years	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 60 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, 2006, 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 total governmental fund balances, \$348,047, differs from net assets of governmental activities, \$2,304,198, 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	\$ 342,562	\$ -	\$ 31,393	\$ -	\$ 373,955
Cash with Fiscal Agent	53,322	-	-	-	53,322
Receivables (net of allowance for uncollectibles)					
Interest	2,316	-	242	-	2,558
Privilege Tax	13,519	-	-	-	13,519
Hotel/Motel Tax	472	-	-	-	472
Property Tax	1,489	-	-	-	1,489
State Shared Sales Tax	1,859	-	-	-	1,859
Franchise Fee	2,481	-	-	-	2,481
Court Receivable	6,646	-	-	-	6,646
Highway User Tax	1,441	-	-	-	1,441
Auto Lieu Tax	1,019	-	-	-	1,019
Intergovernmental	1,327	19,366	-	-	20,693
Grants	96	-	-	-	96
Special Assessments	5,436	-	-	-	5,436
Miscellaneous	8,846	-	93	-	8,939
Due from Other Funds/Internal Balances	78	-	-	(78)	-
Supplies Inventory	320	-	426	-	746
Capital Assets (net of accumulated depreciation)	-	2,659,918	25,374	-	2,685,292
Deferred charges and other assets	-	2,447	-	-	2,447
Total Assets	\$ 443,229	\$ 2,681,731	\$ 57,528	\$ (78)	\$ 3,182,410
LIABILITIES					
Accounts Payable	\$ 21,150	\$ -	\$ 1,094	\$ -	\$ 22,244
Accrued Payroll and Benefits	4,971	(56)	67	-	4,982
Accrued Compensated Absences - Current	-	56	2	-	58
Accrued Compensated Absences - Due Within One Year	-	9,184	232	-	9,416
Accrued Compensated Absences - Due in More Than One Year	-	9,241	232	-	9,473
Claims Payable	-	-	14,734	-	14,734
Due to Other Funds	78	-	-	(78)	-
Matured Bond Interest Payable	18,360	-	-	-	18,360
Matured Bonds Payable	25,386	-	-	-	25,386
Deferred Revenue					
Property Tax	644	(644)	-	-	-
Special Assessments	5,436	(5,436)	-	-	-
Court	6,646	(6,646)	-	-	-
Tax Audit	3,403	(3,403)	-	-	-
Intergovernmental	1,354	-	-	-	1,354
Other	339	-	-	-	339
Due to Other Governments	110	-	-	-	110
Guaranty and Other Deposits	5,031	-	-	-	5,031
Other	2,274	-	-	-	2,274
Bonds, Loans, Capital Leases, and Other Payables	-	764,451	-	-	764,451
Total Liabilities	95,182	766,747	16,361	(78)	878,212
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	348,047	1,914,984	41,167	-	2,304,198
Total Liabilities and Fund Balances/Net Assets	\$ 443,229	\$ 2,681,731	\$ 57,528	\$ (78)	\$ 3,182,410

- (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	\$ 3,699,832
Accumulated depreciation	<u>(1,039,914)</u>
	<u>\$ 2,659,918</u>

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

Bond issuance costs @ 7/1/05	\$ 2,315
Bond issuance cost for fiscal year 2006	351
Amortization of bond issuance costs	<u>(219)</u>
	<u>\$ 2,447</u>

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.

\$ 19,366

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2006 were:

Contract payables	\$ (13,136)
Bonds payable	(745,690)
Deferred amount on refunding	10,234
Deferred issuance premium	(15,859)
Accrued vacation and sick leave pay	<u>(18,425)</u>
	<u>\$ (782,876)</u>

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

Deferred special assessment revenue	\$ 5,436
Deferred court revenue	6,646
Deferred tax revenue	<u>4,047</u>
	<u>\$ 16,129</u>

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

\$ 41,167

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, \$83,291, differs from the change in net assets for the governmental activities, \$151,562, 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	\$ 49,651	\$ 258	\$ -	\$ 701	\$ -	\$ 50,610
Transaction Privilege	170,430	1,070	-	-	-	171,500
Transient Occupancy	8,970	-	-	-	-	8,970
Light and Power Franchise	6,308	-	-	-	-	6,308
Cable TV Franchise	3,157	-	-	-	-	3,157
Salt River Project In-Lieu	186	-	-	-	-	186
Other Taxes	776	-	-	-	-	776
Taxes - Intergovernmental:						
State-Shared Sales	21,664	-	-	-	-	21,664
State Revenue Sharing	21,223	-	-	-	-	21,223
Auto Lieu Tax	9,720	-	-	-	-	9,720
Highway User Tax	15,708	-	-	-	-	15,708
Local Transportation Assistance Fund	1,098	-	-	-	-	1,098
Business and Liquor Licenses	1,572	-	-	-	-	1,572
Charges for Current Services:						
Building and Related Permits	20,515	-	-	-	-	20,515
Fire Fees	1,010	-	-	-	-	1,010
Recreation Fees	3,422	-	-	-	-	3,422
Westworld Equestrian Facility Fees	2,313	-	-	-	-	2,313
Fines and Forfeitures:						
Code Enforcement	163	-	-	-	-	163
Court Fines	5,264	271	-	-	-	5,535
Parking	355	7	-	-	-	362
Photo Radar	2,947	169	-	-	-	3,116
Court Enhancement	925	-	-	-	-	925
Library	606	-	-	-	-	606
Special Assessments	1,106	(829)	-	-	-	277
Property Rental	4,173	-	-	-	-	4,173
Interest Earnings	12,518	-	-	1,196	-	13,714
Intergovernmental:						
Federal Grants	8,378	-	-	-	-	8,378
State Grants	399	-	-	-	-	399
Miscellaneous	4,352	(299)	-	-	-	4,053
Developer Contributions	392	-	-	-	-	392
Streetlight and Services Districts	511	-	-	-	-	511
Contributions and Donations	835	-	-	-	-	835
Reimbursements from Outside Sources	969	-	-	-	-	969
Indirect Costs	9,898	-	-	-	-	9,898
Other	644	-	-	-	-	644
Total	392,158	647	-	1,897	-	394,702

(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	\$ 23,516	\$ 297	\$ 18,106	\$ 904	\$ -	\$ 42,823
Police	66,278	3,067	2,777	2,286	-	74,408
Financial Services	7,769	50	341	183	-	8,343
Transportation	10,099	89	71,510	349	-	82,047
Community Services	53,535	460	3,271	665	-	57,931
Information Systems	8,253	86	6,181	69	-	14,589
Fire	24,296	618	1,686	343	-	26,943
Municipal Services	8,850	94	4,314	1,488	-	14,746
Citizen and Neighborhood Resources	3,070	4	306	39	-	3,419
Human Resources	3,507	35	34	39	-	3,615
Economic Vitality	7,510	29	3	7	-	7,549
Planning and Development	12,436	92	89	266	-	12,883
Streetlight and Services Districts	617	-	-	-	-	617
Debt Service:						
Principal	27,632	-	-	-	(27,632)	-
Interest and Fiscal Charges	36,382	-	-	-	810	37,192
Bond Issuance Costs	351	-	-	-	(351)	-
Capital Improvements	218,897	-	(218,897)	-	-	-
Total Expenditures/Expenses	512,998	4,921	(110,279)	6,638	(27,173)	387,105
OTHER FINANCING USES/CHANGES						
IN NET ASSETS						
Net Transfers (to) From Other Funds	7,130	-	(1,096)	4,502	-	10,536
Capital Contributions	-	-	133,262	73	-	133,335
Sales of Capital Assets	-	-	-	94	-	94
Long-term Capital-Related Debt Issued	191,500	-	-	-	(191,500)	-
Premium on Bonds Issued	5,501	-	-	-	(5,501)	-
Total	204,131	-	132,166	4,669	(197,001)	143,965
Net Change for the Year	\$ 83,291	\$ (4,274)	\$ 242,445	\$ (72)	\$ (169,828)	\$ 151,562

**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	\$	258
Court revenue		447
Tax audit revenue		1,070
Special Assessment revenue		(829)
Intergovernmental revenue		(299)
		\$ 647

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	\$	(4,921)
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- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures	\$	203,137
Depreciation Expenses		(87,321)
Loss on disposal of capital assets		(6,633)
Difference		\$ 109,183

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	\$	133,262
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- (5) Internal Service funds are used by management to charge the costs of certain activities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. Capital assets contributed by the governmental funds (\$1,096) 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	\$	(72)
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**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes
in Fund Balances and the Government-wide Statement of Activities (in thousands of dollars)**

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

Bond issuance costs for fiscal year 2006	\$	351
Amortization of bond issuance costs		<u>(219)</u>
Difference		<u>\$ 132</u>

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.

Principal payments made	\$	27,632
		<u>\$ 27,632</u>

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	\$	(1,459)
Interest accretion and amortization		(642)
Amortization of bond premium and discounts		1,510
		<u>\$ (591)</u>

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

General Obligation Bonds	\$	(145,000)
Revenue Bonds		(46,500)
Premium on Bonds		(5,501)
		<u>\$ (197,001)</u>

III. Stewardship, Compliance, and Accountability

A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2005/06. The 2005/06 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 and Preserve Privilege Tax), and Debt Service Funds (except for the Community Facilities Districts Debt Service 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, Enterprise 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 Enterprise Funds are established in order to help departments control operational costs. 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 2005/06, there were no supplemental budgetary appropriations to the original budget.

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

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

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

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

B. Excess of Expenditures over Appropriations

The Special Assessments Debt Service Fund exceeded its Debt Service Expenditures appropriation by \$3,000. This over expenditure was funded by available fund balance.

C. Deficit Fund Equity

The Home and Grant Funds had deficit fund balances of \$100,000 and \$109,000, respectively, 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.

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, 2006:

Fund Balance Reservations and Designations (in thousands of dollars)

General Fund	Major	Nonmajor
Reserved\Restricted for Streetlight and Service Districts	\$ 805	
Designated for Tourism	1,876	
Designated for Economic Stabilization Reserve	28,197	
Total	\$ 30,878	
Debt Service		
Reserved for Debt Service	\$ 12,436	\$ 10,706

Restricted Net Asset and Unrestricted Net Asset Designations

Water and Sewer		
Restricted for Repair and Replacement	\$ 18,562	
Restricted for Acquisition and Construction	8,438	
Total Restricted	\$ 27,000	

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

Water and Sewer		
Designated for Operating Reserve	\$ 14,868	
Solid Waste		
Designated for Operating Reserve	\$ 4,028	
Airport		
Repair and Replacement	\$ 2,252	
Designated for Operating Reserve	565	
	\$ 2,817	
Self-Insurance		
Designated for General Liability Claims	\$ 2,501	
Designated for Benefits	2,057	
	\$ 4,558	
Fleet Management		

IV. Detailed Notes on All Funds

A. Prior Period Adjustment

In 1994 and 1996, private owners dedicated 2,759 and 200 acres, respectively, of land to the City for the McDowell Mountain Sonoran Preserve. These land values were not previously recorded in the City’s capital assets balance. Therefore, Beginning Net Assets have been restated to reflect these additions.

Restatement of beginning net assets for governmental activities

(in thousands of dollars)

	Governmental Activities
Net Assets:	
Beginning Net Assets at June 30, 2005, as previously reported	\$ 1,948,344
Prior Period Adjustment	204,292
Beginning Net Assets at July 1, 2005, as adjusted	\$ 2,152,636

B. Cash and Investments

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

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).

Deposits

At June 30, 2006, the carrying amount of the City’s deposits was \$135,633,289, and the bank balance was \$134,519,615. The \$1,113,674 difference represents outstanding checks and other reconciling items.

Custodial Credit Risk

Custodial credit risk for deposits 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, 2006, in accordance with the City’s policy, 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.

The custodial credit for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City’s investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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 unless matched to a specific cash flow. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 2	2 - 3	3+
U.S. Government Securities	\$ 108,621	\$ 98,892	\$ 9,729	\$ -	\$ -
Federal Agency Securities	356,536	316,916 *	29,702 **	9,902 ***	16
Commercial Paper	24,909	24,909	-	-	-
Guaranteed Investment					
Contracts	475	475	-	-	-
Money Market Funds	76	76	-	-	-
Cash in Banks	135,557	135,557	-	-	-
Total Investments	\$ 626,174	\$ 576,825	\$ 39,431	\$ 9,902	\$ 16

*\$54,079 of these bonds are callable July 4, 2006 to September 29, 2006

**\$19,782 of these bonds are callable July 19, 2006 to May 23, 2007

***These bonds are callable December 8, 2006

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to invest in securities with the highest rating issued by NRSROs. Presented below is the rating as of June 30, 2006 for each investment type:

Investment Type	Total	A-1+	AAA	Exempt from	
				Disclosure	Not Rated
U.S. Government Securities	\$ 108,621	\$ -	\$ -	\$ 108,621	\$ -
Federal Agency Securities	356,536	55,205	301,331	-	-
Commercial Paper	24,909	24,909	-	-	-
Guaranteed Investment					
Contracts	475	-	-	-	475
Money Market Funds	76	-	76	-	-
Cash in Banks	135,557	-	-	135,557	-
Total Investments	\$ 626,174	\$ 80,114	\$ 301,407	\$ 244,178	\$ 475

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

The following is a listing by issuer of the City's investments at June 30, 2006:

(in thousands of dollars)

Issuer	Investment Type	Market Value	Percent of Holdings
U.S. Government	U.S. Government Securities	\$ 108,621	17.35%
Federal Home Loan Bank (FHLB)	Federal Agency Securities	149,985	23.95%
Federal Home Loan Mortgage Corp. (FHLMC)	Federal Agency Securities	100,500	16.05%
Federal National Mortgage Association (FNMA)	Federal Agency Securities	96,129	15.35%
Federal Farm Credit Bank (FFCB)	Federal Agency Securities	9,906	1.58%
Government National Mortgage Association (GNMA)	Federal Agency Securities	16	0.00%
Barclays U.S. Funding LLC	Commercial Paper	4,974	0.79%
General Electric Capital Corp.	Commercial Paper	4,997	0.80%
Prudential Funding LLC	Commercial Paper	7,469	1.19%
UBS Finance Delaware LLC	Commercial Paper	7,469	1.19%
Pacific Life Insurance Company	Guaranteed Investment Contract	475	0.08%
Wells Fargo and Company	Money Market Funds	76	0.01%
Wells Fargo and Company	Cash in Banks	135,557	21.66%
Total Investments		\$ 626,174	100.00%

Investments

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

Carrying Amount of City Deposits	\$ 135,633
Investments	490,541
Total Cash and Investments	<u>\$ 626,174</u>

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

Primary Government	
Cash and Investments	\$ 485,757
Cash with Fiscal Agent	100,752
Restricted Cash	34,380
Handicap Scholarship Private Purpose Trust Fund	4
Family Self-Sufficiency Agency Fund	86
Retainage Escrow Agency Fund	5,195
Total Cash and Investments	<u>\$ 626,174</u>

Investment income comprises the following for the year ended June 30, 2006 (in thousands of dollars):

Net Interest and Dividends	\$ 17,244
Net Increase in the Fair Value of Investments	3,051
Total Net Investment Income	<u>\$ 20,295</u>

The net increase in the fair value of investments during fiscal year 2005-2006 was \$3,050,860. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at June 30, 2006, was \$2,886,532.

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 \$3,060,771 plus interest of \$12,125 as a partial recovery.

C. Receivables

Receivables as of year end for the government's individual major governmental funds and nonmajor governmental 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	General Obligation Bond Capital Projects	Nonmajor and Other Funds	Total Governmental Funds
Receivables						
Property Taxes and Penalties:						
Property	\$ 539	\$ 786	\$ -	\$ -	\$ 164	\$ 1,489
Court	20,474	-	-	-	-	20,474
Subtotal Property Taxes and Penalties	21,013	786	-	-	164	21,963
Other local taxes:						
Privilege	9,076	-	-	-	4,443	13,519
Hotel/Motel	472	-	-	-	-	472
State Shared Sales Tax	1,859	-	-	-	-	1,859
Franchise Fee	2,481	-	-	-	-	2,481
Auto Lieu	1,019	-	-	-	-	1,019
Highway User	-	-	-	-	1,441	1,441
Subtotal Other Local Taxes	14,907	-	-	-	5,884	20,791
Intergovernmental/Grants	-	-	-	-	1,423	1,423
Interest and Other:						
Interest	764	-	532	523	739	2,558
Special Assessments	-	-	-	-	5,436	5,436
Miscellaneous	8,550	4	14	-	371	8,939
Subtotal Interest and Other	9,314	4	546	523	6,546	16,933
Gross Receivable	45,234	790	546	523	14,017	61,110
Less: Allowance for Uncollectibles	(13,828)	-	-	-	-	(13,828)
Net Total Receivables	\$ 31,406	\$ 790	\$ 546	\$ 523	\$ 14,017	\$ 47,282

Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total Enterprise Fund
Receivables				
Charges for services	\$ 11,480	\$ -	\$ 1,493	\$ 12,973
Intergovernmental	2	-	-	2
Interest	1,015	12	38	1,065
Miscellaneous	974	212	59	1,245
Gross Receivable	13,471	224	1,590	15,285
Net Total Receivables	\$ 13,471	\$ 224	\$ 1,590	\$ 15,285

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	\$ 644	\$ -
Special Assessments	5,436	-
Court	6,646	-
Tax Audit	3,403	-
Intergovernmental	-	1,354
Other		
Community Services	-	339
Total	\$ 16,129	\$ 1,693

D. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows (in thousands of dollars):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 718,880	\$ 186,572	\$ (6,511)	\$ 898,941
Construction In Progress	126,451	192,797	(161,520)	157,728
Total Capital Assets, not being depreciated:	845,331	379,369	(168,031)	1,056,669
Capital Assets, being depreciated:				
Buildings and Land Improvements	270,572	25,186	(28)	295,730
Streets and Storm Drains	2,203,477	81,084	-	2,284,561
Vehicles	49,957	7,017	(1,901)	55,073
Maintenance by Fleet	3,651	-	(20)	3,631
Machinery and Equipment	56,422	11,255	(2,532)	65,145
Total Capital Assets, being depreciated:	2,584,079	124,542	(4,481)	2,704,140
Less Accumulated depreciation for:				
Buildings and Land Improvements	134,387	10,577	(23)	144,941
Streets and Storm Drains	785,678	71,114	-	856,792
Vehicles	28,511	4,777	(1,836)	31,452
Maintenance by Fleet	2,468	309	(11)	2,766
Machinery and Equipment	36,249	5,734	(2,417)	39,566
Total Accumulated depreciation:	987,293	92,511	(4,287)	1,075,517
Total Capital Assets, being depreciated, net:	1,596,786	32,031	(194)	1,628,623
Governmental activities Capital Assets, net:	\$ 2,442,117	\$ 411,400	\$ (168,225)	\$ 2,685,292

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 24,065	\$ 757	\$ -	\$ 24,822
Water Rights	64,688	-	-	64,688
Construction In Progress	151,002	121,654	(20,940)	251,716
Total Capital Assets, not being depreciated:	239,755	122,411	(20,940)	341,226
Capital Assets, being depreciated:				
Water System	551,796	30,449	-	582,245
Sewer System	327,792	18,042	-	345,834
Buildings and Land Improvements	15,574	2,477	-	18,051
Machinery and Equipment	6,673	639	-	7,312
Furniture, Fixtures and Office Equipment	621	-	-	621
Total Capital Assets, being depreciated:	902,456	51,607	-	954,063
Less Accumulated depreciation for:				
Water System	150,589	16,457	-	167,046
Sewer System	70,347	8,863	-	79,210
Buildings and Land Improvements	5,428	845	-	6,273
Machinery and Equipment	2,701	279	-	2,980
Furniture, Fixtures and Office Equipment	504	46	-	550
Total Accumulated depreciation:	229,569	26,490	-	256,059
Total Capital Assets, being depreciated, net:	672,887	25,117	-	698,004
Business-type activities capital assets, net	\$ 912,642	\$ 147,528	\$ (20,940)	\$ 1,039,230

During fiscal year 2005/06, the Water and Sewer Utility Enterprise Fund capitalized net interest costs of \$10,000,049. Total interest expense in this fund before capitalization was \$10,000,049.

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

Governmental Activities	
General Government	5,408
Police	1,643
Financial Services	211
Transportation	68,488
Community Services	4,223
Information Services	3,770
Fire	542
Municipal Services	2,961
Citizen and Neighborhoods Resources	7
Human Resources	34
Economic Vitality	3
Planning and Development	31
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,190
Total Depreciation Expense - Government Activities	\$92,511

Business-type Activities	
Water and Sewer System	\$ 25,486
Airport	807
Solid Waste	197
	<hr/>
Total Depreciation Expense - Business-type Activities	<u>\$ 26,490</u>

Construction Commitments

The City has active construction projects as of June 30, 2006. 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	\$ 95,331	\$ 13,098
Traffic	28,421	3,382
Fire	22,038	691
Police	5,080	1,560
Drain/Flood Control	13,750	864
Community/Preserve	177,089	9,268
Parks/Recreation	61,854	7,925
Municipal Facilities	11,344	891
Technology	25,749	1,569
Libraries	2,447	358
Airport	3,614	178
Transit	10,437	4,509
Water System	307,469	54,006
Sewer System	132,047	1,492
	<hr/>	
Total Construction Commitments	<u>\$ 896,670</u>	<u>\$ 99,791</u>

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.

E. 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, 2006, is as follows:

Receivable Fund		Payable Fund	
(in thousands of dollars)	Amount	(in thousands of dollars)	Amount
General	\$ 78	Nonmajor Governmental Funds	\$ 78
Total	\$ 78	Total	\$ 78

The Home Fund had a deficit cash balance of \$78,000 due to the grant being received on a reimbursement basis.

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.

Net transfers (in thousands of dollar):

Transfers Out		Transfers In	
From:		To:	
Major Governmental Funds		Major Governmental Funds	
General	\$ 44,312	Capital Projects	
		General CIP Construction	\$ 33,804
		Nonmajor Governmental Funds	7,672
		Internal Service Funds	2,836
Capital Projects		Nonmajor Governmental funds	2,333
General CIP Construction	2,333	Major Governmental Funds	
General Obligation Bond	49,235	Capital Projects	
		General CIP Construction	33,864
		Nonmajor Governmental funds	15,371
Total Major Governmental Funds	95,880	Total Major Governmental Funds	95,880

(continued)

**Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

Transfers Out		Transfers In	
From:		To:	
Major Enterprise Funds		Major Governmental Funds	
Water and Sewer	\$ 10,306	General Fund	\$ 8,056
		Capital Projects	
		General CIP Construction	1,387
		Major Enterprise Funds	
		Airport	597
		Internal Service	
Airport	84	Major Governmental Funds	
		General Fund	63
		Capital Projects	
		General CIP Construction	10
		Internal Service	
			11
Solid Waste	743	Major Governmental Funds	
		General Fund	16
		Capital Projects	
		General CIP Construction	81
		Nonmajor Governmental Funds	
			271
		Internal Service	
			375
Total Major Enterprise Funds	<u>11,133</u>	Total Major Enterprise Funds	<u>11,133</u>
Nonmajor Governmental Funds		Major Governmental Funds	
	44,633	General Fund	12
		Debt Service	
		General Obligation Bond	15,267
		Capital Projects	
		General CIP Construction	689
		General Obligation Bond	1,003
		Nonmajor Governmental funds	
			27,508
		Internal Service	
			154
Total Nonmajor Governmental Funds	<u>44,633</u>	Total Nonmajor Governmental Funds	<u>44,633</u>
Internal Service		Major Governmental Funds	
	290	Capital Projects	
		General CIP Construction	236
		Internal Service	
			54
Total Internal Service Funds	<u>290</u>	Total Internal Service Funds	<u>290</u>
Total	<u>\$ 151,936</u>	Total	<u>\$ 151,936</u>

F. Leases

Operating Leases

The City has entered into rental agreements of retail and parking facilities. Rental payments on these facilities during fiscal year 2005-2006 were \$4,033,959. Payments are contingent upon sales tax revenues received on the properties; thus, future payments cannot be determined.

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of a modular office building for its water operations. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded in the Water and Sewer Fund at the present value of the future minimum lease payments as of the inception date. The building acquired by this lease agreement is recorded in the Water System at a value of \$212,654, less accumulated depreciation of \$354.

G. Bonds, Loans, and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2006. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2006.

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, 2006, the City had \$157,200,000 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. At June 30, 2006, the City had \$480,000,000 of unissued Preservation GO bonds from the May 2004 authorization. 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 and Sewer 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 City of Scottsdale 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, the 2004 MPC bonds and the 2005E MPC bonds are recorded in and paid out of the revenues of the Water and Sewer Enterprise Fund.

Scottsdale Preserve Authority Bonds

The Scottsdale Preserve Authority (SPA) is a nonprofit corporation created by the City in 1997 to finance land acquisitions for the McDowell Sonoran Preserve. The SPA issues its own bonds, which are repaid through the two tenths of one percent City sales tax approved by voters in September 1996 to be used specifically for this purpose. 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, 2006, the funds reserved for this purpose were \$18,561,591.

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, 2006, 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, 2006, 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 2005/06. 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 CFD refunded debt outstanding at June 30, 2006, and net of any amounts to be paid or retired by the trustee on July 1, 2006 (in thousands of dollars).

Refunded Debt Outstanding (in thousands of dollars)

McDowell Mountain Ranch CFD:

General Obligation Series 1997	\$	6,910
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Scottsdale Mountain CFD:

General Obligation Series Series 1993B		25
		25

Total CFD Bonds Refunded in Prior Years	\$	6,935
		6,935

Bonds payable at June 30, 2006, are comprised of the following:

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

	<u>Bonds Outstanding (in thousands of dollars)</u>
General Obligation Bonds	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water and Sewer 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.	\$ 7,590
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 and Sewer 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.	-
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.	18,780
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.	6,345
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.	3,450
1999 Preservation Bonds (issued November 16, 1999) due in annual installments of \$800,000 to \$4,225,000 through July 1, 2024; interest at 7.5 percent to 5.0 percent. On July 18, 2001, \$32,375,000 due 2012 through 2022 were refunded, 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.	5,500
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.	3,455

	<u>Bonds Outstanding (in thousands of dollars)</u>
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.	36,620
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, \$3,000,000 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.	14,525
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.	58,445
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.	14,925
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.	110,100
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
2005A Various Purpose Bonds (issued December 1, 2005) due in annual installments of \$2,500,000 to \$10,750,000 through July 1, 2024; interest at 3.5 percent to 5 percent. Original issue amount \$125,000,000.	125,000
2005B Preservation Bonds (issued December 1, 2005) due in annual installments of \$775,000 to \$1,575,000 through July 1, 2024; interest at 3.5 percent to 5 percent. Original issue amount \$20,000,000.	20,000
Total General Obligation Bonds Outstanding	<u>\$ 499,365</u>
<p>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. The 2005B Preservation Bonds of \$20,000,000 are paid from the .15% Preservation Sales Tax.</p>	
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.	<u>\$ 2,990</u>

	<u>Bonds Outstanding (in thousands of dollars)</u>
Municipal Property Corporation Bonds	
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.	\$ 350
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.	20,615
2005D Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$200,000 to \$3,625,000 through July 1, 2035; interest at 3.25 percent to 5 percent. Original issue amount, \$46,500,000.	<u>46,500</u>
Total MPC Bonds Outstanding	<u>\$ 108,225</u>
Scottsdale Preserve Authority Bonds	
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.	\$ 41,175
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.	16,545
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of \$75,000 to \$3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$22,925,000.	<u>22,850</u>
Total Scottsdale Preserve Authority Bonds	<u>\$ 80,570</u>
Special Assessment Bonds	
Special Assessment Bonds issued September 28, 1998, through December 20, 2001, maturing January 1, 2009, through January 1, 2013; due in annual installments of \$85,000 to \$750,000; interest at 4.5 percent to 4.625 percent. Total original issue amount, \$8,350,000.	<u>\$ 5,505</u>
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.	<u>\$ 7,090</u>
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.	\$ 4,435

	<u>Bonds Outstanding (in thousands of dollars)</u>
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.	2,925
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.	16,170
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.	2,910
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.	4,310
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.	<u>11,195</u>
Total Community Facilities Districts General Obligation Bonds Outstanding	<u>\$ 41,945</u>
Total Bonds Payable Recorded in Governmental Activities	<u><u>\$ 745,690</u></u>

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

	<u>Bonds Outstanding (in thousands of dollars)</u>
General Obligation Bonds	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water and Sewer Fund. The original issue amount for the 1993 Refunding Bonds was \$45,015,000.	\$ -
1993A Refunding Bonds due in annual installments of \$475,000 to \$5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. \$1,315,000 of these bonds are recorded in and paid out of the Water and Sewer Fund. The original issue amount for the 1993A Refunding Bonds was \$24,265,000.	<u>-</u>
Total General Obligation Bonds Outstanding	<u>\$ -</u>

	Bonds Outstanding (in thousands of dollars)
	<u> </u>
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.	\$ 4,750
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.	8,575
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.	30,645
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. Original issue amount \$18,880,000.	<u>18,435</u>
Total Water and Sewer Revenue Bonds Outstanding	<u>\$ 62,405</u>
 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. These bonds were defeased July 5, 2005. Original issue amount, \$3,500,000.	\$ -
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 and Sewer Enterprise Fund. Original issue amount, \$10,500,000.	3,545
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. Original issue amount \$75,000,000.	70,060
2005E Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$2,275,000 to \$6,305,000 through July 1, 2030; interest at 5 percent. These bonds are recorded in and paid out of the Water and Sewer Enterprise Fund. Original issue amount \$88,360,000.	<u>88,360</u>
Total Municipal Property Corporation Bonds Outstanding	<u>\$ 161,965</u>
Total Bonds Payable Recorded in Business-type Activities	<u>\$ 224,370</u>
Total Long-term Bonds Payable	<u><u>\$ 970,060</u></u>

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, and open space purposes may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Accretion on capital appreciation bonds, which is included for GAAP purposes as outstanding debt, is excluded for this calculation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the City of Scottsdale, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2006 (in thousands of dollars):

General Obligation Bonds Issued to Provide Water, Sewer, Light,		General Obligation Bonds Issued for All Other Purposes	
20% Constitutional Limit	\$ 947,151	6% Constitutional Limit	\$ 284,145
Less General Obligation 20% Bonds Outstanding	<u>(372,545)</u>	Less General Obligation 6% Bonds Outstanding	<u>(126,820)</u>
Available 20% Limitation Borrowing Capacity	<u>\$ 574,606</u>	Available 6% Limitation Borrowing Capacity	<u>\$ 157,325</u>

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City's outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2006.

Advance Refundings and Defeasances

There were no refundings during the year ended June 30, 2006. 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 following tables reflect refunded debt outstanding at June 30, 2006, and net of any amounts to be paid or retired by the trustee on July 1, 2006 (in thousands of dollars).

Refunded Debt Outstanding (in thousands of dollars)	
1998 General Obligation Bonds	\$ 8,180
1999A General Obligation Bonds	15,525
1999 Preservation General Obligation Bonds	44,725
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	<u>9,210</u>
	<u>\$ 176,450</u>

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, 2006.

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

	<u>Contracts Payable (in thousands of dollars)</u>
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.	\$ 3,107
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.	155
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.	1,595
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.	1,485
Contract payable for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through January 2010; interest at 10.0 percent.	51
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.	5,540
Contract payable for marketing of car dealerships located in southern Scottsdale; due in annual installments beginning January 2006; non-interest bearing.	<u>1,200</u>
Total Contracts Payable Recorded in Governmental Activities	<u><u>\$ 13,136</u></u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2006 (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	\$ 372,070	\$ 145,000	\$ (17,705)	\$ 499,365	\$ 23,165
HURF Revenue Bonds	5,815	-	(2,825)	2,990	2,990
Municipal Property Corporation Bonds	61,253	47,142	(170)	108,225	370
Scottsdale Preserve Authority Bonds	83,385	-	(2,815)	80,570	2,965
Special Assessments Bonds	6,340	-	(835)	5,505	835
Certificates of Participation	7,650	-	(560)	7,090	689
Community Facilities Districts General Obligation Bonds	43,480	-	(1,535)	41,945	1,615
Add Deferred Issuance Premiums	11,868	5,501	(1,510)	15,859	-
Less Deferred Amounts on Refunding	(11,693)	-	1,459	(10,234)	-
Total Bonds Payable	580,168	197,643	(26,496)	751,315	32,629
Contracts Payable	14,324	-	(1,188)	13,136	1,218
Compensated Absences	13,900	13,053	(8,064)	18,889	9,416
Governmental Activity Long-term Liabilities	<u>\$ 608,392</u>	<u>\$ 210,696</u>	<u>\$ (35,748)</u>	<u>\$ 783,340</u>	<u>\$ 43,263</u>

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the year ended June 30, 2006, \$464,000 of accrued compensated absences is included in the above amount. For the governmental activities, the General Fund, Special Revenue Funds and Capital Projects Funds generally liquidate accrued compensated absences. The compensated absences presented in this note are net of the current liability of \$56,000 in the governmental funds and \$2,000 in the Internal Service 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	\$ 6,515	\$ -	\$ (6,515)	\$ -	\$ -
Water and Sewer Revenue Bonds	65,735	-	(3,330)	62,405	3,475
Municipal Property Corporation Bonds	79,430	88,360	(5,825)	161,965	4,535
Add Deferred Issuance Premiums	6,059	3,767	(649)	9,177	-
Less Deferred Amounts on Refunding	(1,530)	-	285	(1,245)	-
Total Bonds Payable	156,209	92,127	(16,034)	232,302	8,010
Capital Lease	-	213	(34)	179	40
Compensated Absences	1,971	1,241	(1,031)	2,181	1,000
Business-type Activity Long-term Liabilities	<u>\$ 158,180</u>	<u>\$ 93,581</u>	<u>\$ (17,099)</u>	<u>\$ 234,662</u>	<u>\$ 9,050</u>

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2006. Deferred issuance costs and deferred amounts on refunding are not included.

Governmental Activities (in thousands of dollars)									
Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			General Obligation Bonds Issued For All Other Purposes 6% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 9,090	\$ 17,261	\$ 26,351	\$ 14,075	\$ 5,757	\$ 19,832	\$ 23,165	\$ 23,018	\$ 46,183
2008	8,590	16,802	25,392	13,165	5,157	18,322	21,755	21,959	43,714
2009	11,445	16,374	27,819	11,220	4,598	15,818	22,665	20,972	43,637
2010	13,450	15,856	29,306	10,115	4,081	14,196	23,565	19,937	43,502
2011	21,890	15,202	37,092	3,995	3,607	7,602	25,885	18,809	44,694
2012-2016	84,560	61,354	145,914	46,575	13,963	60,538	131,135	75,317	206,452
2017-2021	111,605	41,183	152,788	27,675	2,317	29,992	139,280	43,500	182,780
2022-2025	111,915	13,039	124,954	-	-	-	111,915	13,039	124,954
Total	\$ 372,545	\$ 197,071	\$ 569,616	\$ 126,820	\$ 39,480	\$ 166,300	\$ 499,365	\$ 236,551	\$ 735,916

Fiscal Year	Highway User Revenue Bonds			Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 2,990	\$ 165	\$ 3,155	\$ 370	\$ 4,434	\$ 4,804	\$ 2,965	\$ 3,836	\$ 6,801
2008	-	-	-	609	4,441	5,050	3,110	3,672	6,782
2009	-	-	-	260	4,410	4,670	3,260	3,500	6,760
2010	-	-	-	1,448	4,451	5,899	3,365	3,367	6,732
2011	-	-	-	1,243	4,370	5,613	3,470	3,229	6,699
2012-2016	-	-	-	12,211	23,547	35,758	19,930	13,435	33,365
2017-2021	-	-	-	28,934	25,677	54,611	25,670	7,982	33,652
2022-2026	-	-	-	17,640	13,396	31,036	18,800	1,721	20,521
2027-2031	-	-	-	23,755	8,506	32,261	-	-	-
2032-2036	-	-	-	21,085	2,329	23,414	-	-	-
Capital Appreciation **	-	-	-	670	(670)	-	-	-	-
Total	\$ 2,990	\$ 165	\$ 3,155	\$ 108,225	\$ 94,891	\$ 203,116	\$ 80,570	\$ 40,742	\$ 121,312

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

Fiscal Year	Special Assessment Bonds			Certificates of Participation			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 835	\$ 229	\$ 1,064	\$ 689	\$ 228	\$ 917	\$ 1,615	\$ 2,046	\$ 3,661
2008	835	192	1,027	712	205	917	1,685	1,978	3,663
2009	835	154	989	735	181	916	1,760	1,907	3,667
2010	750	118	868	760	157	917	1,870	1,830	3,700
2011	750	84	834	785	132	917	1,965	1,747	3,712
2012-2016	1,500	68	1,568	3,409	258	3,667	11,230	7,279	18,509
2017-2021	-	-	-	-	-	-	12,455	4,354	16,809
2022-2026	-	-	-	-	-	-	7,970	1,421	9,391
2027-2031	-	-	-	-	-	-	1,395	70	1,465
Total	\$ 5,505	\$ 845	\$ 6,350	\$ 7,090	\$ 1,161	\$ 8,251	\$ 41,945	\$ 22,632	\$ 64,577

(continued)

Governmental Activities (concluded)

(in thousands of dollars)

Fiscal Year	Contracts Payable			Total		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,218	\$ 430	\$ 1,648	\$ 33,847	\$ 34,386	\$ 68,233
2008	1,257	393	1,650	29,963	32,840	62,803
2009	1,339	355	1,694	30,854	31,479	62,333
2010	1,288	314	1,602	33,046	30,174	63,220
2011	1,023	272	1,295	35,121	28,643	63,764
2012-2016	2,838	777	3,615	182,253	120,681	302,934
2017-2021	1,209	497	1,706	207,548	82,010	289,558
2022-2026	1,395	310	1,705	157,720	29,887	187,607
2027-2031	1,221	85	1,306	26,371	8,661	35,032
2032-2036	348	-	348	21,433	2,329	23,762
Capital Appreciation	-	-	-	670	(670)	-
Total	\$ 13,136	\$3,433	\$ 16,569	\$ 758,826	\$ 400,420	\$ 1,159,246

Business-type Activities
(in thousands of dollars)

Fiscal Year	Water and Sewer Revenue Bonds			Municipal Property Corporation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 3,475	\$ 2,997	\$ 6,472	\$ 4,535	\$ 8,117	\$ 12,652
2008	3,635	2,802	6,437	4,735	7,890	12,625
2009	3,785	2,598	6,383	5,255	7,672	12,927
2010	3,260	2,420	5,680	5,380	7,409	12,789
2011	3,380	2,255	5,635	5,580	7,140	12,720
2012-2016	16,760	8,813	25,573	31,700	31,291	62,991
2017-2021	19,100	4,812	23,912	41,375	22,418	63,793
2022-2026	9,010	620	9,630	39,815	11,257	51,072
2027-2031	-	-	-	23,590	3,015	26,605
Total	\$ 62,405	\$ 27,317	\$ 89,722	\$ 161,965	\$ 106,209	\$ 268,174

Fiscal Year	Capital Lease			Total		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 40	\$ 7	\$ 47	\$ 8,050	\$ 11,121	\$ 19,171
2008	42	5	47	8,412	10,697	19,109
2009	43	4	47	9,083	10,274	19,357
2010	46	2	48	8,686	9,831	18,517
2011	8	-	8	8,968	9,395	18,363
2012-2016	-	-	-	48,460	40,104	88,564
2017-2021	-	-	-	60,475	27,230	87,705
2022-2026	-	-	-	48,825	11,877	60,702
2027-2031	-	-	-	23,590	3,015	26,605
Total	\$ 179	\$ 18	\$ 197	\$ 224,549	\$ 133,544	\$ 358,093

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to public, property, and aviation premises liability, self-insured benefits and workers compensation. Public liability includes public officials’ errors and omissions, automobile and general liability. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property coverage, the first \$150,000 of health benefits claims and the first \$750,000 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, 2006, the global property-casualty re-insurance marketplace hardened dramatically as a result of the uncommonly severe 2004 and 2005 storm seasons, producing a restricted market that resulted in the City obtaining only \$20 million in flood zone insurance. 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 as well as a corridor reserve for the self-insured benefits. At June 30, 2006, the general liability claims payable totaled \$9,678,473 and the self-insured benefits claims payable totaled \$5,056,000. The City began to administer all self-insured health and dental plans in January of 2004.

	Years Ended June 30	
	2006	2005
(in thousands of dollars)		
Claims Payable, July 1	\$ 15,565	\$ 14,678
Current Year Claims Incurred	16,366	18,016
Current Year Claim Payments	<u>(17,197)</u>	<u>(17,129)</u>
Claims Payable, June 30	<u>\$ 14,734</u>	<u>\$ 15,565</u>

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 July 11th, 2006, the City agreed to the sale of Planet Ranch, including all related water rights, farm infrastructure and equipment to Phelps Dodge Corporation. Planet Ranch is land that was purchased by the City in 1984 to secure future water supplies. It is located along the Bill Williams River in western Arizona, east of Parker. It consists of 8,300 acres of land and has 14,400 acre-feet of surface water rights to the Bill Williams River. When all conditions are satisfied and the sale of the property closes, the City is expected to receive a total value of \$24.65 million, consisting of \$12 million cash and water rights valued at \$12.65 million. The major conditions for closure are:

- Deposit of remaining cash balance into the City's Water and Sewer Fund.
- Arizona Department of Water Resources approval of sever and transfer and change of use of a portion of Planet Ranch water rights for habitat restoration.
- Arizona Department of Water Resources approval of sever and transfer and change of use of a Horseshoe Dam water credits to the City of Scottsdale water service area.
- Completion of assignment agreement for Horseshoe Dam water credits between the Corporation, the City and Salt River Project.
- Creation of a conservation easement on Planet Ranch property.
- Completion of Lower Colorado River Multi-Species Conservation Program habitat Development Agreement insuring use of Planet Ranch property for habitat restoration purposes.

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. Payments are expected to be during or after fiscal year 2007/08.

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 \$3,048,929 for the year ended June 30, 2006. Contractual payments due in fiscal year 2006/07 are budgeted for \$3,456,639.

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 \$5,975,110 for the year ended June 30, 2006. Contractual payments due in fiscal year 2006/07 are budgeted for \$6,467,230.

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, 2006, is \$14,416,975.

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 probable contingent liability at June 30, 2006, is \$7,974,621.

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 Fund. For the year ended June 30, 2005, (the latest audited information available from SROG), the City's net investment in SROG was \$77,221,000. SROG's net cash operating expenses for the year ended June 30, 2005, were \$29,416,544, of which the City's share was \$3,805,137, or 12.9 percent. For the year ended June 30, 2006, the City paid \$12,502,537 for SROG capital contributions, and \$3,725,223 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005 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, 2006, 2005, and 2004, were 7.40% (6.90% retirement and .50% long-term disability) 5.70% and 5.70%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2006, 2005, and 2004 were \$6,876,822, \$4,944,354, and \$4,680,164, 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 11.56% of annual covered payroll, consisting of 10.60% for normal cost and .96% for amortization of unfunded actuarial accrued liability. Contribution rates for police were 7.65% and 7.77% in 2005 and 2004, 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 rate for fire in 2004 because they contracted this service out to a third party vendor.

Annual Pension Cost

For 2006, the City's annual pension costs of \$2,897,078 for police and \$1,600,785 for fire were equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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
2004	\$ 1,794	100%	-
2005	2,102	100%	-
2006	2,897	100%	-

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 1,601	100%	-

There is only one year of actuarial information available for the Fire Department as it was formed during fiscal year 2005.

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, 2006, 2005, and 2004, were 20.54%, 13.49%, and 13.49%, respectively. The City's contributions to EORP for the years ending June 30, 2006, 2005, and 2004, were \$29,720, \$19,425, and \$19,658, respectively, equal to the required contributions for each year.

G. Other Post-Employment Benefits

In addition to the pension benefits described in F 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-seven participants were added during fiscal year 2005/06 increasing the total number of participants to 138 at fiscal year-end. The projected liability, as of June 30, 2006, for medical conversion was \$11,317,198. Of this liability, \$47,712 was considered current and reflected in the governmental fund statements. An additional \$8,517,547 was considered payable within one year or greater and is not reflected as a current expenditure in the governmental fund statements. The projected liability is based on a January 1, 2006, 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, 2006 actuarial valuation include a) mortality rates based on the RP 2000 male and female rates, b) interest compounded 4.0 percent annually, c) salaries increase at a rate of 3.5% to 7.5% based on years of service per annum, d) projected unit credit cost method based on participant data as of January 1, 2006.



**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)
2000	84,435	65,021	129.9%	19,414	18,547	0.0%
2001	93,684	73,216	128.0%	(20,468)	20,406	0.0%
2002	94,784	80,997	117.0%	(13,787)	20,930	0.0%
2003	98,287	91,841	107.0%	(6,446)	21,996	0.0%
2004	99,394	103,136	96.4%	3,742	22,647	16.5%
2005	102,153	118,662	86.1%	16,509	23,816	69.3%

**Public Safety Personnel Retirement System
(Fire)
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)
2005	2,205	1,325	166.4%	(880)	1,791	0.0%

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.

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

Waterfront 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.

Municipal Property Corporation Bond Fund

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

Preserve Privilege Tax Fund

Accounts for the 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.

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, 2006 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 39,969	\$ 7,046	\$ 44,058	\$ 91,073
Cash with Fiscal Agent	2,983	13,751	258	16,992
Receivables				
Interest	207	-	290	497
Privilege Tax	4,443	-	-	4,443
Property Tax	-	164	-	164
Highway User Tax	1,441	-	-	1,441
Intergovernmental	1,327	-	-	1,327
Grants	96	-	-	96
Special Assessments	-	5,436	-	5,436
Miscellaneous	278	-	-	278
Total Assets	<u>\$ 50,744</u>	<u>\$ 26,397</u>	<u>\$ 44,606</u>	<u>\$ 121,747</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 2,580	\$ 29	\$ 6,338	\$ 8,947
Accrued Payroll and Benefits	131	-	12	143
Due to Other Funds	78	-	-	78
Matured Bond Interest Payable	158	5,588	-	5,746
Matured Bonds Payable	2,825	4,520	-	7,345
Deferred Revenue				
Property Tax	-	110	-	110
Special Assessments	-	5,436	-	5,436
Intergovernmental	1,354	-	-	1,354
Guaranty and Other Deposits	2,643	-	489	3,132
Other	23	8	-	31
Total Liabilities	<u>9,792</u>	<u>15,691</u>	<u>6,839</u>	<u>32,322</u>
Fund Balances				
Reserved for				
Debt Service	-	10,706	-	10,706
Unreserved, Undesignated	<u>40,952</u>	<u>-</u>	<u>37,767</u>	<u>78,719</u>
Total Fund Balances	<u>40,952</u>	<u>10,706</u>	<u>37,767</u>	<u>89,425</u>
Total Liabilities and Fund Balances	<u>\$ 50,744</u>	<u>\$ 26,397</u>	<u>\$ 44,606</u>	<u>\$ 121,747</u>

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes - Local				
Property	\$ -	\$ 3,361	\$ -	\$ 3,361
Transaction Privilege	55,503	-	-	55,503
Highway User Tax	15,708	-	-	15,708
Local Transportation Assistance Fund	1,098	-	-	1,098
Charges for Current Services				
Building and Related Permits	38	-	-	38
Recreation Fees	931	-	-	931
Fines, Fees and Forfeitures				
Code Enforcement	163	-	-	163
Court Fines	48	-	-	48
Court Enhancement	925	-	-	925
Special Assessments	-	1,106	-	1,106
Property Rental	578	132	-	710
Interest Earnings	1,026	185	1,521	2,732
Intergovernmental				
Federal Grants	7,673	-	705	8,378
State Grants	322	-	-	322
Miscellaneous	1,445	1,208	1,000	3,653
Developer Contributions	2	-	30	32
Contributions and Donations	724	-	-	724
Reimbursements From Outside Sources	97	2	-	99
Other	96	-	-	96
Total Revenues	<u>86,377</u>	<u>5,994</u>	<u>3,256</u>	<u>95,627</u>

(continued)

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
EXPENDITURES				
Current				
General Government	1,170	263	-	1,433
Police	974	-	-	974
Transportation	10,099	-	-	10,099
Community Services	9,151	-	-	9,151
Municipal Services	8,268	-	-	8,268
Citizen and Neighborhood Resources	8	-	-	8
Human Resources	9	-	-	9
Planning and Development	21	-	-	21
Debt Service				
Principal	3,480	5,371	-	8,851
Interest and Fiscal Charges	614	9,951	1	10,566
Bond Issuance Costs	-	-	26	26
Capital Improvements	3,767	-	38,992	42,759
Total Expenditures	<u>37,561</u>	<u>15,585</u>	<u>39,019</u>	<u>92,165</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>48,816</u>	<u>(9,591)</u>	<u>(35,763)</u>	<u>3,462</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,775	14,313	35,067	53,155
Transfers Out	(43,512)	(4)	(1,117)	(44,633)
Long-term Capital-Related Debt Issued	-	-	20,000	20,000
Premium on Bonds Issued	-	977	-	977
Total Other Financing Sources and (Uses)	<u>(39,737)</u>	<u>15,286</u>	<u>53,950</u>	<u>29,499</u>
Net Change in Fund Balances	9,079	5,695	18,187	32,961
Fund Balances - Beginning	<u>31,873</u>	<u>5,011</u>	<u>19,580</u>	<u>56,464</u>
Fund Balances - Ending	<u>\$ 40,952</u>	<u>\$ 10,706</u>	<u>\$ 37,767</u>	<u>\$ 89,425</u>

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds

June 30, 2006 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Special Programs	Total
ASSETS								
Cash and Investments	\$ 3,334	\$ 14	\$ -	\$ 100	\$ 318	\$ 27,311	\$ 8,892	\$ 39,969
Cash with Fiscal Agent	2,983	-	-	-	-	-	-	2,983
Receivables								
Interest	-	-	-	-	-	172	35	207
Privilege Tax	1,591	-	-	-	-	2,852	-	4,443
Highway User Tax	1,441	-	-	-	-	-	-	1,441
Intergovernmental	-	-	-	-	-	-	1,327	1,327
Grants	-	78	-	18	-	-	-	96
Miscellaneous	5	-	-	22	-	-	251	278
Total Assets	\$ 9,354	\$ 92	\$ -	\$ 140	\$ 318	\$ 30,335	\$ 10,505	\$ 50,744
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ 2,133	\$ 82	\$ 22	\$ 220	\$ 7	\$ -	\$ 116	\$ 2,580
Accrued Payroll and Benefits	117	6	-	2	6	-	-	131
Due to Other Funds	-	-	78	-	-	-	-	78
Matured Bond Interest Payable	158	-	-	-	-	-	-	158
Matured Bonds Payable	2,825	-	-	-	-	-	-	2,825
Deferred Revenue								
Intergovernmental	-	-	-	27	-	-	1,327	1,354
Guaranty and Other Deposits	40	-	-	-	-	-	2,603	2,643
Other	-	-	-	-	-	-	23	23
Total Liabilities	5,273	88	100	249	13	-	4,069	9,792
Fund Balances								
Unreserved, Undesignated	4,081	4	(100)	(109)	305	30,335	6,436	40,952
Total Fund Balances (Deficit)	4,081	4	(100)	(109)	305	30,335	6,436	40,952
Total Liabilities and Fund Balances	\$ 9,354	\$ 92	\$ -	\$ 140	\$ 318	\$ 30,335	\$ 10,505	\$ 50,744

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

Nonmajor Special Revenue Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Highway User Fuel Tax	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Special Programs	Total
REVENUES								
Taxes - Local								
Transaction Privilege	\$ 20,020	\$ -	\$ -	\$ -	\$ -	\$ 35,483	\$ -	\$ 55,503
Highway User Tax	15,708	-	-	-	-	-	-	15,708
Local Transportation Assistance Fund	1,098	-	-	-	-	-	-	1,098
Charges for Current Services								
Building and Related Permits	-	-	-	-	-	-	38	38
Recreation Fees	-	-	-	-	-	-	931	931
Fines, Fees and Forfeitures								
Code Enforcement	-	-	-	-	-	-	163	163
Court Fines	-	-	-	-	-	-	48	48
Court Enhancement Fee	-	-	-	-	-	-	925	925
Property Rental	-	-	-	-	-	-	578	578
Interest Earnings	-	-	-	1	9	870	146	1,026
Intergovernmental								
Federal Grants	-	852	659	438	5,724	-	-	7,673
State Grants	201	-	-	121	-	-	-	322
Miscellaneous	-	-	-	850	-	-	595	1,445
Developer Contributions	-	-	-	-	-	-	2	2
Contributions and Donations	-	-	-	169	-	-	555	724
Reimbursements From Outside Sources	96	-	-	-	1	-	-	97
Other	42	-	-	-	6	-	48	96
Total Revenues	37,165	852	659	1,579	5,740	36,353	4,029	86,377
EXPENDITURES								
Current								
General Government	-	-	-	819	-	1	350	1,170
Police	-	-	-	568	-	-	406	974
Transportation	10,099	-	-	-	-	-	-	10,099
Community Services	-	848	759	239	5,359	-	1,946	9,151
Municipal Services	8,268	-	-	-	-	-	-	8,268
Citizen and Neighborhood Resources	-	-	-	-	-	-	8	8
Human Resources	-	-	-	-	-	-	9	9
Planning and Development	-	-	-	-	-	-	21	21
Debt Service								
Principal	2,825	-	-	-	-	655	-	3,480
Interest and Fiscal Charges	317	-	-	-	-	297	-	614
Capital Improvements	3,197	-	-	471	-	-	99	3,767
Total Expenditures	24,706	848	759	2,097	5,359	953	2,839	37,561
Excess (Deficiency) of Revenues Over Expenditures	12,459	4	(100)	(518)	381	35,400	1,190	48,816
OTHER FINANCING SOURCES (USES)								
Transfers In	3,400	-	-	181	-	49	145	3,775
Transfers Out	(13,338)	-	-	(5)	-	(29,725)	(444)	(43,512)
Total Other Financing Sources and (Uses)	(9,938)	-	-	176	-	(29,676)	(299)	(39,737)
Net Change in Fund Balances	2,521	4	(100)	(342)	381	5,724	891	9,079
Fund Balances - Beginning	1,560	-	-	233	(76)	24,611	5,545	31,873
Fund Balances - Ending	\$ 4,081	\$ 4	\$ (100)	\$ (109)	\$ 305	\$ 30,335	\$ 6,436	\$ 40,952

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, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local						
Transaction Privilege	\$ 18,322	\$ 18,322	\$ 20,020	\$ -	\$ 20,020	\$ 1,698
Taxes - Intergovernmental						
Highway User Tax	14,994	14,994	15,708	-	15,708	714
Local Transportation Assistance Fund	1,146	1,146	1,098	-	1,098	(48)
Intergovernmental						
State Grants	-	-	-	201	201	-
Reimbursement From Outside Sources	-	-	-	96	96	-
Other	-	-	-	42	42	-
Total Revenues	<u>34,462</u>	<u>34,462</u>	<u>36,826</u>	<u>339</u>	<u>37,165</u>	<u>2,364</u>
EXPENDITURES						
Current						
Transportation	13,085	13,085	10,120	(21)	10,099	2,965
Municipal Services	9,186	9,136	8,304	(36)	8,268	832
Debt Service						
Principal	2,825	2,825	2,825	-	2,825	-
Interest and Fiscal Charges	317	317	317	-	317	-
Capital Improvements	3,181	3,181	3,197	-	3,197	(16)
Total Expenditures	<u>28,594</u>	<u>28,544</u>	<u>24,763</u>	<u>(57)</u>	<u>24,706</u>	<u>3,781</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,868</u>	<u>5,918</u>	<u>12,063</u>	<u>396</u>	<u>12,459</u>	<u>6,145</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	3,364	3,364	3,400	-	3,400	36
Transfers Out	(9,232)	(9,232)	(13,338)	-	(13,338)	(4,106)
Total Other Financing Sources and Uses	<u>(5,868)</u>	<u>(5,868)</u>	<u>(9,938)</u>	<u>-</u>	<u>(9,938)</u>	<u>(4,070)</u>
Net Change in Fund Balance	-	50	2,125	396	2,521	2,075
Fund Balance - Beginning	-	-	1,560	-	1,560	1,560
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 3,685</u>	<u>\$ 396</u>	<u>\$ 4,081</u>	<u>\$ 3,635</u>
Explanation of Differences:						
The City does not budget for certain revenues:						
Grants				\$ 201		
Reimbursement From Outside Sources				96		
Other				42		
				<u>339</u>		
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:						
Compensated Absences				(57)		
Net Increase in Fund Balance - Budget to GAAP				<u>\$ 396</u>		

Preserve Privilege Tax - Special Revenue Fund

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

For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local						
Transaction Privilege	\$ 33,344	\$ 33,344	\$ 35,483	\$ -	\$ 35,483	\$ 2,139
Interest Earnings	652	652	870	-	870	218
Total Revenues	<u>33,996</u>	<u>33,996</u>	<u>36,353</u>	<u>-</u>	<u>36,353</u>	<u>2,357</u>
EXPENDITURES						
Current						
General Government	-	-	-	1	1	-
Debt Service						
Principal	655	655	655	-	655	-
Interest and Fiscal Charges	297	297	297	-	297	-
Total Expenditures	<u>952</u>	<u>952</u>	<u>952</u>	<u>1</u>	<u>953</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>33,044</u>	<u>33,044</u>	<u>35,401</u>	<u>(1)</u>	<u>35,400</u>	<u>2,357</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	49	-	49	49
Transfers Out	(38,492)	(38,492)	(29,725)	-	(29,725)	8,767
Total Other Financing Sources and Uses	<u>(38,492)</u>	<u>(38,492)</u>	<u>(29,676)</u>	<u>-</u>	<u>(29,676)</u>	<u>8,816</u>
Net Change in Fund Balance	(5,448)	(5,448)	5,725	(1)	5,724	11,173
Fund Balance - Beginning	<u>17,703</u>	<u>17,703</u>	<u>24,611</u>	<u>-</u>	<u>24,611</u>	<u>60,017</u>
Fund Balance - Ending	<u>\$ 12,255</u>	<u>\$ 12,255</u>	<u>\$ 30,336</u>	<u>\$ (1)</u>	<u>\$ 30,335</u>	<u>\$ 71,190</u>

Explanation of Differences:

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

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

Combining Balance Sheet

Nonmajor Debt Service Governmental Funds

June 30, 2006 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Waterfront CFD	Scottsdale Preserve Authority	Total
ASSETS									
Cash and Investments	\$ 6,625	\$ 351	\$ -	\$ -	\$ -	\$ -	\$ 70	\$ -	\$ 7,046
Cash with Fiscal Agent	2,577	124	995	2,241	2,098	906	-	4,810	13,751
Receivables (net of allowance for uncollectibles)									
Property Tax	-	-	12	36	75	41	-	-	164
Special Assessments	-	5,436	-	-	-	-	-	-	5,436
Total Assets	\$ 9,202	\$ 5,911	\$ 1,007	\$ 2,277	\$ 2,173	\$ 947	\$ 70	\$ 4,810	\$ 26,397
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts Payable	\$ -	\$ 11	\$ 4	\$ 4	\$ 5	\$ 4	\$ 1	\$ -	\$ 29
Matured Bond Interest Payable	2,407	124	98	399	480	85	-	1,995	5,588
Matured Bonds Payable	170	-	290	635	505	105	-	2,815	4,520
Deferred Revenue									
Property Tax	-	-	7	19	51	33	-	-	110
Special Assessments	-	5,436	-	-	-	-	-	-	5,436
Other	-	8	-	-	-	-	-	-	8
Total Liabilities	2,577	5,579	399	1,057	1,041	227	1	4,810	15,691
Fund Balances									
Reserved for									
Debt Service	6,625	332	608	1,220	1,132	720	69	-	10,706
Total Fund Balances	6,625	332	608	1,220	1,132	720	69	-	10,706
Total Liabilities and Fund Balances	\$ 9,202	\$ 5,911	\$ 1,007	\$ 2,277	\$ 2,173	\$ 947	\$ 70	\$ 4,810	\$ 26,397

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

Nonmajor Debt Service Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Municipal Property Corporation	Special Assessments	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Waterfront CFD	Scottsdale Preserve Authority	Total
REVENUES									
Taxes - Local									
Property	\$ -	\$ -	\$ 471	\$ 1,412	\$ 1,134	\$ 344	\$ -	\$ -	\$ 3,361
Special Assessments	-	1,106	-	-	-	-	-	-	1,106
Property Rental	132	-	-	-	-	-	-	-	132
Interest Earnings	1	-	28	54	66	35	-	1	185
Intergovernmental									
Miscellaneous	1,206	-	-	2	-	-	-	-	1,208
Reimbursements from Outside Sources	-	-	-	-	1	1	-	-	2
Total Revenues	1,339	1,106	499	1,468	1,201	380	-	1	5,994
EXPENDITURES									
Current									
General Government	-	2	9	28	174	16	34	-	263
Debt Service									
Principal	170	851	290	635	505	105	-	2,815	5,371
Interest and Fiscal Charges	3,539	275	198	797	974	171	-	3,997	9,951
Total Expenditures	3,709	1,128	497	1,460	1,653	292	34	6,812	15,585
Excess (Deficiency) of Revenues Over Expenditures	(2,370)	(22)	2	8	(452)	88	(34)	(6,811)	(9,591)
OTHER FINANCING SOURCES (USES)									
Transfers In	7,395	-	-	-	-	-	107	6,811	14,313
Transfers Out	-	-	-	-	-	-	(4)	-	(4)
Premium on Bonds Issued	977	-	-	-	-	-	-	-	977
Total Other Financing Sources and (Uses)	8,372	-	-	-	-	-	103	6,811	15,286
Net change in Fund Balances	6,002	(22)	2	8	(452)	88	69	-	5,695
Fund Balances - Beginning	623	354	606	1,212	1,584	632	-	-	5,011
Fund Balances - Ending	\$ 6,625	\$ 332	\$ 608	\$ 1,220	\$ 1,132	\$ 720	\$ 69	\$ -	\$ 10,706

General Obligation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Taxes - Local						
Property	\$ 28,401	\$ 28,401	\$ 27,928	\$ -	\$ 27,928	\$ (473)
Reimbursements from Outside Sources	-	-	4	-	4	4
Total Revenues	<u>28,401</u>	<u>28,401</u>	<u>27,932</u>	<u>-</u>	<u>27,932</u>	<u>(469)</u>
EXPENDITURES						
Debt Service						
Principal	20,069	20,069	17,705	-	17,705	2,364
Interest and Fiscal Charges	22,161	22,161	21,198	-	21,198	963
Bond Issuance Costs	-	-	296	-	296	(296)
Total Expenditures	<u>42,230</u>	<u>42,230</u>	<u>39,199</u>	<u>-</u>	<u>39,199</u>	<u>3,031</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13,829)</u>	<u>(13,829)</u>	<u>(11,267)</u>	<u>-</u>	<u>(11,267)</u>	<u>2,562</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	13,829	13,829	15,267	-	15,267	1,438
Premium on Bonds Issued	-	-	2,834	-	2,834	2,834
Total Other Financing Sources and Uses	<u>13,829</u>	<u>13,829</u>	<u>18,101</u>	<u>-</u>	<u>18,101</u>	<u>4,272</u>
Net Change in Fund Balance	-	-	6,834	-	6,834	6,834
Fund Balance - Beginning	<u>7,296</u>	<u>7,296</u>	<u>5,602</u>	<u>-</u>	<u>5,602</u>	<u>(1,694)</u>
Fund Balance - Ending	<u>\$ 7,296</u>	<u>\$ 7,296</u>	<u>\$ 12,436</u>	<u>\$ -</u>	<u>\$ 12,436</u>	<u>\$ 5,140</u>

Municipal Property Corporation Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Property Rental	\$ -	\$ -	\$ 132	\$ -	\$ 132	\$ 132
Interest Earnings	-	-	1	-	1	1
Intergovernmental	590	590	1,206	-	1,206	616
Total Revenues	<u>590</u>	<u>590</u>	<u>1,339</u>	<u>-</u>	<u>1,339</u>	<u>749</u>
EXPENDITURES						
Debt Service						
Principal	1,658	1,658	170	-	170	1,488
Interest and Fiscal Charges	3,122	3,122	3,539	-	3,539	(417)
Total Expenditures	<u>4,780</u>	<u>4,780</u>	<u>3,709</u>	<u>-</u>	<u>3,709</u>	<u>1,071</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,190)</u>	<u>(4,190)</u>	<u>(2,370)</u>	<u>-</u>	<u>(2,370)</u>	<u>1,820</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	4,330	4,330	7,395	-	7,395	3,065
Premium on Bonds Issued	-	-	977	-	977	977
Total Other Financing Sources and Uses	<u>4,330</u>	<u>4,330</u>	<u>8,372</u>	<u>-</u>	<u>8,372</u>	<u>4,042</u>
Net Change in Fund Balance	140	140	6,002	-	6,002	5,862
Fund Balance - Beginning	<u>345</u>	<u>345</u>	<u>623</u>	<u>-</u>	<u>623</u>	<u>278</u>
Fund Balance - Ending	<u>\$ 485</u>	<u>\$ 485</u>	<u>\$ 6,625</u>	<u>\$ -</u>	<u>\$ 6,625</u>	<u>\$ 6,140</u>

Special Assessments Bond Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Special Assessments	\$ 1,125	\$ 1,125	\$ 1,106	\$ -	\$ 1,106	\$ (19)
Total Revenues	1,125	1,125	1,106	-	1,106	(19)
EXPENDITURES						
Current:						
General Government	-	-	2	-	2	(2)
Debt Service						
Principal	849	849	851	-	851	(2)
Interest and Fiscal Charges	276	276	275	-	275	1
Total Expenditures	1,125	1,125	1,128	-	1,128	(3)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(22)	-	(22)	(22)
Fund Balance - Beginning	1,166	1,166	354	-	354	(812)
Fund Balance - Ending	\$ 1,166	\$ 1,166	\$ 332	\$ -	\$ 332	\$ (834)

Scottsdale Preserve Authority Bond Debt Service

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

For the Year Ended June 30, 2006 (in thousands of dollars)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
REVENUES						
Interest Earnings	\$ -	\$ -	\$ 1	\$ -	\$ 1	\$ 1
Total Revenues	-	-	1	-	1	1
EXPENDITURES						
Debt Service						
Principal	2,815	2,815	2,815	-	2,815	-
Interest and Fiscal Charges	3,998	3,998	3,997	-	3,997	1
Total Expenditures	6,813	6,813	6,812	-	6,812	1
Excess (Deficiency) of Revenues Over Expenditures	(6,813)	(6,813)	(6,811)	-	(6,811)	2
OTHER FINANCING SOURCES (USES)						
Transfers In	6,813	6,813	6,811	-	6,811	(2)
Total Other Financing Sources and Uses	6,813	6,813	6,811	-	6,811	(2)
Net Change in Fund Balance	-	-	-	-	-	-
Fund Balance - Beginning	-	-	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Combining Balance Sheet

Nonmajor Capital Projects Governmental Funds

June 30, 2006 (in thousands of dollars)

	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
ASSETS						
Cash and Investments	\$ 114	\$ 595	\$ 43,349	\$ -	\$ -	\$ 44,058
Cash with Fiscal Agent	-	-	-	104	154	258
Receivables						
Interest	1	-	289	-	-	290
Total Assets	<u>\$ 115</u>	<u>\$ 595</u>	<u>\$ 43,638</u>	<u>\$ 104</u>	<u>\$ 154</u>	<u>\$ 44,606</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ -	\$ 281	\$ 6,057	\$ -	\$ -	\$ 6,338
Accrued Payroll and Benefits	-	1	11	-	-	12
Guaranty and Other Deposits	-	-	489	-	-	489
Total Liabilities	<u>-</u>	<u>282</u>	<u>6,557</u>	<u>-</u>	<u>-</u>	<u>6,839</u>
Fund Balances						
Unreserved, Undesignated	115	313	37,081	104	154	37,767
Total Fund Balances	<u>115</u>	<u>313</u>	<u>37,081</u>	<u>104</u>	<u>154</u>	<u>37,767</u>
Total Liabilities and Fund Balances	<u>\$ 115</u>	<u>\$ 595</u>	<u>\$ 43,638</u>	<u>\$ 104</u>	<u>\$ 154</u>	<u>\$ 44,606</u>

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

Nonmajor Capital Projects Governmental Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Municipal Property Corporation	Preserve Privilege Tax	Transportation Privilege Tax	McDowell Mountain CFD	DC Ranch CFD	Total
REVENUES						
Interest Earnings	\$ 4	\$ 46	\$ 1,468	\$ 3	\$ -	\$ 1,521
Intergovernmental						
Federal Grants	-	-	705	-	-	705
Miscellaneous	-	-	1,000	-	-	1,000
Developer Contributions	-	-	30	-	-	30
Total Revenues	4	46	3,203	3	-	3,256
EXPENDITURES						
Debt Service						
Interest and Fiscal Charges	-	-	-	1	-	1
Bond Issuance Costs	-	26	-	-	-	26
Capital Improvements	-	8,138	30,656	-	198	38,992
Total Expenditures	-	8,164	30,656	1	198	39,019
Excess (Deficiency) of Revenues Over Expenditures	4	(8,118)	(27,453)	2	(198)	(35,763)
OTHER FINANCING SOURCES (USES)						
Transfers In	12	6,848	28,207			35,067
Transfers Out	(28)	(49)	(1,040)	-	-	(1,117)
Long-term Capital-Related Debt Issued	-	20,000	-	-	-	20,000
Total Other Financing Sources and (Uses)	(16)	26,799	27,167	-	-	53,950
Net Change in Fund Balances	(12)	18,681	(286)	2	(198)	18,187
Fund Balances - Beginning	127	(18,368)	37,367	102	352	19,580
Fund Balances - Ending	\$ 115	\$ 313	\$ 37,081	\$ 104	\$ 154	\$ 37,767

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, 2006 (in thousands of dollars)

	Fleet Management	Self- Insurance	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 12,043	\$ 19,350	\$ 31,393
Receivables (net of allowance for uncollectibles)			
Interest	98	144	242
Miscellaneous	-	93	93
Supplies Inventory	426	-	426
Total Current Assets	<u>12,567</u>	<u>19,587</u>	<u>32,154</u>
Noncurrent Assets			
Capital Assets			
Buildings and Improvements	1,846	-	1,846
Motor Vehicles	58,705	-	58,705
Machinery and Equipment	426	-	426
Less Accumulated Depreciation	<u>(35,603)</u>	<u>-</u>	<u>(35,603)</u>
Total Capital Assets (net of accumulated depreciation)	<u>25,374</u>	<u>-</u>	<u>25,374</u>
Total Noncurrent Assets	<u>25,374</u>	<u>-</u>	<u>25,374</u>
Total Assets	<u>37,941</u>	<u>19,587</u>	<u>57,528</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	936	158	1,094
Accrued Payroll and Benefits	53	14	67
Accrued Compensated Absences - Current	2	-	2
Accrued Compensated Absences - Due Within One Year	166	66	232
Claims Payable	<u>-</u>	<u>14,734</u>	<u>14,734</u>
Total Current Liabilities	<u>1,157</u>	<u>14,972</u>	<u>16,129</u>
Noncurrent Liabilities			
Accrued Compensated Absences - Due in More Than One Year	<u>175</u>	<u>57</u>	<u>232</u>
Total Noncurrent Liabilities	<u>175</u>	<u>57</u>	<u>232</u>
Total Liabilities	<u>1,332</u>	<u>15,029</u>	<u>16,361</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	25,374	-	25,374
Unrestricted	<u>11,235</u>	<u>4,558</u>	<u>15,793</u>
Total Net Assets	<u>\$ 36,609</u>	<u>\$ 4,558</u>	<u>\$ 41,167</u>

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

Internal Service Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	<u>Fleet Management</u>	<u>Self- Insurance</u>	<u>Total</u>
Operating Revenues			
Charges for Sales and Services			
Billings To User Programs	\$ 12,084	\$ 17,280	\$ 29,364
Self Insurance Contributions-Employee	-	2,538	2,538
State Contributions	-	520	520
Other	84	905	989
	<u>12,168</u>	<u>21,243</u>	<u>33,411</u>
Total Operating Revenues			
Operating Expenses			
Costs of Sales and Services			
Fleet Management Operations	9,378	-	9,378
Self-Insurance Administration	-	2,592	2,592
Self-Insurance Claims	-	4,608	4,608
Self-Insurance Benefits	-	16,366	16,366
Insurance and Bond Premiums	-	1,915	1,915
Depreciation	5,190	-	5,190
	<u>14,568</u>	<u>25,481</u>	<u>40,049</u>
Total Operating Expenses			
Operating Income (Loss)			
	<u>(2,400)</u>	<u>(4,238)</u>	<u>(6,638)</u>
Non-Operating Revenues			
Property Tax	-	701	701
Investment Income	478	718	1,196
Gain on Sale of Capital Assets	94	-	94
	<u>572</u>	<u>1,419</u>	<u>1,991</u>
Total Non-Operating Revenues			
Income (Loss) Before Contributions and Transfers			
	<u>(1,828)</u>	<u>(2,819)</u>	<u>(4,647)</u>
Capital Contributions			
Transfers In	1,169	-	1,169
Transfers In	1,860	1,836	3,696
Transfers Out	(279)	(11)	(290)
	<u>922</u>	<u>(994)</u>	<u>(72)</u>
Change in Net Assets			
Total Net Assets - Beginning	<u>35,687</u>	<u>5,552</u>	<u>41,239</u>
Total Net Assets - Ending	<u>\$ 36,609</u>	<u>\$ 4,558</u>	<u>\$ 41,167</u>

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Fleet Management	Self- Insurance	Total
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 12,084	\$ 20,497	\$ 32,581
Cash Paid to Suppliers	(6,512)	(25,720)	(32,232)
Cash Paid to Employees	(2,834)	(618)	(3,452)
Other Operating	116	1,425	1,541
Net Cash Provided by (Used for) Operating Activities	<u>2,854</u>	<u>(4,416)</u>	<u>(1,562)</u>
Cash Flows from Non-Capital Financing Activities			
Property Tax	-	701	701
Transfers In	1,860	1,836	3,696
Transfers Out	(279)	(11)	(290)
Net Cash Provided by (Used) for Non-Capital Financing Activities	<u>1,581</u>	<u>2,526</u>	<u>4,107</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and Construction of Property and Equipment	(4,826)	-	(4,826)
Sale of Capital Assets	168	-	168
Net Cash (Used) for Capital and Related Financing Activities	<u>(4,658)</u>	<u>-</u>	<u>(4,658)</u>
Cash Flows from Investing Activities			
Income Received on Investments	430	657	1,087
Net Increase (Decrease) in Cash and Cash Equivalents	207	(1,233)	(1,026)
Cash and Cash Equivalents at Beginning of Year	11,836	20,583	32,419
Cash and Cash Equivalents at End of Year	<u>\$ 12,043</u>	<u>\$ 19,350</u>	<u>\$ 31,393</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (2,400)	\$ (4,238)	\$ (6,638)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities			
Depreciation	5,190	-	5,190
Changes in Assets and Liabilities Sources (Uses) of Cash			
Miscellaneous Receivables	32	679	711
Supplies Inventory	(157)	-	(157)
Accounts Payable	268	(3)	265
Accrued Payroll and Benefits	(79)	(23)	(102)
Claims Payable	-	(831)	(831)
Total Adjustments	<u>5,254</u>	<u>(178)</u>	<u>5,076</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,854</u>	<u>\$ (4,416)</u>	<u>\$ (1,562)</u>
Supplemental Disclosure of Noncash Financing Activities			
Additions to Property, Plant, and Equipment Contributions from Other Government Units	\$ 1,169	\$ -	\$ 1,169
Total Non-Cash Financing Activities	<u>\$ 1,169</u>	<u>\$ -</u>	<u>\$ 1,169</u>

FIDUCIARY FUNDS

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

Handicap Scholarship Private Purpose Trust Fund

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

Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund

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

Family Self-Sufficiency Agency Fund

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

Retainage Escrow Agency Fund

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

Combining Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006 (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	\$ -	\$ 4	\$ 86	\$ 5,195	\$ 5,281
Total Assets	4	-	4	86	5,195	5,281
LIABILITIES						
Accounts Payable	-	-	-	86	-	86
Designated Escrow Payable	-	-	-	-	5,195	5,195
Total Liabilities	-	-	-	86	5,195	5,281
NET ASSETS						
Held in Trust for Other Purposes	\$ 4	\$ -	\$ 4	\$ -	\$ -	\$ -

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Handicap Scholarship Private Purpose Trust Fund	Scottsdale Memorial Hospital Redevelopment Private Purpose Trust Fund	Total
ADDITIONS			
Contributions:			
Private Donations	\$ 5	\$ -	\$ 5
Total Additions	5	-	5
DEDUCTIONS			
Scholarships	5	-	5
Redevelopment Expenses	-	19	19
Total Deductions	5	19	24
Change in Net Assets	-	(19)	(19)
Net Assets - Beginning	4	19	23
Net Assets - Ending	\$ 4	\$ -	\$ 4

Combining Statement of Changes in Assets and Liabilities

Fiduciary Funds

For the Year Ended June 30, 2006 (in thousands of dollars)

	Family Self-Sufficiency				Retainage Escrow			
	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS								
Cash and Cash Equivalents	\$ 101	\$ 73	\$ 88	\$ 86	\$ 4,721	\$ 5,195	\$ 4,721	\$ 5,195
Total Assets	\$ 101	\$ 73	\$ 88	\$ 86	\$ 4,721	\$ 5,195	\$ 4,721	\$ 5,195
LIABILITIES								
Accounts Payable	\$ 101	\$ 73	\$ 88	\$ 86	\$ -	\$ -	\$ -	\$ -
Designated Escrow Payable	-	-	-	-	4,721	5,195	4,721	5,195
Total Liabilities	\$ 101	\$ 73	\$ 88	\$ 86	\$ 4,721	\$ 5,195	\$ 4,721	\$ 5,195

OTHER SUPPLEMENTARY INFORMATION

Debt Requirements

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

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

Schedule of Changes in Long-Term Debt*

For the Year Ended June 30, 2006 (in thousands of dollars)

	July 1, 2005	Issued	Retired	Refunding Bonds Issued	Bonds Deceased	Accretions, Amortizations & Contract Adjustments	June 30, 2006	Governmental Activities	Business Type-Activities	Final Payment Date
GENERAL OBLIGATION BONDS										
Governmental Fund Type:										
1993 Refunding	\$ 10,540	\$ -	\$ 2,950	\$ -	\$ -	\$ -	\$ 7,590	\$ 7,590	\$ -	07/01/09
1993A GO Refunding	140	-	140	-	-	-	-	-	-	07/01/11
1997 GO Refunding	19,685	-	905	-	-	-	18,780	18,780	-	07/01/14
1989 Series I (1998)	7,235	-	890	-	-	-	6,345	6,345	-	07/01/18
1999A GO / Pima Road	4,500	-	1,050	-	-	-	3,450	3,450	-	07/01/19
1999 GO Preservation	7,150	-	1,650	-	-	-	5,500	5,500	-	07/01/24
2001 GO Preservation	4,520	-	1,065	-	-	-	3,455	3,455	-	07/01/24
2001 GO Refunding Various Purpose	9,910	-	2,005	-	-	-	7,905	7,905	-	07/01/22
2001 GO Refunding Preservation	28,715	-	-	-	-	-	28,715	28,715	-	07/01/22
2002 GO Various Purpose	10,855	-	2,085	-	-	-	8,770	8,770	-	07/01/24
2002 GO Preservation	5,755	-	-	-	-	-	5,755	5,755	-	07/01/24
2002 GO Refunding Various Purpose	53,560	-	3,215	-	-	-	50,345	50,345	-	07/01/19
2002 GO Refunding Preservation	8,100	-	-	-	-	-	8,100	8,100	-	07/01/19
2003 GO Refunding Various Purpose	14,975	-	50	-	-	-	14,925	14,925	-	07/01/13
2004 GO Various Purpose	48,000	-	-	-	-	-	48,000	48,000	-	07/01/25
2004 GO Preservation	63,800	-	1,700	-	-	-	62,100	62,100	-	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
2005A GO Various Purpose	-	125,000	-	-	-	-	125,000	125,000	-	07/01/24
2005B GO Preservation	-	20,000	-	-	-	-	20,000	20,000	-	07/01/24
2001 GO Refunding Series Deferred Issuance Premium	1,065	-	-	-	-	(115)	950	950	-	-
2001 GO Series Deferred Amount on Refunding	(1,738)	-	-	-	-	187	(1,551)	(1,551)	-	-
2002 GO Refunding Series Deferred Issuance Premium	2,620	-	-	-	-	(753)	1,867	1,867	-	-
2002 GO Series Deferred Amount on Refunding	(2,667)	-	-	-	-	766	(1,901)	(1,901)	-	-
2003 GO Series Deferred Amount on Refunding	(253)	-	-	-	-	59	(194)	(194)	-	-
2003 GO Refunding Series Deferred Issuance Premium	346	-	-	-	-	(80)	266	266	-	-
2004 GO Series Deferred Issuance Premium	975	-	-	-	-	(51)	924	924	-	-
2005 GO Series Deferred Amount on Refunding	(3,944)	-	-	-	-	278	(3,666)	(3,666)	-	-
2005 GO Refunding Series Deferred Issuance Premium	3,025	-	-	-	-	(213)	2,812	2,812	-	-
2005A GO Series Deferred Issuance Premium	-	2,443	-	-	-	(79)	2,364	2,364	-	-
2005B GO Series Deferred Issuance Premium	-	391	-	-	-	(13)	378	378	-	-
Subtotal	371,499	147,834	17,705	-	-	(14)	501,614	501,614	-	-
Business Type - General Obligation Bonds										
1993 Refunding	5,200	-	5,200	-	-	-	-	-	-	07/01/06
1993 A GO Refunding	1,315	-	1,315	-	-	-	-	-	-	07/01/06
Subtotal	6,515	-	6,515	-	-	-	-	-	-	-
Total General Obligation Bonds	\$ 378,014	\$ 147,834	\$ 24,220	\$ -	\$ -	(14)	\$ 501,614	\$ 501,614	\$ -	-
REVENUE BONDS										
Governmental Fund Type										
Highway User Revenue Fund Bonds										
1993 HURF Refunding	\$ 5,815	\$ -	\$ 2,825	\$ -	\$ -	\$ -	\$ 2,990	\$ 2,990	\$ -	07/01/07
Subtotal	5,815	-	2,825	-	-	-	2,990	2,990	-	-
Business Type - Revenue Bonds										
1996 Utility Revenue Series Refunding	5,600	-	850	-	-	-	4,750	-	4,750	07/01/14
1989 Utility Series D (1998)	9,200	-	625	-	-	-	8,575	-	8,575	07/01/22
1989 Utility Series E (1998)	32,135	-	1,490	-	-	-	30,645	-	30,645	07/01/23
2004 Utility Revenue Series Refunding	18,800	-	365	-	-	-	18,435	-	18,435	07/01/16
1996 Revenue Series Deferred Amount on Refunding	(156)	-	-	-	-	37	(119)	-	(119)	-
2004 Revenue Series Deferred Amount on Refunding	(1,374)	-	-	-	-	248	(1,126)	-	(1,126)	-
2004 Refunding Series Deferred Issuance Premium	1,514	-	-	-	-	(273)	1,241	-	1,241	-
Subtotal	65,719	-	3,330	-	-	12	62,401	-	62,401	-
Total Revenue Bonds	\$ 71,534	\$ -	\$ 6,155	\$ -	\$ -	\$ 12	\$ 65,391	\$ 2,990	\$ 62,401	-

*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, 2006 (in thousands of dollars)

	July 1, 2005	Issued	Retired	Refunding Bonds Issued	Bonds Deceased	Accretions, Amortizations & Contract Adjustments	June 30, 2006	Governmental Activities	Business Type-Activities	Final Payment Date
MUNICIPAL PROPERTY CORPORATION BONDS										
Governmental Fund Type:										
1998 MPC	\$ 520	\$ -	\$ 170	\$ -	\$ -	\$ -	\$ 350	350	-	07/01/08
2004A MPC	40,760	-	-	-	-	-	40,760	40,760	-	07/01/14
2005 MPC	19,973	-	-	-	-	642	20,615	20,615	-	07/01/34
2005D MPC	-	46,500	-	-	-	-	46,500	46,500	-	07/01/35
2004A Series Deferred Issuance Premium	1,048	-	-	-	-	(36)	1,012	1,012	-	-
2005 Series Deferred Issuance Premium	383	-	-	-	-	(24)	359	359	-	-
2005D Series Deferred Issuance Premium	-	2,667	-	-	-	(54)	2,613	2,613	-	-
Subtotal	62,684	49,167	170	-	-	528	112,209	112,209	-	-
Business Type - Municipal Property Corporation Bonds										
1995 Transfer Station	1,485	-	-	-	1,485	-	-	-	-	07/01/10
2001 Scottswater	5,135	-	1,590	-	-	-	3,545	-	3,545	07/01/08
2004 Water/Sewer	72,810	-	2,750	-	-	-	70,060	-	70,060	07/01/24
2005E Water/Sewer	-	88,360	-	-	-	-	88,360	-	88,360	07/01/30
2001 Scottswater Deferred Issuance Premium	114	-	-	-	-	(37)	77	-	77	-
2004 Water/Sewer Deferred Issuance Premium	4,431	-	-	-	-	(247)	4,184	-	4,184	-
2005E Water Deferred Issuance Premium	-	3,767	-	-	-	(92)	3,675	-	3,675	-
Subtotal	83,975	92,127	4,340	-	1,485	(376)	169,901	-	169,901	-
Total Municipal Property Corporation Bonds	\$ 146,659	\$ 141,294	\$ 4,510	\$ -	\$ 1,485	\$ 152	\$ 282,110	\$ 112,209	\$ 169,901	
SCOTTSDALE PRESERVE AUTHORITY BONDS										
Governmental Fund Type:										
1998 Excise Tax Revenue	\$ 43,225	\$ -	\$ 2,050	\$ -	\$ -	\$ -	\$ 41,175	41,175	-	07/01/24
2001 Excise Tax Refunding	17,235	-	690	-	-	-	16,545	16,545	-	07/01/22
2004 Excise Tax Refunding	22,925	-	75	-	-	-	22,850	22,850	-	07/01/16
2001 Excise Tax Revenue Deferred Issuance Premium	104	-	-	-	-	(6)	98	98	-	-
2001 Excise Tax Revenue Deferred Amount on Refunding	(629)	-	-	-	-	37	(592)	(592)	-	-
2004 Excise Tax Revenue Deferred Issuance Premium	2,214	-	-	-	-	(79)	2,135	2,135	-	-
2004 Excise Tax Revenue Deferred Amount on Refunding	(2,087)	-	-	-	-	75	(2,012)	(2,012)	-	-
Total Scottsdale Preserve Authority Bonds	\$ 82,987	\$ -	\$ 2,815	\$ -	\$ -	\$ 27	\$ 80,199	\$ 80,199	\$ -	
SPECIAL ASSESSMENT BONDS										
Governmental Fund Type:										
Pima Acres Paving & Drainage Series 105	\$ 340	\$ -	\$ 85	\$ -	\$ -	\$ -	\$ 255	255	-	01/01/09
Bell Road II Series 106	6,000	-	750	-	-	-	5,250	5,250	-	01/01/13
Total Special Assessment Bonds	\$ 6,340	\$ -	\$ 835	\$ -	\$ -	\$ -	\$ 5,505	\$ 5,505	\$ -	
CERTIFICATES OF PARTICIPATION										
Governmental Fund Type:										
2005 Certificates of Participation	\$ 7,650	\$ -	\$ 560	\$ -	\$ -	\$ -	\$ 7,090	\$ 7,090	\$ -	01/01/2015
Total Certificates of Participation	\$ 7,650	\$ -	\$ 560	\$ -	\$ -	\$ -	\$ 7,090	\$ 7,090	\$ -	

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

Schedule of Changes in Long-Term Debt*

(continued)

For the Year Ended June 30, 2006 (in thousands of dollars)

	July 1, 2005	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2006	Governmental Activities	Business Type-Activities	Final Payment Date
COMMUNITY FACILITIES DISTRICT BONDS										
Governmental Fund Type:										
McDowell Mtn Ranch Refunding Series 1999	\$ 16,805	\$ -	\$ 635	\$ -	\$ -	\$ -	\$ 16,170	\$ 16,170	\$ -	07/15/22
DC Ranch Series 1998	4,595	-	160	-	-	-	4,435	4,435	-	07/15/23
Via Linda Road Series 1999	3,030	-	105	-	-	-	2,925	2,925	-	07/15/23
DC Ranch Series 1999	3,000	-	90	-	-	-	2,910	2,910	-	07/15/24
Scottsdale Mountain Refunding Series 2002	4,600	-	290	-	-	-	4,310	4,310	-	07/15/18
DC Ranch Series 2002	11,450	-	255	-	-	-	11,195	11,195	-	07/15/27
Scottsdale Mountain 2002 Deferred Issuance Premium	28	-	-	-	-	(4)	24	24	-	
Scottsdale Mountain 2002 Deferred Amount on Refunding	(375)	-	-	-	-	57	(318)	(318)	-	
DC Ranch 2002 Deferred Issuance Premium	60	-	-	-	-	(3)	57	57	-	
Total Community Facilities District Bonds	43,193	-	1,535	-	-	50	41,708	41,708	-	
Total Bonds	\$ 736,377	\$ 289,128	\$ 40,630	\$ -	\$ 1,485	\$ 227	\$ 983,617	\$ 751,315	\$ 232,302	
CONTRACTS PAYABLE										
Governmental Fund Type:										
US Corps of Engineers	\$ 3,176	\$ -	\$ 69	\$ -	\$ -	\$ -	\$ 3,107	\$ 3,107	\$ -	2032
Dial Corporation	193	-	38	-	-	-	155	155	-	2008
US Patent Office	3	-	-	-	-	-	3	3	-	2009
McDowell Sonoran Preserve	6,195	-	655	-	-	-	5,540	5,540	-	2013
Bureau of Reclamation\Westworld	1,540	-	55	-	-	-	1,485	1,485	-	2032
Bureau of Reclamation\TPC	1,650	-	55	-	-	-	1,595	1,595	-	2035
Underground Improvement District Series 104	67	-	16	-	-	-	51	51	-	01/01/13
Motor Mile Marketing	1,500	-	300	-	-	-	1,200	1,200	-	
Total Contracts	\$ 14,324	\$ -	\$ 1,188	\$ -	\$ -	\$ -	\$ 13,136	\$ 13,136	\$ -	
CAPITAL LEASE										
Business Type:										
Modular Building - Water Operations	-	213	34	-	-	-	179	-	179	
TOTAL BONDS, CONTRACTS AND CAPITAL LEASES	\$ 750,701	\$ 289,341	\$ 41,852	\$ -	\$ 1,485	\$ 227	\$ 996,932	\$ 764,451	\$ 232,481	
Compensated Absences								18,889	2,181	
Total Long-Term Debt							\$ 783,340	\$ 234,662		

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

Statistical Section

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	120
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale and use taxes.	130
Debt Capacity 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.	137
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	143
Operating Information 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.	145

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 Five Fiscal Years
(accrual basis of accounting)
(in thousands)

Table I

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Invested in Capital Assets, Net of Related Debt	\$ 1,429,495	\$ 1,497,575	\$ 1,548,486	\$ 1,877,955	\$ 2,029,375
Restricted	133,460	117,801	199,767	78,794	197,691 (2)
Unrestricted	152,731	165,209	127,017	195,887	77,132
Total Governmental Activities Net Assets	<u>\$ 1,715,686</u>	<u>\$ 1,780,585</u>	<u>\$ 1,875,270</u>	<u>\$ 2,152,636</u>	<u>\$ 2,304,198</u>
Business-type Activities					
Invested in Capital Assets, Net of Related Debt	\$ 629,106	\$ 659,130	\$ 653,351	\$ 756,433	\$ 806,749
Restricted	16,399	16,721	20,842	23,472	27,000
Unrestricted	175,624	186,147	272,431 (1)	212,957	239,535
Total Business-type Activities Net Assets	<u>\$ 821,129</u>	<u>\$ 861,998</u>	<u>\$ 946,624</u>	<u>\$ 992,862</u>	<u>\$ 1,073,284</u>
Primary Government					
Invested in Capital Assets, Net of Related Debt	\$ 2,058,601	\$ 2,156,705	\$ 2,201,837	\$ 2,634,388	\$ 2,836,124
Restricted	149,859	134,522	220,609	102,266	224,691
Unrestricted	328,355	351,356	399,448	408,844	316,667
Total Primary Government Net Assets	<u>\$ 2,536,815</u>	<u>\$ 2,642,583</u>	<u>\$ 2,821,894</u>	<u>\$ 3,145,498</u>	<u>\$ 3,377,482</u>

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

(2) The increase from the prior period was caused by a substantial increase in unspent bond proceeds.

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

Table IIa

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental Activities:					
General Government	\$ 26,982	\$ 22,776	\$ 23,839	\$ 30,943	\$ 42,729
Police	52,719	54,469	60,027	63,076	74,408
Financial Services	7,464	7,883	7,655	8,315	8,343
Transportation	72,159	71,837	78,373	85,835	82,047
Community Services	53,325	52,222	55,087	57,519	57,931
Information Services	10,821	11,901	11,135	7,941	14,589
Fire	16,494	18,127	19,570	28,620 (1)	26,943
Municipal Services	11,482	12,290	13,024	16,520	14,746
Citizen and Neighborhood Resources	2,484	2,433	2,812	3,496	3,419
Human Resources	-	3,601	3,462	3,333	3,615
Economic Vitality	-	6,421	6,130	8,026	7,549
Planning and Development	18,269	11,908	11,697	12,522	12,883
Streetlight and Service Districts	1,044	1,099	1,024	1,094	617
Interest on Long-term Debt	28,063	27,786	28,028	32,466	37,192
Total Governmental Activities Expenses	<u>301,306</u>	<u>304,753</u>	<u>321,863</u>	<u>359,706</u>	<u>387,011</u>
Business-type Activities:					
Water Utility	51,125	50,406	51,095	59,723	53,961
Sewer Utility	24,007	22,862	24,678	28,324	27,854
Airport	2,648	2,476	2,622	3,346	2,922
Solid Waste	14,071	13,783	15,153	15,508	16,412
Total Business-type Activities Expenses	<u>91,851</u>	<u>89,527</u>	<u>93,548</u>	<u>106,901</u>	<u>101,149</u>
Total Primary Government Expenses	<u>\$ 393,157</u>	<u>\$ 394,280</u>	<u>\$ 415,411</u>	<u>\$ 466,607</u>	<u>\$ 488,160</u>

(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 Five Fiscal Years
 (accrual basis of accounting)
 (in thousands)

Table IIb

	Fiscal Year				
	2002	2003	2004	2005	2006
Program Revenue					
Governmental Activities:					
Charges for Services:					
General Government	\$ 11,243	\$ 11,402	\$ 12,742	\$ 12,106	\$ 13,783
Police	5,706	4,227	6,760	11,514	9,938
Transportation	-	-	-	-	277
Community Services	3,229	3,405	3,759	3,914	4,028
Fire	-	-	-	-	1,010 (1)
Citizen and Neighborhood Resources	-	-	-	-	163
Planning and Development	15,764	15,449	17,314	18,188	20,515
Streetlight and Service Districts	1,012	1,018	1,000	998	511
Operating Grants and Contributions	22,200	21,219	24,508	26,865	26,355
Capital Grants and Contributions	77,412	70,369	105,794	73,092	136,745 (2)
Total Governmental Activities Program Revenues	136,566	127,089	171,877	146,677	213,325
Business-type Activities:					
Charges for Services:					
Water Utility	68,064	66,626	70,613	72,612	81,517
Sewer Utility	24,017	25,316	25,587	27,503	27,119
Airport	1,689	2,424	2,936	3,162	3,342
Solid Waste	15,796	16,250	16,488	16,984	17,163
Capital Grants and Contributions	38,733	28,487	71,709	38,313	55,580
Total Business-type Activities Revenues	148,299	139,103	187,333	158,574	184,721
Total Primary Government Revenues	\$ 284,865	\$ 266,192	\$ 359,210	\$ 305,251	\$ 398,046
Net (Expense)/Revenue					
Governmental Activities	\$ (164,740)	\$ (177,664)	\$ (149,986)	\$ (213,029)	\$ (173,686)
Business-type Activities	56,448	49,576	93,785	51,673	83,572
Total Primary Government Net Expense	\$ (108,292)	\$ (128,088)	\$ (56,201)	\$ (161,356)	\$ (90,114)

(1) The City's Fire Department was formed on July 1, 2005. Prior to this time the City contracted with an external fire service provider.

(2) Developer contributions increased significantly due to the increase in the assets donated and their valuation (increase in construction costs and land values).

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

Table IIc

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes	\$ 167,105	\$ 167,153	\$ 183,039	\$ 217,325 (1)	\$ 240,731
Intergovernmental	44,918	46,971	45,163	48,346	54,481
Interest and Investment Income	11,485	4,108	2,655	6,765	13,714
Miscellaneous and Special Items	5,382	4,760	2,777	4,100	5,786
Transfers	6,288	10,955	11,037	9,567	10,536
Total Governmental Activities	<u>235,178</u>	<u>233,947</u>	<u>244,671</u>	<u>286,103</u>	<u>325,248</u>
Business-type Activities:					
Taxes	-	-	-	-	119
Interest and Investment Income	5,820	1,493	973	4,288	6,581
Miscellaneous	874	755	905	(156)	686
Transfers	(6,289)	(10,955)	(11,037)	(9,567)	(10,536)
Total Business-type Activities:	<u>405</u>	<u>(8,707)</u>	<u>(9,159)</u>	<u>(5,435)</u>	<u>(3,150)</u>
Total Primary Government	<u>\$ 235,583</u>	<u>\$ 225,240</u>	<u>\$ 235,512</u>	<u>\$ 280,668</u>	<u>\$ 322,098</u>
Change in Net Assets					
Governmental Activities	\$ 70,438	\$ 56,283	\$ 94,685	\$ 73,074	\$ 151,562
Business-type Activities	56,853	40,869	84,626	46,238	80,422
Total Primary Government	<u>\$ 127,291</u>	<u>\$ 97,152</u>	<u>\$ 179,311</u>	<u>\$ 119,312</u>	<u>\$ 231,984</u>

(1) In May 2004, the City of Scottsdale 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 Five Fiscal Years
 (accrual basis of accounting)
 (in thousands)

Table III

Fiscal Year	Property	Sales and Use Taxes				Transient Occupancy
		Privilege & Use - General	Privilege & Use - McDowell Mtn (1)	Privilege & Use - Transportation	Privilege & Use - Public Safety (1)	
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
2006	50,610	106,019	35,483	20,020	9,978	8,970

Fiscal Year	Franchise Taxes		Intergovernmental		
	Cable TV Franchise	Light & Power Franchise	State Shared Sales	State Revenue Sharing	Other
2002	\$ 2,223	\$ 5,238	\$ 15,621	\$ 21,142	\$ 512
2003	2,440	5,147	15,853	21,574	611
2004	2,740	5,488	17,054	18,278	663
2005	2,859	5,596	18,779	18,634	1,337
2006	3,157	6,308	21,664	21,223	962

- (1) In May 2004, the City of Scottsdale 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 Five Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IV

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 2,006	\$ 1,992	\$ 2,153	\$ 872	\$ 805
Unreserved	74,363	71,236	59,707 (1)	72,772	93,243
Total General Fund	<u>\$ 76,369</u>	<u>\$ 73,228</u>	<u>\$ 61,860</u>	<u>\$ 73,644</u>	<u>\$ 94,048</u>
All Other Governmental Funds					
Reserved	\$ 12,880	\$ 13,670	\$ 9,122	\$ 10,613	\$ 23,142
Unreserved, Reported in:					
Special Revenue Funds	25,775	24,553	22,122	31,873	40,952
Capital Project Funds	168,550	159,421	224,422 (2)	148,626	189,905
Total All Other Governmental Funds	<u>\$ 207,205</u>	<u>\$ 197,644</u>	<u>\$ 255,666</u>	<u>\$ 191,112</u>	<u>\$ 253,999</u>

(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 Five Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table Va

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Taxes - Local	\$ 164,775	\$ 167,153	\$ 182,362	\$ 218,189	\$ 239,478
Taxes - Intergovernmental	57,176	59,694	58,716	61,948	69,413
Business and Liquor Licenses	1,815	1,816	1,813	1,633	1,572
Charges for Current Services	20,038	19,990	22,401	23,300	27,260
Fines, Fees and Forfeitures	5,234	6,047	6,921	9,649	10,260
Special Assessments	2,339	1,970	2,558	2,029	1,106
Property Rental	2,835	2,836	3,212	3,617	4,173
Interest Earnings	10,300	3,830	2,385	6,053	12,518
Intergovernmental	12,892	9,609	11,810	11,771	13,129
Developer Contributions	799	762	762	4,708	392
Streetlight and Services Districts	1,012	1,018	1,000	998	511
Contributions and Donations	367	439	647	917	835
Reimbursements from Outside Sources	118	1,032	1,659	461	969
Indirect Costs	7,960	8,045	8,729	8,635	9,898
Other	2,260	850	2,110	9,079	644
Total Revenues	289,920	285,091	307,085	362,987	392,158

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

Table Vb

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenditures					
General Government	19,528	16,010	16,121	21,793	23,516
Police	49,362	52,371	55,510	59,874	66,278
Financial Services	7,135	7,752	7,222	7,631	7,769
Transportation	10,016	10,869	9,399	8,760	10,099
Community Services	49,276	48,950	50,494	49,941	53,535
Information Systems	7,380	7,386	7,328	7,674	8,253
Fire	16,281	17,745	19,265	21,320	24,296
Municipal Services	11,214	11,553	8,774	11,813	8,850
Citizen and Neighborhood Resources	2,235	2,446	2,754	2,831	3,070
Human Resources	-	3,375	3,290	3,261	3,507
Economic Vitality	-	6,268	6,199	6,506	7,510
Planning and Development	18,040	11,746	11,218	12,111	12,436
Streetlight and Services Districts	1,044	1,099	1,024	1,094	617
Debt Service:					
Principal	26,216	30,305	31,905	33,173	27,632
Interest and Fiscal Charges	29,062	29,759	25,452	31,948	36,382
Bond Issuance Costs	597	1,046	586	878	351
Advance Refunding Escrow	339	-	-	-	-
Capital Improvements	68,638	68,338	81,149	213,585 (1)	218,897
Total Expenditures	316,363	327,018	337,690	494,193	512,998
Excess of Revenues over (under) Expenditures	(26,443)	(41,927)	(30,605)	(131,206)	(120,840)

(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 Five Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table Vc

	Fiscal Year				
	2002	2003	2004	2005	2006
Other Financing Sources (Uses)					
Transfers in	71,095	107,441	137,043	141,783	147,643
Transfers out	(60,408)	(91,582)	(126,269)	(133,284)	(140,513)
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	191,500
Premium on Bonds Issued	2,390	6,284	4,429	4,536	5,501
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	204,131
Net Change in Fund Balances	\$ 61,134	\$ (12,702)	\$ 46,654	\$ (52,770) (1)	\$ 83,291
Debt Service as a Percentage of Noncapital Expenditures	22.7%	23.6%	22.6%	23.5%	21.9%

(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 Five Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table VI

Fiscal Year	Sales and Use Taxes					Transient Occupancy
	Property	Privilege & Use - General	Privilege & Use - McDowell Mtn (1)	Privilege & Use - Transportation	Privilege & Use - Public Safety (1)	
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
2006	49,651	104,949	35,483	20,020	9,978	8,970

Fiscal Year	Franchise Taxes		Intergovernmental		
	Cable TV Franchise	Light & Power Franchise	State Shared Sales	State Revenue Sharing	Other
2002	2,223	5,238	15,621	21,142	512
2003	2,440	5,147	15,853	21,574	611
2004	2,740	5,488	17,054	18,278	663
2005	2,859	5,596	18,779	18,634	1,337
2006	3,157	6,308	21,664	21,223	962

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

City of Scottsdale
Taxable Sales Subject to Privilege (Sales) Tax by Category
Last Five Fiscal years
(dollars are in thousands)

Table VII

	Fiscal Year				
	2002	2003	2004	2005	2006
Automotive	1,501,832	1,499,864	1,525,050	1,557,909	1,662,604
Construction	1,573,073	1,213,352	1,432,006	1,703,826	2,046,791
Food Stores	503,057	518,665	550,704	562,877	584,706
Hotel Motel	372,610	373,375	400,836	432,006	497,804
Major Department Stores	748,732	795,091	871,244	959,361	1,012,906
Miscellaneous Retail Stores	1,035,590	1,059,857	1,138,028	1,248,228	1,413,445
Other Taxable Activity	341,314	360,991	416,514	457,819	513,553
Rentals	910,184	955,494	977,379	1,054,666	1,102,152
Restaurants	524,241	551,806	604,652	661,542	726,122
Utilities	389,409	376,319	368,442	380,043	398,204
Total	7,900,042	7,704,814	8,284,855	9,018,277	9,958,287

Note: In May 2004, the City of Scottsdale citizens approved an additional .15% Preservation Tax and a .10% Public Safety Tax. These taxes were effective July 1, 2004.

**City of Scottsdale
Direct and Overlapping Sales Tax Rates
Last Five Fiscal Years**

Table VIII

Privilege (Sales) Tax Rates			
City Direct			
Fiscal Year	Rate	County Rate	State Rate
2002	1.40%	0.70%	5.60%
2003	1.40%	0.70%	5.60%
2004	1.40%	0.70%	5.60%
2005	1.65%	0.70%	5.60%
2006	1.65%	0.70%	5.60%

Use Tax Rates			
City Direct			
Fiscal Year	Rate	County Rate	State Rate
2002	1.20%	0.00%	5.60%
2003	1.20%	0.00%	5.60%
2004	1.20%	0.00%	5.60%
2005	1.45%	0.00%	5.60%
2006	1.45%	0.00%	5.60%

Transient Occupancy Tax Rates			
City Direct			
Fiscal Year	Rate	County Rate	State Rate
2002	3.00%	1.77%	5.50%
2003	3.00%	1.77%	5.50%
2004	3.00%	1.77%	5.50%
2005	3.00%	1.77%	5.50%
2006	3.00%	1.77%	5.50%

Jet Fuel Tax Rates (cents per gallon)			
City Direct			
Fiscal Year	Rate	County Rate	State Rate
2002	1.80%	0.46%	2.90%
2003	1.80%	0.46%	2.90%
2004	1.80%	0.46%	2.90%
2005	1.80%	0.46%	2.90%
2006	1.80%	0.46%	2.90%

Source: City Tax Audit Department

Note: The following gives a general description of each tax. Complete details for each tax can be found in Appendix C of the Scottsdale Revised City Code.

Privilege (Sales) Tax applies to the sale, lease, license for use and/or rental transactions.

Use Tax applies to the storage or use of items within the city on which no privilege tax has been paid.

Transient Occupancy Tax applies to transactions involving transient lodging.

Jet Fuel Tax applies to transactions involving the sale of jet fuel.

City of Scottsdale
Sales Tax Revenue Payers by Industry
Fiscal Years 2006 and 1997
(dollars are in thousands)

Table IX

	Fiscal Year 2006				Fiscal Year 1997			
	Number of Filers	Percentage of Total	Tax Revenue	Percentage of Total	Number of Filers	Percentage of Total	Tax Revenue	Percentage of Total
Automotive	582	2.17%	\$ 27,250	16.22%	416	2.72%	\$ 10,508	14.04%
Construction	7,518	28.02%	34,090	20.29%	4,118	26.97%	15,875	21.21%
Food Stores	171	0.64%	10,258	6.11%	188	1.23%	5,589	7.47%
Hotel Motel	67	0.25%	8,374	4.98%	45	0.29%	4,991	6.67%
Major Department Stores	26	0.10%	15,611	9.29%	9	0.06%	5,742	7.67%
Miscellaneous Retail Stores	5,049	18.81%	25,024	14.89%	3,880	25.41%	12,006	16.04%
Other Taxable Activity	9,109	33.94%	9,733	5.79%	3,983	26.09%	5,175	6.91%
Rentals	3,267	12.17%	19,157	11.40%	1,971	12.91%	6,671	8.91%
Restaurants	786	2.93%	12,007	7.15%	510	3.34%	4,852	6.48%
Utilities	260	0.97%	6,508	3.87%	149	0.98%	3,444	4.60%
Total	26,835	100.00%	\$ 168,012	100.00%	15,269	100.00%	\$ 74,853	100.00%

Note:

Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories are intended to provide alternative information regarding the sources of the city's revenue.

The industry classifications were based on Standard Industrial Classification (SIC) in 1997 and the North American Industry Classification System (NAICS) classifications in 2006.

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

Table X

Fiscal Year	City Direct Rate			Overlapping Rates			
	Operating Rate	Debt Service Rate	Total City Rate	Scottsdale Unified School District			
				Operating Rate	Debt Service Rate	EVIT Rate	Total School Rate
2002	\$ 0.49	\$ 0.67	\$ 1.15	\$ 4.08	\$ 1.36	\$ 0.11	\$ 5.55
2003	0.51	0.65	1.15	3.94	1.36	0.11	5.41
2004	0.48	0.64	1.12	3.89	1.30	0.10	5.29
2005	0.45	0.62	1.07	3.77	1.26	0.10	5.13
2006	0.44	0.60	1.04	5.24	2.41	0.06	7.71

Fiscal Year	Overlapping Rates										Total Direct & Overlapping Rates
	County-Wide Jurisdictions										
	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		
2002	\$ 1.18	\$ 0.09	\$ 1.11	\$ 0.23	\$ 0.50	\$ 0.01	\$ 0.13	\$ 0.04	\$ 3.29	\$ 9.99	
2003	1.21	0.08	1.11	0.21	0.49	0.01	0.13	0.04	3.28	9.85	
2004	1.21	0.07	1.08	0.21	0.47	0.01	0.12	0.05	3.22	9.63	
2005	1.21	-	1.04	0.21	0.46	0.01	0.12	0.05	3.09	9.30	
2006	1.20	-	1.03	0.21	0.44	0.01	0.12	0.05	3.06	11.81	

Source: Maricopa County Department of Finance Publications On-Line "Tax Levy 2005"

Note: The City has Community Facilities Districts (CFD) that levy property taxes independent of the City to property owners within a designated area. For FY 2005/06 the rates were as follows: Scottsdale Mountain CFD - \$1.50, McDowell Mountain CFD - \$1.00, DC Ranch CFD - \$1.00, and Via Linda Road CFD - \$3.00. The Waterfront Commercial CFD did not levy taxes FY 2005/06.

City of Scottsdale
Principal Property Tax Payers
June 30, 2006
(in thousands)

Table XI

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service Company	\$ 82,233	1	1.74%	\$ 56,828	1	3.09%
Scottsdale Fashion Square Partnership	59,825	2	1.26%	33,646	3	1.83%
Qwest Corporation	53,128	3	1.12%	-	0	0.00%
First American Tax Valuation	44,027	4	0.93%	-	-	-
Gainey Drive Associates	37,977	5	0.80%	22,168	6	1.21%
General Dynamics Decesion Systems Inc.	27,094	6	0.57%	-	-	-
Marvin F Poer & Co.	21,413	7	0.45%	-	-	-
Pederson/BVT Promenade Associates	21,396	8	0.45%	-	-	-
Scottsdale Acquisition LLC	19,488	9	0.41%	-	-	-
Drug (AZ) QRS 14-42 INC	17,972	10	0.38%	-	-	-
Motorola GEG	-	-	-	41,641	2	2.26%
Scottsdale Princess Partnership	-	-	-	32,939	4	1.79%
MAYO Clinic Arizona	-	-	-	27,271	5	1.48%
U S West Communications Inc.	-	-	-	17,983	7	0.98%
PCS Inc.	-	-	-	16,898	8	0.92%
Scottsdale Conference Center	-	-	-	12,304	9	0.67%
SHEA 90 Corporation	-	-	-	12,171	10	0.66%

Source: 2006 information - The City of Scottsdale's Property Tax Auditor, as obtained from the Arizona Department of Revenue, Centrally Valued Property Department and the 2005 Maricopa County Treasurer's Roll.

Source: 1997 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 2005/06 secondary assessed valuation of the Salt River Project within the City is \$23,638,512. The estimated secondary in lieu contribution is \$186,402.

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

Table XII

Fiscal Year Ended June 30th	Real Property				Personal Property:	Less:	Total Taxable	Total	Estimated	Assessed
	Residential Property	Commercial Property	Vacant Land	Historic & Special Use	Assessed Value	Tax Exempt Real Property	Assessed Value	Direct Tax Rate	Actual Taxable Value	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%
2006	2,789,200	1,525,116	580,288	1,359	241,168	(401,377)	4,735,754	0.60	33,350,384	14.2%

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 Five Fiscal Years
(in thousands)

Table XIII

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%
2006	47,659	46,431	97.4%	-	46,431	97.4%

Source: Maricopa County Treasurer's Office 2006 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 Five Fiscal Years
(in thousands)

Table XIV

Fiscal Year Ended June 30	Governmental Activities								Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	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	Capital Lease			
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
2006	499,365	2,990	108,225	80,570	5,505	7,090	41,945	13,136	-	62,405	161,965	179	983,375	9.94%	4,344

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

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

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

Table XV

Fiscal Year Ended June 30	Governmental Activities General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Total Taxable Assessed Value of Property	Per Capita
2002	\$ 319,657,000	\$ 8,448,962	311,208,038	9.5%	1,482.23
2003	305,003,000	9,006,329	295,996,671	8.4%	1,382.58
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
2006	499,365,000	12,435,797	486,929,203	10.3%	2,150.84

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 XII for property value data.
 See the Schedule of Demographic and Economic Statistics (Table XIX) for population data.

City of Scottsdale
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006
(in thousands)

Table XVI

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Maricopa County	\$ -	14.2655%	\$ -
Maricopa County Community College District	399,805	14.2655%	57,034
Tempe Elementary School District No. 3	59,700	0.0002%	-
Balsz Elementary School District No. 31	15,545	5.5493%	863
Scottsdale Unified School District No. 48	320,655	75.0793%	240,746
Paradise Valley Unified School District No. 69	305,225	33.4852%	102,205
Cave Creek Unified School District No. 93	38,040	68.6654%	26,120
Fountain Hills Unified School District No. 98	25,090	2.9130%	731
Phoenix Union High School District No. 210	188,640	0.3490%	658
Tempe Union High School District No 213	153,980	0.0001%	-
East Valley Institute of Technology District No. 401	-	19.2990%	-
Scottsdale Mountain Community Facilities District	4,310	100.0000%	4,600
McDowell Mountain Community Facilities District	16,170	100.0000%	16,805
DC Ranch Community Facilities District	18,540	100.0000%	19,045
Via Linda Road Community Facilities District	2,925	100.0000%	3,030
Subtotal, overlapping debt			471,837
City direct debt	312,940	100.0000%	312,940
Total direct and overlapping debt			<u>\$ 784,777</u>

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 Five Fiscal Years
(in thousands)

Table XVIIa

	Fiscal Year				
	2002	2003	2004	2005	2006
<u>20% Limitation</u>					
Debt Limit Equal to 20% of Assessed Valuation	\$ 655,590	\$ 705,321	\$ 795,104	\$ 868,691	\$ 947,151
Total Net Debt Applicable to 20% Limit	245,209	237,400	319,765	313,786	372,545
Legal 20% Debt Margin (Available Borrowing Capacity)	<u>\$ 410,381</u>	<u>\$ 467,921</u>	<u>\$ 475,339</u>	<u>\$ 554,905</u>	<u>\$ 574,606</u>
Total Net Debt Applicable to the 20% Limit as a Percentage of 20% Debt Limit	37.40%	33.66%	40.22%	36.12%	39.33%
<u>6% Limitation</u>					
Debt Limit Equal to 6% of Assessed Valuation	\$ 196,677	\$ 211,596	\$ 238,531	\$ 260,607	\$ 284,145
Total Net Debt Applicable to 6% Limit	81,757	71,695	74,984	64,799	126,820
Legal 6% Debt Margin (Available Borrowing Capacity)	<u>\$ 114,920</u>	<u>\$ 139,901</u>	<u>\$ 163,547</u>	<u>\$ 195,808</u>	<u>\$ 157,325</u>
Total Net Debt Applicable to the 6% Limit as a Percentage of 6% Debt Limit	41.57%	33.88%	31.44%	24.86%	44.63%

City of Scottsdale
Legal Debt Margin Information
As of June 30, 2006
(in thousands)

Table XVIIb

Legal Debt Margin Calculation for Fiscal Year 2006

Net Secondary Assessed Valuation as of June 30, 2006	\$ 4,735,755
--	--------------

20% Limitation

Debt Limit Equal to 20% of Assessed Valuation	947,151
---	---------

Debt applicable to limit:

General Obligation Bonds	372,545
--------------------------	---------

Legal 20% Debt Margin (Available Borrowing Capacity)	\$ 574,606
--	------------

6% Limitation

Debt Limit Equal to 6% of Assessed Valuation	\$ 284,145
--	------------

Debt applicable to limit:

General Obligation Bonds	126,820
--------------------------	---------

Legal 6% Debt Margin (Available Borrowing Capacity)	\$ 157,325
---	------------

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 Five Fiscal Years
(in thousands)**

Table XVIII

Water and Sewer Revenue Bonds									Highway User Revenue Bonds			
Fiscal Year Ended June 30	Operating Revenue(1)	Less: Operating Expenses	Net Operating Revenue	Development Fee Revenue	Net Revenue	Debt Service		Coverage	Highway User Tax Revenue	Debt Service		Coverage
						Principal	Interest			Principal	Interest	
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
2006	115,374	56,329	59,045	24,071	83,116	3,330	3,182	12.76	15,708	2,825	317	5.00

Special Assessment Bonds					Scottsdale Preserve Authority Bonds					Municipal Property Corporation Bonds			
Fiscal Year Ended June 30	Special Assessment Collections	Debt Service		Coverage (2)	0.2% and 0.15% Sales Tax (3)	Debt Service		Coverage	Excise Tax	Debt Service (4)		Coverage	
		Principal	Interest			Principal	Interest			Principal	Interest		
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	
2006	1,106	851	275	0.98	6,811	2,815	3,997	1.00	268,134	5,995	10,017	16.75	

(1) Includes investment income.

(2) Coverage ratio is less than 1.0 due to prepayment of amounts that are currently in fund balance.

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

(4) 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 Five Fiscal Years**

Table XIX

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal Income (2) (in thousands)</u>	<u>Per Capita Personal Income (3)</u>	<u>Median Age (4)</u>	<u>Education Level in Years of Schooling (5)</u>	<u>School Enrollment (6)</u>	<u>Unemployment Rate (7)</u>
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%
2006	226,390	9,896,159	43,713	39.5	13 to 16	27,000	3.0%

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 XX

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment*	Employees	Rank	Percentage of Total City Employment*
Scottsdale Healthcare	4,400	1	3.00%	-	-	-
General Dynamics	4,000	2	2.80%	-	-	-
Mayo Clinic - Scottsdale	3,995	3	2.80%	1,000	8	1.00%
Scottsdale Unified School District	3,500	4	2.40%	2,480	3	2.50%
City of Scottsdale	2,191	5	1.50%	2,000	4	2.00%
Scottsdale Insurance Company	2,000	6	1.40%	1,050	7	1.10%
CareMark	1,636	7	1.10%	-	-	-
Scottsdale Fairmont Princess Resort	1,200	8	0.80%	1,300	6	1.30%
Rural Metro Corporation	875	9	0.60%	-	-	-
McKesson	700	10	0.50%	-	-	-
Scottsdale Memorial Health Systems	-	-	-	4,500	1	4.60%
Motorola	-	-	-	4,100	2	4.20%
PCS Health Systems (Eli Lilly)	-	-	-	1,544	5	1.60%
Dial Corporation	-	-	-	800	9	0.80%
Hyatt Regency Gainey Rancy	-	-	-	800	10	0.80%
Total	24,497		16.90%	19,574		19.90%

Source: City of Scottsdale, Economic Vitality Department

* 2006 labor force = 145,034; 1997 labor force = 98,592

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

Table XXI

Function	Full-time Equivalent Employees as of June 30				
	2002	2003	2004	2005	2006
General Government	196.5	195.5	196.5	202.0	217.0
Police	574.1	591.1	590.1	631.1	676.1
Financial Services	144.5	144.5	139.5	143.0	149.0
Transportation	35.0	34.0	24.0	25.0	27.0
Community Services	516.1	516.1	506.1	513.6	559.4
Information Systems	73.8	73.8	74.8	78.8	80.8
Fire	2.7	2.7	3.7	3.7	259.0
Municipal Services	132.8	132.8	135.8	139.8	151.8
Citizen and Neighborhood Resources	35.0	35.0	32.0	37.0	39.0
Human Resources	36.5	35.5	34.5	36.5	35.5
Economic Vitality	10.0	10.0	8.0	10.0	11.0
Planning and Development	157.0	151.0	140.0	140.0	144.0
Water Resources	139.0	136.0	136.0	139.0	152.5
Aviation	11.9	12.4	12.4	12.4	13.0
Solid Waste	77.3	80.3	79.3	79.3	83.3

Source: The City of Scottsdale's Budget Department.

City of Scottsdale
 Operating Indicators by Function
 Last Five Fiscal Years

Table XXII

Function	Fiscal Year				
	2002	2003	2004	2005	2006
General Government					
<i>Legislative and Constituent/Gov. Relations</i>					
% of survey respondents rating the "Overall Quality of Life in Scottsdale" as good to excellent	No Survey	No Survey	90%	93%	No Survey
<i>City Clerk's Office</i>					
# of legal postings	518	466	456	651	890
<i>City Attorney's Office</i>					
% of cases resolved at first court appearance (arraignment)	20%	26%	30%	30%	32%
<i>City Auditor's Office</i>					
# of recommendations	60	162	85	132	225
<i>City Court</i>					
Charges filed / charges adjudicated (resolved)	79,638 / 114,514	96,995 / 94,045	121,560 / 129,888	136,747 / 134,793	153,320 / 156,292
<i>City Manager's Office</i>					
% of survey respondents rating "Your Neighborhood as a Place to Live" as good to excellent	No Survey	No Survey	86%	89%	No Survey
<i>Communications & Public Affairs</i>					
News releases, media updates, traffic alerts, construction updates released to news media	277	215	182	247	250
<i>WestWorld</i>					
# of special events	49	55	53	57	59
<i>The Downtown Group</i>					
# of downtown special events coordinated	N/A	N/A	41	58	62
<i>Preservation</i>					
Acres of land acquired for inclusion in the McDowell Sonoran Preserve	514	660	450	2,600	40
Police					
Scottsdale Uniform Crime Report, Part 1 (crimes per thousand)					
Scottsdale	44.9	44.3	45.5	42.3	37.1
Valley Average	70.5	72.0	60.2	56.5	51.0
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	6:12	6:00
Provide initial contact to 100% of citizen traffic concerns within seven days					
	50%	60%	96%	98%	98%
Financial Services					
# of Accounts Payable checks issued	35,636	35,344	34,547	37,954	41,194
# of purchase orders	8,531	10,212	12,254	9,611	10,600
# of water meters read annually	943,212	971,508	986,080	1,000,870	1,033,600
# of customer contacts (utilities, taxes & licensing)	212,787	218,185	221,900	229,500	230,000

**City of Scottsdale
Operating Indicators by Function
Last Five Fiscal Years**

Table XXII

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Transportation					
Total citywide transit ridership	1,780,578	1,917,011	1,917,000	1,969,512	2,255,450
Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies)	76	124	150	270	322
Scottsdale Airport - Takeoffs and Landings	181,657	197,483	195,276	208,106	210,481
Community Services					
# attending Parks & Recreation facilities, Human Services facilities and Libraries annually	6,817,413	7,485,295	7,565,511	7,573,369	7,717,000
# of square feet of medians and rights of way maintained	13,168,516	13,253,516	13,949,440	14,569,062	15,188,684
Facility inventory maintained (square feet)	1,551,620	1,755,162	1,807,298	1,825,564	2,166,650
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	2,319,000	46,100,000
Annual Disk Storage size (DAS, NAS, and SAN) (Terabytes)	2.5	4.0	5.0	7.0	30.0
Fire					
# of responses to calls for emergency services	21,877	21,162	21,756	23,102	23,572
Responses per capita	0.10	0.09	0.09	0.10	0.10
Average response time to urban calls for service (minutes)	4:02	4:01	4:20	4:23	4:23
Water Service					
Water Service Connections	79,052	80,454	81,947	83,511	86,399
Drinking Water Supplied (million gallons per day)	70.4	67.6	70.0	67.7	73.1
Reclaimed Water Supplied (million gallons per day)	11.8	14.2	11.8	11.6	11.5
Sewer Service					
Sewer Service Connections	69,121	70,732	72,034	73,232	74,143
Sewage Treated (million gallons per day)	24.0	24.5	24.2	25.5	24.2
Municipal Services					
# of active Capital Projects	101	118	116	183	199
# of homes serviced by Residential Refuse Collection	70,546	72,166	73,602	74,850	76,300
# of citizens serviced annually by Household Hazardous Waste collection program	1,708	1,900	2,201	1,718	1,900

(continued)

City of Scottsdale
Operating Indicators by Function
Last Five Fiscal Years

Table XXII

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Citizen & Neighborhood Resources					
% increase of Neighborhood Watch groups annually	n/a	15%	37%	37%	25%
# of new Code Enforcement cases processed per year	7,357	10,000	10,000	11,336	14,000
Human Resources					
# of vacant positions reviewed (FT & PT)	120	116	247	300	350
HR operating cost as a % of City payroll	3.1%	2.6%	2.4%	2.3%	2.0%
Economic Vitality					
Targeted job creation - number of companies / number of jobs	10 / 1,305	17 / 1,716	23 / 1,800	10 / 1,443	10 / 1,200
Sales Tax growth (% annual change)	- 2%	0%	+ 9%	+ 10%	10%
Bed Tax growth (% annual change)	- 13%	0%	+ 3%	+ 5%	+ 5%
Planning & Development Services					
Customer wait-time (in minutes) at One Stop Shop	n/a	n/a	45	25	15
Provide applicant with pre-application meeting within 30 days of submitting request.	n/a	n/a	90%	100%	100%
% of inspections performed within 24 hours of the request	99%	99%	97%	98%	99%

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

**City of Scottsdale
Capital Asset Statistics by Function
Last Five Fiscal Years**

Table XXIII

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Public Safety					
Police:					
Stations	3	3	3	3	3
Police Vehicles	261	295	286	290	345
Fire Stations	10	12	12	13	13
Highways and Streets					
Square Yards of Pavement	19,100,000	19,100,000	19,231,553	19,231,553	19,660,273
Equivalent 12' Wide Lane Miles	2,713	2,713	2,732	2,732	2,793
Streetlights	9,510	10,300	10,500	10,650	10,828
Traffic Signals	250	253	258	262	276
Culture and Recreation					
Parks	40	40	40	40	40
Parks Acreage	869	869	849	849	937
Swimming Pools	3	3	3	3	3
Tennis Courts	49	49	49	49	49
Community Centers	6	6	6	6	6
Water					
Water Mains (miles)	1,738	1,815	1,854	1,897	1,933
Fire Hydrants	8,659	8,928	9,193	9,541	9,839
Sewer					
Sanitary Sewers (miles)	1,155.0	1,262.0	1,280.0	1,287.4	1309.0
Storm Sewers (miles)	68.7	68.7	137.7	142.8	148.0

Source: City of Scottsdale departments.

