

City of Tempe, Arizona
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2006

City Council:

Hugh Hallman, Mayor
Mark Mitchell, Vice Mayor
P. Ben Arredondo
Barbara J. Carter
Leonard Copple
Pamela L. Goronkin
Hut Hutson

Administrative Staff:

Will Manley, City Manager

Presented by:

Jerry Hart, CPA, Financial Services Manager
Tom Duensing, CPA, Deputy Financial Services Manager
Karen Huffman, CPA, Controller



Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

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October 16, 2006

Honorable Mayor, City Council and City Manager:

The Comprehensive Annual Financial Report for the City of Tempe, Arizona for the fiscal year ended June 30, 2006 is submitted for your review. Responsibility for the accuracy and completeness of the presented data, including all disclosures, rests with the City. To the best of our knowledge and belief, this report is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report is presented in three sections: 1) the **Introductory Section** which includes this transmittal letter, and the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting; 2) the **Financial Section** which includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, required supplementary information (other than MD&A) and the combining financial statements; and 3) the **Statistical Section** which includes selected financial and demographic information, generally presented on a multi-year basis.

This Comprehensive Annual Financial Report (CAFR) represents management's report to its governing body, constituents, legislative and oversight bodies, investors and creditors. Copies of this report will be sent to elected officials, City management personnel, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies that have expressed an interest in Tempe's financial condition. Copies of this financial report will also be placed in the City library for use by the general public.

This report includes all funds (financial activities) of the City. The City provides a full range of municipal services including police and fire protection, water, sewer and solid waste services, development services, municipal courts, recreational and cultural activities, streets, transit, traffic control, and general administrative services. In addition to general governmental activities, standards set by the Governmental Accounting Standards Board ("GASB") regarding the inclusion of certain entities based upon the significance of their operational or financial relationships with the City require that the activities of the Tempe Municipal Property Corporation and the Rio Salado Community Facilities District be included in the reporting entity.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

ECONOMIC CONDITION AND OUTLOOK

The City saw an economic downturn starting in fiscal year 2000-01 that had a significant impact on budgetary decisions within the City over the next several years. Although the impact of the recession was still felt through fiscal year 2003-04, the City has since experienced recovery. In fiscal year 2005-06, increases occurred in both total taxable sales and retail taxable sales when compared to the prior year. (Retail taxable sales comprise approximately 54.1% of total taxable sales). Actual local sales tax revenue (including city sales, local bed, transit and performing arts taxes) increased by 13.4% over the prior fiscal year. In the General Fund, sales tax is the largest revenue source through which most City services are financed. It experienced 12.4% growth in comparison to the prior year.

The continued economic recovery resulted in a 14.4% increase in state-shared sales tax, a large revenue source of the General Fund. In addition, state-shared income tax increased 13.9% from fiscal year 2004-05 to 2005-06.

Both state-shared sales and income taxes (major revenue sources for the City) are distributed based upon a municipality's percentage population to the State's total population. A continued concern is the City's decrease in percentage population to the state overall. Given the City's landlocked status, significant population growth is not anticipated for Tempe in the future; however, other valley cities continue to experience strong growth. Although any adjustments to the revenue distribution formulas occur only in decade and mid-decade censuses, any significant reduction in state-shared revenues could have a major impact to the City.

The City continues to position itself well through the establishment and maintenance of prudent fund balance reserves over the years. Through the exercise of sound decision making and prudent fiscal policies, the City will continue to ensure its' strong financial health into the future.

MAJOR INITIATIVES

The City continues to focus on new development and redevelopment efforts with the goal of further strengthening its underlying economic base. The City began working even more diligently with various partners in both the public and private sectors to facilitate economic development. The fiscal year 2005-06 highlights include:

- **Edward Jones** completed construction of a 100,000 square foot office tower, the second on the campus of Arizona State University Research Park at Elliot and Price Roads.
- **Google** selected Tempe for business expansion with the addition of 125 new employees.
- Breaking ground in fiscal year 2004-05, **Hayden Ferry Lakeside** sold out the first 45 units in its first tower Edgewater Condominiums. The building is now completed and occupied. Units in the second tower, Bridgeview, are under construction and selling from \$500,000 to \$6 million. Two more residential buildings are planned. In addition to its residential development, the second commercial building at Hayden Ferry Lakeside is 80 percent leased and will open in 2007.
- **KPMG, LLP**, the audit, tax and advisory firm, has signed a 31,000-square-foot lease at Hayden Ferry Lakeside, a mixed-use development on the shores of Tempe Town Lake. KPMG will anchor the second 12-story, 300,000-square-foot office tower, which is currently under construction and is expected to relocate more than 200 employees from its downtown Phoenix offices in 2007.
- As a result of the **US Airways/America West Airlines** corporate merger, an additional 300,000 square feet of office space was occupied generating an additional 1,200 jobs.
- With expected completion in 2008, the **Le Meridien Hotel** at Hayden Ferry Lakeside is currently going through the development process for a 183-room, 14-story European-Style hotel.
- The 18-story **Cosmopolitan Building** will offer approximately 150 luxury condominium units, ground level retail and a two-story Whole Foods Market which features gourmet groceries.
- The **Armory Project** consists of two residential towers near Arizona State University's Sun Devil stadium with smaller units for students and busy professionals in one tower and larger units in the other tower.
- **Centerpoint Condominiums** increased the size of its project from four 22-story towers to two 22-story and two 30-story buildings.
- **University Square**, a \$500 million project near Arizona State University, is at the beginning stages of the

development process. When complete, the project would offer residential, retail, hotel and commercial opportunities.

- About 70,000 square feet of home décor-focused retail will open next to IKEA in the **Emerald Center** during fiscal year 2006-07. It is anticipated that an additional 320,000 square feet will be added within two years at this same site.
- In June 2006, an agreement was reached on development of **Hayden Flour Mill**. This new project will include condominiums, a hotel, commercial office space and an interpretive center that will honor Tempe's history at Hayden's Ferry and as a Native American dwelling place.
- At the southwest corner of Loop 101 and Loop 202 freeways, **Tempe Marketplace** is a 1.2 million sq. ft. retail and entertainment center much like Desert Ridge Marketplace. The project is scheduled to open in 2008 and is about 95 percent released. Prospective tenants named by the developer include Barnes & Noble, Target, Dave & Buster's, Old Navy and many others.

In summary, Tempe continues to attract a wide variety of new businesses, residential development and retail tenants. Topping it all off, the City has also become a regional draw for events such as the Rock & Roll Marathon, AVP Volleyball, Insight.com Bowl and the Ironman triathlon. It is anticipated that all of these events have an additional positive economic impact on city revenues.

Scheduled to open in fiscal year 2006-07, the **Tempe Center for the Arts** is an 88,000 square foot facility featuring a theater, studio, gallery, banquet/meeting room, donor lounge, on-site, full-service box office, dedicated catering areas, an arts retail space and a 17-acre park.

Substantially completed during the fiscal year ended June 30, 2006, the 30,000 square foot **North Tempe Multi-Generational Center** includes a senior services area, library resource center, preschool classrooms, community classrooms, youth and teen centers, a fitness center, and a gymnasium.

The **Central Phoenix/East Valley Light Rail Project** is now in the construction phase with planned completion in December 2008. The cities of Tempe, Phoenix, Mesa and Glendale currently participate in a joint powers agreement to construct and operate the system. The cost of the initial 20-mile segment is estimated at \$1.4 billion with approximately 41% of the project being funded through a federal grant. A total of 5.5 miles of the initial segment will go through Tempe serving downtown Tempe, Arizona State University and the Apache Boulevard area.

Major renovations to Tempe's **Diablo Stadium** occurred during the fiscal year. Diablo Stadium is the spring training home to major league's Los Angeles Angels of Anaheim. Major components of the project include upgrading of stadium seating, increasing capacity by 10,000 and construction of a new club-house. Funding for the renovations was through an intergovernmental agreement between the City and the Arizona Tourism and Sports Authority.

FINANCIAL INFORMATION

Internal Control

The management of the City of Tempe is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and that adequate accounting data are compiled to allow for the preparation of the basic financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The City also maintains budgetary controls which are designed to ensure compliance with budgetary and legal provisions embodied in the annually appropriated operating budget approved by the City Council. Activities of the General Fund, Special Revenue Funds (except for the Grant and Court Awards), General Obligation Debt Service Fund, and Proprietary Funds are included in the annually appropriated operating budget. Project-length budgets are also prepared for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by the City Council. However, for budget administrative purposes, the City maintains budgeting controls at department appropriation levels. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon the issuance of a purchase order. Encumbered appropriations are carried forward at the end of each fiscal year. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its' responsibility for sound financial management.

Single Audit

As a recipient of federal and state financial assistance, the City is also responsible for an adequate internal control structure to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the City.

As a part of the City's single audit, performed in accordance with the Single Audit Act of 1996 and the U. S. Office of Management and Budget Circular A-133, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended June 30, 2006, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

Cash Management

The City utilizes a pooled cash and investment concept for all funds. Each fund type's portion of the pool is displayed in the basic financial statements as "Pooled cash and investments."

The City's investment policy is to invest pooled cash in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all applicable State and City statutes governing the investment of public funds. The City is permitted to invest in obligations of the U.S. Government or any of its agencies and instrumentalities, certificates of deposit, bankers' acceptances, commercial paper, repurchase agreements and the State of Arizona's Local Government Investment Pool. The City's effective annual yield on pooled cash and investments for the 2005-06 fiscal year was 3.26% which is due mainly to historically low interest rates over the past few years. While the economy is showing a recovery, it is the City's policy to hold investments to maturity. As such, the increase in the City's yield on its investments will somewhat follow behind the economic recovery.

Risk Management

The City of Tempe maintains a protected self-insurance program for its liability (general, automobile, and professional), property, workers' compensation, and group insurance coverages (health, dental, and life). Liability, property and workers' compensation claims are administered by the Risk Management Division of the Financial Services Department, and group insurance claims are administered by the Human Resources Department.

The City maintains a sound loss fund to pay for claims within its various self-insured retentions (SIR). At June 30, 2006, the balance in the General Fund Self-Insurance reserve is \$8.8 million. Excess insurance is purchased for claims above the SIRs, thus, making this a protected self-insurance program.

OTHER INFORMATION

Independent Audit

City Charter requires an annual audit by an independent certified public accountant. Through a cooperative Request for Proposal process, the accounting firm of Heinfeld, Meech & Co., P.C. was selected by the City Council. The auditors' report on the financial statements is included in the financial section of this report.

In addition to this report, Heinfeld, Meech & Co., P.C. was also contracted to perform the Single Audit of the City's federal grant programs. This audit was designed to meet the requirements of the Federal Single Audit Act of 1996 and the related Office of Management and Budget Circular A-133. Due to the size and complexity of the City's financial reporting system, the single audit report is issued separately from this financial report. Copies are available upon request.

Certificate of Achievement

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 for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements.

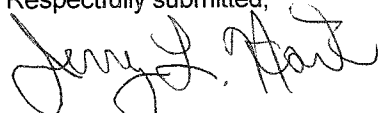
A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last thirty consecutive years (fiscal years 1975-76 through 2004-05). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The City also received GFOA's award for Distinguished Budget Presentation for our 2005-06 annual budget and the National Purchasing Institute's Certificate of Achievement of Excellence in Procurement award for 2006.

Acknowledgment

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Accounting Division, the assistance of administrative personnel in the various departments, and the competent service of our independent auditors. To them and to the City Council and City Manager for their support and interest in improving Tempe's fiscal policies and practices, I express my sincere appreciation.

Respectfully submitted,



Jerry L. Hart, CPA
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tempe
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.

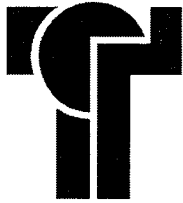


Carla E. Perry

President

Jeffrey R. Emer

Executive Director



For the Fiscal Year
Ended June 30, 2006

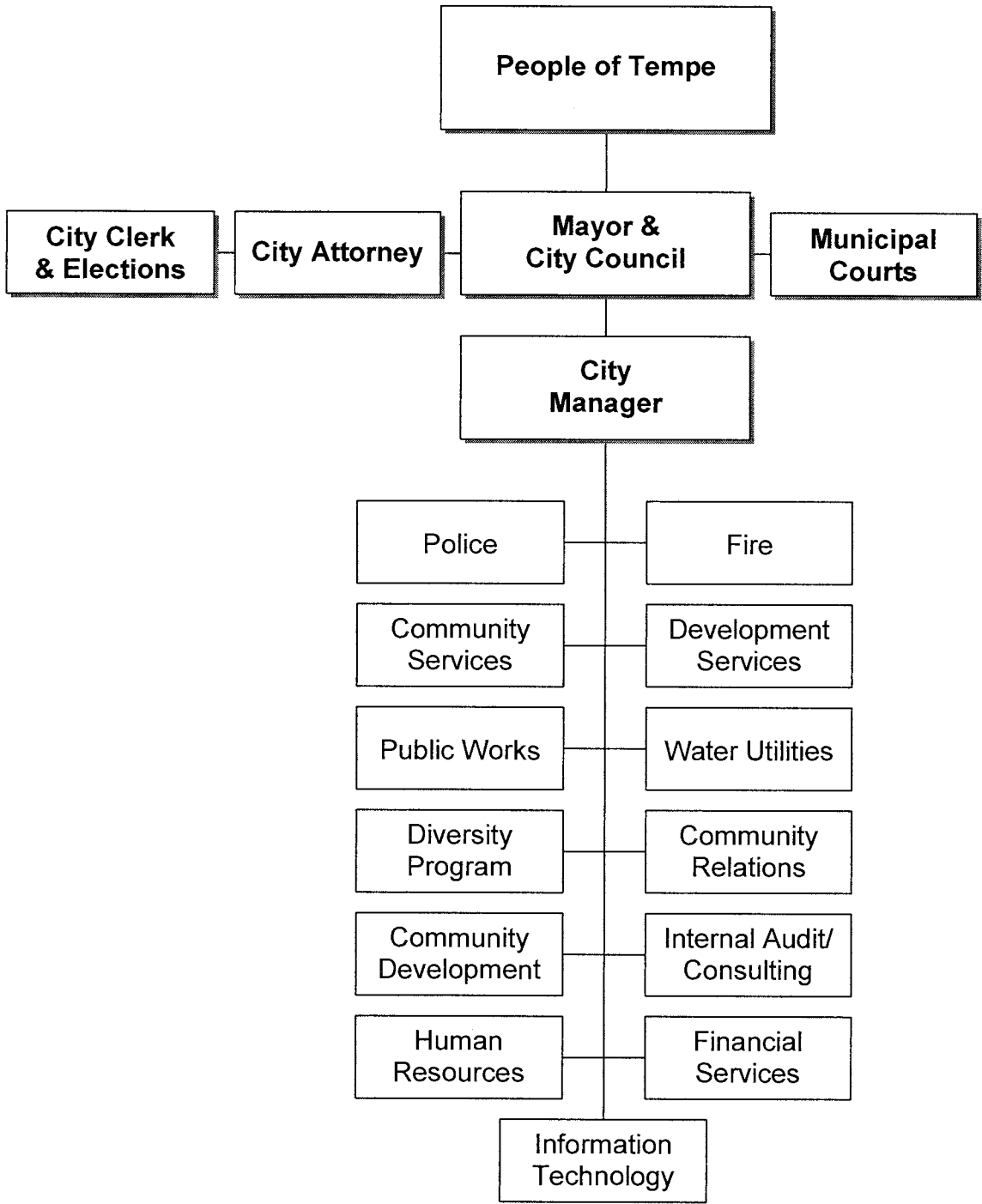
City of Tempe, Arizona List of Principal Officials

City Council

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Pamela L. Goronkin
Hut Hutson

Administrative Staff

Will Manley, City Manager
Jeff Kulaga, Assistant City Manager
Marlene Pontrelli, City Attorney
Kathy Matz, City Clerk
Louraine Arkfeld, Municipal Courts
Ken Jones, Internal Audit/Consulting
Rosa Inchausti, Diversity Program
Valerie Hernandez, Human Resources
Tom Canasi, Community Services
Shelley Hearn, Community Relations
Ralph Tranter, Police
Cliff Jones, Fire
Gene Obis, Information Technology
Jerry Hart, Financial Services
Chris Anaradian, Development Services
Glen Kephart, Public Works
Don Hawkes, Water Utilities
Chris Salomone, Community Development





HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
Kera Badalamenti, CPA

3033 N. Central Avenue, Suite 300
Phoenix, Arizona 85012
(602) 277-9449
Fax (602) 277-9297

www.heinfeldmeech.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
City of Tempe, 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 Tempe, Arizona (the 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. 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tempe, Arizona as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Transit Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2006, on our consideration of City of Tempe, Arizona'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.

The management's discussion and analysis and budgetary comparison information on pages 17 through 32 is not a required part of the basic financial statements but is 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. The accompanying supplementary information such as the introductory section, combining statements, other supplementary information and the statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

October 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Tempe's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1.052 billion (net assets). Of this amount, \$315.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$69.7 million during the fiscal year.
- At June 30, 2006, the City's governmental funds reported combined ending fund balances of \$289.4 million. Approximately 74.4% of this total amount (\$215.3 million) is unreserved fund balance available for spending at the government's discretion.
- At June 30, 2006, total unreserved fund balance for the general fund was \$94.6 million. The undesignated portion of unreserved fund balance is \$40.9 million, which is 26.1% of total general fund revenues of \$157.0 million.
- At June 30, 2006, the City's proprietary funds reported combined total net assets of \$262.9 million, and total unrestricted net assets of \$88.8 million. \$83.2 million of the unrestricted net assets are in the Water and Wastewater Fund.
- The City issued \$74.5 million in new general obligation debt during the current fiscal year for water and wastewater system improvements, street improvements, public safety improvements, storm drain improvements and community services/park improvements.
- The City issued a total of \$21.3 million in excise tax revenue obligations. Of this amount, \$19.0 million was issued for Tempe Diablo Stadium improvements and \$2.3 million issued for cemetery improvements. The City also issued \$22.3 in excise tax revenue obligations used to fund the remaining construction of the performing and visual arts center.
- A total of \$60.7 million in variable rate demand transit excise tax revenue obligations were issued to finance costs related to the regional light rail project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains **other supplementary information** in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

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

The **statement of activities** presents information showing how the City's net assets changed during the current 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 periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide 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 police, fire, community services, public works, community relations, mayor and council, city manager, diversity program, internal audit/consulting, city clerk and elections, city attorney, municipal courts, development services, community development, financial services, human resources, and information technology. The business-type activities of the City include water and wastewater, solid waste, golf and cemetery operations.

Included within the government-wide financial statements are the operations of the Tempe Municipal Property Corporation and the Rio Salado Community Facilities District. Although legally separate from the City, these component units are blended with the primary government (the City) because of their governance or financial relationships with the City.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are 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 two categories: **governmental** funds and **proprietary** funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on near term inflows and outflows of spendable resources and 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.

Other than the general fund, 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, transit special revenue fund, general obligation debt service fund, special assessment debt service fund, performing arts capital projects fund and the transit capital projects fund which are all considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of

the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the general, special revenue (except grants and court awards), general obligation debt service, and proprietary funds. Budgetary comparison statements have been provided in the basic financial statements for the general and transit special revenue funds to demonstrate compliance with the budget. Budgetary comparison schedules for other nonmajor special revenue and general obligation debt service funds are included in Other Supplementary Information.

Proprietary funds. Proprietary funds are generally used to account for services provided to customers for which the City charges user fees that are designed to fully recover the cost of providing the service. Proprietary funds provide the same type of information 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 its Water and Wastewater, Solid Waste collection/disposal, Golf Course operations and Cemetery operations. Operating revenues and expenses for the cemetery began in the fiscal year ended June 30, 2006. 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 health insurance program and its risk management services including workers compensation, general liability and property liability claims. 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 elsewhere in 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.

Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE STATEMENTS FINANCIAL ANALYSIS

**Net Assets
June 30, 2006**

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 531,675,492	\$ 208,643,071	\$ 740,318,563
Capital assets, net	706,022,632	256,640,985	962,663,617
Total assets	<u>1,237,698,124</u>	<u>465,284,056</u>	<u>1,702,982,180</u>
Liabilities			
Long-term liabilities	346,698,436	183,405,004	530,103,440
Other liabilities	101,507,243	18,966,045	120,473,288
Total liabilities	<u>448,205,679</u>	<u>202,371,049</u>	<u>650,576,728</u>
Net Assets			
Invested in capital assets, net of related debt	388,629,882	174,110,077	562,739,959
Restricted	174,328,803	-	174,328,803
Unrestricted	226,533,760	88,802,930	315,336,690
Total net assets	<u>\$ 789,492,445</u>	<u>\$ 262,913,007</u>	<u>\$ 1,052,405,452</u>

**Net Assets
June 30, 2005**

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 376,332,242	\$ 186,683,760	\$ 563,016,002
Capital assets, net	629,510,645	234,208,331	863,718,976
Total assets	<u>1,005,842,887</u>	<u>420,892,091</u>	<u>1,426,734,978</u>
Liabilities			
Long-term liabilities	234,057,021	137,665,000	371,722,021
Other liabilities	55,426,220	16,878,129	72,304,349
Total liabilities	<u>289,483,241</u>	<u>154,543,129</u>	<u>444,026,370</u>
Net Assets			
Invested in capital assets, net of related debt	425,257,427	191,670,395	616,927,822
Restricted	137,183,741	-	137,183,741
Unrestricted	153,918,478	74,678,567	228,597,045
Total net assets	<u>\$ 716,359,646</u>	<u>\$ 266,348,962</u>	<u>\$ 982,708,608</u>

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 \$1.052 billion and \$982.7 million at June 30, 2006 and 2005, respectively.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, infrastructure, improvements, machinery and equipment and construction in progress) less any related debt used to acquire those assets. The net assets invested in capital assets, net of related debt were \$562.7 million and \$616.9 million at June 30, 2006 and 2005, respectively. These totals represent 53.5% and 62.8% of total net assets at June 30, 2006 and 2005, respectively. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets represents resources that are subject to external restriction on how they may be used. The net assets subject to external restrictions were \$174.3 million (16.6% of total net assets) and \$137.2 million (14.0% of total net assets) at June 30, 2006 and 2005, respectively. These restrictions are imposed by laws or regulations set by the City (transit and cultural and recreation) and the State of Arizona (highways and streets, court enhancements and debt service). The remaining balance of net assets is unrestricted, and may be used to meet the government's ongoing obligations to citizens and creditors. The balance of unrestricted net assets was \$315.3 million (30.0% of total net assets) and \$228.6 million (23.3% of total net assets) at June 30, 2006 and 2005, respectively.

At the end of each fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities as a whole.

Analysis of Change in Net Assets

The City's net assets increased by \$69.7 million during the current fiscal year. These increases are explained in the governmental and business-type activities discussion below.

Changes in Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 28,545,556	\$ 61,992,397	\$ 90,537,953
Operating grants and contributions	19,903,398	-	19,903,398
Capital grants and contributions	54,935,929	506,593	55,442,522
General revenues:			
Sales taxes	145,109,192	-	145,109,192
State shared income taxes	16,607,943	-	16,607,943
Property taxes	27,532,893	-	27,532,893
Franchise taxes	1,858,851	-	1,858,851
Auto-lieu taxes	7,527,675	-	7,527,675
Unrestricted investment earnings	8,038,565	1,909,727	9,948,292
Miscellaneous	1,864,289	993,233	2,857,522
Gain on sale of capital assets	1,813,311	265,397	2,078,708
Total revenues	<u>313,737,602</u>	<u>65,667,347</u>	<u>379,404,949</u>

Expenses

Police	59,957,698	-	59,957,698
Fire	20,098,598	-	20,098,598
Community services	22,205,153	-	22,205,153
Public works	67,537,876	-	67,537,876
Community relations	2,499,978	-	2,499,978
Mayor and council	362,810	-	362,810
City manager	412,936	-	412,936
Diversity program	534,950	-	534,950
Internal audit/consulting	460,824	-	460,824
City clerk and elections	752,336	-	752,336
City attorney	2,348,553	-	2,348,553
Municipal courts	4,342,297	-	4,342,297
Development services	4,492,161	-	4,492,161
Community development	30,358,768	-	30,358,768
Financial services	4,256,427	-	4,256,427
Human resources	2,727,058	-	2,727,058
Information technology	1,462,595	-	1,462,595
Non-departmental	6,122,335	-	6,122,335
Interest on long-term debt	10,821,420	-	10,821,420
Water/Wastewater	-	53,588,122	53,588,122
Solid waste	-	11,836,691	11,836,691
Golf	-	2,375,802	2,375,802
Cemetery	-	152,717	152,717
Total expenses	241,754,773	67,953,332	309,708,105
Increase (decrease) in net assets before transfers	71,982,829	(2,285,985)	69,696,844
Transfers	1,149,970	(1,149,970)	-
Change in net assets	73,132,799	(3,435,955)	69,696,844
Net assets at beginning of year	716,359,646	266,348,962	982,708,608
Net assets at end of year	\$ 789,492,445	\$ 262,913,007	\$1,052,405,452

Changes in Net Assets June 30, 2005

Revenues	Governmental Activities	Business-type Activities	Total
Program revenues:			
Charges for services	\$ 28,037,748	\$ 58,452,605	\$ 86,490,353
Operating grants and contributions	16,245,880	-	16,245,880
Capital grants and contributions	33,688,443	2,835,223	36,523,666
General revenues:			
Sales taxes	131,256,519	-	131,256,519
State income taxes	14,582,117	-	14,582,117
Property taxes	24,872,388	-	24,872,388
Franchise taxes	1,678,437	-	1,678,437
Auto-lieu taxes	6,791,043	-	6,791,043
Unrestricted investment earnings	4,537,422	1,408,251	5,945,673
Miscellaneous	2,126,029	438,447	2,564,476
Gain on sale of capital assets	2,004,326	392,108	2,396,434
Total revenues	265,820,352	63,526,634	329,346,986

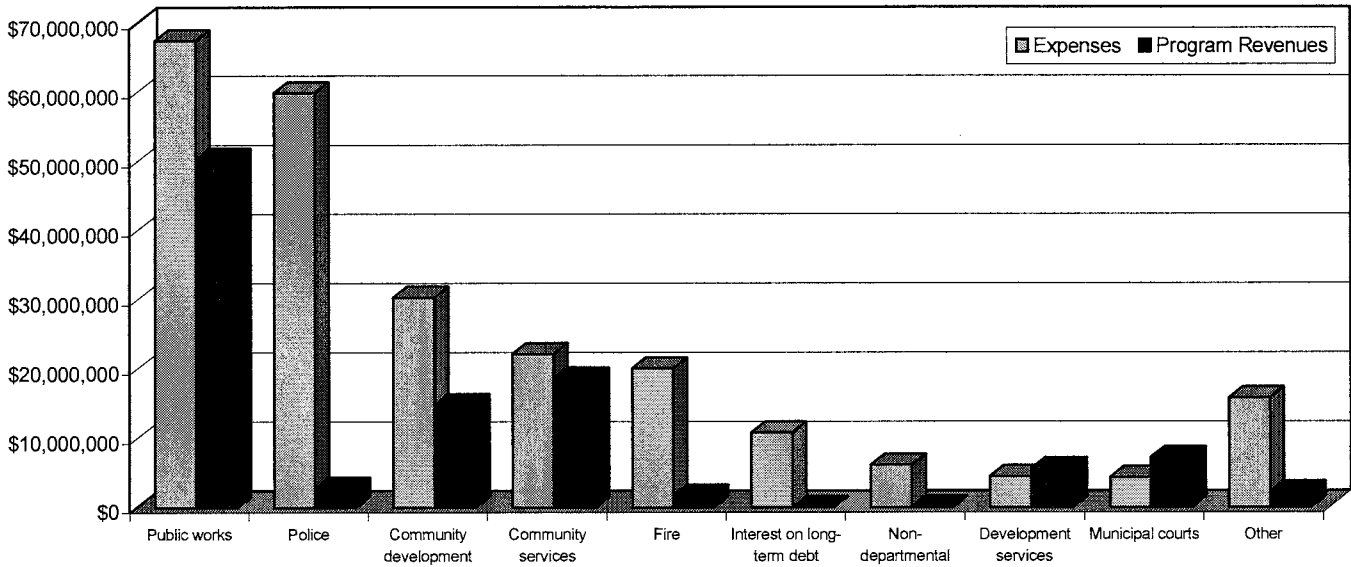
Expenses

Police	51,928,073	-	51,928,073
Fire	17,679,667	-	17,679,667
Community services	21,116,067	-	21,116,067
Public works	61,853,194	-	61,853,194
Community relations	2,312,548	-	2,312,548
Mayor and council	400,549	-	400,549
City manager	312,882	-	312,882
Diversity program	544,872	-	544,872
Internal audit/consulting	446,333	-	446,333
City clerk and elections	443,255	-	443,255
City attorney	2,262,903	-	2,262,903
Municipal courts	3,655,280	-	3,655,280
Development services	21,449,181	-	21,449,181
Economic development	3,187,992	-	3,187,992
Financial services	4,102,556	-	4,102,556
Human resources	2,561,746	-	2,561,746
Information technology	1,854,603	-	1,854,603
Non-departmental	6,895,583	-	6,895,583
Interest on long-term debt	9,033,035	-	9,033,035
Water/Wastewater	-	47,156,603	47,156,603
Solid waste	-	11,413,402	11,413,402
Golf	-	2,442,925	2,442,925
Total expenses	212,040,319	61,012,930	273,053,249
Increase in net assets before			
Transfers	53,780,033	2,513,704	56,293,737
Transfers	168,734	(168,734)	-
Change in net assets	53,948,767	2,344,970	56,293,737
Net assets at beginning of year	662,410,879	264,003,992	926,414,871
Net assets at end of year	\$ 716,359,646	\$ 266,348,962	\$ 982,708,608

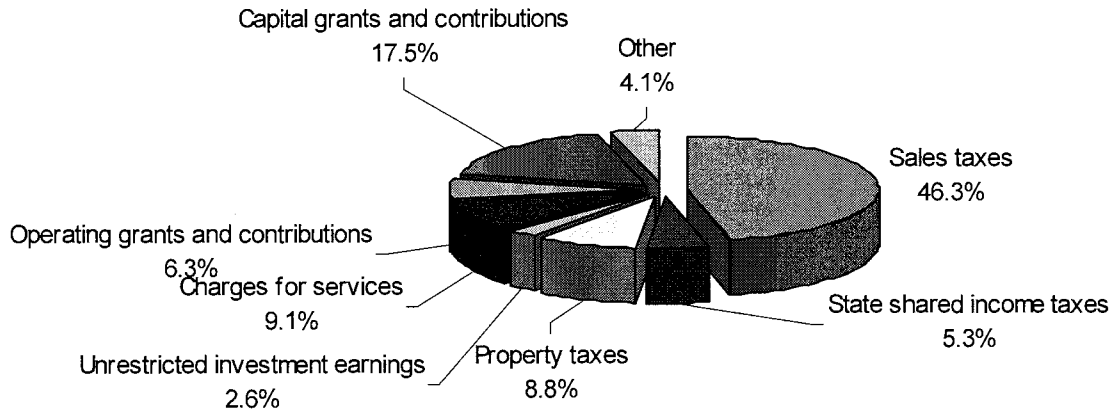
Governmental activities. Despite increases in total expenses of \$29.7 million, governmental activities increased the City's net assets by \$73.1 million (compared to \$53.9 million during the prior year) due largely to continued recovery of city sales tax and increase in capital grants and contributions. The key factors for this increase are as follows:

- During the current fiscal year, sales tax revenue exceeded original budget projections due to the continued economic recovery. Sales tax revenue increased \$13.9 million (a total of 10.6%).
- The City saw an increase of \$21.2 million in capital grants and contributions due mainly to capital contributions from the Arizona Tourism and Sports Authority for the Tempe Diablo Stadium Complex renovations and Valley Metro Rail contributions to the City's Transit program primarily for construction costs related to the light rail project.
- Operating grants and contributions increased by \$3.7 million due primarily to increased Community Development Block Grant activity during the fiscal year.
- Unrestricted investment earnings increased by \$3.5 million due primarily to increased rates of return on citywide investments from the prior year.
- Total expenses increased by \$29.7 million (a 14.0% increase). These increases occurred mainly in public safety (police and fire) and community development activities.

Fiscal Year 2005-06 Expenses and Program Revenues - Governmental Activities



Fiscal Year 2005-06 Revenues by Source - Governmental Activities



The charts above illustrate the City's governmental expenses and program revenues by function and its revenues by source for the current fiscal year. A comparison of expense by function and the percentage of total expenses, for the five largest functions, is presented below.

	Fiscal Year Ended			
	June 30, 2006		June 30, 2005	
Public works	\$67,537,876	27.9%	\$61,853,194	29.2%
Police	59,957,698	24.8	51,928,073	24.5
Community development *	30,358,768	12.6	21,449,181	10.1
Community services	22,205,153	9.2	21,116,067	10.0
Fire	20,098,598	8.3	17,679,667	8.3

* During the fiscal year ended June 30, 2006, a large portion of the Development Services functions were reorganized into the Community Development department. Fiscal year ended June 30, 2005 represents total expenses for the Development Services department.

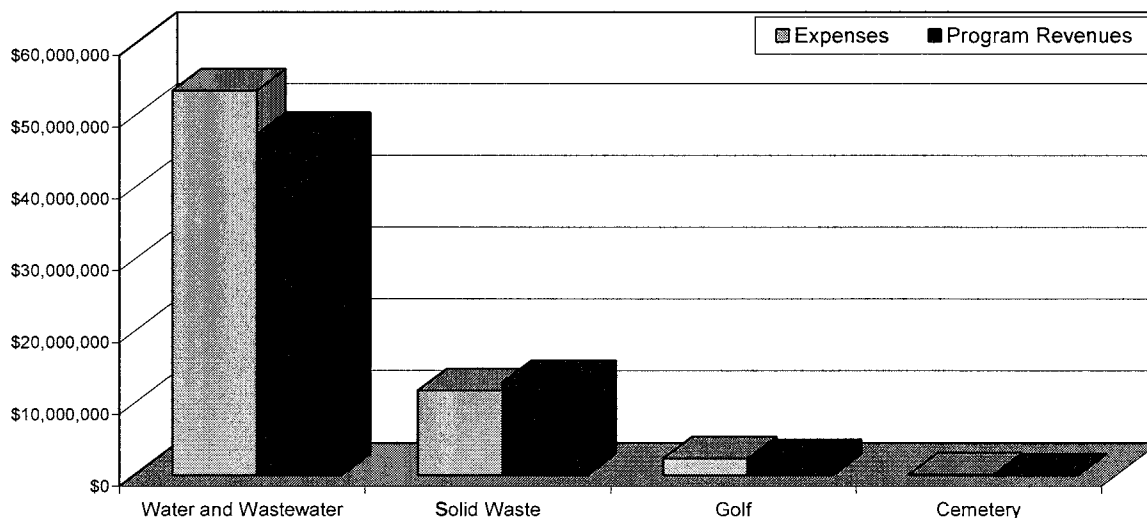
General revenues such as sales taxes, state income taxes, property taxes, and other excise taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, a comparison of the five largest general revenues, and their percentage of total revenues, is presented below.

	Fiscal Year Ended			
	June 30, 2006		June 30, 2005	
Sales taxes	\$145,109,192	46.3%	\$131,256,519	49.4%
Capital grants and contributions	54,935,929	17.5	33,688,443	12.7
Charges for services	28,545,556	9.1	28,037,748	10.5
Property taxes	27,532,893	8.8	24,872,388	9.4
Operating grants and contributions	19,903,398	6.3	16,245,880	6.1

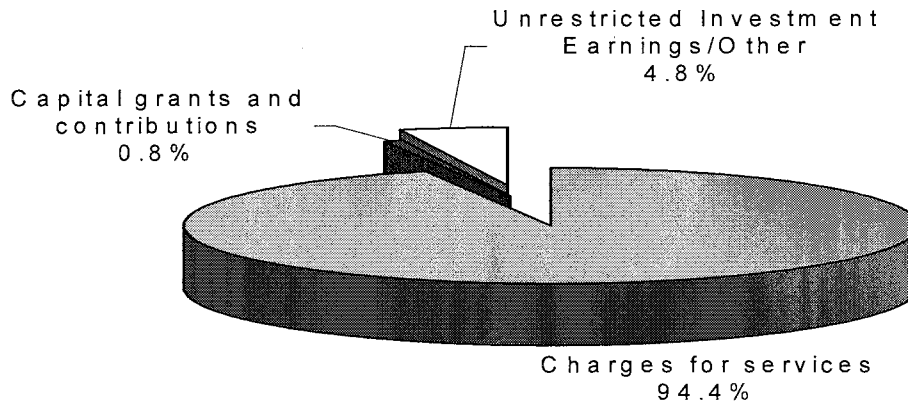
Business-type activities. Business-type activities decreased the City’s net assets by \$3.4 million for the year ended June 30, 2006 compared to an increase of \$2.3 million for the year ended June 30, 2005. This decrease is due primarily to an increase in water/wastewater operating expenses of \$6.4 million during the fiscal year and less than anticipated operating revenue in the water and wastewater fund.

Solid waste and golf course operations remained relatively stable from the fiscal year ended June 30, 2005 to the fiscal year ended June 30, 2006. Water and wastewater operating expenses increased primarily due to increases in non-capitalizable expenses related to the water and wastewater plant expansions, increases in depreciation expense and increases in operating expenses at the 91st Avenue Wastewater Treatment Plant. Sewer revenues in the water and wastewater fund did not meet expectations despite increases in the sewer rates during the fiscal year. This slow growth in revenue was expected and due to billed sewer amounts being established in unusually “wet” months which affected the fiscal year revenues.

Fiscal Year 2005-06 Expenses and Program Revenues - Business-type Activities



Fiscal Year 2005-06 Revenues by Source - Business-type Activities



For the business type activities a comparison of revenues by source is provided for each activity.

For the Year Ended June 30, 2006

	Water and Wastewater	Solid Waste	Golf	Cemetery	Total
Charges for services	\$ 47,012,596	\$ 12,989,827	\$ 1,971,031	\$ 18,943	\$ 61,992,397
Capital grants and contributions	506,593	-	-	-	506,593
Unrestricted investment Earnings/other	2,627,578	400,817	72,029	67,933	3,168,357
Total	\$ 50,146,767	\$ 13,390,644	\$ 2,043,060	\$ 86,876	\$ 65,667,347

For the Year Ended June 30, 2005

	Water and Wastewater	Solid Waste	Golf	Cemetery	Total
Charges for services	\$ 44,443,764	\$ 12,054,563	\$ 1,954,278	\$ -	\$ 58,452,605
Capital grants and contributions	2,835,223	-	-	-	2,835,223
Unrestricted investment Earnings/other	1,963,277	263,185	12,344	-	2,238,806
Total	\$ 49,242,264	\$ 12,317,748	\$ 1,966,622	\$ -	\$ 63,526,634

As shown in the Analysis of Change in Net Assets schedules presented previously, the largest of the City's business-type activities, Water and Wastewater, had expenses of \$53.6 million for the fiscal year, followed by Solid Waste with \$11.8 million, Golf with \$2.4 million and Cemetery with \$152,717. The fiscal year ended June 30, 2006 was the first operating year for the Cemetery fund.

For the fiscal year, revenues exceeded expenses in the Solid Waste operations. Expenses exceeded revenues in the Water and Wastewater, Golf and Cemetery operations. The City has approved rate increases for Water and Wastewater services and Solid Waste services in each of the next two fiscal years. During the fiscal year, charges for services provided the largest share of revenues (94.4%) for all of the business-type activities.

FUND STATEMENTS FINANCIAL ANALYSIS

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

Governmental funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$289.4 million, an increase of \$55.0 million from the prior year. Approximately \$215.3 million of this total amount constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders (\$52.6 million), (2) to pay debt service (\$18.9 million), and (3) for other restricted purposes (\$2.5 million).

Revenues for governmental functions overall totaled approximately \$300.4 million in the fiscal year ended June 30, 2006, which represents an increase of 15.0% from the fiscal year ended June 30, 2005. Expenditures for governmental functions, totaling \$377.5 million, increased by 34.5% from the fiscal year ended June 30, 2005. In the fiscal year ended June 30, 2006, expenditures for governmental functions exceeded revenues by \$77.2 million or 25.7% of revenues. An analysis of each individual major fund follows.

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 \$94.6 million (the undesignated portion equaled \$40.9 million), while total fund balance was \$97.0 million. As a measure of the General Fund's liquidity, it may be useful to compare fund balances to total fund revenues.

	Fiscal Year Ended			
	June 30, 2006		June 30, 2005	
Revenues	\$ 157,029,099		\$ 137,985,362	
Total fund balance	97,025,779	61.8 %	81,340,119	58.9 %
Unreserved fund balance	94,648,961	60.3	78,064,176	56.6
Unreserved, designated fund balance	53,730,157	34.2	40,236,917	29.2

The fund balance in the City's general fund increased by \$15.7 million during the fiscal year due mainly to the increased sales tax revenue from a continuing economic recovery, increased state shared sales and income taxes and increased investment income. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2006 of \$15.3 million. This is an increase of \$2.0 million over the comparable figure from the prior year of \$13.3 million.

The **Transit Special Revenue Fund** is used to account for receipts and expenditures of Transit Tax monies. The unreserved fund balance totaled \$41.8 million at June 30, 2006, compared to a \$29.6 million unreserved fund balance at June 30, 2005. The net change in fund balance for the year ended June 30, 2006 was an increase of \$10.1 million compared to a decrease of \$10.4 million for the year ended June 30, 2005. A large portion of the transit fund balance will be applied toward the City's light rail project and other transit capital projects. A total of \$7.1 million was transferred from the Transit Special Revenue Fund to the Transit Capital Projects Fund for the fiscal year ended June 30, 2006.

The **General Obligation Debt Service Fund** accounts for the accumulation of resources for and payments of general obligation debt. Total fund balance (restricted for general obligation debt service payments) increased from \$16.0 million at June 30, 2005 to \$18.5 million at June 30, 2006. The total debt service fund balance will be used to service future debt issuances consistent with the City's Debt Management Plan.

The **Special Assessment Debt Service Fund** accounts for the accumulation of resources for and payments of special assessment debt. Total fund balance (restricted for special assessment debt service payments) decreased from \$498,348 at June 30, 2005 to \$340,647 at June 30, 2006. Total special assessments receivable decreased from \$19.4 million to \$17.5 million from June 30, 2005 to June 30, 2006. For the year ended June 30, 2006, no special assessments receivable was recognized as no special assessment debt was issued.

The **Performing Arts Capital Projects Fund** accounts for the construction of the performing and visual arts center. Total fund balance increased from \$11.6 million at June 30, 2005 to \$16.4 million at June 30, 2006 due primarily to the debt issuance of \$22.3 million offset by \$17.8 million in expenditures.

The **Transit Capital Projects Fund** accounts for the acquisition of buses, the light rail system, construction of the East Valley Regional Maintenance Facility, Tempe Transportation Center and other traffic flow improvements. Total fund balance increased from \$33.2 million at June 30, 2005 to \$51.4 million at June 30, 2006. Total expenditures increased by \$44.7 million from fiscal year ended June 30, 2005 to June 30, 2006; however, the increased expenditures were offset by \$27.9 million in Valley Metro Rail contributions (other intergovernmental revenue) to the City's Transit program primarily for real estate acquisition, and construction costs related to the light rail project. In addition, a total of \$60.7 million in variable rate demand excise tax obligations were issued to finance costs related to the light rail project.

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 year indicated, the unrestricted net assets for the proprietary funds were as follows:

	Fiscal Year Ended	
	June 30, 2006	June 30, 2005
Water and wastewater fund	\$83,183,189	\$72,098,545
Solid waste fund	3,019,582	2,226,136
Golf fund	468,457	540,158
Cemetery fund	2,131,702	(186,272)
Internal service fund	(8,888,026)	1,270,889

The **Water and Wastewater Fund** accounts for the provision of water and sewer services to the City and the adjoining Town of Guadalupe. The fund saw a decrease in net assets of \$4.6 million for the fiscal year ended June 30, 2006 compared to an increase in net assets of \$1.9 million for the fiscal year ended June 30, 2005. This is due primarily to planned increases in non-capitalizable expenses related to the water and wastewater plant expansions, increases in depreciation expense and increases in operating expenses at the 91st Avenue Wastewater Treatment Plant. In addition, capital contributions from development fees decreased \$2.3 million for the fiscal year ended June 30, 2006. Rate increases have been authorized and will become effective November 1, 2006 and November 1, 2007 for this operation.

The **Solid Waste Fund** accounts for the provision of solid waste collection and disposal services for both residential and commercial customers. Operating expenses increased \$0.4 million (3.7%) from the fiscal year ended June 30, 2005 to June 30, 2006 as revenues increased by approximately \$1.0 million (8.1%) as a result of a rate increase effective November 1, 2005.

The **Golf Fund** accounts for the operation of the Rolling Hills and Ken McDonald golf courses. The \$0.3 million loss in the Golf fund was due to continued competition from golf courses in neighboring cities resulting in reduced rounds of play.

The **Cemetery Fund** was established during the fiscal year ended June 30, 2005 to account for the improvements, expansion and operations of the Double Butte Cemetery. The Cemetery Fund operations commenced during the fiscal year ended June 30, 2006.

The **Internal Service Funds** accounts for the risk and health insurance activities of the City. The \$8.9 million deficit is due primarily to a \$10.0 million deficit in the Risk Management Fund, which will be funded in fiscal year 2006-07.

Budget Highlights

The City's final budget differs from the original budget for the General Fund primarily in that it contains carry-forward appropriations for encumbrances rolled forward from the prior fiscal year, and budget transfers from other funds. Carry-forward appropriations for rolled forward encumbrances were approximately \$1.9 million.

During the year, actual revenues exceeded budgetary estimates by \$20.3 million (14.7% of total budgeted revenue) in the General Fund. This is due primarily to sales taxes exceeding budgetary estimates by \$9.2 million as well as increases in overall revenues because of the continued economic recovery.

Actual expenditures were less than budgetary estimates by \$540,920 (0.39% of final budgetary estimates) in the General Fund. This positive variance was attributable to all general fund operations and does not have a significant effect on future services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2006 amount to \$962.6 million (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current fiscal year was \$98.9 million (11.5%). The tables below reflect the capital assets at the end of the fiscal year June 30, 2006 and 2005, respectively.

Capital Assets, Net of Depreciation June 30, 2006

	Governmental Activities	Business-type Activities	Total
Land	\$ 39,871,412	\$ 6,693,377	\$ 46,564,789
Buildings	86,957,374	34,664,304	121,621,678
Infrastructure	370,860,979	103,394,984	474,255,963
Improvements	82,468,547	90,921,643	173,390,190
Machinery and equipment	35,102,024	7,678,339	42,780,363
Construction in progress	90,762,296	13,288,338	104,050,634
Total	<u>\$ 706,022,632</u>	<u>\$ 256,640,985</u>	<u>\$ 962,663,617</u>

Capital Assets, Net of Depreciation June 30, 2005

	Governmental Activities	Business-type Activities	Total
Land	\$ 38,160,136	\$ 8,352,554	\$ 46,512,690
Buildings	83,840,346	35,356,493	119,196,839
Infrastructure	368,708,526	82,895,566	451,604,092
Improvements	53,597,354	95,020,026	148,617,380
Machinery and equipment	33,679,074	12,029,786	45,708,860
Construction in progress	51,525,209	553,906	52,079,115
Total	<u>\$ 629,510,645</u>	<u>\$ 234,208,331</u>	<u>\$ 863,718,976</u>

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

Governmental Activities

- In December 2005, construction began on the Apache Boulevard Police Substation. This \$22.3 million, 80,000 square foot project sits on a nine acre site and will house approximately 180 police employees. The facilities will house the Communications Bureau, North Patrol Bureaus, Traffic Bureau, Crime Analysis Unit and Property Evidence. Additional features will include a community plaza, a community meeting room, a police vehicle storage facility and an employee fitness center. The facility is expected to open in the fiscal year ended June 30, 2007. Expenditures related to the Apache Boulevard Police Substation totaled \$8.5 million for the fiscal year ended June 30, 2006.
- Construction continued on the Tempe Center for the Arts. The center will include a 600-seat main theater, a 200-seat studio theater, a 3,100 square foot multi-purpose room, a 3,500 square foot visual arts gallery and related administrative, technical and support spaces. Expenditures related to the Tempe Center for the Arts totaled \$17.8 million for the fiscal year ended June 30, 2006.
- Construction costs related to the East Valley Maintenance Facility and the Tempe Transportation Center totaled \$12.6 million. The East Valley Regional Maintenance Facility is a cooperative multi-jurisdictional regional transit maintenance center located near Rio Salado Parkway and Priest in Tempe. This 250-bus operations and maintenance facility will include administrative offices, maintenance facilities and fueling facilities. The Tempe Transportation Center will house a transit center, replacement parking, commercial and office space and contain 15 bus bays. It will also house the City of Tempe transportation offices.
- Scheduled to be completed in December 2008, the Central Phoenix/East Valley Light Rail project was in the construction phase during the fiscal year ended June 30, 2006. Total expenditures during the year were \$69.7 million toward the project.
- Construction costs of the North Tempe Multi-Generational Center totaled \$6.3 million during the fiscal year ended June 30, 2006. Completion of the project is scheduled for the fiscal year ended June 30, 2007.
- During the fiscal year ended June 30, 2006, expenditures of \$18.0 million went toward renovations of the Tempe Diablo Stadium which is the spring training home to major league's Los Angeles Angels of Anaheim.

Business-type Activities

- Improvements to the Johnny G. Martinez Water Treatment Plant totaled \$10.3 million. Capital replacement and expansion of the Kyrene Water Reclamation Plant continued during the year with \$13.7 million spent towards this effort. In addition, a total of \$9.8 million in capital contributions were made to the 91st Avenue Wastewater Treatment facility primarily for wastewater treatment plant expansions.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note 8 of the Notes to the Financial Statements for further information regarding capital assets.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$530.1 million. Of this amount, \$298.5 million is general obligation bonds backed by the full faith and credit of the City, \$17.5 million is improvement district bonds, \$179.0 million represents excise tax revenue obligations, \$7.0 million is a HUD Section 108 loan, \$2.4 million is the capital improvement notes payable and the remaining includes other governmental activities.

**Outstanding Long-term Obligations
June 30, 2006**

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 117,610,000	\$ 180,935,000	\$ 298,545,000
Special assessment bonds	17,490,000	-	17,490,000
1992 Excise tax TMPC obligations	-	140,000	140,000
1999 Excise tax refunding certificates of participation	1,780,000	-	1,780,000
2000A Excise tax obligations	5,835,000	-	5,835,000
2003 Excise tax refunding obligations	35,175,000	-	35,175,000
2004 Excise tax obligations	34,400,000	-	34,400,000
2005 Excise tax obligations	18,700,000	2,330,004	21,030,004
2006 Excise tax obligations	19,925,000	-	19,925,000
2006 Variable rate demand excise tax obligations	60,675,000	-	60,675,000
2004 HUD Section 108 loan	7,000,000	-	7,000,000
Capital improvement notes	2,416,596	-	2,416,596
Total debt payable	<u>321,006,596</u>	<u>183,405,004</u>	<u>504,411,600</u>
Capital leases	6,732,171	-	6,732,171
Compensated absences	13,785,182	-	13,785,182
Claims and judgments	5,174,487	-	5,174,487
Total long-term obligations	<u>\$ 346,698,436</u>	<u>\$ 183,405,004</u>	<u>\$ 530,103,440</u>

**Outstanding Long-term Obligations
June 30, 2005**

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 99,880,000	\$ 137,390,000	\$ 237,270,000
Special assessment bonds	19,345,000	-	19,345,000
1992 Excise tax TMPC obligations	-	275,000	275,000
1999 Excise tax refunding certificates of participation	2,320,000	-	2,320,000
2000A Excise tax obligations	6,115,000	-	6,115,000
2003 Excise tax refunding obligations	36,570,000	-	36,570,000
2004 Excise tax obligations	36,095,000	-	36,095,000
2004 HUD Section 108 loan	7,000,000	-	7,000,000
Capital improvement notes	2,845,604	-	2,845,604
Total debt payable	<u>210,170,604</u>	<u>137,665,000</u>	<u>347,835,604</u>
Capital leases	7,209,396	-	7,209,396
Compensated absences	12,336,699	-	12,336,699
Claims and judgements	4,340,322	-	4,340,322
Total long-term obligations	<u>\$ 234,057,021</u>	<u>\$ 137,665,000</u>	<u>\$ 371,722,021</u>

The City's issued \$74.5 million in new general obligation debt during the current fiscal year for water and wastewater system improvements, street improvements and community services/park improvements. The City also issued \$43.7 million in excise tax revenue obligations, \$21.4 million for stadium and cemetery improvements

and \$22.3 million for the Performing arts center. A total of \$60.7 million variable rate demand excise tax obligations were issued to fund costs related to the city's portion of the regional light rail system.

The City's total governmental general obligation bonded debt increased by approximately \$61.3 million. The ratio of net (total bonded debt less debt service reserves) general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, oversight bodies and investors. A comparison of these indicators follows:

	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Net general bonded debt	\$ 99,062,152	\$ 83,888,853
Net general bonded debt per capita	597	522
Ratio of net general bonded debt to net assessed value	5.2%	4.7%
Debt service secondary tax rate per \$100 of taxable valuation	\$ 0.88	\$ 0.82

The State constitution imposes certain debt limitations on the City of 6% and 20% of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2006 is \$22.0 million and \$161.4 million under the 6% and 20% limitation, respectively. Additional information on the statutory debt limitations may be found in Note 9 to the Financial Statements and the Statistical Section (Exhibit S-16) of this report.

During the year, the City maintained its AA+ rating from Standard & Poors Corporation, its Aa1 rating from Moody's Investors Service, and its AAA rating from Fitch Ratings on its outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 9 to the Financial Statements.

OTHER MATTERS

While the requirements of GASB Statements No. 43 and 45, related to financial reporting of postemployment benefits, will not affect the financial position of the City until fiscal year 2007-08, the impact of the requirements are anticipated to have significant financial implications. At the direction of the Mayor and Council, the financial impact and evaluation of the City's current benefit plan continue to be assessed.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, city council, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact:

City of Tempe
 Financial Services Department
 Accounting Division
 20 E. Sixth Street
 Tempe, AZ 85281
 (480) 350-8350

Statement of Net Assets

June 30, 2006

City of Tempe, Arizona

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled cash and investments	\$ 202,507,290	\$ 77,016,059	\$ 279,523,349
Receivables:			
Taxes	12,805,109	-	12,805,109
Accounts, net	3,327,573	6,902,848	10,230,421
Accrued interest	907,701	535,604	1,443,305
Due from other governments	42,890,712	-	42,890,712
Inventories	1,243,690	1,006,418	2,250,108
Prepaid items	812,250	-	812,250
Restricted cash and investments	101,771,839	12,606,450	114,378,289
Special assessment receivables	17,496,621	-	17,496,621
Capital improvement note receivable	12,266,482	2,416,596	14,683,078
Equity in joint venture	135,646,225	108,159,096	243,805,321
Capital assets (net of accumulated depreciation):			
Land	39,871,412	6,693,377	46,564,789
Buildings	86,957,374	34,664,304	121,621,678
Infrastructure	370,860,979	103,394,984	474,255,963
Improvements	82,468,547	90,921,643	173,390,190
Machinery and equipment	35,102,024	7,678,339	42,780,363
Construction in progress	90,762,296	13,288,338	104,050,634
Total assets	<u>1,237,698,124</u>	<u>465,284,056</u>	<u>1,702,982,180</u>
Liabilities			
Accounts payable	28,593,524	5,565,603	34,159,127
Deposits	9,313,773	320,626	9,634,399
Accrued expenses	22,100,176	2,727,460	24,827,636
Unearned revenue	23,355,608	-	23,355,608
Liabilities payable from restricted assets	18,144,162	10,352,356	28,496,518
Long-term liabilities:			
Special assessment debt with a governmental commitment:			
Due within one year	2,145,000	-	2,145,000
Due in more than one year	15,345,000	-	15,345,000
Other long-term liabilities:			
Due within one year	26,515,453	8,735,000	35,250,453
Due in more than one year	302,692,983	174,670,004	477,362,987
Total liabilities	<u>448,205,679</u>	<u>202,371,049</u>	<u>650,576,728</u>
Net Assets			
Invested in capital assets, net of related debt	388,629,882	174,110,077	562,739,959
Restricted for:			
Transit	93,356,549	-	93,356,549
Cultural and recreation	31,686,661	-	31,686,661
Highways and streets	10,498,367	-	10,498,367
Court enhancements	519,824	-	519,824
Debt Service	38,267,402	-	38,267,402
Unrestricted	226,533,760	88,802,930	315,336,690
Total net assets	<u>\$ 789,492,445</u>	<u>\$ 262,913,007</u>	<u>\$ 1,052,405,452</u>

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

Statement of Activities

For the Fiscal Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Police	\$ 59,957,698	\$ 877,704	\$ 1,891,964	\$ -
Fire	20,098,598	566,505	907,330	256,887
Community services	22,205,153	5,098,319	1,068,101	12,491,327
Public works	67,537,876	6,594,229	1,551,159	42,182,526
Community relations	2,499,978	-	-	-
Mayor and council	362,810	-	-	-
City manager	412,936	-	-	-
Diversity program	534,950	-	-	-
Internal audit/consulting	460,824	-	-	-
City clerk and elections	752,336	-	-	-
City attorney	2,348,553	-	151,927	-
Municipal courts	4,342,297	7,179,554	35,912	-
Development services	4,492,161	5,566,289	-	-
Community development	30,358,768	637,445	14,183,829	5,189
Financial services	4,256,427	1,932,684	113,176	-
Human resources	2,727,058	-	-	-
Information technology	1,462,595	-	-	-
Non-departmental	6,122,335	92,827	-	-
Interest on long-term debt	10,821,420	-	-	-
Total governmental activities	<u>241,754,773</u>	<u>28,545,556</u>	<u>19,903,398</u>	<u>54,935,929</u>
Business-type activities:				
Water/Wastewater	53,588,122	47,012,596	-	506,593
Solid Waste	11,836,691	12,989,827	-	-
Golf course	2,375,802	1,971,031	-	-
Cemetery	152,717	18,943	-	-
Total business-type activities	<u>67,953,332</u>	<u>61,992,397</u>	<u>-</u>	<u>506,593</u>
Total government	<u>\$ 309,708,105</u>	<u>\$ 90,537,953</u>	<u>\$ 19,903,398</u>	<u>\$ 55,442,522</u>

General revenues:

- Sales taxes
- State shared income taxes, unrestricted
- Property taxes
- Franchise taxes
- Auto-lieu taxes
- Unrestricted investment earnings
- Miscellaneous
- Gain on sale of capital assets
- Transfers
- Total general revenues and transfers
- Change in net assets
- Net assets- beginning
- Net assets- ending

City of Tempe, Arizona

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (57,188,030)	\$ -	\$ (57,188,030)
(18,367,876)	-	(18,367,876)
(3,547,406)	-	(3,547,406)
(17,209,962)	-	(17,209,962)
(2,499,978)	-	(2,499,978)
(362,810)	-	(362,810)
(412,936)	-	(412,936)
(534,950)	-	(534,950)
(460,824)	-	(460,824)
(752,336)	-	(752,336)
(2,196,626)	-	(2,196,626)
2,873,169	-	2,873,169
1,074,128	-	1,074,128
(15,532,305)	-	(15,532,305)
(2,210,567)	-	(2,210,567)
(2,727,058)	-	(2,727,058)
(1,462,595)	-	(1,462,595)
(6,029,508)	-	(6,029,508)
(10,821,420)	-	(10,821,420)
<u>(138,369,890)</u>	<u>-</u>	<u>(138,369,890)</u>
-	(6,068,933)	(6,068,933)
-	1,153,136	1,153,136
-	(404,771)	(404,771)
-	(133,774)	(133,774)
-	(5,454,342)	(5,454,342)
<u>(138,369,890)</u>	<u>(5,454,342)</u>	<u>(143,824,232)</u>
145,109,192	-	145,109,192
16,607,943	-	16,607,943
27,532,893	-	27,532,893
1,858,851	-	1,858,851
7,527,675	-	7,527,675
8,038,565	1,909,727	9,948,292
1,864,289	993,233	2,857,522
1,813,311	265,397	2,078,708
1,149,970	(1,149,970)	-
<u>211,502,689</u>	<u>2,018,387</u>	<u>213,521,076</u>
73,132,799	(3,435,955)	69,696,844
716,359,646	266,348,962	982,708,608
<u>\$ 789,492,445</u>	<u>\$ 262,913,007</u>	<u>\$ 1,052,405,452</u>

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

Balance Sheet

Governmental Funds

June 30, 2006

	General	Transit Special Revenue	General Obligation Debt Service	Special Assessment Debt Service
Assets				
Pooled cash and investments	\$ 97,047,986	\$ 11,031,687	\$ 18,194,279	\$ 124,227
Receivables:				
Taxes	8,546,896	2,941,091	672,338	-
Accounts	2,753,873	-	-	98,700
Accrued interest	719,798	145,683	-	-
Due from other funds	4,734,025	29,393,912	-	-
Due from other governments	1,329,744	3,550,266	-	-
Inventories	316,605	-	-	-
Prepaid items	-	-	-	-
Restricted cash and investments	132,418	81,336	10,249,845	574,737
Special assessments	-	-	-	17,496,621
Capital improvement notes receivable	-	-	12,266,482	-
Total assets	<u>\$ 115,581,345</u>	<u>\$ 47,143,975</u>	<u>\$ 41,382,944</u>	<u>\$ 18,294,285</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 3,925,316	\$ 5,157,399	\$ 36,894	\$ 2,300
Deposits	8,493,306	-	-	-
Accrued expenditures	2,647,824	42,103	-	-
Claims and judgements	1,035,881	21,859	-	-
Due to other funds	-	-	-	-
Deferred revenue	2,453,239	-	12,605,554	17,496,621
Matured bonds payable	-	-	7,295,000	-
Matured interest payable	-	-	2,897,648	454,717
Total liabilities	<u>18,555,566</u>	<u>5,221,361</u>	<u>22,835,096</u>	<u>17,953,638</u>
Fund Balances				
Fund balances:				
Reserved for:				
Encumbrances	1,570,213	95,712	-	-
Inventories and prepaid items	316,605	-	-	-
Notes receivable	490,000	-	-	-
Debt Service	-	-	18,547,848	340,647
Unreserved, designated (see note 16)	53,730,157	-	-	-
Unreserved, reported in:				
General fund	40,918,804	-	-	-
Special revenue funds	-	41,826,902	-	-
Capital projects funds	-	-	-	-
Total fund balances	<u>97,025,779</u>	<u>41,922,614</u>	<u>18,547,848</u>	<u>340,647</u>
Total liabilities and fund balances	<u>\$ 115,581,345</u>	<u>\$ 47,143,975</u>	<u>\$ 41,382,944</u>	<u>\$ 18,294,285</u>

City of Tempe, Arizona

Performing Arts Capital Projects	Transit Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 66,556,243	\$ 192,954,422
-	-	644,784	12,805,109
-	-	475,000	3,327,573
-	-	42,220	907,701
-	-	-	34,127,937
-	32,200,337	5,810,365	42,890,712
-	-	927,085	1,243,690
-	-	812,250	812,250
22,316,045	60,000,000	8,417,458	101,771,839
-	-	-	17,496,621
-	-	-	12,266,482
<u>\$ 22,316,045</u>	<u>\$ 92,200,337</u>	<u>\$ 83,685,405</u>	<u>\$ 420,604,336</u>
\$ 1,794,982	\$ 11,372,490	\$ 5,891,109	\$ 28,180,490
-	-	820,467	9,313,773
-	-	273,296	2,963,223
-	-	51,353	1,109,093
4,099,929	29,393,912	634,096	34,127,937
-	-	4,844,946	37,400,360
-	-	5,430,000	12,725,000
-	-	2,066,797	5,419,162
<u>5,894,911</u>	<u>40,766,402</u>	<u>20,012,064</u>	<u>131,239,038</u>
15,444,689	18,386,519	17,093,527	52,590,660
-	-	1,739,335	2,055,940
-	-	-	490,000
-	-	-	18,888,495
-	-	-	53,730,157
-	-	-	40,918,804
-	-	25,111,863	66,938,765
976,445	33,047,416	19,728,616	53,752,477
<u>16,421,134</u>	<u>51,433,935</u>	<u>63,673,341</u>	<u>289,365,298</u>
<u>\$ 22,316,045</u>	<u>\$ 92,200,337</u>	<u>\$ 83,685,405</u>	<u>\$ 420,604,336</u>

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

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2006

City of Tempe, Arizona

Fund balances- total governmental funds		\$ 289,365,298
<p>Amounts reported for the governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	1,078,027,313	
Accumulated depreciation	<u>(372,004,681)</u>	706,022,632
<p>The equity in joint venture is not a financial resource and, therefore, is not reported in the funds.</p>		
		135,646,225
<p>Other assets are not available to pay current-period expenditures and, therefore are offset by deferred/unearned revenue.</p>		
Deferred special assessment revenue	17,496,621	
Deferred tax and Tempe Sports Authority revenue	12,884,779	
Deferred capital improvement revenue	266,482	
Unearned performance advancement	(15,376,355)	
Deferred court revenue	<u>2,174,014</u>	17,445,541
<p>Bond premium net of issuance costs are not financial resources and, therefore are not reported in the funds.</p>		
		(3,400,789)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds.</p>		
Compensated absences	(13,785,182)	
Claims and judgments	(5,174,487)	
Bonds, capital improvement notes and capital leases	<u>(327,738,767)</u>	(346,698,436)
<p>Internal service funds are used by management to charge the costs of self insurance to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.</p>		
		<u>(8,888,026)</u>
Net assets of governmental activities		<u>\$ 789,492,445</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 Fiscal Year Ended June 30, 2006

	General	Transit Special Revenue	General Obligation Debt Service	Special Assessment Debt Service
Revenues:				
Taxes:				
Sales taxes	\$ 77,356,909	\$ 32,440,082	\$ -	\$ -
Property taxes	9,756,370	-	17,327,739	-
Franchise taxes	1,858,851	-	-	-
Intergovernmental:				
Federal grants	518	752,333	-	-
State grants	86,791	-	-	-
State sales tax	16,810,763	-	-	-
State income tax	16,607,943	-	-	-
Auto lieu tax	7,527,675	-	-	-
Other	-	-	-	-
Investment income	5,268,627	1,396,496	73,912	3,568
Charges for services	10,280,313	7,032,267	-	-
Fines and forfeitures	7,287,716	517,470	-	-
Other entities' participation	-	-	143,357	-
Special assessments	-	-	-	2,705,348
Licenses and permits	1,389,130	-	-	-
Miscellaneous	2,797,493	192,458	-	-
Total revenues	<u>157,029,099</u>	<u>42,331,106</u>	<u>17,545,008</u>	<u>2,708,916</u>
Expenditures:				
Current:				
Police	58,098,661	-	-	-
Fire	18,683,645	-	-	-
Community services	19,013,980	-	-	-
Public works	15,667,365	25,305,723	-	-
Community relations	2,470,215	-	-	-
Mayor and council	362,810	-	-	-
City manager	383,025	-	-	-
Diversity program	520,748	-	-	-
Internal audit/consulting	450,650	-	-	-
City clerk and elections	747,588	-	-	-
City attorney	2,345,165	-	-	-
Municipal courts	3,719,719	-	-	-
Development services	5,325,300	-	-	-
Community development	3,249,808	-	-	-
Financial services	3,978,571	-	-	-
Human resources	2,730,740	-	-	-
Non-departmental	3,937,911	-	-	-
Debt service:				
Principal retirement	-	-	7,295,000	1,855,000
Interest and fiscal fees	-	593,664	5,926,992	1,011,617
Capital outlay	-	-	-	-
Total expenditures	<u>141,685,901</u>	<u>25,899,387</u>	<u>13,221,992</u>	<u>2,866,617</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>15,343,198</u>	<u>16,431,719</u>	<u>4,323,016</u>	<u>(157,701)</u>
Other financing sources (uses):				
Transfers in	51,513	941,275	2,273,106	-
Transfers out	(1,930,342)	(7,281,000)	(4,327,139)	-
Issuance of debt	-	-	-	-
Premium on issuance of debt	-	-	287,718	-
Capital lease proceeds	220,940	-	-	-
Proceeds from sale of capital assets	2,000,351	-	-	-
Total other financing sources (uses)	<u>342,462</u>	<u>(6,339,725)</u>	<u>(1,766,315)</u>	<u>-</u>
Net change in fund balances	15,685,660	10,091,994	2,556,701	(157,701)
Fund balance at beginning of year	81,340,119	31,830,620	15,991,147	498,348
Fund balance at end of year	<u>\$ 97,025,779</u>	<u>\$ 41,922,614</u>	<u>\$ 18,547,848</u>	<u>\$ 340,647</u>

City of Tempe, Arizona

Performing Arts Capital Projects	Transit Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 7,279,215	\$ 117,076,206
-	-	65,759	27,149,868
-	-	-	1,858,851
-	8,384,615	16,136,019	25,273,485
-	146,108	1,042,865	1,275,764
-	-	11,222,223	28,032,986
-	-	-	16,607,943
-	-	-	7,527,675
-	27,912,023	2,583,956	30,495,979
181,604	-	1,114,358	8,038,565
-	-	992,266	18,304,846
-	-	456,300	8,261,486
81,488	-	2,157,211	2,382,056
-	-	-	2,705,348
-	-	-	1,389,130
-	1,112	982,737	3,973,800
<u>263,092</u>	<u>36,443,858</u>	<u>44,032,909</u>	<u>300,353,988</u>
-	-	1,878,705	59,977,366
-	-	916,161	19,599,806
-	-	1,729,554	20,743,534
-	-	7,849,120	48,822,208
-	-	-	2,470,215
-	-	-	362,810
-	-	-	383,025
-	-	-	520,748
-	-	-	450,650
-	-	-	747,588
-	-	-	2,345,165
-	-	734,754	4,454,473
-	-	443,144	5,768,444
-	-	16,545,675	19,795,483
-	-	-	3,978,571
-	-	-	2,730,740
-	-	-	3,937,911
-	-	5,430,000	14,580,000
-	-	4,484,407	12,016,680
<u>17,813,839</u>	<u>85,232,384</u>	<u>50,815,387</u>	<u>153,861,610</u>
<u>17,813,839</u>	<u>85,232,384</u>	<u>90,826,907</u>	<u>377,547,027</u>
<u>(17,550,747)</u>	<u>(48,788,526)</u>	<u>(46,793,998)</u>	<u>(77,193,039)</u>
109,285	7,156,695	13,307,491	23,839,365
(331,572)	(834,785)	(7,984,557)	(22,689,395)
22,265,000	60,675,000	42,905,000	125,845,000
296,572	-	1,263,106	1,847,396
-	-	-	220,940
-	-	1,090,353	3,090,704
<u>22,339,285</u>	<u>66,996,910</u>	<u>50,581,393</u>	<u>132,154,010</u>
4,788,538	18,208,384	3,787,395	54,960,971
11,632,596	33,225,551	59,885,946	234,404,327
<u>\$ 16,421,134</u>	<u>\$ 51,433,935</u>	<u>\$ 63,673,341</u>	<u>\$ 289,365,298</u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

Net change in fund balances- total governmental funds \$ 54,960,971

Amounts reported for the governmental activities in the statement of activities are different because:

Compensated absences and long-term claims and judgements 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. (2,282,648)

Certain revenues in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.

Property tax and class revenue	542,164	
Court revenue	643,942	
Capital contribution	12,266,482	
Special assessments received	<u>(1,882,286)</u>	11,570,302

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.

Capital expenditures	157,873,057	
Depreciation expense	(25,771,450)	
Basis on sale of capital assets	(1,277,393)	
Loss on joint venture	<u>(770,222)</u>	130,053,992

Lease payments are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets while the acquisition of new leases increase the liability.

Principal payments made	698,165	
Capital lease agreements	<u>(220,940)</u>	477,225

Bond issuance costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net assets.

Bond issuance costs	969,255	
Amortization of bond issuance costs	<u>226,005</u>	1,195,260

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 the governmental funds. Neither transaction, however, has any effect on net assets.

Issuance of debt	(125,845,000)	
Premium on issuance of debt	(1,847,396)	
Principal payments made	<u>15,009,008</u>	(112,683,388)

Internal service funds are used by management to charge the costs of self-insurance to 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. (10,158,915)

Changes in net assets of governmental activities \$ 73,132,799

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

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

General Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 79,746,501	\$ 79,746,501	\$ 88,972,130	\$ 9,225,629
Intergovernmental	38,239,707	38,239,707	41,033,690	2,793,983
Investment income	3,569,155	3,569,155	4,796,745	1,227,590
Charges for services	7,397,396	7,397,396	10,280,313	2,882,917
Fines and forfeitures	5,988,750	5,988,750	7,287,716	1,298,966
Licenses and permits	1,170,900	1,170,900	1,389,130	218,230
Miscellaneous	2,161,095	2,161,095	4,797,844	2,636,749
Total revenues	<u>138,273,504</u>	<u>138,273,504</u>	<u>158,557,568</u>	<u>20,284,064</u>
Expenditures				
Police	53,475,942	54,355,719	55,009,175	(653,456)
Fire	18,233,524	18,971,558	19,148,738	(177,180)
Community services	18,281,121	18,785,570	18,784,015	1,555
Public works	15,113,763	15,113,036	15,742,268	(629,232)
Community relations	2,556,094	2,625,114	2,524,968	100,146
Mayor and council	386,716	386,230	361,617	24,613
City manager	307,987	439,736	382,172	57,564
Diversity program	558,314	580,237	527,026	53,211
Internal audit/consulting	453,147	453,483	450,173	3,310
City clerk and elections	726,757	727,369	747,171	(19,802)
City attorney	2,453,274	2,441,040	2,343,508	97,532
Municipal courts	3,759,540	3,803,073	3,718,431	84,642
Development services	4,795,089	5,036,645	5,358,919	(322,274)
Community development	3,223,928	3,256,626	3,236,428	20,198
Financial services	4,102,465	4,158,915	3,991,659	167,256
Human resources	2,461,483	2,602,136	2,734,849	(132,713)
Information technology	-	634,172	633,482	690
Non-departmental	7,151,389	5,802,653	3,937,793	1,864,860
Total expenditures	<u>138,040,533</u>	<u>140,173,312</u>	<u>139,632,392</u>	<u>540,920</u>
Other financing sources (uses)				
Transfers from other funds	-	-	51,513	51,513
Transfers to other funds	(232,971)	(232,971)	(1,930,342)	(1,697,371)
Total other financing sources (uses)	<u>(232,971)</u>	<u>(232,971)</u>	<u>(1,878,829)</u>	<u>(1,645,858)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (2,132,779)</u>	<u>17,046,347</u>	<u>\$ 19,179,126</u>

Explanation of differences between budgetary revenues and expenditures, and GAAP revenues and expenditures:

The City does not budget for the change in the fair value of investment, but recognizes the change for GAAP purposes	471,882
The City budgets for claims and other accrued expenses on a cash basis, rather than on a modified accrual basis	46,485
The City recognizes encumbrances as expenditures for budgetary purposes but not for GAAP purposes	1,570,213
The City recognizes certain other expenditures on a cash basis, rather than on a modified accrual basis	<u>(3,449,267)</u>
Net change in fund balance as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	<u>\$ 15,685,660</u>

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

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

Transit Special Revenue Fund

For the Year Ended June 30, 2006

City of Tempe, Arizona

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 27,996,400	\$ 27,996,400	\$ 32,440,082	\$ 4,443,682
Intergovernmental	6,368,909	6,368,909	7,784,600	1,415,691
Investment income	1,690,921	1,690,921	1,320,052	(370,869)
Fines and forfeitures	574,788	574,788	517,470	(57,318)
Miscellaneous	1,028,000	1,028,000	192,458	(835,542)
Total revenues	<u>37,659,018</u>	<u>37,659,018</u>	<u>42,254,662</u>	<u>4,595,644</u>
Expenditures				
Current:				
Public works	26,840,690	29,108,791	25,385,413	3,723,378
Contingency	449,232	449,232	-	449,232
Debt service:				
Principal retirement	2,145,000	2,145,000	-	2,145,000
Interest and fiscal fees	1,684,000	1,684,000	593,664	1,090,336
Total expenditures	<u>31,118,922</u>	<u>33,387,023</u>	<u>25,979,077</u>	<u>7,407,946</u>
Other financing sources (uses)				
Transfers from other funds	263,730	263,730	941,275	677,545
Transfers to other funds	(7,742,077)	(7,742,077)	(7,281,000)	461,077
Total other financing sources (uses)	<u>(7,478,347)</u>	<u>(7,478,347)</u>	<u>(6,339,725)</u>	<u>1,138,622</u>
Net change in fund balance	<u>\$ (938,251)</u>	<u>\$ (3,206,352)</u>	<u>9,935,860</u>	<u>\$ 13,142,212</u>

Explanation of differences between budgetary revenues and expenditures, and GAAP revenues and expenditures:

The City does not budget for the change in the fair value of investment, but recognizes the change for GAAP purposes	76,444
The City budgets for claims and other accrued expenses on a cash basis, rather than on a modified accrual basis	(1,112)
The City recognizes encumbrances as expenditures for budgetary purposes but not for GAAP purposes	95,712
The City recognizes certain other expenditures on a cash basis, rather than on a modified accrual basis	(14,910)
Net change in fund balance as reported on the statement of revenues, expenditures, and changes in fund balances- governmental funds	<u>\$ 10,091,994</u>

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



Statement of Net Assets

Proprietary Funds

June 30, 2006

City of Tempe, Arizona

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Wastewater	Solid Waste	Golf Course	Cemetery	Total	
Assets						
Current assets:						
Pooled cash and investments	\$ 73,161,608	\$ 3,357,936	\$ 496,515	-	\$ 77,016,059	\$ 9,552,868
Restricted cash and investments	10,062,848	-	142,976	2,400,626	12,606,450	-
Accounts receivable	5,967,713	924,314	10,821	-	6,902,848	-
Accrued interest receivable	480,840	42,420	12,286	58	535,604	-
Due from other funds	214,784	-	-	-	214,784	-
Inventories	1,006,418	-	-	-	1,006,418	-
Total current assets	90,894,211	4,324,670	662,598	2,400,684	98,282,163	9,552,868
Noncurrent assets:						
Capital improvement notes receivable	2,416,596	-	-	-	2,416,596	-
Equity in joint venture	108,159,096	-	-	-	108,159,096	-
Capital Assets:						
Land	6,330,829	-	362,548	-	6,693,377	-
Buildings	48,197,957	1,265,783	1,822,663	-	51,286,403	-
Infrastructure	197,878,956	-	-	-	197,878,956	-
Improvements	137,411,155	-	4,498,598	-	141,909,753	-
Machinery and equipment	24,842,087	16,128,789	1,285,983	-	42,256,859	-
Construction in progress	13,013,925	-	46,952	227,461	13,288,338	-
Less accumulated depreciation	(178,463,455)	(13,279,658)	(4,929,588)	-	(196,672,701)	-
Total capital assets (net of accumulated depreciation)	249,211,454	4,114,914	3,087,156	227,461	256,640,985	-
Total noncurrent assets	359,787,146	4,114,914	3,087,156	227,461	367,216,677	-
Total assets	\$ 450,681,357	\$ 8,439,584	\$ 3,749,754	\$ 2,628,145	\$ 465,498,840	\$ 9,552,868

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Wastewater	Solid Waste	Golf Course	Cemetery	Total	
Liabilities						
Current liabilities:						
Accounts payable	\$ 4,677,334	\$ 843,632	\$ 44,623	\$ 14	\$ 5,565,603	\$ 413,034
Deposits	320,626	-	-	-	320,626	-
Accrued expenses	2,121,810	461,456	141,541	2,653	2,727,460	18,027,860
Due to other funds	-	-	-	214,784	-	-
Accrued interest payable	3,007,848	-	7,977	51,531	3,067,356	-
General obligation bonds- current	7,055,000	-	-	-	7,055,000	-
Excise tax revenue obligations- current	-	-	-	95,000	95,000	-
Tempe Municipal Property Corporation bonds payable	-	-	135,000	-	135,000	-
Total current liabilities	17,182,618	1,305,088	329,141	363,982	19,180,829	18,440,894
Noncurrent liabilities:						
General obligation bonds payable	180,935,000	-	-	-	180,935,000	-
Excise tax revenue obligations	-	-	-	2,210,000	2,210,000	-
Tempe Municipal Property Corporation bonds payable	-	-	140,000	-	140,000	-
Unamortized premium	-	-	-	120,004	120,004	-
Total noncurrent liabilities	180,935,000	-	140,000	2,330,004	183,405,004	-
Total liabilities	198,117,618	1,305,088	469,141	2,693,986	202,585,833	18,440,894
Net Assets						
Invested in capital assets, net of related debt	169,380,550	4,114,914	2,812,156	(2,197,543)	174,110,077	-
Unrestricted	83,183,189	3,019,582	468,457	2,131,702	88,802,930	(8,888,026)
Total net assets	\$ 252,563,739	\$ 7,134,496	\$ 3,280,613	\$ (65,841)	\$ 262,913,007	\$ (8,888,026)

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

City of Tempe, Arizona

	Business-type Activities - Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Water and Wastewater	Solid Waste	Golf Course	Cemetery		
Operating revenues:						
Charges for services	\$ 47,012,596	\$ 12,989,827	\$ 1,971,031	\$ 18,943	\$ 61,992,397	\$ 27,695,628
Miscellaneous	895,063	43,484	54,686	-	993,233	-
Total operating revenues	<u>47,907,659</u>	<u>13,033,311</u>	<u>2,025,717</u>	<u>18,943</u>	<u>62,985,630</u>	<u>27,695,628</u>
Operating expenses:						
Personal services	12,450,703	4,302,129	987,761	22,779	17,763,372	-
Supplies and materials	2,815,842	145,853	278,621	1,447	3,241,763	-
Fees and services	18,169,302	6,401,025	761,430	21,200	25,352,957	37,854,543
Depreciation	11,950,253	987,684	330,023	-	13,267,960	-
Total operating expenses	<u>45,386,100</u>	<u>11,836,691</u>	<u>2,357,835</u>	<u>45,426</u>	<u>59,626,052</u>	<u>37,854,543</u>
Operating income (loss)	<u>2,521,559</u>	<u>1,196,620</u>	<u>(332,118)</u>	<u>(26,483)</u>	<u>3,359,578</u>	<u>(10,158,915)</u>
Nonoperating revenues (expenses):						
Investment income	1,732,515	91,936	17,343	67,933	1,909,727	-
Interest and fiscal fees	(6,190,774)	-	(17,967)	(107,291)	(6,316,032)	-
Gain on sale of capital asset	-	265,397	-	-	265,397	-
Net loss from joint venture	(2,011,248)	-	-	-	(2,011,248)	-
Income (loss) before operating transfers	<u>(3,947,948)</u>	<u>1,553,953</u>	<u>(332,742)</u>	<u>(65,841)</u>	<u>(2,792,578)</u>	<u>(10,158,915)</u>
Capital contributions	506,593	-	-	-	506,593	-
Transfers in	889,955	-	55,882	-	945,837	-
Transfers out	(2,095,807)	-	-	-	(2,095,807)	-
Change in net assets	<u>(4,647,207)</u>	<u>1,553,953</u>	<u>(276,860)</u>	<u>(65,841)</u>	<u>(3,435,955)</u>	<u>(10,158,915)</u>
Total net assets- beginning	<u>257,210,946</u>	<u>5,580,543</u>	<u>3,557,473</u>	<u>-</u>	<u>266,348,962</u>	<u>1,270,889</u>
Total net assets- ending	<u>\$ 252,563,739</u>	<u>\$ 7,134,496</u>	<u>\$ 3,280,613</u>	<u>\$ (65,841)</u>	<u>\$ 262,913,007</u>	<u>\$ (8,888,026)</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

City of Tempe, Arizona

	Business-type Activities- Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Water and Wastewater	Solid Waste	Golf Course	Cemetery		
Cash flows from operating activities:						
Receipts from customers	\$ 47,272,446	\$ 13,054,457	\$ 2,014,896	\$ 18,943	\$ 62,360,742	\$ -
Receipts from other funds	-	-	-	-	-	27,695,628
Payments to employees for services	(12,590,298)	(4,343,811)	(992,770)	(20,126)	(17,947,005)	-
Payments to suppliers for goods and services	(22,423,838)	(6,079,091)	(1,033,574)	(22,633)	(29,559,136)	-
Payment for premiums and settlement of claims	-	-	-	-	-	(23,984,026)
Net cash provided (used) by operating activities	\$ 12,258,310	\$ 2,631,555	\$ (11,448)	\$ (23,816)	\$ 14,854,601	\$ 3,711,602
Cash flows from noncapital financing activities:						
Advances from/(to) other funds	(28,512)	-	-	28,512	-	-
Transfers in	889,955	-	55,882	-	945,837	-
Transfers out	(2,095,807)	-	-	-	(2,095,807)	-
Net cash provided (used) by noncapital financing activities	\$ (1,234,364)	\$ -	\$ 55,882	\$ 28,512	\$ (1,149,370)	\$ -
Cash flows from capital and related financing activities:						
Proceeds from sale of bonds	50,600,000	-	-	2,305,000	52,905,000	-
Proceeds from premium on long-term debt	-	-	-	125,223	125,223	-
Principal paid on long-term debt	(5,135,000)	-	(125,000)	-	(5,260,000)	-
Interest and fiscal fees	(5,299,700)	-	(21,362)	(60,979)	(5,382,041)	-
Acquisition of capital assets	(33,911,370)	(1,748,191)	-	(41,189)	(35,700,750)	-
Capital contributions	506,593	-	-	-	506,593	-
Proceeds from the sale of assets	-	265,397	-	-	265,397	-
Investment in joint venture	(9,783,280)	-	-	-	(9,783,280)	-
Net cash provided (used) by capital and related financing activities	\$ (3,022,757)	\$ (1,482,794)	\$ (146,362)	\$ 2,328,055	\$ (2,323,858)	\$ -
Cash flows from investing activities:						
Interest received	1,723,047	93,782	17,801	67,875	1,902,505	-
Collection of notes receivable	429,008	-	-	-	429,008	-
Net cash provided by investing activities	\$ 2,152,055	\$ 93,782	\$ 17,801	\$ 67,875	\$ 2,331,513	\$ -
Cash and cash equivalents in cash and cash equivalents						
Net increase (decrease) in cash and cash equivalents	10,153,244	1,242,543	(84,127)	2,400,626	13,712,286	3,711,602
Cash and cash equivalents at beginning of year	73,071,212	2,115,393	723,618	-	75,910,223	5,841,266
Cash and cash equivalents at end of year	\$ 83,224,456	\$ 3,357,936	\$ 639,491	\$ 2,400,626	\$ 89,622,509	\$ 9,552,868
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 2,521,559	\$ 1,196,620	\$ (332,118)	\$ (26,483)	\$ 3,359,578	\$ (10,158,915)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	11,950,253	987,684	330,023	-	13,267,960	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(635,213)	21,146	(10,821)	-	(624,888)	-
(Increase) decrease in inventories	(271,891)	-	-	-	(271,891)	-
Increase (decrease) in deposits	(4,074)	(16,266)	-	-	(20,340)	-
Increase (decrease) in payables	(1,162,729)	484,053	6,477	14	(672,185)	-
Increase (decrease) in accrued expenses	(139,595)	(41,682)	(5,009)	2,653	(183,633)	13,870,517
Net cash provided (used) by operating activities	\$ 12,258,310	\$ 2,631,555	\$ (11,448)	\$ (23,816)	\$ 14,854,601	\$ 3,711,602
Noncash investing, capital, and financing activities:						
Net loss from joint venture	\$ (2,011,248)	\$ -	\$ -	\$ -	\$ (2,011,248)	\$ -
Total noncash investing, capital, and financing activities:	\$ (2,011,248)	\$ -	\$ -	\$ -	\$ (2,011,248)	\$ -

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



Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

The City of Tempe, Arizona (the "City") was incorporated on November 26, 1894. On October 19, 1964, the electors in accordance with Arizona State Law ratified a Home Rule City Charter. The City operates under a Council-Manager form of government and provides services as authorized by its charter including: public safety (police, fire, building inspection), highways and streets, public transit, sanitation, water and wastewater, cultural-recreational, community development, and administrative.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City's significant accounting policies is presented to assist the reader in interpreting the basic financial statements. The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units.

A. Reporting Entity

The accompanying basic financial statements include the City and all its component units, collectively referred to as "the financial reporting entity". In accordance with the Governmental Accounting Standards Board's ("GASB") Statement 14, as amended, the component units discussed below have been included in the City's financial reporting entity because of the significance of their financial relationships with the City.

City of Tempe Municipal Property Corporation: The Tempe Municipal Property Corporation (the "Municipal Property Corporation") is a nonprofit corporation organized under the laws of the State of Arizona to assist the City in financing its capital improvements projects.

Rio Salado Community Facilities District: The Rio Salado Community Facilities District (CFD) was organized on February 20, 1997, under the laws of the State of Arizona to facilitate development of the Rio Salado Town Lake project. The board of the district is comprised of the same members as the City's council.

Data for these component units have been included in the City's basic financial statements utilizing the "blending" method because their sole purpose is to finance public facilities and facilitate development for the City. Blending involves aggregating the component units' data and data from the City at the government-wide and fund financial statement level. Separately issued financial statements are not available for the City's component units.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole and its component units) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. *Governmental activities* are normally supported by taxes and intergovernmental revenues. *Business-type activities* rely to a significant extent, on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses, including depreciation, of the various departments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department. Interest on long-term debt and depreciation expense on assets shared by multiple departments, are not allocated to the various departments.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

Program revenues include revenues from fines and forfeitures, licenses and permit fees, special assessment taxes, certain intergovernmental grants, other entities participation and charges for services. Taxes and other items not properly included among program revenues are reported as general revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The City does not currently utilize an indirect cost allocation system. The General Fund charges certain administrative fees to departments within other operating funds to support general services used by those funds. The expenditures/expenses are recorded as a reduction of expense in the allocating fund. Therefore, no elimination is required from either the government-wide or fund level financial statements.

The fund financial statements are, in substance, very similar to the financial statements presented prior to the adoption of GASB Statement 34. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds are summarized into a single column.

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the proprietary fund statement should directly reconcile to the business-type activity column presented in the government-wide statements.

Internal service funds of a government (which traditionally provide services primarily to other funds of the City) are presented as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate department.

C. Basis of Presentation

The City uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid in the City's financial management by segregating transactions related to certain functions or activities.

The following fund categories are used by the City:

Governmental Funds

Governmental Funds are those through which most of the governmental functions of the City are financed. The focus of Governmental Fund measurement, in the fund financial statements, is upon determination of financial position and changes in financial position rather than upon net income.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

Governmental Funds (Continued)

Governmental Funds include the following fund types:

General - The General Fund is the general operating fund of the City. It is used to account for all activities of the City not accounted for in some other fund.

Special Revenue - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally or otherwise restricted to expenditures for specified purposes. There is one special revenue fund presented as a major fund in the basic financial statements, it is as follows:

Transit Special Revenue Fund - accounts for the receipt and expenditures of the Transit Tax monies. These monies are restricted to financing transit operations and improvements.

Debt Service - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long term debt not being accounted for in the Special Revenue Funds and Enterprise Funds. Both debt service funds are presented as major funds in the basic financial statements:

General Obligation Debt Service Fund - accounts for the accumulation of resources and payments of general obligation debt.

Special Assessment Debt Service Fund - accounts for the accumulation of resources and payments of special assessment debt.

Capital Projects - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds). The following capital project funds are presented as major funds in the basic financial statements:

Performing Arts Capital Projects Fund - used for the construction of the performing and visual arts center.

Transit Capital Projects Fund - used for the acquisition of buses, the light rail system, and other traffic flow improvements.

Proprietary Funds

Proprietary funds are used to account for the City's ongoing operations and activities, which are similar to those often found in the private sector. The focus of Proprietary Fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. Each proprietary fund is reported as a major fund in the basic financial statements.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

Proprietary Funds (Continued)

Proprietary funds include the following fund types:

Enterprise - Enterprise Funds are used to account for operations, including debt service, (a) that are financed and operated in a manner similar to private businesses - where the intent of the government body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges; or (b) where the governing body has determined that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Equity in Joint Venture - The equity method is used to account for the City's equity interest in a joint venture (See Note 7). Under this method, the equity interest is recorded in the balance sheet as a single amount. In addition, the City's share of the net income or loss is reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds, as a nonoperating revenue or expense.

The following enterprise funds are used by the City:

Water and Wastewater Fund – accounts for the provision of water and sewer services to the residents of the City and some residents in the adjoining Town of Guadalupe. All activities necessary to provide such services are accounted for in this fund, including but not limited to administration, operation, maintenance, financing and related debt service, billing and collection.

Solid Waste Fund – accounts for the provision of refuse collection and disposal services for both residential and commercial customers. All activities necessary to provide such services are accounted for in this fund, including but not limited to administration, operation, maintenance, financing, billing and collection.

Golf Course Fund - accounts for the operation of the Rolling Hills and Ken McDonald golf courses. All activities necessary to provide such services are accounted for in this fund, including but not limited to administration, operation, maintenance and financing.

Cemetery Fund – accounts for the operation of the Double Butte cemetery. All activities necessary to provide such services are accounted for in this fund, including but not limited to administration, operation, maintenance and financing.

Internal Service - Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Risk Management Fund – accounts for expenses incurred for worker's compensation, automobile liability, general liability, and property claims under the City's self-insurance program.

Health Fund – accounts for the expenses incurred for employee health related costs under the City's self-insurance program.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the source and use of liquid resources, and 3) demonstrate how the City's actual experience conforms to the annual budget. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" is defined as collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Revenues susceptible to accrual include property tax, local sales tax, state-shared sales tax, highway user tax, vehicle license tax, franchise fees, special assessments and interest earned on pooled investments. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are generally recorded as revenues when received in cash because they are not measurable until actually received. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The City reports deferred revenues in the governmental funds if the potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Since the governmental fund financial statements are presented on a basis different than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the governmental fund financial statements into the governmental activities column of the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this rule is charges between the government's water and sewer function and various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the applicable functions.

Amounts reported as program revenue include 1) charges to customers or users who purchase, use or directly benefit from goods or services provided by a particular department 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular department and 3) capital grants and contributions that are restricted. Taxes, investment income and other revenues not identifiable with a particular department are included as general revenues. The general revenues support the net costs of the departments not covered by program revenues.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

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.

GASB No. 20 requires that governments with proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Accounting Principles Board Opinion No. 22, Disclosure of Accounting Policies, require the same treatment for the government-wide financial statements. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989 for the government-wide or enterprise fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services of the fund's principal ongoing operations. Operating expenses include the cost of providing the goods and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense, which are not a result of the direct operations of the activity.

E. Budgetary Data

State law mandates that cities and towns adopt a budget annually. As a result, an operating budget is legally adopted each fiscal year for the General, Special Revenue (except Grants and Court Awards), Debt Service (except Special Assessments), and Proprietary Funds on a modified accrual basis plus encumbrances. The separately issued annual budget may be obtained from the City's Financial Services Department, Budget and Research Division, 20 East Sixth Street, Tempe, Arizona, 85281.

Certain differences as described in Note 2 exist between the basis of accounting used for budgetary purposes and that used for reporting purposes in accordance with GAAP.

The legal level of budgetary control is the total operating budget as adopted. Management may amend the budget at any level below the total operating budget as adopted. The total operating budget can only be amended by the City Council subject to limitations in the State law (see Note 1F). At the end of each fiscal year, all amounts encumbered are reappropriated as part of the following year's operating budget. Any appropriations that are either unexpended or unencumbered, lapse at fiscal year-end. No supplemental appropriations were necessary during the year.

The City adheres to the following procedures in establishing the budgetary data reflected in the basic financial statements:

- 1) Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed revenues and expenditures.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to July 1, the budget is legally enacted through passage of a resolution.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenditure Limitation

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments, which restricts the annual growth of expenditures to a percentage determined by population and inflation. Certain types of expenditures are excluded from the limitation. Article 9, Sections 20 and 21 of the Arizona Constitution require the Economic Estimates Commission to determine each year the expenditure limitation for the following fiscal year for each city. The limitation is calculated based upon the amount of FY 1979-1980 actual payments of local revenues, referred to as the "base limit". Each year, the base limits for local jurisdictions are adjusted for population and inflation to reach the expenditure limitations. The City of Tempe's 2005-06 Expenditure Limitation is \$244,557,649.

Local governments may carryforward to later years revenues, which are not subject to the expenditure limitation and were not expended in the year of receipt.

G. Pooled Cash and Investments

Cash resources of the City are combined to form a pool of cash and investments managed by the Accounting Division. Excluded from this pool are certain legally restricted cash resources. In accordance with the City's legally adopted budget, the interest earned on pooled investments is recorded in the General Fund, except for the earnings of Enterprise Funds and other funds whose interest earnings are specifically mandated by law or an outside regulating agency to remain in those funds. Investments are stated at fair value.

The City's investment policy permits investment in the following instruments:

- 1) Obligations of the United States Government, its agencies and instrumentalities;
- 2) Fully insured or collateralized certificates of deposit and other evidences of deposit at banks and savings and loan associations;
- 3) Bankers' acceptances issued by the 10 largest domestic banks and the 20 largest international banks, provided collateral meets the standards set by the Financial Services Manager;
- 4) A-1/P-1 rated commercial paper secured by an irrevocable line of credit or collateralized by U.S. government securities;
- 5) Repurchase agreements whose underlying collateral consist of the foregoing;
- 6) Money market funds whose portfolios consist of the foregoing; and
- 7) The State of Arizona's Local Government Investment Pool.

H. Receivables

For accounts receivable (utility billing receivables), all amounts outstanding in excess of 120 days are included in the allowance.

I. Inventories and Prepaid Items

All inventories are valued using the average cost method. They consist of expendable supplies held for consumption and are accounted for using the consumption method.

Prepaid items consist of a lease payment applicable to a future accounting period. It is recorded as a prepaid item in both the government-wide and fund financial statements.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

K. Capital Assets

Capital assets, including public domain infrastructure (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$25,000 for infrastructure assets) and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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, if material.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	30-70
Improvements	10-50
Machinery and equipment	5-20
Infrastructure	20-70

L. Compensated Absences

Accumulated unpaid vacation, vested sick pay and vested "Mediflex" supplementary health maintenance benefits are accrued in the Government-wide and all Proprietary Fund statements. Compensated absences are only reported in the governmental funds if they have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement). These long-term liabilities of the governmental funds are not shown on the fund financial statements, as the benefits are not expected to be liquidated with expendable available financial resources.

Vacation leave will be absorbed by time off from work or, within certain limitations, may be payable to the employees. Sick leave is accumulated at the rate of 96 hours (or a proportionate equivalent for employees with workweeks other than 40 hours) per year up to a maximum of 480 hours. Each year, hours accumulated in excess of 480 hours are either converted to cash at a 4-for-1 rate or accumulated in a "sick bank". Upon retirement or resignation, employees with at least 10 years service are eligible for compensation of up to 50 percent of accumulated sick leave.

Each employee with 3 years service receives a "Mediflex" allowance each year as reimbursement for all otherwise nonreimbursed health maintenance costs. Benefits are prorated based on length of service and increase up to a maximum of \$650 a year. Unused credits are cumulative and upon employee termination are "banked" at the following rates: after 10 years, 50 percent; after 15 years, 75 percent; after 20 years, 100 percent.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Long-term Obligations

In the government-wide financial statements, and 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 type. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the period in which the bonds are issued. 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.

N. Interfund Transactions

Interfund transactions consist of identified services performed for other funds or costs billed to other funds and are recorded as expenditures in the fund receiving the services and as a reimbursement, reducing expenditures, in the fund performing the services except for sales of water, sewer and refuse services to other City departments and the internal service risk management or health charges which are recorded as revenue and expenditures in the appropriate funds. All other interfund transactions are reported as transfers.

O. Fund Equity

In the fund financial statements, reserved fund equity is defined as that portion of fund equity that has legally been segregated for specific purposes. Designated fund equity is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/undesignated fund equity is defined as that portion of fund equity, which is available for use in a future period.

P. Statements of Cash Flows

The City considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. For the purposes of the statement of cash flows, all pooled cash and investments are also considered to be cash equivalents, although there are investments with maturities in excess of three months when purchased in the portfolio. This is due to the fact that the Proprietary funds may deposit or withdraw cash at any time without prior notice or penalty, having the characteristics of demand deposits. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

Q. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses/expenditures, and the disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results could differ from those estimates.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 2 - BUDGET BASIS OF ACCOUNTING

Arizona state statutes require accounting for certain transactions to be on a basis other than GAAP. The actual results of operations, in accordance with state statutes ("budget basis") are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund and Transit Special Revenue Fund (major funds) to provide a meaningful comparison of actual results with the budget. Budgetary statements include a reconciliation of the adjustments required to convert the budgetary basis to GAAP basis.

The major differences between the budget and GAAP bases are:

- 1) Encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).
- 2) Certain revenues and expenditures not recognized in the budgetary year are accrued (GAAP).

NOTE 3 - PROPERTY TAXES

Under Arizona law a two-tiered tax system exists: (1) a primary system for taxes levied to pay for current operation and maintenance expenses, and (2) a secondary system for taxes levied to pay principal and interest on bonded indebtedness as well as for the determination of the maximum permissible bonded indebtedness.

Specific provisions are made under each system for determining full cash values of property, the basis of assessment, and the maximum annual tax levies on certain types of property and by certain taxing authorities. Under the primary system, the full cash value of locally assessed real property (consisting of residential, commercial, industrial, agricultural and unimproved property) may increase by more than 10% only under certain circumstances. Under the secondary system, there is no limitation on annual increases in full cash value of any property. Primary levies are limited to a 2% increase annually plus levies attributable to assessed valuation added as a result of growth and annexation. Secondary tax levies do not have a limitation.

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. Delinquent amounts bear interest at the rate of 16%. 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 installment becomes delinquent. The purchaser is given a Certificate of Purchase issued by the County Treasurer. Five years from the date of sale, the holder of a Certificate of Purchase, which has not been redeemed, may demand of the County Treasurer a County Treasurer's Deed. Additionally, a lien against property assessed attaches on the first day of January preceding the assessment and levy thereof.

Using the accrual basis of accounting, property taxes are recognized as revenue when earned in the government-wide financial statements. In the governmental funds, property taxes are recognized as revenue on the modified accrual basis, i.e., when both measurable and available. Property taxes levied in August 2006 are not available for the current year; accordingly, such taxes will not be recognized as revenue until the subsequent fiscal year. Prior year levies were recorded using these same principles, and remaining receivables from such levies are also recognized as revenue, when available.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 4 - CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Assets and on the Balance Sheet as "Pooled cash and investments." Pooled cash and investments are stated at fair value, with accrued interest shown under "Accrued interest receivable". The change in fair value of the investments is recorded in investment income. Restricted cash and investments are amounts held separately by trustees and segregated due to their source and future intent. Amounts held by trustees are invested in money market securities, maturing within one year from the time of purchase, and are reported at amortized cost.

Deposits

At year-end, the carrying amount of the City's deposits with financial institutions was \$3,359,253 and the bank balance was \$9,885,756. Of the bank balance, \$200,000 was covered by federal depository insurance and \$9,685,756 was covered by collateral held in the pledging bank's trust department in the City's name.

Investments

City Charter, Ordinance, and Trust Agreements authorize the City to invest in US treasury obligations, US agency obligations, certificates of deposit that are fully insured or collateralized, banker's acceptances issued by the 10 largest domestic banks and the 20 largest international banks, A-1/P-1 rated commercial paper secured by an irrevocable line of credit or collateralized by US government securities, repurchase agreements whose underlying collateral consist of the foregoing, money market funds whose portfolios consist of the foregoing and the Arizona Local Government Investment Pool.

The City's investment in the State of Arizona Local Government Investment Pools (LGIP and LGIP-GOVT) is stated at fair value, which approximates the value of the City's pool shares. The LGIP and LGIP-GOVT are operated by the Arizona State Treasurer's Office, as authorized by Arizona Revised Statutes, §35-326. Arizona Revised Statutes, §35-312 and §35-313, regulate authorized investments. The Arizona State Legislature has created the Arizona Board of Investments which review the investment of state monies, serving as trustees of the Permanent Land Trust Funds, and approval of the State Treasurer's Office Investment Policy.

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Carrying amount of investments	\$390,542,385
Carrying amount of cash deposits	<u>3,359,253</u>
Total pooled cash and investments	<u>\$393,901,638</u>
Pooled cash and investments – unrestricted	\$279,523,349
Restricted cash and investments	<u>114,378,289</u>
Total pooled cash and investments	<u>\$393,901,638</u>

The City had a net increase in the fair value of investments during fiscal year 2005-06 of \$750,925. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 4 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

At June 30, 2006, the City maintained the following investments and maturities (amounts exclude all investments in mutual funds):

Investment Type	Fair Value	Remaining Maturity in Months		
		12 Months or Less	13 - 24 Months	24 - 36 Months
US government treasuries	\$ 50,159,491	\$ 35,649,810	\$ 14,509,681	\$ -
US government agencies	128,118,951	65,834,720	45,538,621	16,745,610
Money Market	112,553,515	112,553,515	-	-
State investment pool	99,710,428	99,710,428	-	-
	<u>\$ 390,542,385</u>	<u>\$ 313,748,473</u>	<u>\$ 60,048,302</u>	<u>\$ 16,745,610</u>

Interest rate risk. One of the ways the City limits its exposure to fair value losses arising from rising interest rates is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City limits all securities to a final maturity of no more than three years and assumes that its callable investments will not be called. It is the City's policy to hold investments to maturity.

Credit risk. The investments in all of the US Agency obligations were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's. The Arizona Local Government Investment Pool is currently not rated.

Concentration of Credit Risk. The City policy places no limit on the amount that the City may invest in any one issuer for the US treasury obligations and the US Agency Obligations. The investment policy does establish a maximum percentage of 10% in banker's acceptances, 20% in commercial paper and 25% in repurchase agreements. The maximum investment in any one issuer for certificates of deposits is 33% and for repurchase agreements is 10%. The City is required to disclose if 5% or more of its investments are in securities of a single issuer. As of June 30, 2006, 21.98% of the City's investments are in Federal Home Loan Bank securities and 6.59% of the City's investments are in Federal Home Loan Mortgage Corporation Securities.

NOTE 5 - DUE TO/FROM OTHER FUNDS AND INTERFUND TRANSFERS

Due to/from other funds consisted of the following at June 30, 2006:

	Due to	Due from
General fund	\$ -	\$ 4,734,025
Transit special revenue fund	-	29,393,912
Performing arts capital projects fund	4,099,929	-
Transit capital projects fund	29,393,912	-
Non-major governmental	634,096	-
Total governmental funds	<u>\$34,127,937</u>	<u>\$34,127,937</u>
	Due to	Due from
Water and wastewater fund	\$ -	\$ 214,784
Cemetery fund	214,784	-
Total proprietary funds	<u>\$ 214,784</u>	<u>\$ 214,784</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 5 - DUE TO/FROM OTHER FUNDS AND INTERFUND TRANSFERS (continued)

The interfund balances at June 30, 2006 are short-term loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2006 are expected to be repaid within one year.

Interfund balances between the governmental funds and interfund balances between the proprietary funds have been eliminated in the government-wide statement of net assets.

	Transfers Out							Total
	General	Transit Special Revenue	General Obligation Debt Service	Performing		Non-major Governmental	Water and Wastewater	
				Arts Capital Projects	Transit Capital Projects			
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,713	\$ 25,800	\$ 51,513
Transit special revenue	-	-	-	-	675,000	266,275	-	941,275
General obligation debt service	-	-	-	-	-	2,273,106	-	2,273,106
Performing arts capital projects	-	-	-	-	109,285	-	-	109,285
Transit capital projects	50,000	7,074,000	-	-	-	32,695	-	7,156,695
Non-major governmental	1,591,489	207,000	4,327,139	331,572	50,500	4,729,784	2,070,007	13,307,491
Water and wastewater	232,971	-	-	-	-	656,984	-	889,955
Golf	55,882	-	-	-	-	-	-	55,882
Total	\$1,930,342	\$ 7,281,000	\$ 4,327,139	\$ 331,572	\$ 834,785	\$ 7,984,557	\$ 2,095,807	\$ 24,785,202

The interfund transfers generally fall within one of the following categories: 1) pay-as-you-go financing transfers into capital project funds; 2) transfers to cover debt service payments; or 3) transfers to cover operating expenditures in accordance with City policy. There were no significant transfers during fiscal year 2005-06 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

NOTE 6 - CAPITAL IMPROVEMENT NOTES RECEIVABLE

Capital improvement notes receivable represent loans to provide long-term financing for certain major capital improvement projects.

On November 10, 2004 the City entered into an intergovernmental agreement with the Arizona Tourism and Sports Authority ("TSA") for the renovation of the Tempe Diablo Stadium Complex. On September 1, 2005, the City funded the project through the issuance of municipal bonds (see note 9). The TSA agreed to reimburse the City \$12,000,000 for their contribution, plus interest at the bond rate (3.50% to 5.00%) A capital improvement note receivable was recorded in the General Obligation Debt Service Fund for the TSA's portion. Payments are received semiannually and any unpaid interest is capitalized. Due to capitalizing interest, at June 30, 2006 the note receivable balance is \$12,266,482.

At June 30, 2006, capital improvement notes receivable totaled \$2,416,596 in the Water and Wastewater Fund. The notes bear interest at 4.00% (see Note 9). Repayment of the receivable to the Water and Wastewater Fund will be made from the General and Highway User Special Revenue funds.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 7 - JOINT VENTURE

The City currently participates in two joint ventures, the Subregional Operating Group and Valley Metro Rail, Inc.

Subregional Operating Group (SROG)

The City participates with the cities of Phoenix, Mesa, Scottsdale, and Glendale in an intergovernmental agreement for the construction, operation and maintenance of jointly used facilities including the 91st Avenue Wastewater Treatment Plant, the Salt River Project Outfall Sewer, the Southern Avenue Interceptor and related transportation facilities. The City of Phoenix is the management agency who has agreed to be responsible for the planning, designing, constructing, operating and maintaining of the jointly used sewage facilities and to perform the required accounting, administrative and other support functions.

The agreement provides for the formation of a Multicity Subregional Operating Group Committee ("Multicity SROG"), whose members are composed of a representative officially appointed upon motion and order of each city, for the specific purpose of making recommendations concerning specific decisions or courses of action for the jointly used facilities. The Multicity SROG annually reviews and approves the capital improvements and replacements budget and also the operating budget for the jointly used facilities.

As of June 30, 2005 (the latest information available), the City has a 15% equity interest or purchased capacity in the 91st Avenue Wastewater Treatment Plant and other varied, yet less significant percentages of equity interest in the other jointly used facilities. Purchased capacity is a measure of the right of use owned by the City in the total capacity of the wastewater treatment plant. The City contributes to capital improvements based upon equity interest and contributes to operating and maintenance expenses based upon proportional flow and sewage strength. The City has financed its share of capital improvement costs through the issuance of general obligation bonds, development fees and grants. The bonds are collateralized by a pledge of water revenues and are recorded in the Water and Wastewater Enterprise Fund. The joint venture has not issued any debt.

Summary financial information on the joint venture (GAAP basis) as of and for the fiscal year ended June 30, 2005 (the latest information available) is as follows (in thousands):

Total assets	\$ 652,665
Total liabilities	<u>(46,353)</u>
Total net assets	<u>\$ 606,312</u>
Total revenues	\$ 103,775
Total expenses	(52,058)
Total non-operating revenues (expenses)	<u>1,016</u>
Net increase in net assets	<u>\$ 52,733</u>

The City's net investment and its share of operating and maintenance expenses are recorded in the Water and Wastewater Enterprise Fund. The City's equity in joint venture at June 30, 2006, was \$108,159,096. The City's net loss from joint venture was \$2,011,248 for the fiscal year ended June 30, 2006. Separately audited financial statements for the jointly used wastewater treatment and transportation facilities may be obtained from the Arizona Municipal Water Users Associations, 4041 North Central, Suite 900, Phoenix, Arizona, 85012.

Valley Metro Rail, Inc. (VMRI)

The City currently participates with the cities of Phoenix, Mesa and Glendale in a joint powers agreement for the design, construction and operation of a light rail transit system. Valley Metro Rail, Inc. (VMRI) is the management agency that was incorporated to administer the joint powers agreement between the cities. In addition, VMRI has oversight responsibility for the planning, designing, construction and operation of a regional mass transit light rail system. The agreement provides voting rights for members of the representative cities related to strategic initiatives including passage of an annual capital program and annual operating budget.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 7 - JOINT VENTURE (Continued)

Valley Metro Rail, Inc. (VMRI) (Continued)

The project is currently in the planning, design and construction phase. The scheduled completion date for the light rail project is December 2008. The City's net loss from joint venture was \$770,222 for the fiscal year ended June 30, 2006. Member contributions to the joint venture are offset by a Federal funding agreement between the U.S. Department of Transportation and VMRI. These contributions are recognized as intergovernmental revenue in the Transit Capital Projects fund.

The City has an ongoing financial responsibility as a result of the joint powers agreement to participate in the cost to construct and operate the light rail project less any Federal reimbursements and operating fares. The equity interests will be determined, and periodically adjusted, based on the number of rail mileage located within each City. The City expended \$69,688,582 in the fiscal year ended June 30, 2006 toward the light rail project. These expenditures were included in the financial statements as capital outlay in the Transit Capital Projects fund and as equity in joint venture in the government-wide financial statements. The City's equity in joint venture at June 30, 2006 was \$ 135,646,225. Separate financial statements may be obtained from Valley Metro Rail, Inc., 411 North Central Avenue, Suite 200, Phoenix, Arizona 85004.

NOTE 8 - CAPITAL ASSETS

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2006 is as follows:

	Balances June 30, 2005	Additions	Retirements	Transfers in (out)	Balances June 30, 2006
Governmental activities:					
Non-depreciable assets:					
Land	\$ 38,160,136	\$ 2,461,856	\$ (750,580)	\$ -	\$ 39,871,412
Construction-in-progress	51,525,209	99,549,385	(2,725,087)	(57,587,211)	90,762,296
Total non-depreciable assets	89,685,345	102,011,241	(3,475,667)	(57,587,211)	130,633,708
Depreciable assets:					
Buildings	112,775,468	-	(1,093,408)	7,163,085	118,845,145
Infrastructure	593,655,550	-	-	15,091,820	608,747,370
Improvements	74,143,712	282,146	-	31,677,668	106,103,526
Machinery and equipment	108,041,192	3,992,530	(1,990,796)	3,654,638	113,697,564
Total depreciable assets	888,615,922	4,274,676	(3,084,204)	57,587,211	947,393,605
Accumulated depreciation:					
Buildings	(28,935,122)	(3,226,693)	274,044	-	(31,887,771)
Infrastructure	(224,947,024)	(13,348,639)	409,272	-	(237,886,391)
Improvements	(20,546,358)	(3,088,621)	-	-	(23,634,979)
Machinery and equipment	(74,362,118)	(6,107,497)	1,874,075	-	(78,595,540)
Total accumulated depreciation	(348,790,622)	(25,771,450)	2,557,391	-	(372,004,681)
Governmental activities capital assets, net	\$ 629,510,645	\$80,514,467	\$ (4,002,480)	\$ -	\$ 706,022,632

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 8 - CAPITAL ASSETS (Continued)

	Balances June 30, 2005	Additions	Retirements	Transfers in (out)	Balances June 30, 2006
Business-type activities:					
Non-depreciable assets:					
Land	\$ 8,352,554	\$ -	\$(1,659,177)	\$ -	\$ 6,693,377
Construction-in-progress	553,906	35,734,321	-	(22,999,889)	13,288,338
Total non-depreciable assets	8,906,460	35,734,321	(1,659,177)	(22,999,889)	19,981,715
Depreciable assets:					
Buildings	50,815,146	-	-	471,257	51,286,403
Infrastructure	173,211,706	2,032,985	(265,576)	22,899,841	197,878,956
Improvements	141,324,943	-	(724,448)	1,309,258	141,909,753
Machinery and equipment	44,499,816	408,996	(969,104)	(1,682,849)	42,256,859
Total depreciable assets	409,851,611	2,441,981	(1,959,128)	22,997,507	433,331,971
Accumulated depreciation:					
Buildings	(15,458,653)	(1,163,446)	-	-	(16,622,099)
Infrastructure	(90,316,140)	(4,433,408)	265,576	-	(94,483,972)
Improvements	(46,304,916)	(5,407,642)	724,448	-	(50,988,110)
Machinery and equipment	(32,470,031)	(2,263,463)	152,592	2,382	(34,578,520)
Total accumulated depreciation	(184,549,740)	(13,267,959)	1,142,616	2,382	(196,672,701)
Business-type activities capital assets, net	\$ 234,208,331	\$ 24,908,343	\$(2,475,689)	\$ -	\$ 256,640,985

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

Police	\$ 780,229
Fire	1,172,625
Community services	1,392,024
Public works	17,506,994
Community relations	15,677
City manager	1,981
City clerk and elections	1,211
Municipal courts	27,162
Development services	378,064
Community development	337,872
Financial services	49,298
Human resources	2,485
Information technology	1,636,896
Non-departmental	2,468,932
Total depreciation expense	\$ 25,771,450

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued for proprietary activities are reported in the Proprietary Funds as they are to be repaid from proprietary revenues. In addition, general obligation bonds have been issued to refund previously issued general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are generally issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds outstanding at June 30, 2006, were as follows:

\$17,305,000 1993A Capital Improvement Refunding Issue Serial Bonds due in annual installments of \$80,000 to \$5,035,000 through July 1, 2011; interest at 2.6% to 5.4%	\$ 6,230,000
\$26,300,000 1995 Capital Improvement Serial Bonds due in annual installments of \$800,000 to \$2,130,000 beginning July 1, 1997 through July 1, 2015; interest at 4.50% to 6.50%	6,550,000
\$14,500,000 1997 Capital Improvement Serial Bonds due in annual installments of \$300,000 to \$1,150,000 beginning July 1, 1998 through July 1, 2017; interest at 5.125% to 6.625%	2,145,000
\$12,755,000 1998 Capital Improvements Refunding Issue Serial Bonds due in annual installments of \$90,000 to \$2,450,000 through July 1, 2010; interest at 4.25% to 4.90%	8,790,000
\$37,500,000 1998A Capital Improvement Serial Bonds due in annual installments of \$1,210,000 to \$2,755,000 beginning July 1, 1999 through July 1, 2018; interest at 4.00% to 5.50%	25,885,000
\$24,000,000 2001A Capital Improvement Serial Bonds due in annual installments of \$650,000 to \$1,630,000 beginning July 1, 2002 through July 1, 2021; interest at 4.50% to 6.00%	20,305,000
\$11,045,000 2002 Capital Improvement Refunding Issue Serial Bonds due in annual installments of \$40,000 to \$1,145,000 through July 1, 2015; interest at 2.25% to 5.00%	7,615,000
\$22,000,000 2002A Capital Improvement Serial Bonds due in annual installments of \$690,000 to \$1,650,000 through July 1, 2022; interest at 3.5% to 5.0%	19,040,000
\$44,820,000 2003 Capital Improvement Serial Bonds due in annual installments of \$955,000 to \$3,340,000 through July 1, 2023; interest at 3.50% to 5.00%	40,805,000
\$19,900,000 2004 Capital Improvement Serial Bonds due in annual installments of \$560,000 to \$1,485,000 through July 1, 2024; interest at 3.5% to 5.5%	18,625,000
\$18,775,000 2004R Capital Improvement Refunding Issue Serial Bonds due in annual installments of \$40,000 to \$2,925,000 through July 1, 2017; interest at 2.00% to 5.00%	17,375,000
\$52,425,000 2005 Capital Improvement Serial Bonds due in annual installments of \$1,740,000 to \$3,860,000 through July 1, 2024; interest at 3.50% to 5.00%	50,685,000
\$74,495,000 2006 Capital Improvement Serial Bonds due in annual installments of \$2,150,000 to \$5,900,000 through July 1, 2025; interest at 3.50% to 5.00%	74,495,000
Total general obligation bonds outstanding (excluding current portion of Enterprise Fund general obligation bonds outstanding)	<u>\$ 298,545,000</u>

The following is a summary of total debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 15,265,000	\$ 13,621,664	\$ 28,886,664
2008	16,275,000	12,643,994	28,918,994
2009	17,020,000	11,895,084	28,915,084
2010	17,825,000	11,100,151	28,925,151
2011	18,605,000	10,320,955	28,925,955
2012-2016	88,025,000	39,418,865	127,443,865
2017-2021	79,965,000	19,638,475	99,603,475
2022-2025	45,565,000	3,734,762	49,299,762
	<u>\$ 298,545,000</u>	<u>\$ 122,373,950</u>	<u>\$ 420,918,950</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

The following is a summary of governmental debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 6,750,000	\$ 5,365,613	\$ 12,115,613
2008	7,060,000	4,960,771	12,020,771
2009	7,275,000	4,626,341	11,901,341
2010	7,695,000	4,282,576	11,977,576
2011	7,980,000	3,950,989	11,930,989
2012-2016	36,810,000	14,562,489	51,372,489
2017-2021	29,110,000	6,731,213	35,841,213
2022-2025	14,930,000	1,205,612	16,135,612
	<u>\$ 117,610,000</u>	<u>\$ 45,685,604</u>	<u>\$ 163,295,604</u>

The following is a summary of enterprise debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 8,515,000	\$ 8,256,051	\$ 16,771,051
2008	9,215,000	7,683,222	16,898,222
2009	9,745,000	7,268,743	17,013,743
2010	10,130,000	6,817,575	16,947,575
2011	10,625,000	6,369,966	16,994,966
2012-2016	51,215,000	24,856,376	76,071,376
2017-2021	50,855,000	12,907,263	63,762,263
2022-2025	30,635,000	2,529,150	33,164,150
	<u>\$ 180,935,000</u>	<u>\$ 76,688,346</u>	<u>\$ 257,623,346</u>

Special Assessment Bonds Payable with Governmental Commitment. As trustee for improvement districts, the City is responsible for collection of assessments levied against the owners of property within the improvement districts and for disbursement of these amounts for retirement of the respective bonds issued to finance the improvements. At June 30, 2006, the special assessments receivable of \$17,496,621, together with amounts paid in advance and interest to be received over the life of the assessment period, are adequate for the scheduled maturities of the bonds payable and the related interest.

Improvement bonds are collateralized by properties within the districts. In the event of default by the property owner, the City may enforce an 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.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Special Assessment Bonds Payable with Governmental Commitment (Continued)

Special assessment bonds payable with governmental commitment outstanding at June 30, 2006, were as follows:

\$1,665,000 ID 158 Special Assessment Bonds Payable with Governmental Commitment issued May 1, 1985; maturing January 1, 2010; due in annual installments of \$65,000 to \$70,000; interest at 10.125%	\$ 265,000
\$11,440,000 ID 170 Special Assessment Bonds Payable with Governmental Commitment issued June 1, 1992; maturing January 1, 2011; due in annual installments of \$460,000 to \$1,160,000; interest at 6.875%	5,120,000
\$7,070,000 ID 172 Special Assessment Bonds Payable with Governmental Commitment issued August 1, 1997; maturing January 1, 2013; due in annual installments of \$470,000 to \$475,000; interest at 5.10%	3,290,000
\$1,085,000 ID 173 Special Assessment Bonds Payable with Governmental Commitment issued September 1, 1997; maturing January 1, 2008; due in annual installments of \$105,000 to \$110,000; interest at 5.10%	210,000
\$6,175,000 ID 175 Special Assessment Bonds Payable with Governmental Commitment issued May 6, 1999; maturing January 1, 2015; due in annual installments of \$295,000 to \$555,000; interest at 4.70%	4,200,000
\$4,405,000 ID 179 Special Assessment Bonds Payable with Governmental Commitment issued June 1, 2005; maturing January 1, 2021; due in annual installments of \$220,000 to \$385,000; interest at 4.10%	<u>4,405,000</u>
Total special assessment bonds outstanding	<u>\$ 17,490,000</u>

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 2,145,000	\$ 872,808	\$ 3,017,808
2008	2,225,000	745,367	2,970,367
2009	2,215,000	615,312	2,830,312
2010	2,310,000	482,062	2,792,062
2011	2,350,000	345,941	2,695,941
2012-2016	4,470,000	766,286	5,236,286
2017-2021	<u>1,775,000</u>	<u>188,090</u>	<u>1,963,090</u>
	<u>\$ 17,490,000</u>	<u>\$ 4,015,866</u>	<u>\$ 21,505,866</u>

Tempe Municipal Property Corporation Bonds. In 1992, the Corporation issued \$1,400,000 of excise tax revenue bonds. Proceeds were used to renovate and replace the irrigation system at the City's Ken McDonald Municipal Golf Course and pay costs incurred to issue the bonds.

The City has entered into contracts with the Corporation whereby the City will pay the Corporation amounts sufficient to retire the above Corporation bonds and related interest. The City has collateralized all the bonds of the Corporation by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, and fees for licenses and permits) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Tempe Municipal Property Corporation Bonds (Continued)

amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.

Tempe Municipal Property Corporation Bonds (TMPC) outstanding at June 30, 2006 are as follows:

\$1,400,000 1992 Excise Tax Revenue Bonds due in annual installments of \$70,000 to \$140,000 through July 1, 2007; interest rate at 5.5% to 7.1%; retirements are to a sinking fund account \$ 140,000

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 140,000	\$ 8,190	\$ 148,190
	<u>\$ 140,000</u>	<u>\$ 8,190</u>	<u>\$ 148,190</u>

Refunding Certificates of Participation. On June 1, 1999, the City issued \$5,110,000 of Refunding Certificates of Participation (COP). The proceeds were used to refund \$4,775,000 of the 1989 Tempe Sports Authority Facilities Bonds (TSAF), and pay costs incurred to issue the certificates. The City has collateralized the obligations by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, and fees for licenses and permits) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.

\$5,110,000 1999B Refunding Certificates of Participation due in annual installments of \$400,000 to \$625,000 through July 1, 2009; interest at 4.20% to 4.90% \$ 1,780,000

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 560,000	\$ 85,785	\$ 645,785
2008	595,000	59,185	654,185
2009	625,000	30,625	655,625
	<u>\$ 1,780,000</u>	<u>\$ 175,595</u>	<u>\$ 1,955,595</u>

Excise Tax Revenue Obligations. On April 1, 2000, the City issued \$17,310,000 of Excise Tax Revenue Obligations. The proceeds were used to finance the construction and acquisition of various improvements, furnishings and equipment and pay costs incurred to issue the obligations. The City has collateralized the obligations by a pledge of all unrestricted excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue sharing), including all fines and forfeitures, which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that, so long as any of the obligations remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, it will not further encumber the excise taxes on a parity basis unless the excise taxes collected in the next preceding fiscal year of the City shall have amounted to at least three times the highest combined debt service requirements for any succeeding fiscal year for all obligations and outstanding parity obligations, including the additional parity obligations proposed to be secured by a pledge of the excise taxes.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations. (Continued)

\$17,310,000 2000A Excise Tax Revenue Obligations due in annual installments of \$245,000 to \$2,880,000 through July 1, 2020; interest at 4.825% to 5.625% \$ 5,835,000

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 295,000	\$ 313,050	\$ 608,050
2008	310,000	298,300	608,300
2009	325,000	282,645	607,645
2010	340,000	266,070	606,070
2011	360,000	248,730	608,730
2012-2016	2,085,000	942,845	3,027,845
2017-2020	<u>2,120,000</u>	<u>306,566</u>	<u>2,426,566</u>
	<u>\$ 5,835,000</u>	<u>\$ 2,658,206</u>	<u>\$ 8,493,206</u>

Excise Tax Revenue Refunding Obligations. On February 1, 2003, the City issued \$39,275,000 of Excise Tax Revenue Obligations. The proceeds were used to refund \$40,500,000 of the 1998 Variable Rate Demand Excise Tax Revenue Obligations, and pay costs incurred to issue the obligations. The City has collateralized the obligations by a pledge of all unrestricted excise taxes (transaction, franchise, privilege, business taxes, State-shared sales and income taxes, fees for licenses and permits, and state revenue sharing), including all fines and forfeitures, which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that, so long as any of the obligations remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, it will not further encumber the excise taxes on a parity basis unless the excise taxes collected in the next preceding fiscal year of the City shall have amounted to at least three times the highest combined debt service requirements for any succeeding fiscal year for all obligations and outstanding parity obligations, including the additional parity obligations proposed to be secured by a pledge or the excise taxes.

\$39,275,000 2003 Excise Tax Revenue Refunding Obligations due in annual installments of \$475,000 to \$2,950,000 through July 1, 2023; interest at 2.00% to 5.25% \$ 35,175,000

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,430,000	\$ 1,659,098	\$ 3,089,098
2008	1,470,000	1,620,488	3,090,488
2009	1,540,000	1,546,988	3,086,988
2010	1,610,000	1,477,112	3,087,112
2011	1,675,000	1,412,712	3,087,712
2012-2016	9,555,000	5,892,210	15,447,210
2017-2021	12,135,000	3,301,588	15,436,588
2022-2023	<u>5,760,000</u>	<u>413,376</u>	<u>6,173,376</u>
	<u>\$ 35,175,000</u>	<u>\$ 17,323,572</u>	<u>\$ 52,498,572</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations. On June 1, 2004, the City issued \$37,595,000 of Excise Tax Revenue Obligations. The proceeds were used to (i) refund \$14,185,000 of the 2002 Variable Rate Demand Excise Tax Revenue Obligations related to the Tempe Center for the Performing Arts Project (Performing Arts Project), (ii) to fund a portion of the cost of the Performing Arts Project and (iii) to pay costs incurred to issue the obligations. The City has collateralized the obligations by a pledge of 0.10% performing arts center tax, approved by voters on May 16, 2000, which are restricted to the Tempe Center for the Performing Arts Project. Additionally, the payments to be made by the City are secured by a subordinate lien pledge by the City of all unrestricted excise, transaction, franchise, privilege and business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue sharing, including all fines and forfeitures, which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The Excise Taxes do not include the Performing Arts Center Excise Taxes, the excise taxes collected and paid to the City under the 0.50% transportation excise tax approved by the voters of the City on September 10, 1996 which are restricted to public transit use, or the excise taxes collected under the 1.00% increase in the transient lodging tax on hotels approved by the voters on September 10, 2002, which are restricted to fund programs of the Tempe Convention and Visitor's Bureau.

The City covenants and agrees that the Performing Arts Center Excise Taxes and the Excise Taxes which it presently imposes will continue to be imposed in each Fiscal Year so that the sum of (A) the Performing Arts Center Excise Taxes for such Fiscal Year plus (B) the excess of the Excise Taxes for such Fiscal Year over the Debt Service requirements on the Outstanding Senior Excise Tax Obligations for such Fiscal Year, shall be equal to at least three times the total of the Debt Service with respect to Parity Obligations in such Fiscal Year. The City further covenants and agrees that if such revenues for any such Fiscal Year shall not equal three times such Debt Service or will not be sufficient to meet such Fiscal Year's actual Debt Service with respect to Parity Obligations, the City will either impose new Excise Taxes or will increase the rates of such taxes currently imposed in order that (i) such revenues for the current Fiscal Year will be sufficient to meet such Fiscal Year's Debt Service with respect to Parity Obligations, and (ii) such revenues for the next succeeding Fiscal Year will be equal to at least three times the next succeeding Fiscal Year's Debt Service with respect to Parity Obligations.

The City further covenants and agrees that so long as any Special Parity Obligations are outstanding, the Performing Arts Center Excise Taxes, the Excise Taxes and the Special Excise Taxes will be imposed in each Fiscal Year so that the sum of (A) Performing Arts Center Excise Taxes for such Fiscal Year, plus (B) Special Excise Taxes for such Fiscal Year plus (C) the excess of the Excise Taxes for such Fiscal Year over the Debt Service on the Outstanding Senior Excise Tax Obligations for such Fiscal Year shall be equal to at least three times the total of the Debt Service with respect to the Parity Obligations and the Special Parity Obligations in such Fiscal Year. The City further covenants and agrees that if such revenues for any such Fiscal Year shall not equal three times such Debt Service or will not be sufficient to meet such Fiscal Year's actual Debt Service with respect to Parity Obligations and Special Parity Obligations, the City will either impose new Excise Taxes or Special Excise Taxes or will increase the rates of such taxes currently imposed in order that (i) such revenues for the current Fiscal Year will be sufficient to meet such Fiscal Year's Debt Service with respect to Parity Obligations and Special Parity Obligations and (ii) such revenues for the next succeeding Fiscal Year will be equal to at least three times the next succeeding Fiscal Year's Debt Service with respect to Parity Obligations and Special Parity Obligations. The City covenants and agrees that, so long as any of the obligations remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, it will not further encumber the excise taxes on a parity basis unless the excise taxes collected in the next preceding fiscal year of the City shall have amounted to at least three times the highest combined debt service requirements for any succeeding fiscal year for all obligations and outstanding parity obligations, including the additional parity obligations proposed to be secured by a pledge or the excise taxes.

\$37,595,000 2004 Excise Tax Revenue Obligations due in annual installments of \$1,500,000 to \$3,350,000 through July 1, 2020; interest at 2.25% to 5.25%	<u>\$ 34,400,000</u>
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Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations (Continued)

The following is a summary of debt service cash requirements to maturity:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,780,000	\$ 1,747,138	\$ 3,527,138
2008	1,835,000	1,684,838	3,519,838
2009	1,910,000	1,611,438	3,521,438
2010	2,000,000	1,515,938	3,515,938
2011	2,115,000	1,410,938	3,525,938
2012-2016	12,340,000	5,269,426	17,609,426
2017-2020	<u>12,420,000</u>	<u>1,672,128</u>	<u>14,092,128</u>
	<u>\$ 34,400,000</u>	<u>\$ 14,911,844</u>	<u>\$ 49,311,844</u>

Excise Tax Revenue Obligations. On September 1, 2005, the City issued \$21,315,000 of Excise Tax Revenue Obligations. The proceeds were used to finance the construction and renovation of various projects for Tempe Diablo Stadium, various cemetery improvements and pay costs incurred to issue the obligations. The City has collateralized the obligations by a pledge of all unrestricted excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue sharing), including all fines and forfeitures, which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The Excise Taxes do not include the .01% Performing Arts Center Excise Taxes, the excise taxes collected and paid to the City under the 0.50% transportation excise tax approved by the voters of the City on September 10, 1996 which are restricted to public transit use, or the excise taxes collected under the 1.00% increase in the transient lodging tax on hotels approved by the voters on September 10, 2002, which are restricted to fund programs of the Tempe Convention and Visitor's Bureau.

The City covenants and agrees that the Excise Taxes which it presently imposes will continue to be imposed so that the amount of Excise Taxes for any fiscal year of the City shall be equal to at least three times the total of the Debt Service on all Parity Obligations in such Fiscal Year. The City further covenants and agrees that if receipts for any current Fiscal Year shall not equal three times such Debt Service or will not be sufficient to meet such Fiscal Year's actual Debt Service with respect to Parity Obligations, the City will either impose new Excise Taxes or will increase the rates of such taxes currently imposed in order that (i) such revenues for the current Fiscal Year will be sufficient to meet such Fiscal Year's Debt Service with respect to Parity Obligations, and (ii) such revenues for the next succeeding Fiscal Year will be equal to at least three times the next succeeding Fiscal Year's Debt Service with respect to Parity Obligations.

\$21,315,000 2005 Excise Tax Revenue Obligations due in annual installments of \$345,000 to \$2,135,000 through July 1, 2025; interest at 3.50% to 5.00%

\$ 20,910,000

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations (Continued)

The following is a summary of total debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 345,000	\$ 989,626	\$ 1,334,626
2008	355,000	977,550	1,332,550
2009	370,000	965,126	1,335,126
2010	385,000	952,176	1,337,176
2011	395,000	938,700	1,333,700
2012-2016	3,135,000	4,444,726	7,579,726
2017-2021	7,980,000	3,222,250	11,202,250
2022-2025	7,945,000	1,017,750	8,962,750
	<u>\$ 20,910,000</u>	<u>\$ 13,507,904</u>	<u>\$ 34,417,904</u>

The following is a summary of governmental debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 265,000	\$ 889,888	\$ 1,154,888
2008	275,000	880,613	1,155,613
2009	285,000	870,988	1,155,988
2010	295,000	861,012	1,156,012
2011	305,000	850,688	1,155,688
2012-2016	2,620,000	4,062,263	6,682,263
2017-2021	7,345,000	2,965,000	10,310,000
2022-2025	7,310,000	936,250	8,246,250
	<u>\$ 18,700,000</u>	<u>\$ 12,316,702</u>	<u>\$ 31,016,702</u>

The following is a summary of enterprise debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 80,000	\$ 99,738	\$ 179,738
2008	80,000	96,937	176,937
2009	85,000	94,138	179,138
2010	90,000	91,163	181,163
2011	90,000	88,013	178,013
2012-2016	515,000	382,463	897,463
2017-2021	635,000	257,250	892,250
2022-2025	635,000	81,500	716,500
	<u>\$ 2,210,000</u>	<u>\$ 1,191,202</u>	<u>\$ 3,401,202</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations. On May 1, 2006, the City issued \$22,265,000 of Excise Tax Revenue Obligations. The proceeds were used to fund a portion of the cost of the Tempe Center for the Arts Project and to pay costs incurred to issue the obligations. The City has collateralized the obligations by a pledge of 0.10% performing arts center tax, approved by voters on May 16, 2000, which are restricted to the Tempe Center for the Performing Arts Project. Additionally, the payments to be made by the City are secured by a subordinate lien pledge by the City of all unrestricted excise, transaction, franchise, privilege and business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue sharing, including all fines and forfeitures, which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The Excise Taxes do not include the .01% Performing Arts Center Excise Taxes, the excise taxes collected and paid to the City under the 0.50% transportation excise tax approved by the voters of the City on September 10, 1996 which are restricted to public transit use, or the excise taxes collected under the 1.00% increase in the transient lodging tax on hotels approved by the voters on September 10, 2002, which are restricted to fund programs of the Tempe Convention and Visitor's Bureau.

The City covenants and agrees that the Performing Arts Center Excise Taxes and the Excise Taxes which it presently imposes will continue to be imposed in each Fiscal Year so that the sum of (A) the Performing Arts Center Excise Taxes for such Fiscal Year plus (B) the excess of the Excise Taxes for such Fiscal Year over the Debt Service requirements on the Outstanding Senior Excise Tax Obligations for such Fiscal Year, shall be equal to at least three times the total of the Debt Service with respect to Parity Obligations in such Fiscal Year. The City further covenants and agrees that if such revenues for any such Fiscal Year shall not equal three times such Debt Service or will not be sufficient to meet such Fiscal Year's actual Debt Service with respect to Parity Obligations, the City will either impose new Excise Taxes or will increase the rates of such taxes currently imposed in order that (i) such revenues for the current Fiscal Year will be sufficient to meet such Fiscal Year's Debt Service with respect to Parity Obligations, and (ii) such revenues for the next succeeding Fiscal Year will be equal to at least three times the next succeeding Fiscal Year's Debt Service with respect to Parity Obligations.

The City further covenants and agrees that so long as any Special Parity Obligations are outstanding, the Performing Arts Center Excise Taxes, the Excise Taxes and the Special Excise Taxes will be imposed in each Fiscal Year so that the sum of (A) Performing Arts Center Excise Taxes for such Fiscal Year, plus (B) Special Excise Taxes for such Fiscal Year plus (C) the excess of the Excise Taxes for such Fiscal Year over the Debt Service on the Outstanding Senior Excise Tax Obligations for such Fiscal Year shall be equal to at least three times the total of the Debt Service with respect to the Parity Obligations and the Special Parity Obligations in such Fiscal Year.

The City further covenants and agrees that if such revenues for any such Fiscal Year shall not equal three times such Debt Service or will not be sufficient to meet such Fiscal Year's actual Debt Service with respect to Parity Obligations and Special Parity Obligations, the City will either impose new Excise Taxes or Special Excise Taxes or will increase the rates of such taxes currently imposed in order that (i) such revenues for the current Fiscal Year will be sufficient to meet such Fiscal Year's Debt Service with respect to Parity Obligations and Special Parity Obligations and (ii) such revenues for the next succeeding Fiscal Year will be equal to at least three times the next succeeding Fiscal Year's Debt Service with respect to Parity Obligations and Special Parity Obligations. The City covenants and agrees that, so long as any of the obligations remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, it will not further encumber the excise taxes on a parity basis unless the excise taxes collected in the next preceding fiscal year of the City shall have amounted to at least three times the highest combined debt service requirements for any succeeding fiscal year for all obligations and outstanding parity obligations, including the additional parity obligations proposed to be secured by a pledge or the excise taxes.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Excise Tax Revenue Obligations (Continued)

\$22,265,000 2006 Excise Tax Revenue Obligations due in annual installments of \$1,650,000 to \$2,385,000 through July 1, 2016; interest at 4.00% to 4.50% \$ 19,925,000

The following is a summary of debt service cash requirements to maturity:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,650,000	\$ 844,338	\$ 2,494,338
2008	1,720,000	770,088	2,490,088
2009	1,790,000	701,288	2,491,288
2010	1,860,000	629,688	2,489,688
2011	1,935,000	555,288	2,490,288
2012-2016	10,970,000	1,490,390	12,460,390
	<u>\$ 19,925,000</u>	<u>\$ 4,991,080</u>	<u>\$ 24,916,080</u>

Variable Rate Demand Excise Tax Revenue Obligations. On June 21, 2006, the City entered into a purchase agreement with Royal Bank of Canada, acting by and through its New York branch, to pay costs associated with a portion of the City's light rail project. These costs were financed through the issuance of \$60,675,000 of variable rate demand excise tax revenue obligations (Obligations). The Obligations are remarketed by RBC Dain Rauscher, Inc., serving as the remarketing agent, at an interest rate which would cause the Obligations to have a market value on the commencement date of such rate period equal to the principal amount thereof plus accrued and unpaid interest, if any, not to exceed 12%.

The interest rate on these Obligations is reset on a daily basis and interest will be paid monthly. The City has the option of converting from the weekly rate to either a daily rate or term rates, including a term rate period through the final maturity of the Obligations. In the event that the Obligations are converted to a term rate (other than daily or weekly), the Obligations are subject to mandatory tender for purchase.

The City has entered into a standby obligation purchase agreement with Royal Bank of Canada. The stated expiration date of the standby obligation purchase agreement is June 21, 2009, with extension request options available to the City thereafter. Royal Bank of Canada is providing liquidity and is obligated to purchase the Obligations that are tendered for purchase and not remarketed. The quarterly fee paid to Royal Bank of Canada for this liquidity support is an annualized rate of 0.10% of the average daily amount of available commitment for principal and interest. As of June 30, 2006, there were no draws outstanding or bonds presented for debt service payments under this standby obligation.

If the standby obligation purchase agreement was to be exercised and all outstanding obligations were purchased by Royal Bank of Canada because they could not be remarketed, the maximum repayment liability would be the outstanding principal balance plus interest calculated at the greater of the Federal Funds Rate plus 2.5% or the Prime Rate plus 2.0%.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Variable Rate Demand Excise Tax Revenue Obligations (Continued)

The City has collateralized the bonds by a pledge of excise taxes collected and paid to the City under a 0.50% transportation excise tax approved by the voters of the City on September 10, 1996 which is restricted to public transit use. The City covenants and agrees that the excise taxes, which it presently imposes, will continue to be imposed so that the amount of excise taxes shall be equal to at least two times the total obligation debt service requirements for all outstanding parity obligations in each fiscal year.

\$60,675,000 2006 Variable Rate Excise Tax Revenue Obligations due in annual installments of \$890,000 to \$3,385,000 through July 1, 2036. \$ 60,675,000

The following is a summary of debt service cash requirements to maturity assuming the maximum interest rate of 12%. The actual interest rate paid on August 1, 2006 was 3.83%.

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 890,000	\$ 7,281,000	\$ 8,171,000
2008	1,130,000	7,174,200	8,304,200
2009	1,175,000	7,038,600	8,213,600
2010	1,220,000	6,897,600	8,117,600
2011	1,270,000	6,751,200	8,021,200
2012-2016	7,155,000	31,344,000	38,499,000
2017-2021	8,695,000	26,696,400	35,391,400
2022-2026	10,585,000	21,043,200	31,628,200
2027-2031	12,880,000	14,161,800	27,041,800
2032-2036	15,675,000	6,003,600	21,678,600
	<u>\$ 60,675,000</u>	<u>\$ 134,391,600</u>	<u>\$ 195,066,600</u>

Section 108 Guaranteed Loan. In July 2004, the City entered into a Section 108 guaranteed loan agreement with the U.S. Department of Housing and Urban Development (HUD) for funding of \$7,000,000 for on-site environmental remediation of the University/Hayden Butte Redevelopment Area 5 (Rio Salado Marketplace Redevelopment). The note requires interest only payments until August 2007. At that time the note will be due in annual installments of \$261,000 to \$549,000 through August 1, 2024; interest at 5.37% to 6.1%. The City has pledged its Community Development Block Grants as security for HUD's guaranteed loan. The City was awarded a \$1,000,000 HUD Brownfield Economic Development Initiative grant to be used to pay interest on the HUD Section 108 loan until such time the development generates sufficient tax revenue to cover the debt service of the development.

\$7,000,000 HUD Section 108 Guaranteed Loan due in annual installments of \$261,000 to \$549,000 through August 1, 2024; interest at 5.36% \$ 7,000,000

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Section 108 Guaranteed Loan (Continued)

The following discloses debt service requirements as of June 30, 2006 segregating principal and interest, for the next five years and five-year increments thereafter:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ -	\$ 375,660	\$ 375,660
2008	261,000	370,936	631,936
2009	273,000	360,752	633,752
2010	285,000	349,136	634,136
2011	298,000	336,170	634,170
2012-2016	1,702,000	1,442,589	3,144,589
2017-2021	2,119,000	927,461	3,046,461
2022-2025	2,062,000	253,037	2,315,037
Total	\$ 7,000,000	\$ 4,415,741	\$ 11,415,741

Capital Improvement Notes. Capital improvement notes represent borrowings to provide long-term financing for certain major capital improvement program projects (see Note 6).

Capital improvement notes outstanding at June 30, 2006 were as follows:

\$11,440,000 capital improvement notes issued in 1990 due to the Water and Wastewater Enterprise Fund from the General Fund and Highway Users Special Revenue Fund and payable in equal annual installments through January 1, 2011; interest at 4.00% \$ 2,416,596

The following discloses debt service requirements as of June 30, 2006 segregating principal and interest, for the next five years and five-year increments thereafter:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 446,169	\$ 96,664	\$ 542,833
2008	464,016	78,817	542,833
2009	482,576	60,257	542,833
2010	501,880	40,953	542,833
2011	521,955	20,878	542,833
Total	\$ 2,416,596	\$ 297,569	\$ 2,714,165

Capital Leases. The City has entered into capital lease agreements for land and equipment. These lease agreements generally require annual payments and the lease term varies from 3 years to 20 years. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the date of inception.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Capital Leases (Continued)

The assets acquired through capital leases are as follows:

	Amount
Land	\$ 6,435,562
Equipment, net	1,391,480
Total	<u>\$ 7,827,042</u>

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments as of June 30, 2006. These amounts will be paid for by the General fund.

	Fiscal Year Ending June 30,	Total
	2007	\$ 1,185,972
	2008	911,773
	2009	867,076
	2010	812,500
	2011	812,500
	2012-2016	4,062,500
	2017-2018	<u>2,437,500</u>
Total minimum lease payments		11,089,821
Less: interest at 7.00 % to 8.50%		<u>(4,357,650)</u>
Present value of future minimum lease payments		<u>\$ 6,732,171</u>

Statutory Debt Limitation. In the absence of more restrictive bond authorization ballot limitations, the City is subject to state statutory limitations on the amount of net bonded debt (exclusive of revenue and special assessment bonds and purchase contracts) it may have outstanding. The statutory debt limitation is 20 percent of the secondary assessed valuation for purposes of water, sewer, open space and artificial lighting and 6 percent of the secondary assessed valuation for all other purposes.

At June 30, 2006, the 20 percent debt limitation was \$380,885,238 with \$219,465,000 of outstanding debt. This provided a 20 percent debt margin of \$161,420,238. The 6 percent debt limitation was \$114,265,571 with \$92,300,000 of outstanding debt. This provided a 6 percent debt margin of \$21,965,571. The authorized, unissued debt subject to the statutory limitations of 20 percent and 6 percent at June 30, 2006, was \$183,385,809.

Bond Covenants. The various bond indentures contain certain limitations and restrictions on annual debt service requirements, maintenance and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages.

Arbitrage. Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, the earnings from the investment of tax exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond, certificates of participation, and revenue bond issue subject to the arbitrage rebate requirements and has determined that no liability exists at June 30, 2006. However, the City has designated \$500,000 in the General Fund for this purpose.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 9 - LONG-TERM DEBT (Continued)

Changes in Long-term Liabilities. The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Debt payable:					
General obligation bonds payable	\$ 99,880,000	\$ 23,895,000	\$ (6,165,000)	\$ 117,610,000	\$ 6,750,000
Special assessments	19,345,000	-	(1,855,000)	17,490,000	2,145,000
1999 Excise tax refunding certificates of participation	2,320,000	-	(540,000)	1,780,000	560,000
2000A Excise tax obligations	6,115,000	-	(280,000)	5,835,000	295,000
2003 Excise tax refunding obligations	36,570,000	-	(1,395,000)	35,175,000	1,430,000
2004 Excise tax obligations	36,095,000	-	(1,695,000)	34,400,000	1,780,000
2005 Excise tax obligations	-	19,010,000	(310,000)	18,700,000	345,000
2006 Excise tax obligations	-	22,265,000	(2,340,000)	19,925,000	1,650,000
2006 Variable rate demand excise tax obligations	-	60,675,000	-	60,675,000	890,000
2004 HUD Section 108 loan	7,000,000	-	-	7,000,000	-
Capital improvement notes payable	2,845,604	-	(429,008)	2,416,596	446,169
Total debt payable	210,170,604	125,845,000	(15,009,008)	321,006,596	16,291,169
Capital leases	7,209,396	220,940	(698,165)	6,732,171	1,185,972
Compensated absences	12,336,699	10,189,822	(8,741,339)	13,785,182	9,304,225
Claims and judgments	4,340,322	3,285,679	(2,451,514)	5,174,487	1,879,087
Governmental activities long-term	<u>\$ 234,057,021</u>	<u>139,541,441</u>	<u>(26,900,026)</u>	<u>346,698,436</u>	<u>28,660,453</u>
Business-type activities:					
General obligation bonds payable	\$ 137,390,000	\$ 50,600,000	\$ (7,055,000)	\$ 180,935,000	\$ 8,515,000
1992 Excise tax TMPC obligations	275,000	-	(135,000)	140,000	140,000
2005 Excise tax obligations	-	2,425,004	(95,000)	2,330,004	80,000
Total debt payable	<u>\$ 137,665,000</u>	<u>\$ 53,025,004</u>	<u>\$ (7,285,000)</u>	<u>\$ 183,405,004</u>	<u>\$ 8,735,000</u>

The long-term liabilities at June 30, 2006 have been reduced by deposits made with the City's fiscal agent for July 1, 2006 maturities.

For the governmental activities, claims and judgements and compensated absences are generally liquidated by the General Fund.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 10 - BONDS TO BE PAID FROM ASSETS HELD IN TRUST

Advance Bond Refundings

Future debt service on refunded bonds has been provided through advance refunding bond issues. Under an advance refunding arrangement, refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued or guaranteed by the United States government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds.

Bonds which have been advance refunded (and thus not included in the debt of the City) and are still outstanding as of June 30, 2006, are as follows:

\$26,300,000 general obligation bonds issued in 1995 and partially refunded in 2004	\$ 9,090,000
\$14,500,000 general obligation bonds issued in 1997 and partially refunded in 2004	7,670,000
Total bonds advance refunded	<u>\$16,760,000</u>

NOTE 11 - COMMITMENTS

In the Governmental fund financial statements, construction commitments are disclosed as reserves for encumbrances.

At June 30, 2006 the City's construction commitments are as follows:

	Construction in Progress	Commitment
Governmental funds:		
Performing arts	\$ 48,846,981	\$ 15,444,689
Transit	14,780,211	18,386,519
Streets	173,618	3,378,202
Police	9,970,856	10,775,755
Fire	-	65,816
Parks	690,902	1,115,059
Rio Salado	39,230	134,831
Community development	15,979,233	108,971
Bikeways	253,097	451,074
Signals	28,168	346,447
	<u>\$ 90,762,296</u>	<u>\$ 50,207,363</u>
	Construction in Progress	Commitment
Proprietary funds:		
Water/wastewater	\$ 13,013,925	\$ 26,765,198
Golf	46,952	-
Cemetery	227,461	29,154
	<u>\$ 13,288,338</u>	<u>\$ 26,794,352</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 12 - OPERATING LEASES

The City leases copiers under certain noncancelable leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's Statement of Net Assets. Current year lease costs for the fiscal year ended June 30, 2006 was \$237,969.

The following is a schedule by year of future minimum lease payments:

Fiscal Year Ending June 30,	Amount
2007	\$ 126,062
2008	51,788
2009	58,199
2010	7,379
Total minimum payments required	\$ 243,428

NOTE 13 - RETIREMENT AND PENSION PLANS

The City contributes to four separate defined benefit pension plans for the benefit of all full-time employees and elected officials. The Arizona Public Safety Personnel Retirement System administers separate agent multiple-employer retirement plans for all full-time police and fire personnel. The Arizona Public Safety Personnel Retirement System also acts as fund administrator for the Elected Officials Retirement Plan, a multiple-employer cost-sharing plan for elected officials of the City. The Arizona State Retirement System administers a multiple-employer cost-sharing plan for all other full-time employees. The City has met all required payment dates for these plans.

Arizona Public Safety Personnel Retirement System (Full-time Police and Fire Employees)

A. Plan Description

The City contributes to the Arizona Public Safety Personnel Retirement System ("PSPRS"), an agent multiple-employer public safety employee retirement system that acts as a common investment and administrative agent for the various fire and police agencies within the state. All police and fire personnel are eligible to participate in the plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The PSPRS is jointly administered by the Fund Manager and 162 Local Boards and was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes (A.R.S). The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arizona Public Safety Personnel Retirement System, 1020 East Missouri, Phoenix, Arizona, 85014 or by calling 1-602-255-5575.

B. Funding Policy

PSPRS members are required to contribute 7.65% for fire (2% of which was paid for by the City based on a labor agreement) and 7.65% for police of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for fiscal year 2005-06 was 11.63% for fire personnel and 13.87% for police members. Benefit and contribution provisions are established by law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 13 - RETIREMENT AND PENSION PLANS (Continued)

C. Annual Pension Cost

Police personnel contributed \$1,597,775 and fire personnel \$735,931 during fiscal year 2005-06. For 2006, the City's annual pension cost of \$2,896,880 for police and \$1,118,807 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation determining contribution requirements for fiscal year 2005-06, using the entry age actuarial cost method. The actuarial assumptions included (a) 8.75% investment rate of return (b) projected salary increases of 6.25% per year compounded annually, attributable to inflation and other across-the-board increases, (c) additional projected salary increases ranging from 6.25% to 9.25% per year, attributable to seniority/merit, which includes an inflation component of 5.25%. The actuarial value of the PSPRS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2005 was 20 years.

D. Three Year Trend Information (Latest Available Information):

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2003	\$1,233,257	100%	-
2004	1,882,440	100	-
2005	2,149,004	100	-

Fire

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2003	\$ 567,868	100%	-
2004	706,065	100	-
2005	688,122	100	-

E. Schedule of Funding Progress (Latest Information Available):

Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2003	\$ 83,828,503	\$ 91,847,582	91.3%	\$ 8,019,079	\$ 19,292,127	41.6
2004	83,552,612	100,614,938	83.0	17,062,326	19,273,574	88.5
2005	85,021,886	110,974,549	76.6	25,952,663	19,644,420	132.1

Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
2003	\$ 68,913,223	\$ 64,615,601	106.7%	\$ (4,297,622)	\$ 8,308,897	N/A
2004	68,343,366	68,995,788	99.1	652,422	8,290,624	7.9
2005	69,263,990	76,888,991	90.1	7,625,001	8,577,147	88.9

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 13 - RETIREMENT AND PENSION PLANS (Continued)

Arizona State Retirement System (All Other Full-time Employees)

A. Plan Description

The City has elected to participate in the Arizona State Retirement System (ASRS or The System), a multiple-employer cost-sharing retirement plan, which provides retirement benefits for all full-time employees, except police and fire employees. The plan provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. 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 issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Arizona State Retirement System, 3300 North Central Avenue, Suite 1300, Phoenix, AZ, 85012 or by calling 602-240-2000.

B. Funding Policy

The Arizona Revised Statutes 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 change the contribution rate from that actuarially determined.

Covered employees contributed 7.40% of their annual compensation to the plan, as actuarially determined and set by State statute and the City contributed an amount equal to employee contributions each pay period. The City's contributions to the ASRS for the years ended June 30, 2006, 2005, and 2004 were \$4,938,788, \$3,653,699 and \$3,564,811 respectively, equal to the annual required contributions for each year.

Elected Officials Retirement Plan (Mayor and City Council)

A. Plan Description

The City's Mayor and Councilmembers participate in the Elected Officials Retirement Plan ("EORP") a multiple employer, cost-sharing pension plan. The Fund Manager of the Arizona Public Safety Personnel Retirement System ("PSPRS") is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. EORP provides retirement benefits as well as death and disability benefits. The authority to amend Title 38, Chapter 5, Article 3 is reserved for the State Legislature. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 3010 East Camelback Road, Suite 200, Phoenix, Arizona, 85016 or by calling 602-255-5575.

B. Funding Policy

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7% of their annual covered salary. The employer rate for 2005-06 was 20.54%. The City's contributions to EORP for the fiscal years ended June 30, 2006, 2005 and 2004 were \$39,937, \$24,641 and \$23,138 respectively, equal to the annual required contributions for each year. The City's employees contributed \$13,611, \$12,786 and \$12,007 for the same time period.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 13, the City offers the continuation of group health insurance benefits, in accordance with Resolution 90.63 of the City Council, to all retired employees who meet the following eligibility requirements: (a) have at least 10 years of service, (b) be enrolled in one of the City's group health insurance plans, and (c) at the time of retirement, be or have been eligible to receive benefits from one of the City sponsored state retirement plans. Currently, 573 retirees meet those eligibility requirements.

The City offers three health plans to its retirees; Tempe Basic and Tempe Preferred Provider Organization (PPO), which are the City's self-insurance plans, and the CIGNA Health Maintenance Organization (HMO) plan. The benefits provided by the group health insurance plans are the same as those offered to active employees.

The City and the pension administrators subsidize the health insurance premium of eligible retirees depending on type of health plan chosen, coverage selected, and years of service. Approximately 68% of retiree premiums were subsidized by the City during the fiscal year. The City's accounting policy with regard to expenditure recognition of these health insurance benefits is to record the benefits when they are paid. During the fiscal year, expenditures of \$5,012,798 were recognized for post retirement health care.

NOTE 15 - DEFERRED COMPENSATION PLANS

The City offers its employees two compensation plans created in accordance with Internal Revenue Code, Section 457 and 401(K). The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The City's fiduciary responsibility is that of exercising "due care" in selecting a third-party administrator.

Federal legislation requires that Section 457 plan assets be held in trust for employees. As a result, the employee assets held in Section 457 plans are no longer the property of the City and subject to claims of the City's general creditors. Therefore, the Deferred Compensation Agency assets are not included in the City's basic financial statements.

NOTE 16 - FUND BALANCE /NET ASSETS' RESERVATIONS AND DESIGNATIONS

Reservations of Fund Balances

At June 30, 2006, amounts were reserved on the fund financial statements for the following purposes: encumbrances - represent purchase obligations outstanding at the end of the fiscal year; inventories - the value of materials and supplies needed to maintain adequate levels of operating supplies; prepaids - for the payment of leased land; notes receivable - represents amounts to be received that are not currently available; debt service - for payment of future amounts of principal and interest due.

Designations of Fund Balances

At June 30, 2006, amounts were designated for the following purposes: self-insurance - amount designated for payment of material, unanticipated claims against the City; rainy day - amounts designated for unforeseen events; Capital Projects - amounts designated for future capital projects; Rio Salado - amount designated for future operation and maintenance costs related to the Rio Salado Town Lake project; compensated absences - amount designated for future payment of compensated absences; arbitrage rebate - amount designated for future arbitrage rebate.

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 16 - FUND BALANCE /NET ASSETS RESERVATIONS AND DESIGNATIONS (Continued)

Designations of Fund Balances (Continued)

	Amount
General Fund:	
Self-insurance purposes	\$ 8,841,391
Rainy day	8,000,000
Capital projects	24,224,966
Rio Salado	5,137,729
Compensated absences	7,026,071
Arbitrage rebate	500,000
Total Governmental Funds	<u>\$ 53,730,157</u>

NOTE 17 - RISK FINANCING ACTIVITIES

The City is exposed to risks arising from general liability, automobile liability (physical damage and bodily injury), property liability, workers compensation, and employee health claims.

The City has established a Risk Management Fund (internal service fund) to account for and finance its uninsured risks of loss. Amounts are paid into the internal service fund by all other funds and are available to pay claims and to fund claim reserves. As with any risk retention program, the City is contingently liable in respect to claims beyond those actuarially projected. These interfund premiums are used to reduce the amount of claim expenditures reported in the internal service fund.

The City is a self insured entity with excess commercial coverage purchased for property, general liability, workers' compensation and group health coverage. The coverage is as follows: for general liability the first \$2.0 million is self insured and excess coverage of \$35.0 million is provided; for property, the self-insurance retention is the first \$100,000 of all perils with a policy limit of \$150.0 million; for workers' compensation and employers' liability the first \$500,000 of each claim is self insured, with excess coverage of \$1.0 million in employers' liability and the Arizona statutory workers' compensation coverage; and for group health the self-insurance retention is \$175,000 per occurrence, with an aggregate stop loss deductible of \$13.5 million. During the year there were no significant reductions in the amounts of excess coverage purchased, nor has the City experienced any settlements in excess of the insurance coverage over the past ten years.

At fiscal year end, the estimated, unpaid insurance claims liability was based on a case-by-case review of actual pending claims and an estimated amount for incurred but not reported claims. A liability for a known claim was established if information indicated that it was probable that a loss had been incurred as of June 30, 2006, and that the amount was reasonably estimable. A liability for incurred but not reported claims was based on historical experience.

The following is a summary of changes in insurance claims liabilities, accounted for in the governmental and proprietary funds, for the last two fiscal years:

	June 30, 2005	Claims Incurred Net of Change in Estimates	Payments	June 30, 2006
General liability	\$ 3,052,134	\$ 11,041,683	\$ (771,029)	\$ 13,322,788
Automobile liability	16,250	3,009,396	(231,173)	2,794,473
Property liability	11,999	228,298	(148,073)	92,224
Workers' compensation	1,424,312	1,688,355	(1,301,239)	1,811,428
Health insurance	1,093,953	13,952,419	(13,730,244)	1,316,128
	<u>\$ 5,598,648</u>	<u>\$ 29,920,151</u>	<u>\$ (16,181,758)</u>	<u>\$ 19,337,041</u>

Notes to the Financial Statements

For Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

NOTE 17 - RISK FINANCING ACTIVITIES (Continued)

	June 30, 2004	Claims Incurred Net of Change in Estimates	Payments	June 30, 2005
General liability	\$ 3,174,105	\$ 42,296	\$ (164,267)	\$ 3,052,134
Automobile liability	45,970	120,847	(150,567)	16,250
Property liability	12,167	83,697	(83,865)	11,999
Workers' compensation	1,063,413	1,486,070	(1,125,171)	1,424,312
Health insurance	1,035,998	11,242,100	(11,184,145)	1,093,953
	<u>\$ 5,331,653</u>	<u>\$12,975,010</u>	<u>\$(12,708,015)</u>	<u>\$ 5,598,648</u>

At June 30, 2006, the internal service fund accrued expenses totaled \$18,027,860. This balance includes the general liability, automobile liability, property liability and worker's compensation liability of \$18,020,913 and other accrued expenses of \$6,947. The health insurance claims liability at June 30, 2006 of \$1,316,128 are deemed due and payable at June 30, 2006 and recorded as accrued expenditures/accrued expense in the governmental and proprietary funds, respectively. Additionally, at June 30, 2006, the City had \$8,841,391 of General Fund fund balance designated for self-insurance purposes.

NOTE 18 - CONTINGENT LIABILITIES

The City is subject to a number of lawsuits, investigations, and other claims that are incidental to the ordinary course of its operations. Although the City Attorney does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon the settlement of such claims and lawsuits, some claims could be significant to the City's operations. While the ultimate resolution of such lawsuits, investigations, and claims cannot be determined at this time, in the opinion of City management, based on the advice of the City Attorney, the resolution of these matters will not have a materially adverse effect on the City's financial position.

The City participates in federally-funded and state-funded programs administered by various government agencies. The programs included in these financial statements may be subject to program compliance and/or financial monitoring by the granting agency or its representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

NOTE 19 - RELATED ORGANIZATION

The Industrial Development Authority (IDA) is a non-profit corporation established by the City in 1981 to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate and remain in Tempe. The Board of Directors of the IDA is appointed by the City Council; however, the City does not have a financial benefit/burden relationship nor is the City able to impose its will on the IDA as defined in GASB Statement No. 14; therefore, data for the IDA is not included in the City's basic financial statements. Separately issued financial statements are not available for the IDA.

NOTE 20 - DEFICIT IN FUND BALANCE

The Cemetery Enterprise Fund had a deficit fund balance of \$65,841 at June 30, 2006 and will be funded by future operating revenues of the fund. The Risk Management Internal Service Fund had a deficit fund balance of \$10.0 million at June 30, 2006. This deficit will be covered by the General Fund during fiscal year 2006-07.





Combining Fund Financial Statements

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues used to finance certain projects or activities as required by law or contractual agreement.

- **Performing Arts Fund.** To account for the receipt and expenditure of the Performing Arts Tax monies. These monies are restricted to financing the performing and visual arts center.
- **Highway User Revenue Fund.** To account for the receipt and expenditure of the City's share of the highway user taxes. State law restricts the use of these monies to maintenance, construction and reconstruction of streets, and repayment of transportation-related general obligation debt.
- **Local Transportation Assistance Fund.** To account for the receipt and expenditure of the City's share of state lottery allocations. These monies are restricted to transportation programs only.
- **Community Development Fund.** To account for the receipt and expenditure of U.S. Department of Housing and Urban Development Community Development Block Grant and Home Program monies.
- **Housing Assistance Fund.** To account for the receipt and expenditure of U.S. Department of Housing and Urban Development Lower Income Housing Assistance Program grant monies.
- **Rio Salado.** To account for the receipt and expenditure of miscellaneous monies used to foster the development of Rio Salado.
- **Grants and Court Awards.** To account for the receipt and expenditure of miscellaneous grant monies and revenue received from court awarded confiscated property under both the Federal and State Organized Crime Acts.
- **Community Facilities District.** To account for the receipt and expenditure of monies for the Rio Salado Community Facilities District.

NON-MAJOR GOVERNMENTAL FUNDS (continued)

CAPITAL PROJECTS FUNDS

Capital Projects Funds account for all current financial resources used for the acquisition of capital facilities except those financed by Enterprise Funds. Disbursements from these funds are primarily for property acquisition and the construction of permanent public improvements. The major sources of financing are derived from bond proceeds and special revenues.

- **Streets Fund.** Used for improving, constructing and reconstructing major streets, highways, collector and local streets within the City, and to acquire rights-of-way.
- **Police Fund.** Used for purchasing, constructing and equipping public safety buildings.
- **Fire Fund.** Used for purchasing, constructing and equipping fire stations.
- **Storm Sewers Fund.** Used for planning, constructing, extending and improving storm drain trunk lines and detention basins.
- **Parks Fund.** Used for acquiring, developing and equipping parks, playgrounds and recreation facilities
- **Rio Salado Fund.** Used for consulting and engineering studies necessary for the design of the Rio Salado projects and for constructing a wildlife habitat.
- **Community Development Fund.** Used for acquiring, reconstructing, remodeling, renovating and equipping existing buildings that house municipal departments, and for acquiring and constructing housing for the elderly and the redevelopment of the downtown area.
- **Bikeways Fund.** Used for improving, constructing and reconstructing bikeways within the City, and to acquire rights-of-way.
- **Signals Fund.** Used for purchasing, constructing and equipping street light and traffic signal upgrades and for the planning of an overall transportation plan.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

	Special Revenue			
	Performing Arts	Highway User Revenue	Local Transportation Assistance	Community Development
<u>Assets</u>				
Pooled cash and investments	\$ 14,638,197	\$ 8,349,049	\$ 586,417	\$ -
Receivables:				
Taxes	587,831	-	-	-
Accounts	-	-	-	-
Accrued interest	3,026	-	-	-
Due from other governments	-	1,017,912	-	2,116,389
Inventories	-	927,085	-	-
Prepaid items	-	-	-	-
Restricted cash and investments	5,159,674	-	-	-
Total assets	<u>\$ 20,388,728</u>	<u>\$ 10,294,046</u>	<u>\$ 586,417</u>	<u>\$ 2,116,389</u>
<u>Liabilities</u>				
Accounts payable	\$ 12,121	\$ 268,333	\$ -	\$ 444,981
Deposits	-	-	-	-
Accrued expenditures	7,494	70,687	-	11,539
Claims and judgements	2,283	43,076	-	-
Due to other funds	-	-	-	549,636
Deferred Revenue	-	-	-	955,853
Matured bonds payable	4,035,000	-	-	-
Matured interest payable	1,066,303	-	-	154,380
Total liabilities	<u>5,123,201</u>	<u>382,096</u>	<u>-</u>	<u>2,116,389</u>
<u>Fund Balances</u>				
Fund balance (deficit):				
Reserved for:				
Encumbrances	201,343	199,987	-	6,250
Inventories and prepaids	-	927,085	-	-
Unreserved:				
Undesignated	15,064,184	8,784,878	586,417	(6,250)
Total fund balances	<u>15,265,527</u>	<u>9,911,950</u>	<u>586,417</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 20,388,728</u>	<u>\$ 10,294,046</u>	<u>\$ 586,417</u>	<u>\$ 2,116,389</u>

Special Revenue

Housing Assistance	Rio Salado	Grants and Court Awards	Community Facilities District	Total
\$ 1,931,391	\$ 466,824	\$ 1,191,253	\$ 155,580	\$ 27,318,711
-	56,953	-	-	644,784
-	-	-	-	-
-	39,194	-	-	42,220
1,409	-	2,211,821	-	5,347,531
-	-	-	-	927,085
-	-	-	-	-
-	-	-	2,241,114	7,400,788
<u>\$ 1,932,800</u>	<u>\$ 562,971</u>	<u>\$ 3,403,074</u>	<u>\$ 2,396,694</u>	<u>\$ 41,681,119</u>
\$ 4,114	\$ 72,846	\$ 249,212	\$ 155,580	\$ 1,207,187
-	-	501,694	-	501,694
155,039	11,529	16,898	-	273,186
-	5,994	-	-	51,353
-	-	-	-	549,636
1,773,647	-	2,115,446	-	4,844,946
-	-	-	1,395,000	5,430,000
-	-	-	846,114	2,066,797
<u>1,932,800</u>	<u>90,369</u>	<u>2,883,250</u>	<u>2,396,694</u>	<u>14,924,799</u>
-	4,867	304,925	-	717,372
-	-	-	-	927,085
-	467,735	214,899	-	25,111,863
-	472,602	519,824	-	26,756,320
<u>\$ 1,932,800</u>	<u>\$ 562,971</u>	<u>\$ 3,403,074</u>	<u>\$ 2,396,694</u>	<u>\$ 41,681,119</u>

(continued)

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

	Capital Projects				
	Streets	Police	Fire	Storm Sewers	Parks
Assets					
Pooled cash and investments	\$ 10,712,182	\$ 12,798,452	\$ 257,993	\$ 1,674,587	\$ 3,548,162
Receivables:					
Taxes	-	-	-	-	-
Accounts	-	-	-	-	-
Accrued interest	-	-	-	-	-
Due from other governments	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid items	-	-	-	-	-
Restricted cash and investments	-	-	-	-	1,001,733
Total assets	<u>\$ 10,712,182</u>	<u>\$ 12,798,452</u>	<u>\$ 257,993</u>	<u>\$ 1,674,587</u>	<u>\$ 4,549,895</u>
Liabilities					
Accounts payable	\$ 1,359,569	\$ 2,198,416	\$ 88,345	\$ -	\$ 502,602
Deposits	-	-	-	-	-
Accrued expenditures	-	-	-	-	-
Claims and judgements	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Matured interest payable	-	-	-	-	-
Total liabilities	<u>1,359,569</u>	<u>2,198,416</u>	<u>88,345</u>	<u>-</u>	<u>502,602</u>
Fund Balances					
Fund balance (deficit):					
Reserved for:					
Encumbrances	3,378,202	10,775,755	65,816	-	1,115,059
Inventories and prepaids	-	-	-	-	-
Unreserved:					
Undesignated	5,974,411	(175,719)	103,832	1,674,587	2,932,234
Total fund balances	<u>9,352,613</u>	<u>10,600,036</u>	<u>169,648</u>	<u>1,674,587</u>	<u>4,047,293</u>
Total liabilities and fund balances	<u>\$ 10,712,182</u>	<u>\$ 12,798,452</u>	<u>\$ 257,993</u>	<u>\$ 1,674,587</u>	<u>\$ 4,549,895</u>

Capital Projects

Rio Salado	Community Development	Bikeways	Signals	Total	Total Nonmajor Governmental Funds
\$ 3,518,978	\$ 4,660,122	\$ -	\$ 2,067,056	\$ 39,237,532	\$ 66,556,243
-	-	-	-	-	644,784
-	475,000	-	-	475,000	475,000
-	-	-	-	-	42,220
48,994	-	253,098	160,742	462,834	5,810,365
-	-	-	-	-	927,085
-	812,250	-	-	812,250	812,250
-	14,937	-	-	1,016,670	8,417,458
<u>\$ 3,567,972</u>	<u>\$ 5,962,309</u>	<u>\$ 253,098</u>	<u>\$ 2,227,798</u>	<u>\$ 42,004,286</u>	<u>\$ 83,685,405</u>
\$ 30,335	\$ 234,820	\$ 164,298	\$ 105,537	\$ 4,683,922	\$ 5,891,109
-	318,773	-	-	318,773	820,467
-	110	-	-	110	273,296
-	-	-	-	-	51,353
-	-	84,460	-	84,460	634,096
-	-	-	-	-	4,844,946
-	-	-	-	-	5,430,000
-	-	-	-	-	2,066,797
<u>30,335</u>	<u>553,703</u>	<u>248,758</u>	<u>105,537</u>	<u>5,087,265</u>	<u>20,012,064</u>
134,831	108,971	451,074	346,447	16,376,155	17,093,527
-	812,250	-	-	812,250	1,739,335
3,402,806	4,487,385	(446,734)	1,775,814	19,728,616	44,840,479
<u>3,537,637</u>	<u>5,408,606</u>	<u>4,340</u>	<u>2,122,261</u>	<u>36,917,021</u>	<u>63,673,341</u>
<u>\$ 3,567,972</u>	<u>\$ 5,962,309</u>	<u>\$ 253,098</u>	<u>\$ 2,227,798</u>	<u>\$ 42,004,286</u>	<u>\$ 83,685,405</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2006

	Special Revenue			
	Performing Arts	Highway User Revenue	Local Transportation Assistance	Community Development
Revenues:				
Sales taxes	\$ 6,480,218	\$ -	\$ -	\$ -
Property taxes	-	-	-	-
Intergovernmental:				
Federal grants	-	-	-	5,320,983
State grants	-	-	-	-
State sales tax	-	11,222,223	-	-
Other	-	-	798,826	599,644
Investment income	626,248	-	-	2,020
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Other entities' participation	-	-	-	-
Miscellaneous	-	1,329	-	50,493
Total revenues	<u>7,106,466</u>	<u>11,223,552</u>	<u>798,826</u>	<u>5,973,140</u>
Expenditures:				
Current:				
Police	-	-	-	-
Fire	-	-	-	-
Community services	739,397	-	-	-
Public works	-	7,849,120	-	-
Municipal courts	-	-	-	-
Development services	-	-	-	-
Community development	-	-	-	5,443,100
Principal retirement	4,035,000	-	-	-
Interest and fiscal fees	2,259,978	-	-	530,040
Capital outlay	-	-	-	-
Total expenditures	<u>7,034,375</u>	<u>7,849,120</u>	<u>-</u>	<u>5,973,140</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>72,091</u>	<u>3,374,432</u>	<u>798,826</u>	<u>-</u>
Other financing sources (uses):				
Transfers in:				
General fund	-	-	-	-
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital projects funds	331,572	-	-	-
Enterprise funds	-	870,000	-	-
Transfers out:				
General fund	(4,313)	(15,800)	-	-
Special revenue funds	-	-	(266,275)	-
Debt service funds	-	(2,000,000)	-	-
Capital projects funds	-	(9,711)	(3,504,283)	-
Enterprise funds	-	(309,862)	-	-
Issuance of debt	-	-	-	-
Premium on issuance of debt	-	-	-	-
Proceeds from sale of capital assets	-	67,873	-	-
Total other financing sources (uses)	<u>327,259</u>	<u>(1,397,500)</u>	<u>(3,770,558)</u>	<u>-</u>
Net change in fund balances	399,350	1,976,932	(2,971,732)	-
Fund balance at beginning of year	14,866,177	7,935,018	3,558,149	-
Fund balance (deficit) at end of year	<u>\$ 15,265,527</u>	<u>\$ 9,911,950</u>	<u>\$ 586,417</u>	<u>\$ -</u>

Special Revenue

Housing Assistance	Rio Salado	Grants and Court Awards	Community Facilities District	Total
\$ -	\$ 798,997	\$ -	\$ -	\$ 7,279,215
-	65,759	-	-	65,759
7,840,073	-	2,304,236	-	15,465,292
-	-	555,596	-	555,596
-	-	-	-	11,222,223
1,826	-	731,500	-	2,131,796
27,797	184,565	59,197	468	900,295
-	10,674	149,146	626,771	786,591
-	-	456,300	-	456,300
-	-	-	-	-
-	117,634	796,232	11,860	977,548
<u>7,869,696</u>	<u>1,177,629</u>	<u>5,052,207</u>	<u>639,099</u>	<u>39,840,615</u>
-	-	1,878,705	-	1,878,705
-	-	916,161	-	916,161
-	-	990,157	-	1,729,554
-	-	-	-	7,849,120
-	-	734,754	-	734,754
-	76,505	366,639	-	443,144
7,869,696	1,060,173	55,000	2,117,706	16,545,675
-	-	-	1,395,000	5,430,000
-	-	-	1,694,389	4,484,407
-	-	-	-	-
<u>7,869,696</u>	<u>1,136,678</u>	<u>4,941,416</u>	<u>5,207,095</u>	<u>40,011,520</u>
-	40,951	110,791	(4,567,996)	(170,905)
-	-	-	1,506,760	1,506,760
-	-	-	-	-
-	-	-	3,089,389	3,089,389
-	-	203,127	-	534,699
-	-	-	-	870,000
-	(600)	-	-	(20,713)
-	-	-	-	(266,275)
-	-	-	-	(2,000,000)
-	-	(680,755)	(28,153)	(4,222,902)
-	-	-	-	(309,862)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	67,873
-	(600)	(477,628)	4,567,996	(751,031)
-	40,351	(366,837)	-	(921,936)
-	432,251	886,661	-	27,678,256
<u>\$ -</u>	<u>\$ 472,602</u>	<u>\$ 519,824</u>	<u>\$ -</u>	<u>\$ 26,756,320</u>

(continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2006

	Capital Projects				
	Streets	Police	Fire	Storm Sewers	Parks
Revenues:					
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes	-	-	-	-	-
Intergovernmental:					
Federal grants	-	-	256,887	-	-
State grants	-	-	-	-	487,269
State sales tax	-	-	-	-	-
Other	-	-	-	-	452,160
Investment income	-	-	-	-	213,664
Charges for services	147,395	-	-	-	58,280
Fines and forfeitures	-	-	-	-	-
Other entities' participation	200,000	-	-	-	1,000,000
Miscellaneous	-	-	-	-	-
Total revenues	<u>347,395</u>	<u>-</u>	<u>256,887</u>	<u>-</u>	<u>2,211,373</u>
Expenditures:					
Current:					
Police	-	-	-	-	-
Fire	-	-	-	-	-
Community services	-	-	-	-	-
Public works	-	-	-	-	-
Municipal courts	-	-	-	-	-
Development services	-	-	-	-	-
Community development	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Capital outlay	7,387,333	9,470,952	1,193,294	18,375	25,202,747
Total expenditures	<u>7,387,333</u>	<u>9,470,952</u>	<u>1,193,294</u>	<u>18,375</u>	<u>25,202,747</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>(7,039,938)</u>	<u>(9,470,952)</u>	<u>(936,407)</u>	<u>(18,375)</u>	<u>(22,991,374)</u>
Other financing sources (uses):					
Transfers in:					
General fund	-	-	-	-	-
Special revenue funds	3,504,283	-	104,220	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	78,810	-	-	-	29,500
Enterprise funds	175,000	-	-	200,000	-
Transfers out:					
General fund	-	-	-	-	-
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	(273,106)
Capital projects funds	(45,445)	(161,916)	-	(14,000)	(51,089)
Enterprise funds	(197,122)	-	-	(150,000)	-
Issuance of debt	764,637	20,825,000	-	315,000	20,120,000
Premium on issuance of debt	-	-	-	-	1,263,106
Proceeds from sale of capital assets	-	-	-	-	-
Total other financing sources (uses)	<u>4,280,163</u>	<u>20,663,084</u>	<u>104,220</u>	<u>351,000</u>	<u>21,088,411</u>
Net change in fund balances	(2,759,775)	11,192,132	(832,187)	332,625	(1,902,963)
Fund balance at beginning of year	12,112,388	(592,096)	1,001,835	1,341,962	5,950,256
Fund balance (deficit) at end of year	<u>\$ 9,352,613</u>	<u>\$ 10,600,036</u>	<u>\$ 169,648</u>	<u>\$ 1,674,587</u>	<u>\$ 4,047,293</u>

Capital Projects					
Rio Salado	Community Development Capital Projects	Bikeways	Signals	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,279,215
-	-	-	-	-	65,759
-	-	253,098	160,742	670,727	16,136,019
-	-	-	-	487,269	1,042,865
-	-	-	-	-	11,222,223
-	-	-	-	452,160	2,583,956
-	399	-	-	214,063	1,114,358
-	-	-	-	205,675	992,266
-	-	-	-	-	456,300
25,000	-	-	932,211	2,157,211	2,157,211
5,189	-	-	-	5,189	982,737
<u>30,189</u>	<u>399</u>	<u>253,098</u>	<u>1,092,953</u>	<u>4,192,294</u>	<u>44,032,909</u>
-	-	-	-	-	1,878,705
-	-	-	-	-	916,161
-	-	-	-	-	1,729,554
-	-	-	-	-	7,849,120
-	-	-	-	-	734,754
-	-	-	-	-	443,144
-	-	-	-	-	16,545,675
-	-	-	-	-	5,430,000
-	-	-	-	-	4,484,407
<u>2,292,946</u>	<u>3,315,925</u>	<u>253,098</u>	<u>1,680,717</u>	<u>50,815,387</u>	<u>50,815,387</u>
<u>2,292,946</u>	<u>3,315,925</u>	<u>253,098</u>	<u>1,680,717</u>	<u>50,815,387</u>	<u>90,826,907</u>
<u>(2,262,757)</u>	<u>(3,315,526)</u>	<u>-</u>	<u>(587,764)</u>	<u>(46,623,093)</u>	<u>(46,793,998)</u>
-	84,729	-	-	84,729	1,591,489
28,153	783,535	-	9,711	4,429,902	4,429,902
-	1,237,750	-	-	1,237,750	4,327,139
-	195,445	50,500	-	354,255	888,954
-	825,007	-	-	1,200,007	2,070,007
-	(5,000)	-	-	(5,000)	(25,713)
-	(203,127)	-	-	(203,127)	(469,402)
-	-	-	-	(273,106)	(2,273,106)
-	(56,500)	-	(7,500)	(336,450)	(4,559,352)
-	-	-	-	(347,122)	(656,984)
-	-	-	880,363	42,905,000	42,905,000
-	-	-	-	1,263,106	1,263,106
-	1,022,480	-	-	1,022,480	1,090,353
<u>28,153</u>	<u>3,884,319</u>	<u>50,500</u>	<u>882,574</u>	<u>51,332,424</u>	<u>50,581,393</u>
(2,234,604)	568,793	50,500	294,810	4,709,331	3,787,395
5,772,241	4,839,813	(46,160)	1,827,451	32,207,690	59,885,946
<u>\$ 3,537,637</u>	<u>\$ 5,408,606</u>	<u>\$ 4,340</u>	<u>\$ 2,122,261</u>	<u>\$ 36,917,021</u>	<u>\$ 63,673,341</u>



INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the government and to other government units, on a cost reimbursement basis.

- **Risk Management Fund.** Used to account for the costs of general liability, automobile liability, property liability and workers compensation claims by the City under a self-insurance program.
- **Health Fund.** Accounts for the expenses incurred for employee health related costs under the City's self-insurance program.

Combining Statement of Net Assets

Internal Service Funds

June 30, 2006

City of Tempe, Arizona

	<u>Risk Management</u>	<u>Health</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Pooled cash and investments	<u>\$ 8,237,363</u>	<u>\$ 1,315,505</u>	<u>\$ 9,552,868</u>
Total assets	<u>8,237,363</u>	<u>1,315,505</u>	<u>9,552,868</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	209,503	203,531	413,034
Accrued expenses and claims payable	<u>18,027,860</u>	<u>-</u>	<u>18,027,860</u>
Total liabilities	<u>18,237,363</u>	<u>203,531</u>	<u>18,440,894</u>
<u>Net Assets</u>			
Unrestricted	<u>(10,000,000)</u>	<u>1,111,974</u>	<u>(8,888,026)</u>
Total net assets	<u>\$ (10,000,000)</u>	<u>\$ 1,111,974</u>	<u>\$ (8,888,026)</u>

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

Internal Service Funds

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Risk Management	Health	Total
Operating revenues:			
Contributions	\$ 7,556,963	\$20,138,665	\$27,695,628
Total operating revenues	<u>7,556,963</u>	<u>20,138,665</u>	<u>27,695,628</u>
Operating expenses:			
Claims incurred	17,556,963	20,297,580	37,854,543
Total operating expenses	<u>17,556,963</u>	<u>20,297,580</u>	<u>37,854,543</u>
Change in net assets	(10,000,000)	(158,915)	(10,158,915)
Total net assets- beginning	-	1,270,889	1,270,889
Total net assets- ending	<u>\$ (10,000,000)</u>	<u>\$ 1,111,974</u>	<u>\$ (8,888,026)</u>

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2006

City of Tempe, Arizona

	Risk Management	Health	Total
Cash flows from operating activities:			
Receipts from other funds	\$ 7,556,963	\$ 20,138,665	\$ 27,695,628
Payments for settlement of claims	(3,869,611)	(20,114,415)	(23,984,026)
Net cash provided by operating activities	<u>3,687,352</u>	<u>24,250</u>	<u>3,711,602</u>
Net increase in cash and cash equivalents	3,687,352	24,250	3,711,602
Cash and cash equivalents, beginning of year	<u>4,550,011</u>	<u>1,291,255</u>	<u>5,841,266</u>
Cash and cash equivalents, end of year	<u>\$ 8,237,363</u>	<u>\$ 1,315,505</u>	<u>\$ 9,552,868</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (10,000,000)	\$ (158,915)	\$ (10,158,915)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Change in assets and liabilities:			
Increase (decrease) in accrued expenses	<u>13,687,352</u>	<u>183,165</u>	<u>13,870,517</u>
Net cash provided (used) by operating activities	<u>\$ 3,687,352</u>	<u>\$ 24,250</u>	<u>\$ 3,711,602</u>



Other Supplementary Information



BUDGETARY COMPARISON SCHEDULES



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

General, Special Revenue, and Debt Service Fund Types

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	\$ 131,302,027	\$ 146,084,925	\$ 14,782,898
Intergovernmental	72,657,422	74,609,454	1,952,032
Investment income	5,641,648	6,966,401	1,324,753
Charges for services	7,450,856	10,333,786	2,882,930
Fines and forfeitures	6,563,538	7,805,186	1,241,648
Licenses and permits	1,170,900	1,389,130	218,230
Miscellaneous	3,490,114	5,314,975	1,824,861
Total revenues	<u>228,276,505</u>	<u>252,503,857</u>	<u>24,227,352</u>
Expenditures			
Current:			
Police	54,355,719	55,009,175	(653,456)
Fire	18,971,558	19,148,738	(177,180)
Community services	20,861,699	19,723,619	1,138,080
Public works	52,604,414	49,487,911	3,116,503
Community relations	2,625,114	2,524,968	100,146
Mayor and council	386,230	361,617	24,613
City manager	439,736	382,172	57,564
Diversity program	580,237	527,026	53,211
Internal audit/consulting	453,483	450,173	3,310
City clerk and elections	727,369	747,171	(19,802)
City attorney	2,441,040	2,343,508	97,532
Municipal courts	3,803,073	3,718,431	84,642
Development services	5,036,645	5,358,919	(322,274)
Community development	22,771,380	20,345,723	2,425,657
Financial Services	4,158,915	3,991,659	167,256
Human resources	2,602,136	2,734,849	(132,713)
Information technology	634,172	633,482	690
Non-departmental	5,802,653	3,937,793	1,864,860
Contingency	449,232	-	449,232
Debt Service:			
Principal	14,055,000	12,725,000	1,330,000
Interest and fiscal fees	12,127,230	10,475,023	1,652,207
Total expenditures	<u>225,887,035</u>	<u>214,626,957</u>	<u>11,260,078</u>
Other financing sources (uses)			
Transfers from other funds	2,113,730	8,732,043	6,618,313
Transfers to other funds	(12,052,923)	(19,649,325)	(7,596,402)
Proceeds from sale of capital assets	-	67,873	67,873
Total other financing sources (uses)	<u>(9,939,193)</u>	<u>(10,849,409)</u>	<u>(910,216)</u>
Net change in fund balance	<u>\$ (7,549,723)</u>	<u>\$ 27,027,491</u>	<u>\$ 34,577,214</u>

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

General Obligation Debt Service Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Revenues:			
Property taxes	\$ 17,384,026	\$ 17,327,739	\$ (56,287)
Investment income	-	73,912	73,912
Other entities' participation	-	143,357	143,357
Total revenues	<u>17,384,026</u>	<u>17,545,008</u>	<u>160,982</u>
Expenditures:			
Debt service:			
Principal retirement	8,115,000	7,295,000	820,000
Interest and fiscal fees	6,296,213	5,926,992	369,221
Total expenditures	<u>14,411,213</u>	<u>13,221,992</u>	<u>1,189,221</u>
Excess of revenues over expenditures before other financing uses	2,972,813	4,323,016	1,350,203
Other financing sources (uses):			
Transfers in	-	2,273,106	2,273,106
Transfers out	-	(4,327,139)	(4,327,139)
Total other financing uses	<u>-</u>	<u>(2,054,033)</u>	<u>(2,054,033)</u>
Excess of revenues over expenditures and other financing uses	2,972,813	2,268,983	(703,830)
Fund balance at beginning of year	<u>15,851,948</u>	<u>15,851,948</u>	<u>-</u>
Fund balance at end of year	<u>\$ 18,824,761</u>	<u>\$ 18,120,931</u>	<u>\$ (703,830)</u>

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

Performing Arts Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Revenues:			
Sales taxes	\$ 5,599,500	\$ 6,480,218	\$ 880,718
Investment income	281,572	573,983	292,411
Total revenues	<u>5,881,072</u>	<u>7,054,201</u>	<u>1,173,129</u>
Expenditures:			
Current:			
Community services	2,076,129	939,604	1,136,525
Debt service:			
Principal retirement	2,400,000	4,035,000	(1,635,000)
Interest and fiscal fees	2,414,788	2,259,978	154,810
Total expenditures	<u>6,890,917</u>	<u>7,234,582</u>	<u>(343,665)</u>
Excess of revenues over expenditures before other financing sources (uses)	(1,009,845)	(180,381)	829,464
Other financing uses:			
Transfers out	-	(4,313)	(4,313)
Total other financing uses	<u>-</u>	<u>(4,313)</u>	<u>(4,313)</u>
Excess of revenues over expenditures and other uses	(1,009,845)	(184,694)	825,151
Fund balance at beginning of year	<u>14,255,302</u>	<u>14,255,302</u>	<u>-</u>
Fund balance at end of year	<u>\$ 13,245,457</u>	<u>\$ 14,070,608</u>	<u>\$ 825,151</u>

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

Highway User Revenue Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Revenues:			
Intergovernmental:			
State sales tax	\$ 11,938,207	\$ 11,222,223	\$ (715,984)
Miscellaneous	834	1,329	495
Total revenues	<u>11,939,041</u>	<u>11,223,552</u>	<u>(715,489)</u>
Expenditures:			
Current:			
Public works	8,382,587	8,360,230	22,357
Total expenditures	<u>8,382,587</u>	<u>8,360,230</u>	<u>22,357</u>
Excess of revenues over expenditures before other financing sources (uses)	3,556,454	2,863,322	(693,132)
Other financing sources (uses):			
Transfers in	1,850,000	870,000	(980,000)
Transfers out	(309,862)	(2,335,373)	(2,025,511)
Proceeds from sale of capital assets	-	67,873	67,873
Total other financing uses	<u>1,540,138</u>	<u>(1,397,500)</u>	<u>(2,937,638)</u>
Excess of revenues and other sources over expenditures and other uses	5,096,592	1,465,822	(3,630,770)
Fund balance at beginning of year	<u>7,494,997</u>	<u>7,494,997</u>	<u>-</u>
Fund balance at end of year	<u>\$ 12,591,589</u>	<u>\$ 8,960,819</u>	<u>\$ (3,630,770)</u>

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

Local Transportation Assistance Fund For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	<u>Final Budget Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenues:			
Intergovernmental:			
Other	\$ 799,186	\$ 798,826	\$ (360)
Total revenues	<u>799,186</u>	<u>798,826</u>	<u>(360)</u>
Expenditures:			
Current:			
Public works	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures before other financing uses	799,186	798,826	(360)
Other financing uses:			
Transfers out	(3,768,013)	(3,770,558)	(2,545)
Total other financing uses	<u>(3,768,013)</u>	<u>(3,770,558)</u>	<u>(2,545)</u>
Excess of revenues over expenditures and other financing uses	(2,968,827)	(2,971,732)	(2,905)
Fund balance at beginning of year	<u>3,558,149</u>	<u>3,558,149</u>	<u>-</u>
Fund balance at end of year	<u>\$ 589,322</u>	<u>\$ 586,417</u>	<u>\$ (2,905)</u>

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

Community Development Fund
For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	<u>Final Budget Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenues:			
Intergovernmental:			
Federal grants	\$ 6,225,164	\$ 5,331,621	\$ (893,543)
Other	200,000	599,644	399,644
Investment income	-	2,020	2,020
Miscellaneous	-	50,493	50,493
Total revenues	<u>6,425,164</u>	<u>5,983,778</u>	<u>(441,386)</u>
Expenditures:			
Current:			
Community development	6,425,164	5,983,778	441,386
Total expenditures	<u>6,425,164</u>	<u>5,983,778</u>	<u>441,386</u>
Excess of expenditures over revenues	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Housing Assistance Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	<u>Final Budget Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenues:			
Intergovernmental:			
Federal grants	\$ 8,886,249	\$ 7,837,024	\$ (1,049,225)
Other	-	1,826	1,826
Investment income	-	27,797	27,797
Total revenues	<u>8,886,249</u>	<u>7,866,647</u>	<u>(1,019,602)</u>
Expenditures:			
Current:			
Community development	8,886,249	7,866,647	1,019,602
Total expenditures	<u>8,886,249</u>	<u>7,866,647</u>	<u>1,019,602</u>
Excess of expenditures over revenues	-	-	-
Fund balance at beginning of year	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Rio Salado Fund

For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Revenues:			
Sales taxes	\$ 507,600	\$ 798,997	\$ 291,397
Property taxes	68,000	65,759	(2,241)
Investment income	100,000	171,424	71,424
Charges for services	12,900	10,674	(2,226)
Miscellaneous	47,000	117,634	70,634
Total revenues	<u>735,500</u>	<u>1,164,488</u>	<u>428,988</u>
Expenditures:			
Current:			
Community development	1,551,234	1,141,165	410,069
Total expenditures	<u>1,551,234</u>	<u>1,141,165</u>	<u>410,069</u>
Deficiency of revenues over expenditures before other financing uses	(815,734)	23,323	839,057
Other financing uses:			
Transfers out	-	(600)	(600)
Proceeds from sale of capital assets	-	-	-
Total other financing uses	<u>-</u>	<u>(600)</u>	<u>(600)</u>
Excess (deficiency) of revenues over expenditures and other financing uses	(815,734)	22,723	838,457
Fund balance at beginning of year	479,188	479,188	-
Fund balance at end of year	<u>\$ (336,546)</u>	<u>\$ 501,911</u>	<u>\$ 838,457</u>

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

Community Facilities District Fund For the Fiscal Year Ended June 30, 2006

City of Tempe, Arizona

	Final Budget Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Revenues:			
Investment income	\$ -	\$ 468	\$ 468
Charges for services	40,560	42,799	2,239
Miscellaneous	253,185	11,860	(241,325)
Total revenues	<u>293,745</u>	<u>55,127</u>	<u>(238,618)</u>
Expenditures:			
Current:			
Community development	2,652,107	2,117,706	534,401
Debt service:			
Principal	1,395,000	1,395,000	-
Interest and fiscal fees	1,732,229	1,694,389	37,840
Total expenditures	<u>5,779,336</u>	<u>5,207,095</u>	<u>572,241</u>
Excess of revenues over expenditures before other financing sources (uses)	(5,485,591)	(5,151,968)	333,623
Other financing sources:			
Transfers in	-	4,596,149	4,596,149
Total other financing sources	<u>-</u>	<u>4,596,149</u>	<u>4,596,149</u>
Deficiency of revenues and other sources over expenditures	(5,485,591)	(555,819)	4,929,772
Fund balance at beginning of year	<u>(433,597)</u>	<u>(433,597)</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (5,919,188)</u>	<u>\$ (989,416)</u>	<u>\$ 4,929,772</u>



FINANCIAL DATA SCHEDULES

The Financial Data Schedules in this section are presented as required by the U.S. Department of housing and Urban Development in accordance with the Uniform Financial Reporting Standards Rule as contained in the Federal Register (24CFR, Part 5, Subpart H). These schedules are presented on a modified accrual basis of accounting.

**Other Supplementary Information - Financial Data Schedule
Balance Sheet**

Housing Assistance Fund

June 30, 2006

City of Tempe, Arizona

<u>Line Item #</u>	<u>Account Description</u>	<u>Section 8 Voucher Program</u>
<u>Assets</u>		
111	Cash - Unrestricted	\$ 1,931,391
121	Accounts Receivable - PHA Projects	1,409
	Total Assets	<u>\$ 1,932,800</u>
<u>Liabilities</u>		
312	Accounts Payable <= 90 days	\$ 10,854
321	Accrued Wage/Payroll Taxes Payable	12,219
331	Accounts Payable - HUD PHA Programs	136,080
342	Deferred Revenues	1,773,647
	Total Liabilities	<u>1,932,800</u>
<u>Equity</u>		
512	Undesignated Fund Balance	-
	Total Equity	-
	Total Liabilities and Equity	<u>\$ 1,932,800</u>

**Other Supplementary Information - Financial Data Schedule
Revenues and Expenses**

Housing Assistance Fund

For the Fiscal Year ended June 30, 2006

City of Tempe, Arizona

<u>Line Item #</u>	<u>Account Description</u>	<u>Section 8 Voucher Program</u>
<u>Revenues</u>		
706	HUD PHA Grants	\$ 7,840,074
711	Investment Income - Unrestricted	26,194
715	Other Revenue	1,825
	Total Revenues	7,868,093
<u>Expenses</u>		
911	Administrative Salaries	400,033
912	Auditing Fees	5,516
914	Compensated Absences	36,934
915	Employee Benefit Contributions - Administrative	154,058
916	Other Operating - Administrative	79,592
973	Housing Assistance Payments	7,191,960
	Total Expenses	7,868,093
	Excess (Deficiency) of Revenues Over (Under) Expenses	\$ -
<u>Memo Account Information</u>		
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 8,849,387
1115	Contingency Reserve, ACC Program Reserve	-
1116	Total Annual Contributions Available	\$ 8,849,387
1120	Unit Months Available	12,984
1121	Number of Unit Months Leased	12,074



STATISTICAL SECTION

The Statistical Section presents detailed information as a context for understanding the information in the financial statements, note disclosures and required supplementary information in regards to the City's overall financial health.

- **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.
- **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.
- **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.
- **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.
- **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.

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

Note: The City implemented GASB 34 for the fiscal year ended June 30, 2002. Prior statements have not been restated to comply with the new requirements. These amounts are presented on the accrual basis of accounting.



Net Assets by Component (Exhibit S-1)

Last Five Fiscal Years Accrual Basis of Accounting	City of Tempe, Arizona				
	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Governmental activities					
Invested in capital assets, net of related debt	\$ 433,414,734	\$ 440,494,223	\$ 426,857,287	\$ 425,257,427	\$ 388,629,882
Restricted	122,572,053	135,314,124	143,723,739	137,183,741	174,328,803
Unrestricted	102,002,207	73,239,199	91,829,853	153,918,478	226,533,760
Total governmental activities net assets	\$ 657,988,994	\$ 649,047,546	\$ 662,410,879	\$ 716,359,646	\$ 789,492,445
Business-type activities					
Invested in capital assets, net of related debt	\$ 173,224,647	\$ 171,881,978	\$ 174,841,674	\$ 191,670,395	\$ 174,110,077
Unrestricted	82,578,913	89,985,585	89,162,318	74,678,567	88,802,930
Total business-type activities net assets	\$ 255,803,560	\$ 261,867,563	\$ 264,003,992	\$ 266,348,962	\$ 262,913,007
Primary government					
Invested in capital assets, net of related debt	\$ 606,639,381	\$ 612,376,201	\$ 601,698,961	\$ 616,927,822	\$ 562,739,959
Restricted	132,637,849	143,444,919	152,737,563	137,183,741	174,328,803
Unrestricted	174,515,324	155,093,989	171,978,347	228,597,045	315,336,690
Total primary government net assets	\$ 913,792,554	\$ 910,915,109	\$ 926,414,871	\$ 982,708,608	\$ 1,052,405,452

Changes in Net Assets (Exhibit S-2a)

Last Five Fiscal Years

Accrual Basis of Accounting

	City of Tempe, Arizona				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2001-02	2002-03	2003-04	2004-05	2005-06
Expenses					
Governmental activities:					
Police	\$ 45,265,995	\$ 47,729,305	\$ 49,973,991	\$ 51,928,073	\$ 59,957,698
Fire	15,988,363	15,103,049	16,990,382	17,679,667	20,098,598
Community services	20,874,630	20,307,801	20,629,836	21,116,067	22,205,153
Public works	57,047,822	57,917,031	61,814,870	61,853,194	67,537,876
Community relations	2,212,271	2,845,176	2,472,966	2,312,548	2,499,978
Mayor and council	516,899	579,089	407,818	400,549	362,810
City manager	1,414,543	918,556	209,830	312,882	412,936
Diversity program	-	-	505,865	544,872	534,950
Internal audit/consulting	-	-	440,660	446,333	460,824
City clerk and elections	784,099	433,922	652,442	443,255	752,336
City attorney	2,420,285	2,027,045	2,087,009	2,262,903	2,348,553
Municipal courts	3,325,642	3,230,817	4,053,127	3,655,280	4,342,297
Development services	16,808,229	18,760,209	19,111,722	21,449,181	4,492,161
Community development	2,485,774	3,245,906	4,021,965	3,187,992	30,358,768
Financial services	4,906,157	5,404,942	3,946,238	4,102,556	4,256,427
Human resources	4,058,772	3,762,782	2,418,605	2,561,746	2,727,058
Information technology	804,751	4,185,163	2,280,717	1,854,603	1,462,595
Non-departmental	7,594,725	14,852,873	9,637,203	6,895,583	6,122,335
Interest on long-term debt	6,588,170	6,956,107	8,974,827	9,033,035	10,821,420
Total governmental activities expenses	193,097,127	208,259,773	210,630,073	212,040,319	241,754,773
Business-type activities:					
Water/Wastewater	38,892,299	38,417,396	42,739,236	47,156,603	53,588,122
Solid waste	10,294,641	10,205,570	10,912,307	11,413,402	11,836,691
Golf course	2,441,907	2,435,783	2,353,586	2,442,925	2,375,802
Cemetery	-	-	-	-	152,717
Total business-type activities expenses	51,628,847	51,058,749	56,005,129	61,012,930	67,953,332
Total primary government expenses	\$ 244,725,974	\$ 259,318,522	\$ 266,635,202	\$ 273,053,249	\$ 309,708,105

Changes in Net Assets (Exhibit S-2b)

Last Five Fiscal Years

Accrual Basis of Accounting

City of Tempe, Arizona

	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Program Revenues					
Governmental activities:					
Charges for services:					
Police	\$ 28,181	\$ 833,378	\$ 836,081	\$ 877,330	\$ 877,704
Fire	43,782	334,773	305,964	41,561	566,505
Community services	4,586,011	4,996,644	5,213,032	5,045,852	5,098,319
Public works	3,343,519	4,112,610	5,261,301	9,904,057	6,594,229
Municipal courts	6,382,786	2,711,225	5,857,804	6,497,384	7,179,554
Development services	1,859,012	2,808,889	2,881,155	3,523,443	5,566,289
Economic development	179,726	238,226	238,417	325,191	-
Community development	-	-	-	-	637,445
Financial services	2,007,179	1,469,142	1,378,148	1,744,163	1,932,684
Non-departmental	115,498	83,938	59,598	78,767	92,827
Operating grants and contributions	11,782,757	13,490,697	14,346,903	16,245,880	19,903,398
Capital grants and contributions	9,376,155	5,098,677	12,589,817	33,688,443	54,935,929
Total governmental activities program revenues	<u>39,704,606</u>	<u>36,178,199</u>	<u>48,968,220</u>	<u>77,972,071</u>	<u>103,384,883</u>
Business-type activities:					
Charges for services:					
Water/wastewater	40,890,844	43,315,681	42,604,532	44,443,764	47,012,596
Solid waste	9,979,359	10,496,774	11,014,949	12,054,563	12,989,827
Golf course	2,124,037	1,920,699	2,020,132	1,954,278	1,971,031
Cemetery	-	-	-	-	18,943
Capital grants and contributions	2,033,578	179,754	751,525	2,835,223	506,593
Total business-type activities program revenues	<u>55,027,818</u>	<u>55,912,908</u>	<u>56,391,138</u>	<u>61,287,828</u>	<u>62,498,990</u>
Total primary government program revenues	<u>\$ 94,732,424</u>	<u>\$ 92,091,107</u>	<u>\$ 105,359,358</u>	<u>\$ 139,259,899</u>	<u>\$ 165,883,873</u>
Net (Expense)/Revenue					
Governmental activities	\$ (153,392,521)	\$ (172,081,574)	\$ (161,661,853)	\$ (134,068,248)	\$ (138,369,890)
Business-type activities	3,398,971	4,854,159	386,009	274,898	(5,454,342)
Total primary government net expense	<u>\$ (149,993,550)</u>	<u>\$ (167,227,415)</u>	<u>\$ (161,275,844)</u>	<u>\$ (133,793,350)</u>	<u>\$ (143,824,232)</u>

Changes in Net Assets (Exhibit S-2c)

Last Five Fiscal Years

Accrual Basis of Accounting

City of Tempe, Arizona

	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2001-02	2002-03	2003-04	2004-05	2005-06
General revenues and other changes in net assets					
Governmental activities:					
General revenues:					
Sales taxes	\$ 111,538,072	\$ 112,724,512	\$ 120,075,959	\$ 131,256,519	\$ 145,109,192
State shared income taxes, unrestricted	16,544,791	16,882,535	14,303,004	14,582,117	16,607,943
Property taxes	20,375,185	21,269,140	22,580,678	24,872,388	27,532,893
Franchise taxes	1,810,590	1,476,718	1,457,085	1,678,437	1,858,851
Auto-lieu taxes	5,233,512	6,247,543	6,427,396	6,791,043	7,527,675
Unrestricted investment earnings	11,223,592	2,898,356	2,336,129	4,537,422	8,038,565
Miscellaneous	1,444,812	1,469,345	1,681,895	2,126,029	1,864,289
Gain on sale of capital assets	-	-	6,362,790	2,004,326	1,813,311
Transfers	(68,770)	171,977	(199,750)	168,734	1,149,970
Total governmental activities	168,101,784	163,140,126	175,025,186	188,017,015	211,502,689
Business-type activities:					
Unrestricted investment earnings	3,745,272	900,524	959,081	1,408,251	1,909,727
Miscellaneous	325,906	481,297	567,189	438,447	993,233
Gain on sale of capital assets	408,156	-	24,400	392,108	265,397
Transfers	68,770	(171,977)	199,750	(168,734)	(1,149,970)
Total business-type activities	4,548,104	1,209,844	1,750,420	2,070,072	2,018,387
Total primary government	\$ 172,649,888	\$ 164,349,970	\$ 176,775,606	\$ 190,087,087	\$ 213,521,076
Changes in net assets					
Governmental activities					
Business-type activities	\$ 14,709,263	\$ (8,941,448)	\$ 13,363,333	\$ 53,948,767	\$ 73,132,799
Total primary government	\$ 22,656,338	\$ (2,877,445)	\$ 15,499,762	\$ 56,293,737	\$ 69,696,844

Fund Balances, Governmental Funds (Exhibit S-3)

Last Five Fiscal Years
Modified Accrual Basis of Accounting

	<i>City of Tempe, Arizona</i>				
	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
General fund					
Reserved	\$ 2,201,123	\$ 2,949,516	\$ 1,963,029	\$ 3,275,943	\$ 2,376,818
Unreserved	75,249,138	63,670,728	72,823,641	78,064,176	94,648,961
Total general fund	\$ 77,450,261	\$ 66,620,244	\$ 74,786,670	\$ 81,340,119	\$ 97,025,779
All other governmental funds					
Reserved	\$ 32,891,864	\$ 42,004,605	\$ 36,882,416	\$ 76,440,839	\$ 71,648,277
Unreserved, reported in:					
Special revenues funds	59,551,110	67,312,797	64,835,343	55,470,121	66,938,765
Capital projects funds	39,530,059	29,984,703	36,375,643	21,153,248	53,752,477
Total all other governmental funds	\$ 131,973,033	\$ 139,302,105	\$ 138,093,402	\$ 153,064,208	\$ 192,339,519

Changes in Fund Balance, Governmental Funds (Exhibit S-4a)

Last Five Fiscal Years

Modified Accrual Basis of Accounting

City of Tempe, Arizona					
	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Revenues:					
Taxes	\$ 111,252,263	\$ 112,859,765	\$ 119,673,043	\$ 130,779,821	\$ 146,084,925
Intergovernmental	65,143,039	66,221,384	68,292,581	94,349,370	109,213,832
Investment earnings	11,223,592	2,898,366	2,336,129	4,537,422	8,038,565
Charges for services	6,550,017	7,660,472	14,027,946	14,896,580	18,304,846
Fines and forfeitures	4,980,777	6,058,944	7,230,067	7,742,929	8,261,486
Other entities' participation	817,041	394,803	-	78,433	2,382,056
Special assessments	2,845,691	2,835,480	2,781,314	2,706,951	2,705,348
Licenses and permits	1,105,145	1,263,163	1,131,517	1,250,205	1,389,130
Miscellaneous	3,676,606	2,806,330	3,669,815	4,748,157	3,973,800
Total revenues	<u>207,594,171</u>	<u>202,998,697</u>	<u>219,142,412</u>	<u>261,089,868</u>	<u>300,353,988</u>
Expenditures:					
Police	44,524,665	45,287,397	48,576,160	50,148,794	59,977,366
Fire	14,903,901	14,944,261	15,622,805	17,235,231	19,599,806
Community services	19,353,717	18,578,259	18,809,726	18,653,915	20,743,534
Public works	41,042,674	40,904,425	43,811,239	45,853,027	48,822,208
Community relations	2,126,245	2,904,697	2,414,527	2,380,562	2,470,215
Mayor and council	516,899	579,089	407,818	400,549	362,810
City manager	1,464,931	944,568	254,578	293,964	383,025
Diversity program	-	-	472,233	544,032	520,748
Internal audit/consulting	-	-	408,862	420,449	450,650
City clerk and elections	774,756	442,615	641,753	440,041	747,588
City attorney	2,437,072	2,121,212	2,079,092	2,206,857	2,345,165
Municipal courts	3,261,268	3,142,488	4,039,664	3,588,317	4,454,473
Development services	15,815,204	17,919,144	17,285,467	19,435,003	5,768,444
Community development	2,445,475	2,956,263	4,002,794	3,296,692	19,795,483
Financial services	4,747,540	5,151,110	3,743,137	3,867,513	3,978,571
Human resources	4,049,591	3,797,137	2,388,877	2,567,259	2,730,740
Information technology	600,852	990,568	633,533	537,006	-
Non-departmental	1,412,665	9,197,356	3,440,150	4,433,871	3,937,911
Debt service:					
Principal retirement	10,884,500	8,105,000	10,345,000	10,470,000	14,580,000
Interest and fiscal fees	6,460,321	7,296,250	8,470,153	9,472,601	12,016,680
Capital outlay	36,318,048	58,052,049	52,669,125	84,525,728	153,861,610
Total expenditures	<u>213,140,324</u>	<u>243,313,888</u>	<u>240,516,693</u>	<u>280,771,411</u>	<u>377,547,027</u>
Deficiency of revenues over expenditures before other financing sources (uses)	(5,546,153)	(40,315,191)	(21,374,281)	(19,681,543)	(77,193,039)

Changes in Fund Balance, Governmental Funds (Exhibit S-4b)

Last Five Fiscal Years
Modified Accrual Basis of Accounting

	City of Tempe, Arizona				
	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Other financing sources (uses):					
Transfers in	54,810,989	32,447,621	35,261,611	40,964,257	23,839,365
Transfers out	(54,879,759)	(32,275,644)	(35,461,361)	(40,795,523)	(22,689,395)
Issuance of debt	8,000,000	35,220,000	30,560,000	17,680,000	125,845,000
Premium on issuance of debt	-	-	1,861,088	-	1,847,396
Capital lease proceeds	686,109	990,569	633,533	537,006	220,940
Proceeds from sale of capital assets	-	-	8,492,867	2,004,326	3,090,704
Proceeds from loan	-	-	-	7,000,000	-
Proceeds of refunding bonds	5,970,000	40,931,700	24,945,000	-	-
Payment to refunded bond escrow agent	(5,948,430)	(40,500,000)	(24,145,002)	-	-
Total other financing sources (uses)	8,638,909	36,814,246	42,147,736	27,390,066	132,154,010
Net change in fund balances	\$ 3,092,756	\$ (3,500,945)	\$ 20,773,455	\$ 7,708,523	\$ 54,960,971

Debt service as a percentage of noncapital expenditures	6.2%	4.4%	5.5%	5.3%	6.5%
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Taxable Sales and Percentage of Taxable Sales by Category (Exhibit S-5)

Last Eight Fiscal Years

Cash Basis

Fiscal Year	Retail	Rental	Utilities and Telecommunications	Restaurant	Contracting	Hotel and Motel	Amusements	All Other		City Direct Sales Tax Rate
								Total	Rate	
1999	\$ 2,699,934,000	\$ 834,741,353	\$ 460,132,588	\$ 356,863,882	\$ 380,975,471	\$ 108,374,328	\$ 90,028,235	\$ 99,786,294	\$ 5,030,636,151	1.70 %
2000	2,813,130,176	907,692,235	483,626,118	391,671,353	384,483,412	115,596,765	90,680,059	101,860,706	5,288,740,824	1.70
2001	2,962,902,588	1,013,508,353	629,601,294	410,577,353	377,591,647	124,502,176	103,980,412	99,680,412	5,712,344,235	1.70
2002	2,742,441,556	941,832,389	499,078,556	382,886,889	333,773,611	103,032,222	81,622,056	85,321,167	5,169,988,446	1.80
2003	2,719,123,222	906,578,056	467,647,889	368,798,222	296,740,778	106,429,056	91,584,111	92,733,667	5,049,635,001	1.80
2004	2,859,897,505	899,687,556	497,207,351	377,852,500	340,484,056	107,090,645	85,961,444	98,812,889	5,266,993,946	1.80
2005	3,143,763,590	917,707,487	501,110,558	412,292,532	410,634,122	122,425,842	97,748,939	109,532,310	5,715,215,380	1.80
2006	3,602,528,301	997,198,126	545,661,301	465,230,507	523,679,355	136,971,401	95,180,579	109,300,426	6,475,749,996	1.80

City of Tempe, Arizona

Percentage of Taxable Sales

Fiscal Year	Retail	Rental	Utilities and Telecommunications	Restaurant	Contracting	Hotel and Motel	Amusements	All Other		Total
								Rate	%	
1999	53.67 %	16.59 %	9.15 %	7.09 %	7.57 %	2.15 %	1.79 %	1.98 %	100 %	
2000	53.19	17.16	9.14	7.41	7.27	2.19	1.71	1.93	100	
2001	51.69	17.74	11.02	7.19	6.61	2.18	1.82	1.75	100	
2002	53.05	18.22	9.65	7.41	6.46	1.99	1.58	1.65	100	
2003	53.85	17.95	9.26	7.30	5.88	2.11	1.81	1.84	100	
2004	54.30	17.08	9.44	7.17	6.46	2.03	1.63	1.88	100	
2005	55.01	16.06	8.77	7.21	7.18	2.14	1.71	1.92	100	
2006	55.63	15.40	8.43	7.18	8.09	2.12	1.47	1.69	100	

Source: City of Tempe, Arizona Tax and License Division

Note: In fiscal year 2001-02, City of Tempe, Arizona voters approved a 0.1% increase in the City sales tax

Direct and Overlapping Sales Tax Rates (Exhibit S-6)

Last Eight Fiscal Years		<i>City of Tempe, Arizona</i>				
Fiscal Year	City Direct Sales Tax Rate	Maricopa County Sales Tax Rate	State Sales Tax Rate	Total Sales Tax Rate	Total Sales Tax Rate	
1999	1.70%	0.50%	6.30%	8.50%	8.50%	
2000	1.70	0.50	6.30	8.50	8.50	
2001	1.70	0.50	6.30	8.50	8.50	
2002	1.80	0.50	6.30	8.60	8.60	
2003	1.80	0.50	6.30	8.60	8.60	
2004	1.80	0.50	6.30	8.60	8.60	
2005	1.80	0.50	6.30	8.60	8.60	
2006	1.80	0.50	6.30	8.60	8.60	

Source: City of Tempe, Arizona Tax and License Division

Note: In fiscal year 2001-02, City of Tempe, Arizona voters approved a 0.1% increase in the City



General Property Tax Information (Exhibit S-7)

City of Tempe, Arizona

Tax Levy Limitations

Beginning in 1980-81, the total tax levy is comprised of two elements: a primary levy for operating costs and a secondary levy for general obligation bond debt service requirements. The primary levy was limited to a 7% increase for 1980-81 and a 2% annual increase thereafter. In addition, the primary levy on residential property only is limited to an amount not more than 1% of market value. The secondary levy is unlimited.

Assessments and Collections

Since 1950-51, Maricopa County, at no charge to the cities, has assessed and collected all municipal property taxes. Remittances are made to the respective cities periodically as collections accrue.

Taxes Due

First installment, October 1st; second installment, March 1st.

Taxes Payable

City property taxes are payable at the office of the County Treasurer. Taxes for the first half of the year can be paid on the first of September through the first of November. Second half taxes can be paid on the first of March through the first of May.

Taxes Delinquent

The first half becomes delinquent on the first day of November at 5 p.m. The second half becomes delinquent on the first day of May at 5 p.m. Interest at the rate of 16% per annum attaches on the first and second installments following the delinquent dates.

Tax Sale

The sale of delinquent tax bills is begun on a date not earlier than February 1 nor later than March 1 following the May 1 date upon which the second half taxes become delinquent. The sale is made at public auction in the office of the County Treasurer. Tax bills are sold to the highest bidder who offers to pay the accumulated amount of tax and to charge thereon the lowest rate of interest. The maximum amount of interest allowed by law is 12% per annum. The purchaser is given a Certificate of Purchase for each parcel.

Tax Deed

Five years subsequent to the tax sale, the holder of a Certificate of Purchase which has not been redeemed by the delinquent property owner may demand a County Treasurer's Deed. However, at the end of three full years, a holder of a Certificate of Purchase may institute quiet title action and the court will instruct the County Treasurer to issue a County Treasurer's Deed if the suit is successful.

Redemption

Redemption may be made by the delinquent property owner or any interested party by payment in full of all accumulated charges at any time before issuance of the tax deed. Payment may be made to the County Treasurer.

Primary and Secondary Assessed Value and Estimated Actual Value of Taxable Property (Exhibit S-8)

Last Five Fiscal Years

Rate per \$100 of Assessed Value

Fiscal Year Ended June 30,	Commercial, Manufacturing, Telecommunications Property	Vacant, Agricultural & Governmental Property	Owner Occupied Residential Property	Rental Residential Property	Railroad & Airlines Property
2002					
Primary	\$ 834,642,415	\$ 31,186,396	\$ 374,437,089	\$ 123,377,474	\$ 1,710,226
Secondary	887,301,591	38,657,266	388,110,036	135,780,153	1,811,596
2003					
Primary	915,869,448	30,810,942	384,928,341	130,945,963	1,639,351
Secondary	981,176,470	38,767,071	388,897,351	136,567,526	1,737,214
2004					
Primary	935,290,666	28,432,421	461,432,599	139,596,174	1,695,416
Secondary	1,016,813,162	40,528,635	466,917,457	153,014,453	1,829,752
2005					
Primary	1,013,975,894	28,432,421	461,432,599	146,840,125	2,973,252
Secondary	1,094,932,248	37,741,236	472,792,985	152,253,913	3,347,552
2006					
Primary	1,245,827,301	238,624,198	499,989,878	163,440,750	2,770,242
Secondary	1,303,026,577	282,897,988	528,444,640	175,658,220	3,046,217

Source: Maricopa County Assessor's Office

Note: Beginning in 1980-81, the total tax levy is comprised of two elements: a primary levy for operating costs and a secondary levy for general obligation bond debt service requirements. The primary levy was limited to a 7% increase for 1980-81 and a 2% annual increase thereafter. In addition, the primary levy on residential property only is limited to an amount not more than 1% of market value. The secondary levy is unlimited.

(A) Assessed values are shown net of tax-exempt property for fiscal year 2002 through 2005.

City of Tempe, Arizona

Non-commercial Historic Property	Less: Tax-Exempt Property (A)	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
\$ 4,667,240	\$ N/A	\$ 1,370,020,840	\$ 0.53	\$ 9,756,507,857	14.04 %
4,700,975	N/A	1,456,361,617	0.82	9,197,839,943	15.83
9,336,275	N/A	1,473,530,320	0.52	10,505,677,932	14.03
9,346,662	N/A	1,556,492,294	0.83	9,669,307,443	16.10
9,128,538	N/A	1,575,575,814	0.55	11,424,612,316	13.79
9,348,956	N/A	1,688,452,415	0.80	10,779,997,040	15.66
7,538,097	N/A	1,661,192,388	0.53	12,379,112,416	13.42
7,809,451	N/A	1,768,877,385	0.82	11,034,323,885	16.03
1,229,232	350,861,051	1,801,020,550	0.52	13,289,932,548	13.55
1,426,854	390,074,308	1,904,426,188	0.88	14,207,441,131	13.40

Property Tax Rates - All Direct and Overlapping Governments (Exhibit S-9)

Last Ten Fiscal Years

Rate per \$100 of Assessed Value

Fiscal Year		City of Tempe	Schools			Maricopa County	Community College
			Tempe Union	Tempe Elementary (A)	East Valley Institute of Technology		
1996-97	Primary	\$ 0.57	\$ 2.35	\$ 3.53	\$ -	\$ 1.64	\$ 0.98
	Secondary	0.83	0.96	1.12	0.11	0.16	0.07
	Total	1.40	3.31	4.65	0.11	1.80	1.05
1997-98	Primary	0.56	2.23	3.00	-	1.66	0.98
	Secondary	0.84	1.00	1.10	0.07	0.14	0.16
	Total	1.40	3.23	4.10	0.07	1.80	1.14
1998-99	Primary	0.54	2.30	3.18	-	1.68	0.99
	Secondary	0.86	1.27	1.17	0.07	0.13	0.13
	Total	1.40	3.57	4.35	0.07	1.81	1.12
1999-00	Primary	0.55	2.45	3.37	-	1.19	0.97
	Secondary	0.85	1.45	1.00	0.07	0.11	0.15
	Total	1.40	3.90	4.37	0.07	1.30	1.12
2000-01	Primary	0.55	2.05	3.40	-	1.17	0.97
	Secondary	0.80	1.26	1.01	0.07	0.12	0.15
	Total	1.35	3.31	4.41	0.07	1.29	1.12
2001-02	Primary	0.53	2.08	3.41	-	1.18	0.96
	Secondary	0.82	1.11	1.00	0.06	0.09	0.15
	Total	1.35	3.19	4.41	0.06	1.27	1.11
2002-03	Primary	0.52	2.19	3.32	-	1.21	0.96
	Secondary	0.83	1.13	0.95	0.06	0.08	0.15
	Total	1.35	3.32	4.27	0.06	1.29	1.11
2003-04	Primary	0.55	2.24	3.10	-	1.21	0.94
	Secondary	0.80	1.05	1.10	0.05	0.07	0.14
	Total	1.35	3.29	4.20	0.05	1.28	1.08
2004-05	Primary	0.53	2.05	2.90	-	1.21	0.92
	Secondary	0.82	0.99	1.09	0.05	-	0.12
	Total	1.35	3.04	3.99	0.05	1.21	1.04
2005-06	Primary	0.52	1.73	2.90	-	1.20	0.89
	Secondary	0.88	0.92	1.08	0.06	-	0.14
	Total	1.40	2.65	3.98	0.06	1.20	1.03

Source: Maricopa County Assessor's Office
Maricopa County Tax Levies & Rates Publication

(A) Tempe property owners residing within the Kyrene Elementary School District No. 28, Scottsdale Unified School District No. 48 or Mesa Unified School District No. 4 have combined rates of \$11.02, \$9.32 or \$11.02, respectively. Also, see the Net Direct and Overlapping General Obligation Bonded Debt Schedule (Exhibit S-15).

County-Wide Jurisdiction						
County Ed Equalization Rate	Flood District	Central Arizona Project	Fire District Assistance	County Free Library District	Special Health Care District	Total
\$ N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.07
N/A	0.34	0.14	0.01	0.04	-	3.78
N/A	0.34	0.14	0.01	0.04	-	12.85
N/A	-	-	-	-	-	8.43
N/A	0.34	0.14	0.01	0.04	-	3.84
N/A	0.34	0.14	0.01	0.04	-	12.27
N/A	-	-	-	-	-	8.69
N/A	0.33	0.14	0.01	0.04	-	4.15
N/A	0.33	0.14	0.01	0.04	-	12.84
0.52	-	-	-	-	-	9.05
-	0.29	0.14	0.01	0.04	-	4.11
0.52	0.29	0.14	0.01	0.04	-	13.16
0.51	-	-	-	-	-	8.65
-	0.25	0.13	0.01	0.04	-	3.84
0.51	0.25	0.13	0.01	0.04	-	12.49
0.50	-	-	-	-	-	8.66
-	0.23	0.13	0.01	0.04	-	3.64
0.50	0.23	0.13	0.01	0.04	-	12.30
0.49	-	-	-	-	-	8.69
-	0.21	0.13	0.01	0.04	-	3.59
0.49	0.21	0.13	0.01	0.04	-	12.28
0.47	-	-	-	-	-	8.51
-	0.21	0.12	0.01	0.05	-	3.60
0.47	0.21	0.12	0.01	0.05	-	12.11
0.46	-	-	-	-	-	8.07
-	0.21	0.12	0.01	0.05	-	3.46
0.46	0.21	0.12	0.01	0.05	-	11.53
0.44	-	-	-	-	-	7.68
-	0.21	0.12	0.01	0.05	0.12	3.59
0.44	0.21	0.12	0.01	0.05	0.12	11.27

Property Tax Levies - All Direct and Overlapping Governments (Exhibit S-10)

Last Ten Fiscal Years

Fiscal Year		City of Tempe	Schools			Maricopa County (C)	Community College
			Tempe Union	Tempe Elementary (A)	East Valley Institute of Technology		
1996-97	Primary	\$ 5,058,289	\$ 35,822,152	\$ 26,455,974	-	\$ 228,558,077	\$ 136,570,230
	Secondary	7,548,414	15,067,689	8,781,347	6,120,184	22,590,472	10,099,590
	Total	<u>12,606,703</u>	<u>50,889,841</u>	<u>35,237,321</u>	<u>6,120,184</u>	<u>251,148,549</u>	<u>146,669,820</u>
1997-98	Primary	5,303,027	37,304,352	23,951,371	-	248,578,872	146,259,046
	Secondary	8,388,168	17,447,673	8,842,996	4,274,560	21,446,852	25,143,528
	Total	<u>13,691,195</u>	<u>54,752,025</u>	<u>32,794,367</u>	<u>4,274,560</u>	<u>270,025,724</u>	<u>171,402,574</u>
1998-99	Primary	5,612,357	42,137,221	27,500,363	-	268,641,579	158,026,342
	Secondary	9,490,562	24,250,898	10,736,890	5,130,129	22,058,679	21,173,925
	Total	<u>15,102,919</u>	<u>66,388,119</u>	<u>38,237,253</u>	<u>5,130,129</u>	<u>290,700,258</u>	<u>179,200,267</u>
1999-00	Primary	6,270,439	49,048,837	31,471,163	-	207,540,697	170,115,611
	Secondary	10,557,655	31,196,746	10,270,170	5,922,133	20,264,361	28,833,135
	Total	<u>16,828,094</u>	<u>80,245,583</u>	<u>41,741,333</u>	<u>5,922,133</u>	<u>227,805,058</u>	<u>198,948,746</u>
2000-01	Primary	6,956,983	45,938,017	35,072,934	-	225,396,514	187,642,684
	Secondary	10,812,099	30,369,063	11,339,936	6,155,098	24,051,128	31,377,241
	Total	<u>17,769,082</u>	<u>76,307,080</u>	<u>46,412,870</u>	<u>6,155,098</u>	<u>249,447,642</u>	<u>219,019,925</u>
2001-02	Primary	7,288,511	50,998,246	38,038,775	-	252,676,223	204,648,094
	Secondary	11,913,038	28,778,881	11,823,692	6,258,774	20,071,906	34,930,475
	Total	<u>19,201,549</u>	<u>79,777,127</u>	<u>49,862,467</u>	<u>6,258,774</u>	<u>272,748,129</u>	<u>239,578,569</u>
2002-03	Primary	7,682,987	56,994,879	40,319,642	-	277,949,612	221,156,802
	Secondary	12,897,095	31,162,656	12,272,916	6,175,823	19,565,638	36,526,312
	Total	<u>20,580,082</u>	<u>88,157,535</u>	<u>52,592,558</u>	<u>6,175,823</u>	<u>297,515,250</u>	<u>257,683,114</u>
2003-04	Primary	8,621,551	63,921,636	40,269,326	-	308,122,580	239,464,278
	Secondary	13,554,896	32,236,303	15,349,563	6,429,195	19,234,591	37,777,314
	Total	<u>22,176,447</u>	<u>96,157,939</u>	<u>55,618,889</u>	<u>6,429,195</u>	<u>327,357,171</u>	<u>277,241,592</u>
2004-05	Primary	8,792,691	62,191,787	39,486,342	-	339,882,099	258,560,787
	Secondary	14,517,177	32,057,837	15,894,306	6,507,464	-	34,904,190
	Total	<u>23,309,868</u>	<u>94,249,624</u>	<u>55,380,648</u>	<u>6,507,464</u>	<u>339,882,099</u>	<u>293,464,977</u>
2005-06	Primary	9,413,934	56,658,831	43,132,854	-	371,224,118	277,107,904
	Secondary	16,707,531	31,948,408	17,095,540	8,400,949	-	45,791,129
	Total	<u>26,121,465</u>	<u>88,607,239</u>	<u>60,228,394</u>	<u>8,400,949</u>	<u>371,224,118</u>	<u>322,899,033</u>

Source: Maricopa County Assessor's Office
Maricopa County Tax Levies & Rates Publication

- (A) For levies for Tempe property owners residing within Kyrene, Scottsdale or Mesa School Districts, see the Net Direct and Overlapping General Obligation Bonded Debt Schedule (Exhibit S-15).
- (B) District which had its first secondary tax levy set in FY 2005-06.
- (C) For FY 1996-97 through 1998-99 the County Ed Equalization rate was included in the Maricopa County rate.

County-Wide Jurisdictions						
Flood District	County Ed Equalization Rate	Central Arizona Project	Fire District Assistance	County Free Library District	Special Health Care District (B)	Total
-	N/A	-	-	-	-	432,464,722
38,118,477	N/A	20,080,420	1,567,061	6,038,469	-	136,012,123
38,118,477	-	20,080,420	1,567,061	6,038,469	-	568,476,845
-	N/A	-	-	-	-	461,396,668
42,339,342	N/A	22,012,897	1,645,591	6,619,593	-	158,161,200
42,339,342	-	22,012,897	1,645,591	6,619,593	-	619,557,868
-	N/A	-	-	-	-	501,917,862
44,670,223	N/A	23,536,796	1,737,365	7,078,280	-	169,863,747
44,670,223	-	23,536,796	1,737,365	7,078,280	-	671,781,609
-	91,109,039	-	-	-	-	555,555,786
44,310,754	-	26,147,563	1,873,777	7,862,946	-	187,239,240
44,310,754	91,109,039	26,147,563	1,873,777	7,862,946	-	742,795,026
-	99,193,054	-	-	-	-	600,200,186
44,309,245	-	27,141,030	1,997,318	8,789,518	-	196,341,676
44,309,245	99,193,054	27,141,030	1,997,318	8,789,518	-	796,541,862
-	106,221,394	-	-	-	-	659,871,243
45,322,696	-	29,787,075	2,086,084	9,646,430	-	200,619,051
45,322,696	106,221,394	29,787,075	2,086,084	9,646,430	-	860,490,294
-	112,231,223	-	-	-	-	716,335,145
44,868,063	-	31,805,013	1,859,466	10,296,417	-	207,429,399
44,868,063	112,231,223	31,805,013	1,859,466	10,296,417	-	923,764,544
-	120,037,513	-	-	-	-	780,436,884
51,153,993	-	33,010,980	1,931,237	14,316,032	-	224,994,104
51,153,993	120,037,513	33,010,980	1,931,237	14,316,032	-	1,005,430,988
-	128,003,169	-	-	-	-	836,916,875
56,334,141	-	36,112,556	2,084,229	15,664,900	-	214,076,800
56,334,141	128,003,169	36,112,556	2,084,229	15,664,900	-	1,050,993,675
-	135,142,821	-	-	-	-	892,680,462
62,733,411	-	39,800,085	2,276,200	17,295,751	40,000,000	282,049,004
62,733,411	135,142,821	39,800,085	2,276,200	17,295,751	40,000,000	1,174,729,466

Property Tax Levies and Collections (Exhibit S-11)

Last Ten Fiscal Years		<i>City of Tempe, Arizona</i>									
Fiscal Year	Total Tax Levy For Fiscal Year	Collected within the Fiscal Year of the Levy				Collections in Subsequent Years			Total Collections to Date		
		Amount	Levy	% of	Levy	Amount	Levy	%	Amount	Levy	%
1996-97	\$ 12,606,703	\$ 11,207,792	88.9	%	\$ 183,505	11,391,297	90.4	%	\$ 11,391,297	90.4	%
1997-98	13,691,195	12,116,241	88.5		215,520	12,331,761	90.1		12,331,761	90.1	
1998-99	15,102,919	13,357,098	88.4		200,217	13,557,315	89.8		13,557,315	89.8	
1999-00	16,828,094	14,946,148	88.8		258,237	15,204,385	90.4		15,204,385	90.4	
2000-01	17,769,082	15,795,257	88.9		303,270	16,098,527	90.6		16,098,527	90.6	
2001-02	19,201,549	18,543,839	96.6		324,074	18,867,913	98.3		18,867,913	98.3	
2002-03	20,580,082	19,789,415	96.2		257,861	20,047,276	97.4		20,047,276	97.4	
2003-04	22,176,447	21,283,933	96.0		286,468	21,570,401	97.3		21,570,401	97.3	
2004-05	23,309,868	22,921,016	98.3		600,037	23,521,053	100.9		23,521,053	100.9	
2005-06	26,121,465	25,519,585	97.7		-	25,519,585	97.7		25,519,585	97.7	

Source: Maricopa County Treasurer
Maricopa County Assessor

Principal Property Tax Payers (Exhibit S-12)

Current Year and Nine Years Prior

City of Tempe, Arizona

Taxpayer	2006			1997		
	Taxable Secondary Assessed Value	Rank	Percentage of Total City Secondary Taxable Assessed Value	Taxable Secondary Assessed Value	Rank	Percentage of Total City Secondary Taxable Assessed Value
Qwest Communications	\$ 34,729,301	1	1.82 %	\$ 27,708,582	2	3.04 %
Arizona Mills LLC	28,633,657	2	1.49	-	-	-
Arizona Public Service Company	25,732,555	3	1.34	21,102,032	3	2.31
Amberjack (Commercial Property)	16,915,263	4	0.88	6,286,193	5	0.69
AT&T	15,699,538	5	0.82	-	-	-
Allied Signal	15,190,110	6	0.79	5,714,518	7	0.63
Papago Buttes Corporate, LLC	15,001,280	7	0.78	-	-	-
Freescale Semiconductor Inc	13,665,566	8	0.71	-	-	-
State Farm Mutual Auto Insurance	12,867,285	9	0.67	-	-	-
Wells Fargo Bank	12,030,340	10	0.63	6,891,892	4	0.75
Motorola, Incorporated	-	-	-	28,628,831	1	3.14
Southwest Gas Corp.	-	-	-	5,777,345	6	0.63
Phoenix Coca-Cola	-	-	-	5,618,365	8	0.62
Evans Withycombe	-	-	-	4,107,033	9	0.45
Micro-Rel Inc.	-	-	-	4,009,276	10	0.44
Total	\$ 190,464,895		9.93 %	\$ 115,844,067		12.70 %

Source 2006: Dain Rauscher
Source 1997: Maricopa County Assessor's Office

Ratios of Outstanding Debt by Type (Exhibit S-13)

Last Ten Fiscal Years

City of Tempe, Arizona

Fiscal Year	Governmental Activities										Total Government Type Debt
	General Obligation Bonds	Special Assessment Bonds	Refunding Certificates of Participation	Municipal Property Corporation Bonds	Excise Tax Revenue Bonds	HUD Section 108 Loan	Capital Improvement Notes	Capital Leases			
1996-97	\$ 64,946,129	(A) \$ 12,830,000	\$ 5,055,000	\$ 3,515,919	\$ -	\$ -	\$ 5,296,944	\$ 2,611,663	\$	94,255,655	
1997-98	58,247,603	(A) 20,190,000	4,775,000	2,389,996	47,100,000	-	8,920,249	3,698,582		145,321,430	
1998-99	70,535,000	24,955,000	5,110,000	1,220,325	56,200,000	-	8,676,551	3,503,015		170,199,891	
1999-00	66,405,000	23,550,000	4,710,000	-	63,110,000	-	7,664,576	2,453,690		167,893,266	
2000-01	72,105,000	21,925,000	4,270,000	-	52,835,000	-	5,309,952	8,602,330		165,047,282	
2001-02	75,535,000	20,250,000	3,810,000	-	47,380,000	-	3,980,206	7,861,086		158,816,292	
2002-03	90,395,000	18,520,000	3,335,000	-	60,650,000	-	3,654,755	7,436,279		183,991,034	
2003-04	91,640,000	16,725,000	2,840,000	-	81,910,000	-	3,258,112	7,186,712		203,559,824	
2004-05	99,880,000	19,345,000	2,320,000	-	78,780,000	7,000,000	2,845,604	7,209,396		217,380,000	
2005-06	117,610,000	17,490,000	1,780,000	-	174,710,000	7,000,000	2,416,596	6,732,171		327,738,767	

Fiscal Year	Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	Municipal Property Corporation Bonds	Excise Tax Revenue Bonds	Capital Improvement Notes	Business Type Debt			
1996-97	\$ 5,224,081	\$ -	\$ 670,764	\$ 69,489,845	\$ 163,745,500	5.39 %	\$ 1,051.50
1997-98	3,820,004	-	575,205	61,890,209	207,211,639	6.56	1,322.46
1998-99	2,359,675	-	473,673	70,828,348	241,028,239	7.33	1,528.85
1999-00	835,000	-	365,796	63,800,796	231,694,062	6.78	1,460.64
2000-01	735,000	-	251,176	71,846,176	236,893,458	6.65	1,477.00
2001-02	630,000	-	129,393	79,354,393	238,170,685	6.65	1,493.84
2002-03	520,000	-	-	98,100,000	282,091,034	7.78	1,769.43
2003-04	400,000	-	-	104,135,000	307,694,824	8.38	1,927.73
2004-05	275,000	-	-	137,665,000	355,045,000	9.48	2,207.72
2005-06	140,000	2,330,004	-	183,405,004	511,143,771	13.09	3,082.97

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

(A) Includes accreted interest and premium on Capital Appreciation bonds.

Percent of Net Direct Debt to Assessed Valuation and Net Direct Debt per Capita (Exhibit S-14)

Last Ten Fiscal Years		City of Tempe, Arizona						
Fiscal Year	General Obligation Debt	Less: Debt Service Reserves	Net Direct Debt	Secondary Assessed Valuation (A)	Percent of Net Direct Debt To Assessed Valuation	Population (B)	Net Direct Debt Per Capita	
1996-97	\$ 64,946,129	(C) \$ 6,845,960	\$ 58,100,169	\$ 912,856,941	6.4 %	155,725	\$ 373.09	
1997-98	58,247,603	(C) 7,620,884	50,626,719	993,270,348	5.1	156,686	323.11	
1998-99	70,535,000	8,019,429	62,515,571	1,098,826,160	5.7	157,653	396.54	
1999-00	66,405,000	7,302,028	59,102,972	1,240,471,800	4.8	158,625	372.60	
2000-01	72,105,000	9,135,690	62,969,310	1,356,429,397	4.6	160,388	392.61	
2001-02	75,535,000	12,123,427	63,411,573	1,456,361,617	4.4	159,435	397.73	
2002-03	90,395,000	13,471,704	76,923,296	1,556,492,294	4.9	159,425	482.50	
2003-04	91,640,000	13,335,706	78,304,294	1,688,452,415	4.6	159,615	490.58	
2004-05	99,880,000	15,991,147	83,888,853	1,768,877,385	4.7	160,820	521.63	
2005-06	117,610,000	18,547,848	99,062,152	1,904,426,188	5.2	165,796	597.49	

Source: (A) Assessed valuation from Maricopa County Assessor's Office
 (B) Population estimates from Maricopa Association of Governments
 (C) Includes accreted interest and premium on Capital Appreciation Bonds.

Net Direct and Overlapping General Obligation Bonded Debt (Exhibit S-15)

City of Tempe, Arizona		2005-06 Secondary Assessed Valuation	2005-06 Secondary Tax Rate Per \$100 Assessed
Jurisdiction	Net Bonded Debt	Portion Applicable To City of Tempe	
		Percent	Amount
Net Direct			
City of Tempe - General (net)	\$ 99,062,152 (A)	100.00 %	\$ 99,062,152
Overlapping			
State of Arizona	48,931,946,145	None	None
Maricopa County	33,197,218,398	None	None
Maricopa County Community College	33,197,218,398	399,805,000	22,948,807
Tempe Union High School District No. 213	3,460,065,879	153,360,000	84,409,344
Tempe Elementary School District No. 3	1,582,937,530	74,700,000	62,090,640
Kyrene Elementary School District No. 28	1,877,128,349	64,025,000	19,546,833
Scottsdale Unified School District No. 48	4,064,455,278	320,655,000	929,900
Mesa Unified School District No. 4	2,910,271,281	230,900,000	1,662,480
East Valley Institute of Technology	14,643,422,589	None	None
Total overlapping debt	<u>1,243,445,000</u>	13.01	<u>191,588,004</u>
Total net direct and overlapping debt	\$ 1,342,507,152		\$ 290,650,156 (B)

Source: Dain Rauscher and Maricopa County Assessor

- (A) Total outstanding general obligation less debt service fund reserve.
- (B) Excludes the outstanding principal amount of Maricopa County Hospital District No. 1 general obligation bonds, as this obligation has historically and is presently being paid from revenues generated from the operations of the District.

Legal Debt Margin Information (Exhibit S-16)

Last Ten Fiscal Years

City of Tempe, Arizona

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Assessed Valuation	\$ 912,856,941	\$ 993,270,348	\$ 1,098,826,160	\$ 1,240,471,800	\$ 1,356,429,397	\$ 1,456,361,617	\$ 1,556,492,294	\$ 1,688,452,415	\$ 1,768,877,385	\$ 1,904,426,188
20% Limitation										
Debt limit equal to 20% of assessed valuation	\$ 182,571,388	\$ 198,654,070	\$ 219,765,232	\$ 248,094,360	\$ 271,285,879	\$ 291,272,323	\$ 311,298,459	\$ 337,690,483	\$ 353,775,477	\$ 380,885,238
Total net debt applicable to 20% limit	92,830,000	81,890,000	112,415,000	87,285,000	97,360,000	113,225,000	129,580,000	142,185,000	174,265,000	219,465,000
Legal 20% debt margin (available borrowing capacity)	\$ 89,741,388	\$ 116,764,070	\$ 107,350,232	\$ 160,799,360	\$ 173,925,879	\$ 178,047,323	\$ 181,718,459	\$ 195,505,483	\$ 179,510,477	\$ 161,420,238
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	50.85%	41.22%	51.15%	35.19%	35.89%	38.87%	41.63%	42.11%	49.26%	57.62%
6% Limitation										
Debt limit equal to 6% of assessed valuation	\$ 54,771,416	\$ 59,596,221	\$ 65,929,570	\$ 74,428,308	\$ 81,385,764	\$ 87,381,697	\$ 93,389,538	\$ 101,307,145	\$ 106,132,643	\$ 114,265,571
Total net debt applicable to 6% limit	51,010,000	45,600,000	40,470,000	51,235,000	55,645,000	52,315,000	69,370,000	65,690,000	73,535,000	82,300,000
Legal 6% debt margin (available borrowing capacity)	\$ 3,761,416	\$ 13,996,221	\$ 25,459,570	\$ 23,193,308	\$ 25,740,764	\$ 35,066,697	\$ 24,019,538	\$ 35,617,145	\$ 32,597,643	\$ 21,965,571
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	93.13%	76.51%	61.38%	68.84%	66.37%	59.87%	74.28%	64.84%	69.29%	80.78%

Source: Maricopa County Assessor's Office
City of Tempe, Arizona Accounting Division

Remaining General Obligation Bond Authorizations (Exhibit S-17)

City of Tempe, Arizona

<u>1990 Program</u>	<u>Authorization</u>	<u>Prior Issues</u>	<u>Current Year Issue</u>	<u>Remaining Authorization</u>
Water / Wastewater	\$ 30,000,000	\$ 30,000,000	\$ -	\$ -
Storm Drains	4,500,000	4,185,000	315,000	-
Streets / Transportation	20,000,000	20,000,000	-	-
Police Protection	6,000,000	6,000,000	-	-
Fire Protection	4,000,000	4,000,000	-	-
Library / Museum	1,000,000	1,000,000	-	-
Park Improvements	9,000,000	9,000,000	-	-
Subtotal	<u>74,500,000</u>	<u>74,185,000</u>	<u>315,000</u>	<u>-</u>
<u>2002 Program</u>				
Water / Wastewater	77,000,000	77,000,000	-	-
Streets / Transportation	31,500,000	12,475,000	1,645,000	17,380,000
Police Protection	31,500,000	3,465,000	20,825,000	7,210,000
Fire Protection	6,000,000	2,670,000	-	3,330,000
Park Improvements	12,000,000	10,460,000	1,110,000	430,000
Subtotal	<u>158,000,000</u>	<u>106,070,000</u>	<u>23,580,000</u>	<u>28,350,000</u>
<u>2006 Program</u>				
Water / Wastewater	172,000,000	-	50,600,000	121,400,000
Streets / Transportation	8,000,000	-	-	8,000,000
Police Protection	14,000,000	-	-	14,000,000
Fire Protection	2,500,000	-	-	2,500,000
Park Improvements	14,000,000	-	-	14,000,000
Subtotal	<u>210,500,000</u>	<u>-</u>	<u>50,600,000</u>	<u>159,900,000</u>
	<u>\$ 443,000,000</u>	<u>\$ 180,255,000</u>	<u>\$ 74,495,000</u>	<u>\$ 188,250,000</u>

Source: City of Tempe, Arizona Financial Services Department

Pledged-Revenue Coverage (Exhibit S-18)

Last Seven Fiscal Years

City of Tempe, Arizona

Fiscal Year	Special Assessment Bonds			Excise Tax Revenue Obligations			Performing Arts Excise Tax Obligations		
	Special Assessment Collections	Debt Service	Coverage	Excise Tax Revenue Collections (A)	Debt Service	Coverage	.1% Privilege & Use Tax Collections (B)	Debt Service	Coverage
2000	\$ 2,604,043	\$ 2,827,774	0.92	\$ 103,598,887	\$ 798,460	129.75	\$ -	-	-
2001	2,899,583	2,955,829	0.98	108,721,712	6,839,442	15.90	2,607,541	-	-
2002	2,849,998	2,908,056	0.98	98,220,588	6,836,323	14.37	5,006,344	-	-
2003	2,839,171	2,861,902	0.99	99,441,547	2,135,474	46.57	5,010,393	891,432	5.62
2004	2,781,576	2,821,905	0.99	101,591,009	4,497,682	22.59	5,279,580	710,448	7.43
2005	2,709,851	2,704,827	1.00	110,964,176	4,495,011	24.69	5,768,058	3,524,316	1.64
2006	2,705,348	2,866,617	0.94	126,916,690	5,737,352	22.12	6,480,218	6,017,247	1.08

Source: City of Tempe, Arizona Accounting Division

Note: The City issued \$60 million in Variable Rate Excise Tax Revenue Obligations for the construction of the light rail system. These bonds are pledged by the 0.5% excise tax approved by voters on September 10, 1996. As these bonds were not issued until June 2006, no principal or interest has been paid as of June 30, 2006.

(A) Excise tax revenue collections include privilege and use tax, state shared privilege and use tax, state shared income tax, franchise tax, permits and fees, and fines and forfeitures. Note that the privilege and use tax exclude the 0.5% excise tax approved by voters on September 10, 1996 as a dedicated "transit tax", the 0.1% Performing Arts Center Tax approved by voters in September 2000, and the 1.0% increase in the transient lodging tax on hotels approved by the voters in September 2002, which are restricted to fund programs of the Tempe Convention and Visitor's Bureau.

(B) The 0.1% privilege and use tax is a Performing Arts Center Tax approved by voters in September 2000.

Pledged Revenue, Projected Debt Service and Estimated Coverage (Exhibit S-19)

Excise Tax Obligations (Excluding Variable Rate Demand Bonds)

City of Tempe, Arizona

Fiscal Year	Senior Excise Tax Obligations			Subordinate Excise Tax Obligations		
	2006 Pledged Excise Tax Revenues (A)	Outstanding Senior Excise Tax Obligations Debt Service Requirements (B)	Outstanding Senior Excise Tax Obligations Coverage (C)	Revenue Available for Debt Service (D)	Outstanding Subordinate Excise Tax Obligations Debt Service Requirements (E)	Coverage (F)
2005-06	\$ 126,916,690	\$ 5,737,351	22.12	\$ 127,659,557	\$ 6,017,247	21.22
2006-07		4,491,123	28.26		6,021,476	21.20
2007-08		4,352,973	29.16		6,009,926	21.24
2008-09		4,350,258	29.17		6,012,726	21.23
2009-10		3,693,183	34.37		6,005,626	21.26
2010-11		3,696,443	34.33		6,016,226	21.22
2011-12		3,694,243	34.36		6,017,788	21.21
2012-13		3,694,343	34.35		6,015,338	21.22
2013-14		3,695,208	34.35		6,013,238	21.23
2014-15		3,697,013	34.33		6,011,013	21.24
2015-16		3,694,253	34.36		6,012,438	21.23
2016-17		3,690,213	34.39		3,522,050	36.25
2017-18		3,693,219	34.36		3,521,375	36.25
2018-19		3,698,500	34.32		3,522,825	36.24
2019-20		3,695,531	34.34		3,525,875	36.21
2020-21		3,085,688	41.13			
2021-22		5,324,188	23.84			
2022-23		5,326,688	23.83			
2023-24		2,243,500	56.57			
2024-25		2,241,750	56.62			

Source:

- (A) Excise Tax Revenues received by the City in Fiscal Year 2005-06. See Excise Tax Collection Schedule (Exhibit S-21).
- (B) Includes the annual debt service requirements of the City of Tempe Municipal Property Corporation's Series 1992 Bonds, currently outstanding in the principal amount of \$140,000; the City of Tempe, Arizona, Excise Tax Refunding Obligations, Series 2003, currently outstanding in the principal amount of \$35,175,000; the City's Refunding Certificates of Participation, Series 1999, currently outstanding in the principal amount of \$1,780,000, the City of Tempe, Arizona Excise Tax Revenue Obligation, Series 2000A, currently outstanding in the principal amount of \$5,835,000, and the City of Tempe, Arizona Excise Tax Revenue Obligation, Series 2005, currently outstanding in the principal amount of \$20,910,000.
- (C) The estimated coverage figures shown reflect the ratio of actual fiscal year 2005-06 excise tax revenues to total debt service requirements for the City's revenue bonds.
- (D) Consists of Performing Arts Center Excise Taxes, Transit Excise Taxes, and Excise Taxes (net of maximum annual debt service on Outstanding Senior Excise Tax Obligations) received in fiscal year 2005-06.
- (E) Includes the annual debt service requirements of the City of Tempe, Arizona Excise Tax Revenue Obligations, Series 2004, currently outstanding in the principal amount of \$34,400,000; the City of Tempe, Arizona Excise Tax Revenue Obligation and the Series 2006, currently outstanding in the principal amount of \$19,925,000.
- (F) Pursuant to the Purchase Agreement, the City agrees that the Performing Arts Center Excise Taxes and the Excise Taxes presently imposed will continue to be imposed so that the amount of Performing Arts Center Excise Taxes and the Excise Taxes (net of maximum annual debt service on the Outstanding Senior Excise Tax Obligations) collected for any fiscal year shall be equal to at least three times the total Debt Service requirements for the Obligations and other Parity Obligations in such fiscal year.

Pledged Revenue, Projected Debt Service and Estimated Coverage (Exhibit S-20)

Variable Rate Demand Bonds

City of Tempe, Arizona

Senior Excise Tax Obligations			
Fiscal Year	2006 Pledged Excise Tax Revenues (A)	Outstanding Senior Excise Tax Obligations Debt Service Requirements (B)	Outstanding Senior Excise Tax Obligations Coverage (C)
2005-06	\$ 32,440,082	\$ -	-
2006-07		8,171,000	3.97
2007-08		8,304,200	3.91
2008-09		8,213,600	3.95
2009-10		8,117,600	4.00
2010-11		8,021,200	4.04
2011-12		7,918,800	4.10
2012-13		7,815,400	4.15
2013-14		7,705,400	4.21
2014-15		7,588,800	4.27
2015-16		7,470,600	4.34
2016-17		7,345,200	4.42
2017-18		7,217,600	4.49
2018-19		7,082,200	4.58
2019-20		6,944,000	4.67
2020-21		6,802,400	4.77
2021-22		6,651,800	4.88
2022-23		6,492,200	5.00
2023-24		6,333,600	5.12
2024-25		6,164,800	5.26
2025-26		5,985,800	5.42
2026-27		5,806,600	5.59
2027-28		5,616,000	5.78
2028-29		5,414,000	5.99
2029-30		5,210,600	6.23
2030-31		4,994,600	6.50
2031-32		4,776,000	6.79
2032-33		4,543,600	7.14
2033-34		4,302,400	7.54
2034-35		4,051,800	8.01
2035-36		4,004,800	8.10

Source: Dain Rauscher

- (A) Excise Tax Revenues received by the City in Fiscal Year 2005-06.
- (B) Includes the annual debt service requirements of the City of Tempe Transit Variable Rate Revenue Bond Series 2006 currently outstanding in the principal amount of \$60,000,000.
- (C) The Estimated Coverage figures shown reflect the ratio of actual fiscal year 2005-06 Excise Tax Revenues to total debt service requirements for the City's Transit Variable Rate Revenue bonds.

Excise Tax Collections (Exhibit S-21)

Last Seven Fiscal Years	City of Tempe, Arizona						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Privilege and use tax (A)	\$ 62,285,205	\$ 66,121,741	\$ 59,299,061	\$ 59,379,586	\$ 62,884,508	\$ 68,533,088	\$ 77,080,250
State shared sales tax	13,511,356	13,951,532	12,148,438	12,405,713	13,345,152	14,695,069	16,810,760
State shared income tax	17,045,903	17,890,338	16,544,791	16,882,535	14,303,004	14,582,117	16,607,943
Franchise tax	1,948,858	2,440,521	2,545,346	1,531,714	1,505,133	1,858,851	2,421,837
Permits and Fees (B)	4,097,817	3,750,761	3,081,194	3,731,523	3,722,079	4,643,117	6,708,183
Fines and forfeitures	4,709,748	4,566,819	4,601,758	5,510,476	5,831,133	6,651,934	7,287,717
Total	\$ 103,598,887	\$ 108,721,712	\$ 98,220,588	\$ 99,441,547	\$ 101,591,009	\$ 110,964,176	\$ 126,916,690

Source: City of Tempe, Arizona Comprehensive Annual Financial Report

City of Tempe, Arizona "Revenue and Expenditure by Account by Fund" report.

(A) Amounts exclude the 0.5% Excise Tax approved by voters on September 10, 1996 as a dedicated "transit tax", the 0.1% Performing Arts Center Tax approved by voters in September 2000, and the 1.0% increase in the transient lodging tax on hotels approved by the voters in September 2002, which are restricted to fund programs of the Tempe Convention and Visitor's Bureau.

(B) Amounts include all licenses and permits and Development Services fees and charges for services.

Demographic and Economic Statistics (Exhibit S-22)

Last Ten Fiscal Years		City of Tempe, Arizona						
Fiscal Year	Population (A)	Total Personal Income (C)	Per Capita Personal Income (B)	Average Household Income (C)	Median Age (C)	School Enrollment (D)	ASU School Enrollment (E)	Unemployment Rate (F)
1996-97	155,725	\$ 3,035,235,975	\$ 19,491	\$ N/A	N/A	24,217	42,463	3.10 %
1997-98	156,686	3,160,356,620	20,170	N/A	N/A	24,675	41,006	2.50
1998-99	157,653	3,286,907,397	20,849	N/A	N/A	25,189	41,006	2.30
1999-00	158,625	3,414,879,000	21,528	N/A	N/A	25,324	50,365	2.40
2000-01	160,388	3,561,736,316	22,207	N/A	N/A	26,010	44,126	2.30
2001-02	159,435	3,583,620,495	22,477	N/A	N/A	26,056	47,359	3.30
2002-03	159,425	3,626,440,475	22,747	N/A	N/A	26,380	49,980	4.50
2003-04	159,615	3,673,858,455	23,017	N/A	N/A	26,960	52,265	4.20
2004-05	160,820	3,745,015,340	23,287	N/A	N/A	26,787	49,171	3.40
2005-06	165,796	3,906,153,760	23,560	58,000	30.9	26,800	61,033	3.50

Source: (A) Estimate from Arizona Department of Economic Security
 (B) Estimate from Sites USA for 2005, Census per capita for 2000. All other amounts are estimates.
 (C) Estimate from Sites USA
 (D) School Registration, Tempe Elementary & High School District
 (E) ASU Enrollment History
 (F) Employment Trends, Arizona Department of Economic Security

Principal Employers (Exhibit S-23)

Current Year and Nine Years Prior

City of Tempe, Arizona

<u>Employers</u>	2006			1997		
	<u>Employees (A)</u>	<u>Rank</u>	<u>Employment (B)</u>	<u>Employees (A)</u>	<u>Rank</u>	<u>Employment (B)</u>
Arizona State University	12,569	1	11.46 %	13,481	1	13.14 %
US Airways	3,916	2	3.57	4,000	2	3.90
Motorola, Inc.	3,510	3	3.20	3,775	3	3.68
JP Morgan Chase Bank	2,300	4	2.10	-	-	-
City of Tempe	1,933	5	1.46	1,988	6	1.94
Medtronic Microelectronics	1,363	6	1.24	-	-	-
State Farm Insurance	1,149	7	1.05	-	-	-
Bank One Corp	1,000	8	0.91	-	-	-
Financial & Credit Services Group	914	9	0.83	-	-	-
Wilson Electric	850	10	0.78	-	-	-
Microage	-	-	-	2,700	4	2.63
Salt River Project	-	-	-	2,175	5	2.12
Kyrene Elementary School District	-	-	-	1,900	7	1.85
Tempe Elementary School District	-	-	-	1,732	8	1.69
Chase Bankcard Services	-	-	-	1,700	9	1.66
Wells Fargo Operation Center	-	-	-	1,520	10	1.48
Total	29,504		26.60 %	34,971		34.09 %

Source: (A) City of Tempe, Economic Development, Major 100 Employers List
(B) RBC Capital Markets

Full-Time Equivalent City Government Employees by Function (Exhibit S-24)

Last Three Fiscal Years

City of Tempe, Arizona

Full-Time Equivalent Employees as of June 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police	522	522	535
Fire	157	157	171
Community services	305	308	340
Public works	377	377	380
Community relations	20	18	18
Mayor and council	7	7	7
City manager	3	3	4
Diversity program	3	4	4
Internal audit/consulting	4	4	4
City clerk and elections	5	5	5
City attorney	25	25	26
Municipal courts	37	38	41
Development services	87	89	52
Economic development	12	13	-
Financial services	70	69	69
Human resources	19	19	19
Information technology	73	72	72
Community Development	-	-	53
Water/Wastewater	131	131	135
Total	1,856	1,860	1,933

Source: City of Tempe, Arizona 2006-07 Annual Budget

Operating Indicators by Function/Program (Exhibit S-25)

Last Fiscal Year

City of Tempe, Arizona

Function /Program	Fiscal Year 2005-06
Police	
Crime rate (per 100,000 pop.)	8,269
Traffic accidents	5,562
Emergency service average response time (minimum)	4:43
Citizen calls for police service	124,923
Operating expenditures per citizen calls	\$ 391.87
Fire	
Firefighters per capita (10,000)	8.52
No. of fire calls	2,097
No. of medical calls	13,059
No. of other assistance calls	1,722
Emergency service average response time (minimum)	4:25
% of emergency responses taking 5.0 minutes or less	70%
Transportation	
On-time performance (bus)	94%
Annual boardings (bus)	6,805,383
Asphalt milling (linear feet)	201,147
Street utility cuts repaired	111,413
Library	
Registered borrowers	141,509
Circulation	1,404,318
Development services	
# of permits issued for commercial /industrial	69
Valuation of commercial/industrial permits	\$ 83,599,700
# of permits issued for residential	1,061
Valuation of residential permits	\$ 250,869,200
# of permits issued other	715
Valuation of other permits	\$ 119,168,700
Water/wastewater	
Number of customer accounts	42,059
Total water gallons treated (million gallons - mg)	15,152
O&M per customer account	\$ 221.20
Service calls responded to within 30 min. and repaired in 24 hours	100%
Total wastewater gallons treated (million gallons per day)	21.53 mgd
Solid waste collection	
Residential tons of solid waste collected	74,531
# of residential accounts	33,021
Commercial tons of solid waste collected	21,556
# of commercial accounts	1,976
Recycling tons of solid waste collected	13,984
Collection cost per ton of residential/commercial solid waste collected	\$72.86

Source: The City of Tempe, Arizona Budget Department and other applicable City departments.

Capital Asset Statistics by Function/Program (Exhibit S-26)

Last Fiscal Year

City of Tempe, Arizona

	Fiscal Year 2006	
Police		
Stations	2	
Patrol Units	22	Squads
Fire Stations	6	
Transportation		
Streets (miles)	1,241	
Streetlights	11,754	
Traffic Signals	193	
Buses	123	
Parks and recreation		
Acreage	1,684	
Playgrounds	44	
Sports Fields	195	
Community centers	4	
Golf Courses	2	
Water/Wastewater		
Water mains (miles)	852	
Water production capacity (million gallons per day)	120	mgd
Water storage capacity (million gallons)	53	mg
Sanitary sewers (miles)	502	
Storm sewers (miles)	174	
Wastewater treatment capacity (million gallons per day)	32	mgd
Solid waste collection		
Collection trucks	68	

Source: The City of Tempe, Arizona Budget Department and other applicable City departments.