



# **CITY OF PRESCOTT, ARIZONA**

**COMPREHENSIVE**

**ANNUAL**

**FINANCIAL**

**REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Prepared by  
Mark Woodfill  
Budget and Finance Department  
of the City of Prescott



**CITY OF PRESCOTT, ARIZONA**  
**Comprehensive Annual Financial Report**  
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For the year ended June 30, 2006

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# INTRODUCTORY SECTION





**CITY OF PRESCOTT**  
201 South Cortez  
Prescott, Arizona 86303

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October 20, 2006

To the Honorable Mayor, City Council and Citizens of the City of Prescott:

The finance department is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Prescott, Arizona (City) for the fiscal year ended June 30, 2006. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a broad framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Eide Bailly, LLP have issued an unqualified opinion on the City of Prescott, Arizona's financial statements for the year ended June 30, 2006. The independent auditor's report is located at the front of the financial section of this report.

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

This report presents the financial position of the City as of June 30, 2006, and the results of its operations and cash flows for its proprietary fund types for the year then ended. The financial statements and supporting schedules have been prepared in accordance with generally accepted accounting principles. We believe the data, as presented, 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 various funds of the City.

#### **REPORTING ENTITY**

For financial reporting purposes the City is a primary government. The citizens in a general election elect its governing council. This report includes all organizations and activities for which the elected officials exercise financial control. The City has three component units: two Hassayampa Community Facilities Districts and the City of Prescott Municipal Property Corporation. The City interacts or contracts with various other governmental entities but is not financially accountable for those entities.

#### **REPORT CONTENTS**

The CAFR is presented in three sections:

- ◆ The Introductory Section includes the table of contents, this transmittal letter and the City's organizational chart.
- ◆ The Financial Section includes the independent auditor's opinion, Management Discussion and Analysis (which complements this letter), Government-Wide Financial Statements, Fund Financial Statements, notes to the financial statements as well as supplemental combining and individual statements and schedules for the City's funds.
- ◆ The Statistical Section includes ten years of summary information on operations, financial trends, revenue capacity, debt capacity and demographic and economic conditions.

The City is also required to undergo a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal

requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

## **CITY OF PRESCOTT PROFILE**

Known as "Everybody's Hometown", Prescott offers something for everyone from:

- ◆ the quaint Downtown Courthouse Plaza to the Prescott Gateway Mall,
- ◆ the famous Whiskey Row to numerous recreational opportunities,
- ◆ the emphasis on preservation (with 711 buildings on the national register of historic places) to exclusive residential enclaves and
- ◆ the home to the World's Oldest Rodeo in July and "Arizona's Christmas City" in December.

The City is the largest in Yavapai County and the base of county government operations. Located in the mountains of north central Arizona approximately 95 miles northwest of Phoenix (the State capitol) and 90 miles southwest of Flagstaff, the City borders the Prescott National Forest to the south and west. The average elevation is 5,400 feet. The local climate is mild, with average high temperatures ranging from fifty degrees to ninety degrees and the average precipitation recorded at 19.8 inches, most of which is rain. Prescott and the neighboring towns of Chino Valley, Prescott Valley and newly incorporated Dewey-Humboldt form what is known locally as the Quad-City area.

Although small in population, 41,050, the City is not dependent on any one company or industry for economic vitality. The region is diverse in nature and benefits from the following industries:

### **Education**

Embry Riddle Aeronautical University  
Yavapai College  
Prescott College

### **Medical**

Yavapai Regional Medical Center  
Veteran's Administration Hospital

### **Manufacturing**

Sturm Ruger and Company  
Fortner Aerospace  
Wulfsberg Electronics  
Exsil  
Zila Pharmaceuticals

### **Retail**

Prescott Gateway Mall  
Wide array of automobile dealers  
Costco  
Wal-Mart

### **Tourism**

Earnest A. Love Field – Prescott Airport  
Variety of accommodations and restaurants  
Multiple golf, hiking and camping areas  
Numerous lake and aquatic recreation sites  
Various cultural and entertainment venues

*Money* magazine recently named Prescott as one of the top 5 places to retire for 2006. They provided the following description: "Prescott attracts retirees who enjoy being outdoors, with more than 6 golf courses, and the Prescott National Forest, which offers 450 miles of trails among acres of ponderosa pine. There are outdoor events on the lawn of Courthouse Plaza; saloon-style bars and restaurants that line historic Whiskey Row; and plays at the Prescott Fine Arts Association. Other pluses: three hospitals, a recently expanded library and a new adult center opening this fall. Housing prices are on the high side, but property taxes are relatively low and seniors enjoy some state breaks."

In 1994 *Money* magazine named Prescott as the number 1 place to retire. This distinction was a catalyst for the community. It will be interesting to see if the latest rating has the same impact.

Families also consider Prescott an attractive location in which to live as evidenced by the 4.1% increase in school enrollment during the 2005 school year.

## **ECONOMIC CONDITION**

The City has benefited from the recent national and state economic recovery, especially pertaining to growth in retail sales, tourism, and construction activities. The City also continues to benefit from other favorable conditions associated with Prescott, including a stable, diversified economic base and a desirable location for work, entertainment, retirement and living.

Low mortgage interest rates, and the attractive developments within Prescott stimulated high-end residential growth. The business climate has been strong over the past decade and shows no signs of abating. We foresee modest growth and expansion. Although interest rates have surged the number of building permits issued during the year increased by 4.7% to 2,039.

Commercial successes can be expected to continue because of the City's commitment to targeted recruitment efforts that focus on industry segments that complement the existing business mix, including: retailers, high-tech, research and development, and business and professional services.

Prescott's largest revenue source is the privilege (sales) tax that is generated from a well-blended retail tax base. Activities include automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. The City continued to see double-digit growth in privilege tax revenues in FY 2006 with a 13% increase over the prior year's 15% gain.

The City has been fortunate for many years in that it is the retail magnet of the region, as adjacent communities develop and attract competing retailers, Prescott's retail leadership role may be challenged. In order to secure the City's future success, investments in the community continue, a few of the recent highlights are:

- ◆ To diversify the sources of water available to the City, the City purchased the JWK Ranch, subsequently renamed the Big Chino Water Ranch, located in the Big Chino groundwater basin north of Paulden. This acquisition will strengthen the City's water portfolio.
- ◆ The library has completed a 14,000 square foot addition and the new Adult Center is in process.
- ◆ Several commercial developments are in the planning stage in the northern part of the community.
- ◆ The City maintains a cooperative position with adjoining jurisdictions to address growth issues.

## **LONG-TERM FINANCIAL PLANNING**

The City's sensitivity to emerging economic challenges and its vigilant long-range planning have been key factors in Prescott's fiscal health. Fiscal conservatism, a streamlined budget, and operating efficiencies have resulted in a solid financial position for the City at the close of FY 2006.

The Mayor and City Council have created a mission statement as well as several broad goal categories, which represent key interests and priorities of the Mayor, City Council, and reflect their constituency's suggestions and expectations for the future. These Mission and Goal statements allow staff to create strategic plans and a programmatic budget that directly responds to the Council's and the community's goals and expectations.

Plans articulated in the FY 2006/07 Adopted Budget continued to support basic government services (roads, water, wastewater, solid waste management, parks and recreation, police, fire, etc.), while also addressing the City Council's broad goals and citizen expectations for the community.

Prescott's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below.

Currently, Prescott's financial forecast includes modest revenue growth, potential for State reductions of revenue sharing due to population shifts, and continued increases in demand for City services such as police, fire and transportation services. Our role will be to maintain and enhance financial plan elements and ensure the continued financial stability of the City.

While the City currently enjoys a sound financial condition, future events could change that. We partner with the Arizona League of Cities and Towns to curb unfunded mandates, maintain our fair share of State shared revenue and vigorously contend issues that are incompatible with the City's identity and goals.

The City's General Fund is healthy and our leadership has taken important steps towards planning for future stability. The City has established reserves, which provide financial flexibility and position the City to withstand economic variances within a year as well as between years.

These amounts are not readily identified in the financial statements because the format requires these amounts to be included in the Unrestricted Net Asset balance – a corporate-styled measure of well being for the City. Nevertheless, the budget process identifies these amounts. It should also be noted that a reasonable level of reserves is important to the bond market's perceptions of the City's strength and business practices.

As with any growing community, the City will continue to have an ongoing need for new or expanded streets, water and wastewater systems, transportation alternatives, public safety measures, and cultural and recreation opportunities. As the preceding economic indicators point out, the City is poised both for further long-term economic development and community prosperity.

Our past approach has been successful for us. The future, however, will bring new unknowns and plenty of challenges. We will continue to tweak our budget process and 5-year financial plans to be positioned to react timely to future economic changes.

### **Major Achievements For 2005-06**

There were many accomplishments during the year which coincide with the Council goals:

#### **1st Class Utility System**

- ◆ Realignment and installation of underground utilities in the Whiskey Row alley
- ◆ A long-term water policy was developed
- ◆ A water conservation coordinator position was created along with a conservation program
- ◆ The water model and rate study was completed
- ◆ The water tank maintenance program was updated

#### **Financially Sustainability of City**

- ◆ An impact fee update was completed
- ◆ Rates at the golf course, solid waste and the transfer station were updated
- ◆ A vehicle replacement program was created
- ◆ Our bond ratings remained stable
- ◆ Capital reserves were funded

#### **Alive Downtown**

- ◆ The Garage on Granite opened
- ◆ Two high-efficiency trash compactors were installed in the downtown area
- ◆ Restoration continues on the Elk's Opera House

#### **Regional Economic Center**

- ◆ A development agreement with Lowe's home improvement store was secured
- ◆ A new Walgreen's pharmacy opened
- ◆ An Olive Garden restaurant opened
- ◆ Several new shops at the Boulders opened
- ◆ The Nissan dealership was relocated and expanded
- ◆ The redevelopment of Marler's Square

#### **Great Recreation and Leisure Amenities**

- ◆ Hosted the 2006 Arizona Cardinals NFL training camp
- ◆ Opened a modern skate park in the downtown area
- ◆ The new adult center construction started
- ◆ A 14,000 square foot library expansion was on track
- ◆ The wood floor in the activity center was replaced
- ◆ Over 18,000 attended the 2005 air show
- ◆ Sand volleyball courts were completed

#### **Quality Living**

- ◆ Opened an advanced regional communications center which serves eleven public safety agencies
- ◆ Added a K-9 unit to police department
- ◆ Acquired 28 acres of open space in the Granite Dells
- ◆ Preserved the petroglyphs on the Dalke property
- ◆ Funded the unpaved roads and alleys project

## **Debt Administration**

The City has a formal Debt Policy and issues debt for the purpose of acquiring or constructing capital projects including buildings, machinery equipment and furniture and fixtures. These needs are addressed through the budget process and the annual five-year capital improvement program.

At June 30, 2006, there were a number of debt issues outstanding. These issues included \$9,140,000 of general obligation bonds and \$20,050,000 of contracts payable through the City's Municipal Property Corporation. Various improvement districts had bonds and notes outstanding in the amount of \$3,066,241. The Hassayampa Community Facilities Districts 1 and 2, which are blended with the City for presentation, had \$5,675,000 in debt for which the City has no liability.

During the year, the City entered into lease purchase agreements totaling \$734,000 to acquire a new payroll human resources computer system and a new phone system.

Moody's Investor Service rates the City's excise tax bonds A, Standard and Poor's has a rating of AA on these bonds. Other debt of the City has not been rated.

## **Cash Management**

The City has a formal investment policy that governs the investment activities and complies with State law. The policy objectives in priority order are the preservation and safety of principal, liquidity and yield.

Cash not required for current operations was invested in the State of Arizona Investment Pool, U.S. Treasury securities and federal agency securities. All investments were made in accordance with the City's investment policy. Deposits are either insured by federal depository insurance or collateralized. The City's investments are classified in the lowest risk category as defined by the Governmental Accounting Standards Board (GASB).

## **Risk Management**

Prescott's risk management program includes various risk control techniques, including employee accident prevention training and has third party coverage for all lines of insurance, including workers' compensation.

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Prescott for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the 24th consecutive year that the government has achieved this prestigious award.

In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe that our current comprehensive annual report continues to meet the certificate of achievement program's requirements, and we are submitting it to GFOA.

The City of Prescott received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2005 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning July 1, 2006.

## **Independent Audit**

In accordance with the City Charter and Arizona law, the City's financial records are subject to an annual audit by an independent certified public accountant. The audit is conducted in accordance with generally accepted auditing standards. The auditor determines whether the City followed generally accepted

accounting and reporting principles. Eide Bailly, LLP conducted the audit for fiscal year ending June 30, 2006. The audit opinion is located in the financial section of the report.

### **Acknowledgments**

The preparation of the Comprehensive Annual Financial Report was a collective effort of the finance department. Each member has our thanks for the contributions made in the preparation of this document. We also recognize the efforts of other departments who provided information that helped to make the report more meaningful.

In closing, we acknowledge the City Council and the City Manager for their continued support and direction.

Respectfully submitted,

Mark Woodfill, CPA  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Prescott,  
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. Fudge*

President

*Jeffrey R. Emer*

Executive Director

# City of Prescott Organizational Chart – FY2007

## Citizens Boards & Commissions

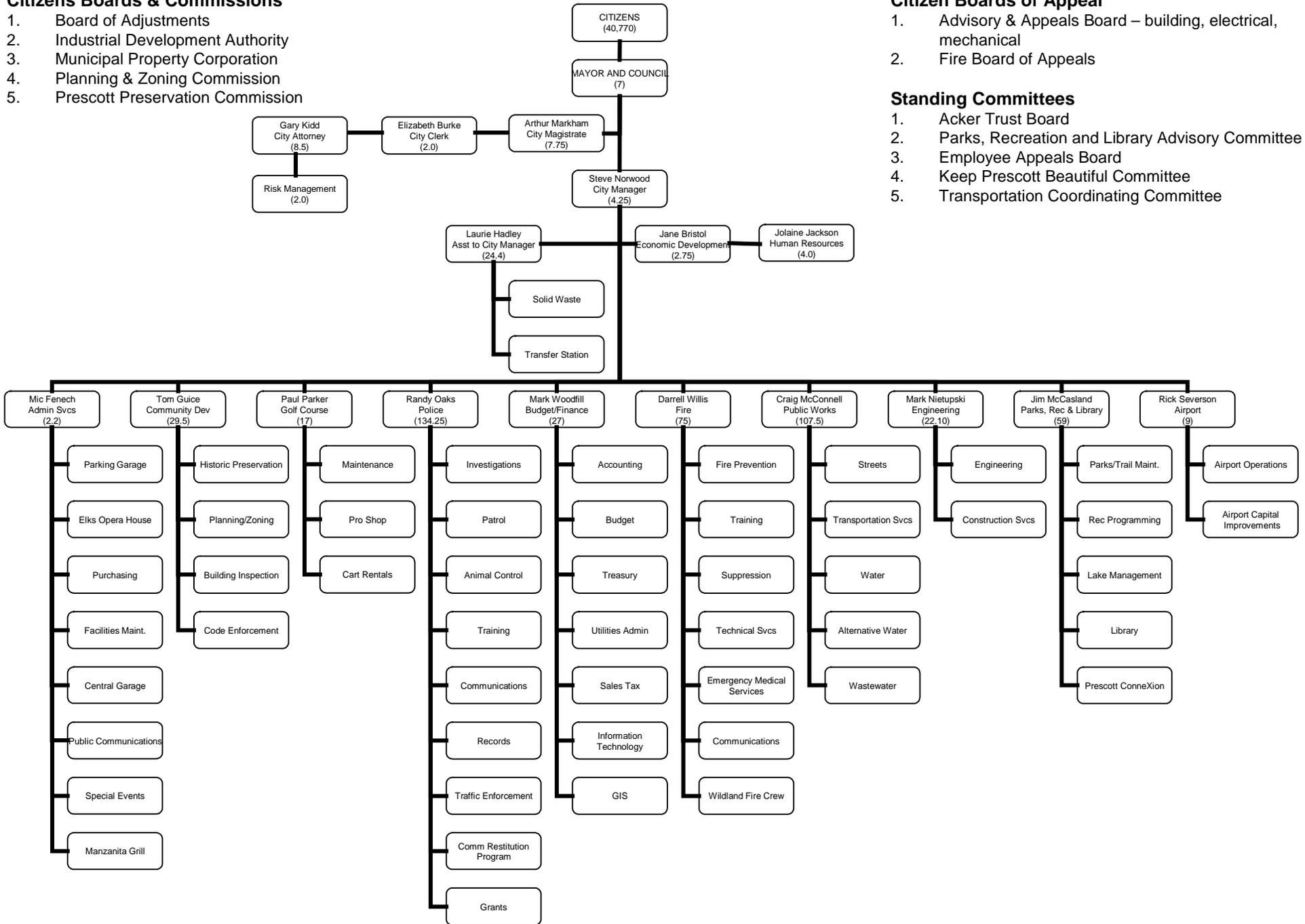
1. Board of Adjustments
2. Industrial Development Authority
3. Municipal Property Corporation
4. Planning & Zoning Commission
5. Prescott Preservation Commission

## Citizen Boards of Appeal

1. Advisory & Appeals Board – building, electrical, mechanical
2. Fire Board of Appeals

## Standing Committees

1. Acker Trust Board
2. Parks, Recreation and Library Advisory Committee
3. Employee Appeals Board
4. Keep Prescott Beautiful Committee
5. Transportation Coordinating Committee



# CITY OF PRESCOTT, ARIZONA

*June 30, 2006*

## ELECTED OFFICIALS

Rowle Simmons, Mayor

### Council

Steve Blair

Bob Bell

Mary Ann Suttles

Bob Roecker

Jim Lamerson

Robert J. Luzius

### Appointed Officials

Steve Norwood	City Manager
Gary Kidd	City Attorney
Elizabeth Burke	City Clerk
Arthur Markham	City Magistrate

### Mailing Address

201 South Cortez  
Prescott, AZ 86303

[www.cityofprescott.net](http://www.cityofprescott.net)



# FINANCIAL SECTION





## INDEPENDENT AUDITOR'S REPORT

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The Honorable Mayor and the City Council  
*City of Prescott, Arizona*  
Prescott, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate fund information, and the budgetary information of the *City of Prescott, Arizona* 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 of Prescott, Arizona* management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial 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 opinion.

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 Prescott, Arizona* at 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, Streets and Open Space Fund and the Capital Improvement 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 a report dated October 20, 2006 on our consideration of the *City of Prescott, Arizona's* internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grants 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 Schedule of Funding Progress are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

**PEOPLE. PRINCIPLES. POSSIBILITIES.**

[www.eidebailly.com](http://www.eidebailly.com)

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

*Eide Bailly LLP*

Phoenix, Arizona  
October 20, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is intended to be an easily readable breakdown of the City of Prescott's financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter and the financial statements that follow.

The analysis centers on significant financial issues and activities, budget changes and variances from the budget and specific issues related to funds and economic factors affecting the City.

### FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the fiscal years 2006 and 2005 by \$417.3 million and \$382.8 (net assets), respectively. Of these amounts, \$25.8 million and \$24.3 million (unrestricted net assets), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$34.5 million and \$32.2 million during fiscal years 2006 and 2005, respectively.

The fiscal year 2006 increase was driven by increased charges for services (\$3.3 million), increased grants and contributions (\$5.9 million) and increased privilege (sales) tax collections (\$3.7 million) which resulted in a \$26.0 million increase to the investment in capital assets, net of related debt.

During fiscal year 2006, the City's total debt increased by approximately \$.9 million, in contrast to the increase of approximately \$10.4 million in fiscal year 2005. The increase this year was the result of a new lease purchase to finance a new phone system and a payroll/human resource software application and adjustments to the landfill closure estimate.

Overall City program costs increased by \$9.7 million (or 14%).

### REPORT LAYOUT

This annual financial report consists of several sections. When taken as a whole they provide a detailed financial look at the City. The report includes the following:

- ◆ **Management's Discussion and Analysis.** This section of the report provides financial highlights, overview and economic factors impacting the City.
- ◆ **Basic Financial Statements.** Includes Statement of Net Assets, Statement of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the City. The City's component units, the Hassayampa Communities Facilities Districts #1 and #2 (CFD's) are included within the governmental activities and the Municipal Property Corporation (MPC) is included within the business-type activities.
  - ◆ The Statement of Net Assets presents the resources available for future operations. This statement provides a snapshot view of the assets the community owns, the liabilities it owes and the net difference. The net difference or net assets provide a measure of the City's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the City. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

- ◆ The Statement of Activities presents the gross and net costs of City programs and the extent to which such programs rely on general tax and other revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- ◆ Fund financial statements present separately the major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are reported in a separate column and the remaining funds are combined into a column titled "Other Governmental Funds." Budgetary comparison statements are presented for the General Fund and the two major special revenue funds (Streets and Open Space and Capital Improvement Fund).
- ◆ The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.
- ◆ **Other Supplementary Information.** Users wanting additional information on non-major funds can find it in the Combining Statements of Non-major Funds and/or the Supplementary Information-Budgetary Comparison sections of the report. Components within this section include:
  - ◆ Combining Statements - Major funds are included in the Basic Financial Statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.
  - ◆ Budgetary Comparisons - Budgetary information for all funds, except those presented within the Basic Financial Statements, are presented here.
  - ◆ Other Financial Schedules complete the Financial Section of the report.
- ◆ **Statistical Section.** Information is presented for five categories – financial trend, revenue capacity, debt capacity, demographic and economic and operating.

## CITY AS A WHOLE

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

A condensed version of the Statement of Net Assets at June 30, 2006 and June 30, 2005 follows:

	Governmental		Business-type		Total	
	Activities		Activities		Government	
	2006	2005	2006	2005	2006	2005
Cash and investments	\$ 49.8	\$ 43.3	\$ 25.5	\$ 25.5	\$ 75.3	\$ 68.8
Other assets	14.9	16.2	1.9	2.0	16.8	18.2
Capital assets	212.8	201.4	173.0	155.8	385.8	357.2
Total assets	<u>277.5</u>	<u>260.9</u>	<u>200.4</u>	<u>183.3</u>	<u>477.9</u>	<u>444.2</u>
Other liabilities	7.0	7.4	3.4	3.5	10.4	10.9
Noncurrent liabilities	23.9	22.7	26.3	27.8	50.2	50.5
Total liabilities	<u>30.9</u>	<u>30.1</u>	<u>29.7</u>	<u>31.3</u>	<u>60.6</u>	<u>61.4</u>
Net assets:						
Invested in capital assets,						
net of debt	184.8	177.9	148.8	129.6	333.6	307.5
Restricted	50.2	43.9	7.7	7.1	57.9	51.0
Unrestricted	11.6	9.0	14.2	15.3	25.8	24.3
Total net assets	<u>\$ 246.6</u>	<u>\$ 230.8</u>	<u>\$ 170.7</u>	<u>\$ 152.0</u>	<u>\$ 417.3</u>	<u>\$ 382.8</u>

## **Governmental Activities**

During fiscal year 2005-06 the balance of net assets increased \$15.8 million due to a large number of improvements and various capital improvement projects totaling \$17.0 million. The library expansion project totaled \$4.2, The Adult Center construction amounted to \$2.6 million. Vehicle additions amounted to \$1.4 million and included a new fire truck, two garbage trucks in addition to several vehicles. However, much of the increase in net assets was offset by increased depreciation totaling \$9.1 million.

\$12.3 million was spent on road improvements and an additional \$2.2 was expended on land and right-of-way acquisitions. Several projects were completed during the year including the Gail Gardner extension, phase IV of Willow Creek Road, and Sixth Street. Portions of Gurley Street and Willis were also improved. Iron Springs Road, Copper Basin Road and State Route 89 also incurred significant engineering costs associated with planned reconstruction/widening projects.

Cash and investments expanded by \$6.5 million triggered by strong privilege (sales) tax receipts.

## **Business-type Activities**

During fiscal year 2005-06 the balance of net assets increased by \$1.9 million due in part to the following specific activities:

**Airport:** \$1.6 million of grant funded improvements to lighting and security projects.

**Water:** \$6.0 million in improvements were added during the year. These include \$1.3 million for arsenic treatment consulting and \$2.4 million for Big Chino Ranch water project, several water main replacement projects.

**Wastewater:** \$1.2 million in improvements, which included several wastewater main replacement projects including Ruth street and east Gurley street.

The City's overall financial position has improved during the year as reflected in the increase in net assets above. Additionally, the unrestricted net assets of both the governmental and business-type activities amount to \$11.6 and \$14.2 million respectively.

There are restrictions on \$50.2 million of net assets for governmental activities and an additional \$7.6 million in restricted net assets of business-type activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation and open space projects and the repayment of debt. Within the business-type activities are capital projects, bond proceeds and debt service reserves.

## **STATEMENT OF ACTIVITIES**

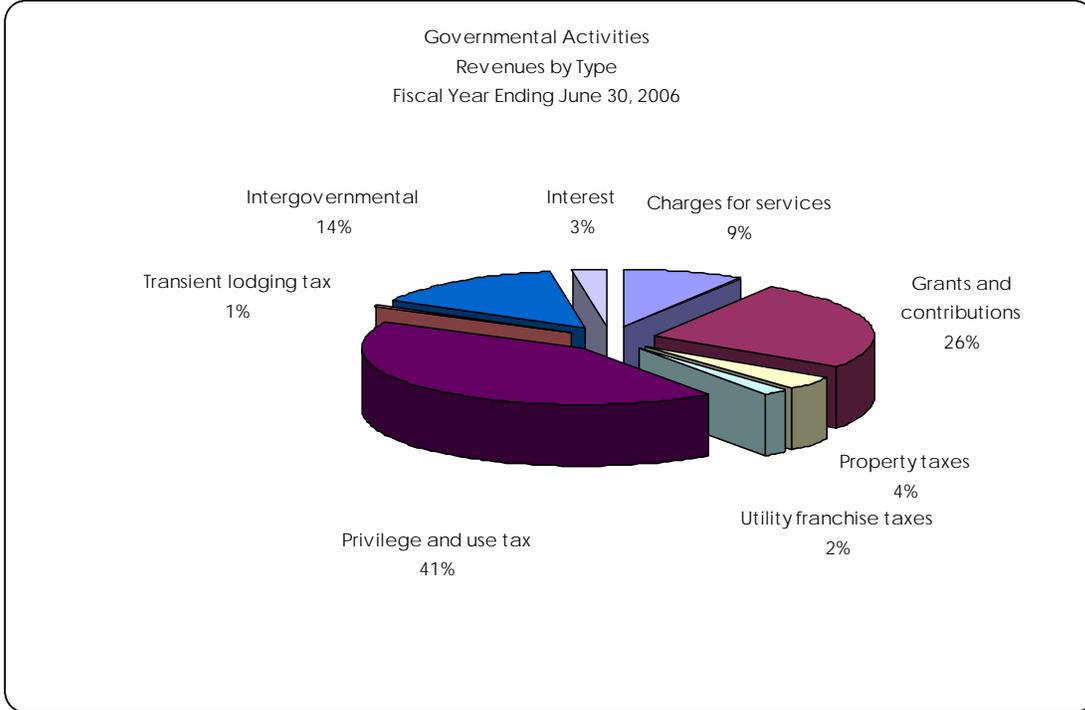
A summary of the Statement of Activities for the year ended June 30, 2006 and June 30, 2005 follows:

	Governmental		Business-type		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services and other	\$6.3	\$5.9	\$30.2	\$27.4	\$36.5	\$33.3
Operating grants and contributions	4.5	4.8	-	-	4.5	4.8
Capital grants and contributions	13.5	2.8	11.4	15.9	24.9	18.7
Total program revenues	24.3	13.5	41.6	43.3	65.9	56.8
<b>General revenues</b>						
Taxes	34.4	30.4	-	-	34.4	30.4
Intergovernmental	10.1	8.8	-	-	10.1	8.8
Interest	1.8	2.0	0.7	0.7	2.5	2.7
Other	0.8	1.0	0.8	1.1	1.6	2.4
Total general revenues	47.1	42.2	1.5	2.1	48.6	44.3
Total revenues	71.4	55.7	43.1	45.4	114.5	101.1
<b>Expenses</b>						
General government	6.1	5.9	-	-	6.1	5.9
Community services	2.4	2.5	-	-	2.4	2.5
Culture and recreation	6.2	5.3	-	-	6.2	5.3
Police and courts	10.6	8.9	-	-	10.6	8.9
Fire	7.0	6.2	-	-	7.0	6.2
Public works	14.5	11.0	-	-	14.5	11.0
Interest on long-term debt	1.1	1.2	-	-	1.1	1.2
Water	-	-	8.1	7.4	8.1	7.4
Wastewater	-	-	6.1	5.8	6.1	5.8
Golf course	-	-	2.6	2.0	2.6	2.0
Airport	-	-	5.1	4.3	5.1	4.3
Solid waste	-	-	4.9	4.8	4.9	4.8
Transfer station	-	-	3.7	3.7	3.7	3.7
Parking garage	-	-	0.1	-	0.1	-
Total expenses	47.9	41.0	30.6	28.0	78.5	69.0
<b>Increase in net assets</b>	23.5	14.7	12.5	17.4	36.0	32.1
<b>Transfers</b>	(6.3)	-	6.3	-	-	-
Beginning net assets	230.8	216.1	152.0	134.6	382.8	350.7
Prior period adjustment	(1.3)	-	(0.2)	-	(1.5)	-
Beginning net assets - as restated	229.5	216.1	151.8	134.6	381.3	350.7
<b>Ending net assets</b>	<u>\$ 246.7</u>	<u>\$ 230.8</u>	<u>\$ 170.6</u>	<u>\$ 152.0</u>	<u>\$ 417.3</u>	<u>\$ 382.8</u>

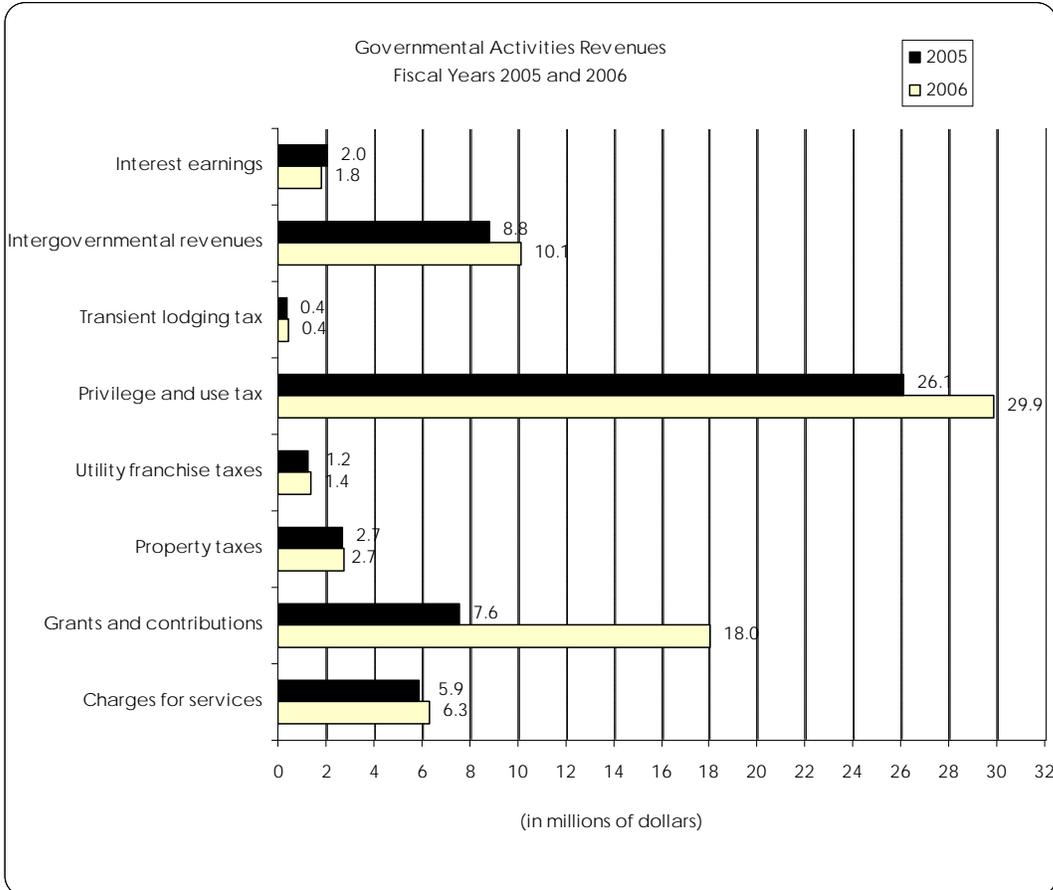
### ***Governmental Activities***

The cost of all governmental activities this year was \$47.9 million. \$6.3 million of this cost was paid for by those who directly benefited from or contributed to the programs, \$18 million was subsidized by grants received from other governmental organizations or developer for both capital and operating activities, and \$34.4 million, was financed through general City taxes. Other governmental revenues, including intergovernmental revenues and interest amounted to \$12.7 million.

The chart below shows the breakdown of governmental activities revenue.



The graph below compares the governmental revenues from fiscal year 2006 to fiscal year 2005.

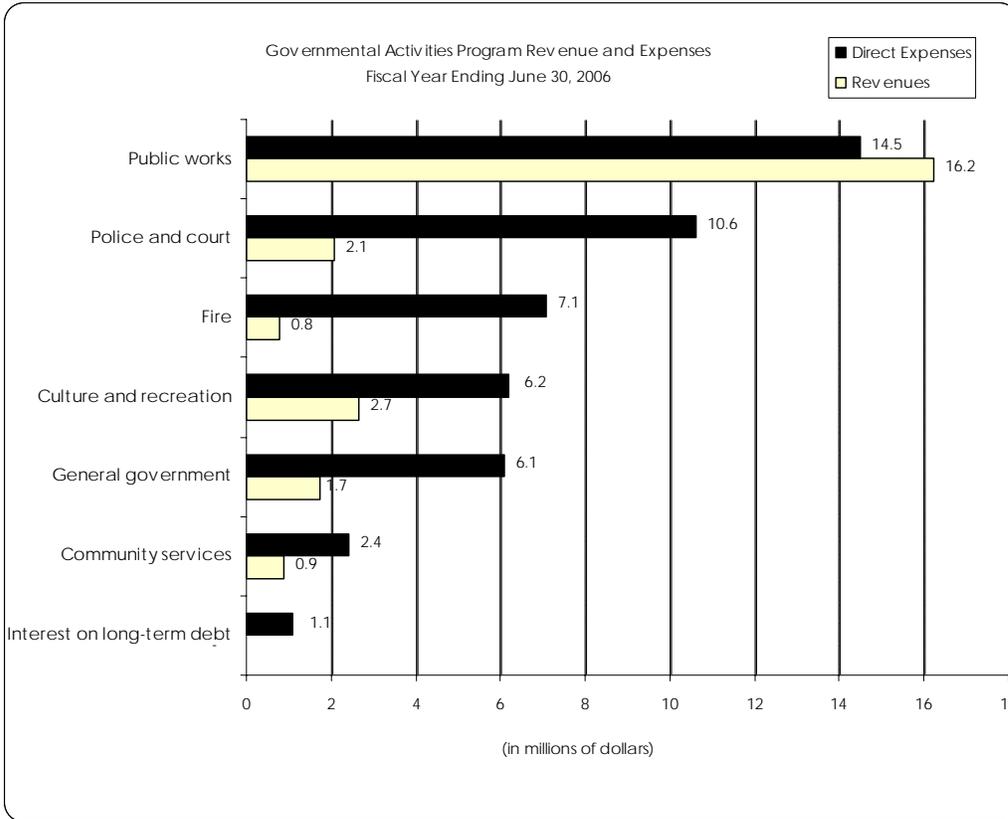


Total governmental activities revenues increased \$15.7 million or 28.2% from the previous year. Key factors in this change include:

- ◆ Privilege tax collections climbed \$3.7 million or 14%. This reflects our retail sales advantage in the quad-city area. Our tax collections were bolstered by the addition of a major retailer and continued strength in most sectors.
- ◆ Grants and contributions increased by \$10.4 million or 136%. The primary factor behind this was an increase in developer road and right-of-way contributions, which totaled \$11.1 million, which is up substantially from \$1.2 million one year ago.
- ◆ Intergovernmental revenue increased by \$1.3 million that is the result of the statewide economic recovery.

All governmental programs use general revenues to support their functions. Some programs such as police and fire are dependent on general revenues to fund operations. The following chart compares the expenses and revenues for each of the City's programs and shows the extent of each program's dependence on general revenues for support in the current year.

The public works revenues exceeded expenses because of the developer contributions discussed above.



Governmental program expenses increased by \$7 million or 17%. \$1.6 million of the increase related to increased depreciation on replaced roadways in the public works function. Public safety program expenses also increased by \$2.6 million.

There was one amendment to the budget after final adoption impacting governmental activities, this represents a transfer of budget appropriation not funding:

To:	From :	Amount
City Clerk	Budget & Finance	\$ 45,000
Administrative Services	Budget & Finance	250,000
Transient Occupancy Tax	Capital Improvement	216,000
Total Appropriation Transfers		<u>\$ 511,000</u>

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$48.7 million, a increase of \$7.5 million in comparison to the combined ending fund balances for fiscal year 2005 of \$41.2 million. The increase in the current year's fund balance is primarily due to increased capital outlay of \$5 million during fiscal year 2006.

Approximately \$46.1 million of the total for fiscal year 2006 and \$37.5 million of the total for fiscal year 2005 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) for the repayment of a long-term loan from another fund (\$1.1 million in fiscal year 2006 and \$1.7 million in fiscal year 2005); (2) to pay advances (\$906,288 and \$1.5 million for fiscal years 2006 and 2005, respectively).

Revenues for governmental functions overall totaled approximately \$60.4 million in fiscal year 2006, an increase of 8.8% (\$4.9 million) over the previous year total of \$55.5 million. In fiscal year 2006 expenditures for governmental functions, totaled \$54.4 million, an increase of less than 1% (\$.2 million) over the fiscal year 2005 total of \$54.2 million. In the fiscal years ended June 30, 2006 and 2005 revenues for governmental functions exceeded expenditures by approximately \$6.0 million (11.1%) and \$1.3 million (2.4%), respectively. The excess in both years was due delays in the construction of capital projects mainly roads.

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 \$10.6 million, while total fund balance was \$12.7 million. The unreserved and total balances for the General Fund at the end of fiscal year 2005 were \$6.8 million and \$10.0 million, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Unreserved fund balance represents 39.1% percent of the total General Fund expenditures of \$27.1 million in fiscal year 2006 and 28.9% percent of the total General Fund expenditures of \$23.4 million in fiscal year 2005.

Overall, the General Fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2006, of \$5.6 million, an increase of 7.7% over the comparable figure from the prior year of \$5.2 million.

The following budget variations occurred during the year in the general fund:

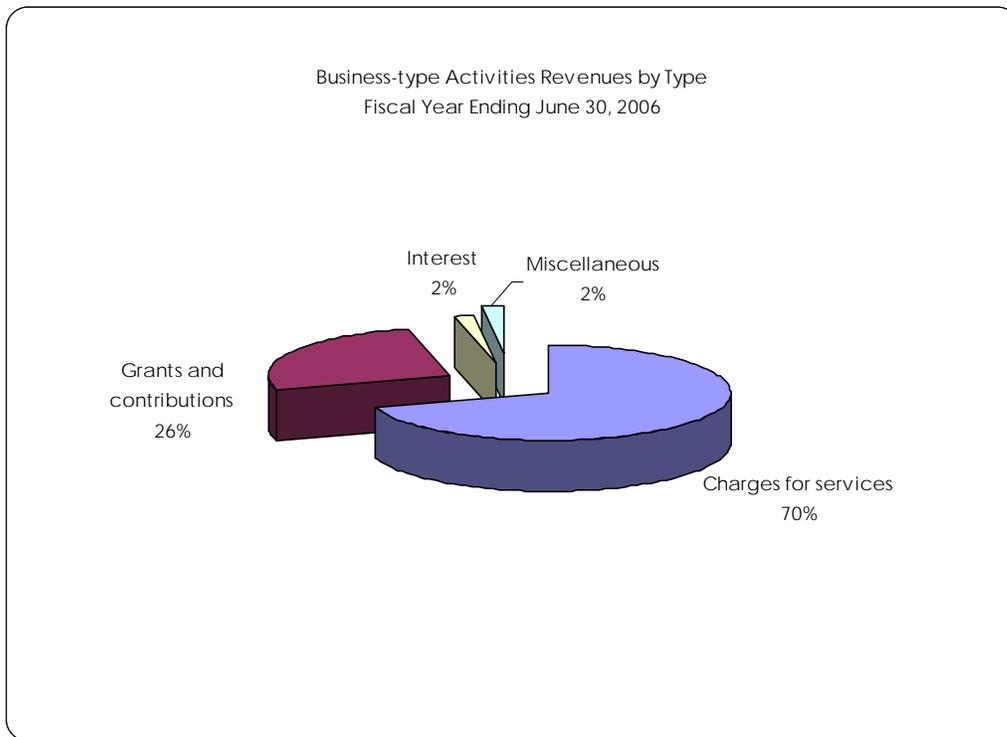
- ◆ Privilege (sales) tax revenue exceeded the budget by \$1.4 million or 10.2% due to a strong local retail economy. Licenses and permits also exceeded the budget by 45% due to continued strength in the construction sector.
- ◆ The total expenditures in the general fund were under budget by \$1.3 million or 4.6% reflecting a rather flat spending trend. The total general fund revenues exceeded the budget by \$3.2 million or 10.9%.

**Business-type Activities**

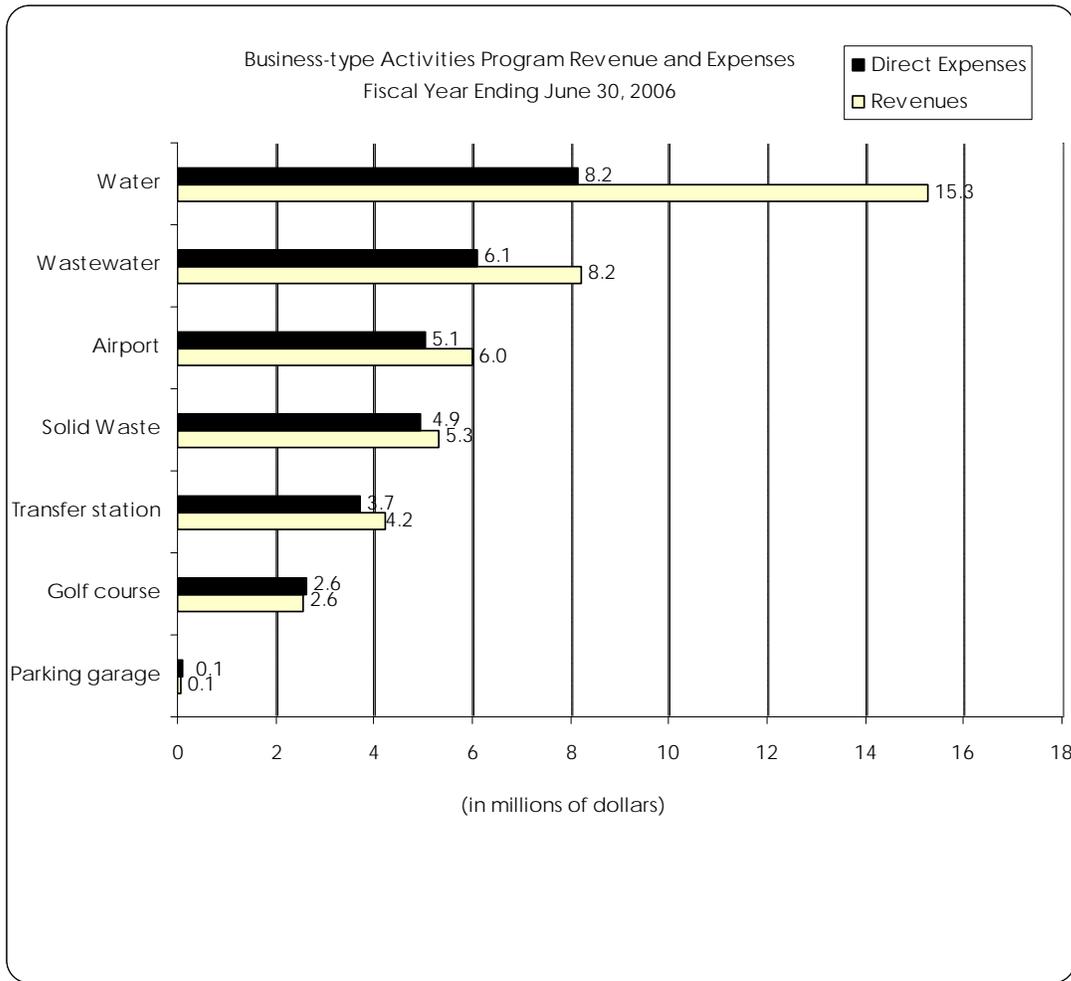
The cost of providing all business-type activities this year was \$30.7 million. Of this cost, \$30.2 million was paid by users, \$11.4 million was subsidized by contributions and grants received from other governmental organizations and developers for capital activities resulting in a net revenue of \$10.9 million. Investment earnings of \$.7 million, miscellaneous income of \$.8 million and the transfer of the parking garage to a new enterprise fund in the amount of \$6.3 million resulted in an overall increase in net assets of \$18.8 million.

Business-type activities revenue decreased by \$1.7 million (or 3.9%). User charges increased by \$2.8 million while developer contributions and grants decreased by \$4.5 million (or 28.3%) this year. The primary reason for the decrease relates to the Town of Prescott Valley’s contribution (\$11 million) to the Big Chino Water Ranch acquisition in the prior year. Several user rates were increased during the year including water, solid waste transfer station and golf course.

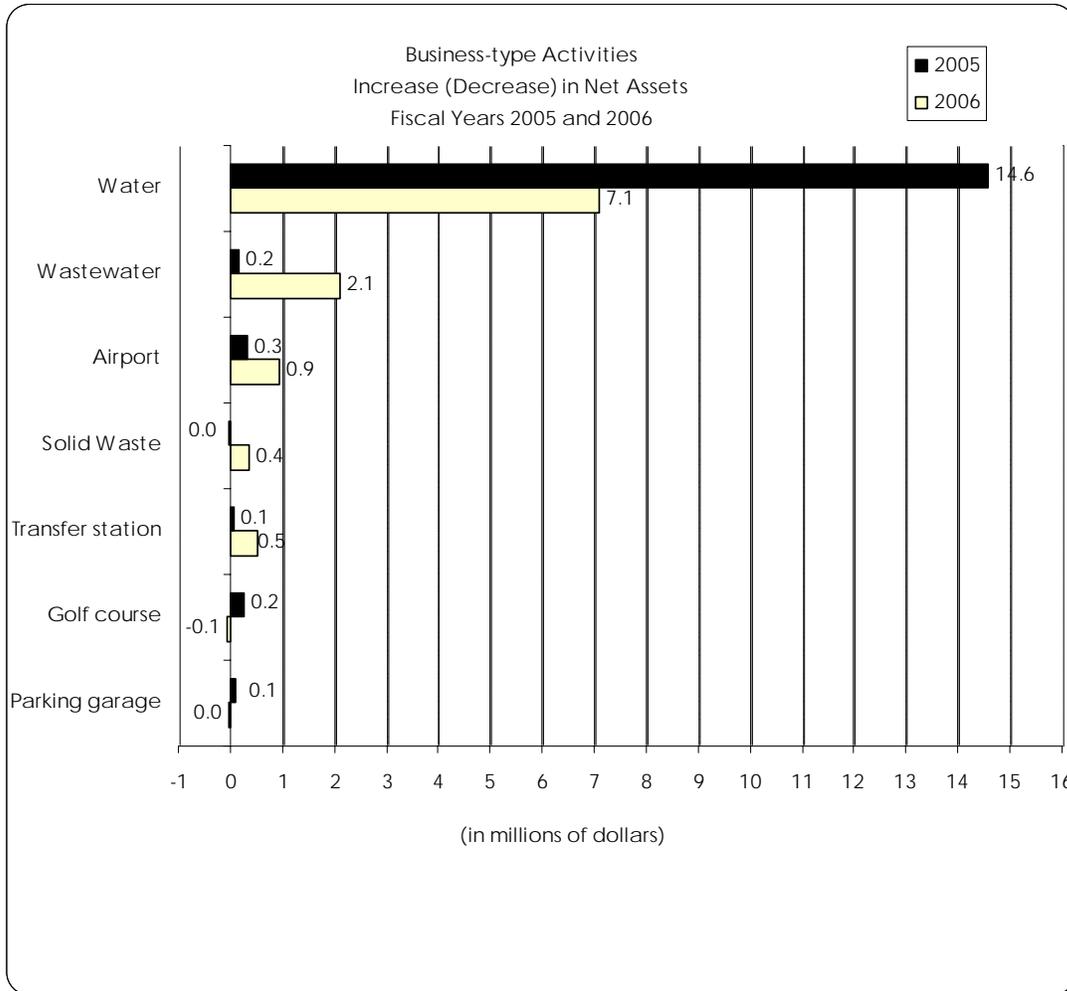
The chart below shows the breakdown of business-type activities revenue.



The City’s business-type programs include the following: water, wastewater, golf course, airport, solid waste, regional transfer station and parking garage. The following chart shows the revenue and expenses for each business-type program and the extent of each program’s dependence on general revenues for support in the current year.



The chart on the following page compares the business-type activities increase (decrease) in net assets before transfers from fiscal year 2006 to fiscal year 2005. Each business-type activity is managed to remain self-sufficient while providing for future capital requirements.



The City increased rates for solid waste and the transfer station in January 2005, which has made the fund profitable. The golf course rate increase was not able to offset expenses during the year.

Customer and developer contributions amounted to \$9.8 million during the year, which supplemented the water and wastewater programs. Airport grant revenue of \$1.5 million helped fund a variety of security and lighting improvements at the airport.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

As of June 30, 2006 the City had invested \$386.3 million in capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$29.1 million.

The following table reconciles the changes in capital assets.

**Change in Capital Assets  
(in millions)**

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Beginning balance	\$ 201.4	\$ 187.7	\$ 155.8	\$ 130.3	\$ 357.2	\$ 318.0
Additions	31.1	22.8	22.5	30.6	53.6	53.4
Deductions	(10.5)	(0.1)	(0.1)	(0.4)	(10.6)	(0.5)
Depreciation	(9.1)	(9.0)	(5.3)	(4.7)	(14.4)	(13.7)
Ending balance	\$ 212.9	\$ 201.4	\$ 172.9	\$ 155.8	\$ 385.8	\$ 357.2

See Section 1I and 3C in the Notes to the Financial Statements for further information on the City of Prescott's capital assets.

**Debt Administration**

As of year-end, the City had \$49.0 million in debt outstanding compared to \$48.2 million last year.

**Outstanding Debt at Year-End  
(in millions)**

	Governmental	Business	Total
	Activities	Activities	
Beginning Balance	\$ 21.8	26.4	\$ 48.2
Additions	4.4	0.6	5.0
Retirements	(2.2)	(2.0)	(4.2)
Ending Balance	\$ 24.0	\$ 25.0	\$ 49.0

	Totals	
	2006	2005
<b>Governmental:</b>		
General obligation	9.1	\$ 10.4
Special assessment	3.1	3.4
Other debt	6	1.7
<i>Subtotal</i>	<u>18.2</u>	<u>15.5</u>
<b>Business-type:</b>		
Water	15.2	15.6
Wastewater	3.7	3.8
Golf course	3.0	3.6
Airport	3.0	3.3
Solid waste	0.1	0.1
<i>Subtotal</i>	<u>25.0</u>	<u>26.4</u>
<b>Component units:</b>		
Community facilities districts	5.8	6.3
Total	<u>\$ 49.0</u>	<u>\$ 48.2</u>

During the year, the general fund entered into a lease purchase contract to acquire a new VOIP phone system and a new human resource/payroll system. The balance of this contract at June 30, 2006 was \$666,940. The interest rate on the contract is 3.95% and the lease will be paid in full in fiscal year 2010.

Another component of the City's debt is compensated absences. This year the City recognized an additional liability for retirement bonus payouts. This liability, which amounted to \$1.6 million, had not previously been recorded and is reflected as a prior period adjustment. See sections 1J and 3N of the notes to the financial statements for more information.

See Section 1K and 3F in the Notes to the Financial Statements for further information on the City of Prescott's long-term debt.

Moody's Investor Service rates the City's excise tax bonds A, Standard & Poor's has a rating of AA on these bonds. Other City debt has not been rated.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or wastewater services and recreational playground facilities may not exceed 20% of the City's secondary assessed valuation. Under the second test, a City may not issue general obligation debt for general municipal purposes in an amount that exceeds 6% of the City's secondary assessed valuation. At June 30, 2006 the City had remaining debt capacity of \$91.3 million under the 20% test and \$28.8 million under the 6% test.

## **ECONOMIC FACTORS**

We are anticipating a sustainable level of growth. The following factors influence our outlook:

- ◆ The construction market has remained resilient. Interest rates have risen and we anticipate moderate growth in construction. Prescott remains a highly desirable place to live, which could sustain the housing sector.
- ◆ Higher gasoline and natural gas prices can have a detrimental impact on spending. During the year, prices of crude oil spiked to the mid \$70 range, some analysts believe the price could drop to \$50 while others think it could pop back to the mid \$70 range. Companies are even more susceptible to rising fuel prices, which can cut into profits and reduce hiring and spending.

Privilege (sales) tax revenues are the largest source of revenue for the City. Any significant decrease in spending would have a unfavorable impact on this critical revenue source. During the year about 45% of the total governmental revenues were derived from privilege tax. Because of a strong construction and retail environment, the City's resources kept pace with the increased demand for services. The City aggressively pursues economic vitality and redevelopment opportunities, a few of the successes follow:

- ◆ The construction of a 146,000 square foot Lowes Building Supply Store. Construction should begin in FY07 and conclude with a store opening about 15 months later.
- ◆ A 93-room Residence Inn has broken ground in FY07 at Lee Circle and Highway 69.
- ◆ The Village at the Boulders has announced or opened stores in FY06/07 for Big Lots, Tuesday Morning, Dollar Tree, JoAnn's Fabrics, Starbucks and FedEx/Kinko's. The Shops at the Boulders has announced a Chili's bar and restaurant with construction to begin in FY07.
- ◆ Prescott Gateway Mall has announced that The Room Store will construct a 42,000 square foot store on a freestanding pad.

- ◆ Annexation of 43 acres at Willow Creek and Pioneer Parkway was completed, with rezoning, site plan, and building permits to follow in FY07.
- ◆ FY07 should also see 157 acres annexed at Centerpoint South near the Granite Dells with commercial and high-end residential uses planned.
- ◆ The City acquired the Big Chino Water Ranch and continues to pursue additional water rights acquisition opportunities.
- ◆ The City has made numerous quality of life investments including the 503-space “Garage on Granite”, the 14,000 square foot library addition, the new adult center slated for completion in FY 2007 as well as a new skate park.

At June 30, 2006 the City has set aside \$8.1 million in the capital improvement fund. The majority of these funds have been earmarked for the following projects; \$2.8 million for economic development and incentive programs; \$1.0 million for the library expansion and \$2.0 million for radio frequency infrastructure for the police and fire departments.

## **LONG-TERM FINANCIAL PLANNING**

Prescott's fiscal health is driven in part by responding timely to emerging economic issues and prudent long range planning. The Mayor and City Council have co-created a vision statement, mission statement as well as six broad goal categories, which represent the priorities and interests of the Mayor, City Council, and reflect citizen suggestions and desires for the future.

### ***Our Vision***

*Prescott is a beautiful, growing city that has a vibrant historic downtown, is the Regional Economic Center for the Tri-Cities, and is a first class tourist destination.*

*Prescott is a livable, dynamic community where there is a range of housing choices for all, where residents and guests enjoy an active life style with great recreation and leisure amenities, where people enjoy quality living, where the community acts a responsible environmental steward and where there is pride in our hometown, the Gem of Arizona.*

### ***Our Mission***

*The mission of the City of Prescott is to provide superior customer service to create a financially sustainable City and to serve as the leader in the region.*

The 2006/07 budget conveys the continued support for basic services while also focusing on the broad goals and citizen expectations for the community, which are listed below:

### ***Stronger Local Economy and Expanded Tax Base***

- ◆ More quality jobs with family wages
- ◆ More diverse economy which is less retail dependent
- ◆ Development of our airport as an “economic engine”
- ◆ Continue as the regional retail center
- ◆ Make land available for developing business/commercial sites

### ***Better Mobility through Improved Roads and Transportation System***

- ◆ Improved condition and quality of city streets
- ◆ All city streets and alleys paved
- ◆ Air service to alternative hubs
- ◆ Effective and functioning Municipal Planning Organization
- ◆ Sidewalks on major arterials

### ***Managed Growth for a Balanced Community***

- ◆ More affordable (workforce) housing units
- ◆ Well-planned annexed areas with mixed and balanced uses

- ◆ Preservation of Prescott's historic charm and character
- ◆ Growth paying for growth
- ◆ Development consistent with Land Development Code

***Polished City – Beautiful and Clean***

- ◆ Cleaner and well-maintained streets, alleys and right-of-way
- ◆ Reduced number of blighted homes and buildings
- ◆ Effective solid waste collection and management
- ◆ Redevelopment of aging commercial centers
- ◆ Well maintained parks and recreational areas

***First Class Utility System***

- ◆ Water supply for the next 100 years
- ◆ Sewers for all residences and businesses
- ◆ Well-maintained water treatment and distribution system
- ◆ Well-maintained wastewater collection and treatment facility
- ◆ Effective storm water management system

***Alive Downtown***

- ◆ Cleaner downtown with improved infrastructure
- ◆ More commercial offices with people working downtown
- ◆ More activity venues for attracting residents and events
- ◆ More people living downtown
- ◆ More evening activities with businesses open beyond 5:30

Concepts presented in the Prescott Community Strategic Plan encourage the City to invest any available funds in projects that would return, and eventually exceed, its investment while still providing basic services during the investment period. Strategic investments, in turn, would insure the ability to provide basic services in the future. In order to fulfill that objective, we continue to strengthen five-year planning efforts to target excess resources to economic investments while, at the same time, maintaining the flexibility to respond to unknown opportunities.

**NEXT YEAR'S BUDGETS AND RATES**

The FY2006-07 budget consists of two different components – the operating budget and the capital budget. The operating budget is \$75.6 million representing a 21.2% increase from FY2005-06. The operating budget is comprised of the costs to continue operations from year to year without any capital expenditures. It encompasses all the basic services provided to Prescott's residents: police and fire protection; parks, recreation, and library services; water; wastewater; solid waste collection including recycling; streets maintenance; planning and zoning; building inspection; economic development and administrative services. The operating budget has been prepared without an increase in taxes.

The second component, the capital budget, is set at \$112.1 million, a 230.4% increase over FY2005-06. It includes projects and new programs that are included in the five-year plan and considered affordable within current revenue sources or planned debt issuance. Capital budgets tend to rise and fall each year depending on the timing of projects – especially if a city, such as Prescott, is primarily on a "pay-as-you-go" program. Some large projects budgeted in FY2005-06 were not completed as planned and have been carried over to FY2006-07.

The operational and capital components bring the total budget for FY2006-07 to \$187.7 million. Some of the more prominent projects consist of the following:

**Water**

The major funding allocation in the Water Fund is \$11.9 million for consulting, pilot testing, and installation of a treatment plant to address the new arsenic rule instituted by the Environmental Protection Agency that went into effect January 23, 2006.

Other notable projects in the Water Fund include:

- ◆ \$8.2 million for the design of a pipeline, reservoirs, wells and related infrastructure to deliver water from the Big Chino Ranch.
- ◆ Funding for water improvements and upgrades as part of the Copper Basin Road (\$1.6 million) and Iron Springs Road (\$1.5 million) street projects.
- ◆ \$1.8 million for the recovery wells at the Airport Recharge Facility

Each year the City plans several ongoing capital projects such as replacement of undersized water service lines, the small reservoir maintenance program, meter replacement program, fire hydrant upgrades along with miscellaneous equipment replacements.

#### **Wastewater Fund**

Within the Wastewater Fund, the largest allocations are the improvements made as part of the Iron Springs Road street project (\$1.6 million) and the North Prescott Regional Force Main project (\$1.5 million). Funding for additional wastewater main replacements/improvements necessitated by street projects is included in this fund.

Like the Water Department, the Wastewater Department each year plans several ongoing capital projects such as recharge cell cleaning at the wastewater treatment plant, lift station rehabilitation, manhole rehabilitation, etc. Equipment purchases are minimal and include a forklift (\$25,000), an equipment trailer (\$6,000), and a portion of the Project Manager vehicle (\$5,250).

#### **Transfer Station**

\$750,000 has been budgeted in this fund for the expansion of the transfer station. The current facility is at capacity and could create a safety risk to our customers should transactions increase. An additional \$100,000 is included for a hazardous material disposal day.

#### **Airport Fund**

Infrastructure projects totaling over \$1.0 million are grant funded for FY2006-07 with the City's share of these grants being \$39,526.

#### **Streets**

Street maintenance operations are funded at a level of \$4.7 million. Maintenance operations include snow removal, striping (in-house and contractual), signage, signal maintenance, installation of new street lights including maintenance through Arizona Public Service, drainage improvements, brush and weed removal, crack sealing, pothole patching, unpaved road grading, and electricity for the street light system and traffic signals.

#### **1% Tax – Streets and Open Space Fund**

Included in the FY2006-07 budget is \$5.8 million for potential open space purposes. Over \$25.0 million in street projects such as construction of the Iron Springs Road project (\$5.0 million), Copper Basin Road construction (\$3.5 million), and Williamson Valley Road Widening project (\$2.8 million). Additional funding will be requested for these projects in subsequent years.

#### **General Fund**

These are the departments/divisions providing basic services (administration, city court, legal department, parks programs and maintenance, library services, building inspection, planning and zoning, economic development, police, fire, etc.). All have been funded to provide quality service at the levels currently offered to Prescott residents.

Notable capital outlay in the General Fund for FY2006-07 includes \$145,000 for a document management system and several new police vehicles.

## **FUTURE ISSUES**

The City of Prescott faces a number of issues in the coming years. Many of these issues are urgent and need to be addressed; others can be tackled when funds become available.

Increasing traffic demands create problems, which need regional solutions. However, the City must look to itself to solve local transportation issues, such as the Iron Springs Road and Copper Basin Road projects, and the pavement preservation program. This year's budget will fund the formulation of the 2030 Transportation Plan. This plan will provide the basis for developing a regional transportation system to accommodate growth.

Water is a limited resource. We must be diligent in our efforts to conserve water as well as educate the public on consumption patterns. Many projects in this budget are designed to better manage our water, such as water meter replacements, new force mains and transmission lines, reservoir rehabilitation and upgrading booster stations. The leak detection program will survey miles of underground water facilities, pinpointing leaks that are not detectable on the surface. These leaks would in turn be repaired, saving city water.

Prescott will grow. We need to manage and direct growth in order to continue to provide for a balanced community. This year's budget includes funds to complete a Planned Growth Strategy. The Strategy will analyze all facets of anticipated development in order to accurately project future transportation and utility needs.

Prescott is in competition with other cities for tourism, retail and sales tax revenue and employees. We cannot lose site of this challenge. Continued strong economic development is vital to Prescott's continued financial stability. Determining the feasibility of specific venues in Prescott will be explored this year, including a convention center and a baseball stadium. Funds are also set aside to partner with the Arizona Department of Tourism on economic projects.

City services and service levels will require additional resources. Citizen expectations are increasing along with the population. These increases cause a greater demand for employees, services and maintenance costs. Several projects designed to address this situation are in the FY-07 budget. One example is the funding for an expansion of the Prescott ConneXion which would provide for an 80% increase in square footage and allow the City to fill the need for library services in east Prescott.

## **FINANCIAL CONTACT**

This financial report is designed to present a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or would like additional financial information, contact:

City of Prescott  
Finance Department  
201 South Cortez  
Prescott, Arizona 86303  
928.777.1112  
Or visit our website at: [www.cityofprescott.net](http://www.cityofprescott.net)

**CITY OF PRESCOTT, ARIZONA**

**Statement of Net Assets**

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 49,805,097	\$ 25,503,628	\$ 75,308,725
Receivables (net)	14,131,639	1,701,117	15,832,756
Internal balances	404,771	(404,771)	-
Inventories	225,203	419,585	644,788
Capital assets			
Land and construction in progress	60,683,323	31,998,229	92,681,552
Other capital assets (net of accumulated depreciation)	152,255,708	140,966,598	293,222,306
Other assets	-	187,658	187,658
Total assets	<u>277,505,741</u>	<u>200,372,044</u>	<u>477,877,785</u>
<b>LIABILITIES</b>			
Accounts payable	2,288,993	2,350,159	4,639,152
Accrued expenses	1,625,282	404,176	2,029,458
Claims payable	2,649,121	-	2,649,121
Deposits	50,735	284,052	334,787
Unearned revenue	310,559	372,309	682,868
Noncurrent liabilities			
Compensated absences due within one year	1,021,303	205,207	1,226,510
Bonds and other debt due within one year	2,000,304	2,052,756	4,053,060
Due in more than one year	20,918,087	24,086,311	45,004,398
Total liabilities	<u>30,864,384</u>	<u>29,754,970</u>	<u>60,619,354</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	184,827,028	148,770,568	333,597,596
Restricted for:			
Capital projects	-	4,602,547	4,602,547
Transporation and open space privilege tax activities	21,342,269	-	21,342,269
Impact fee projects	3,758,365	-	3,758,365
Highway user projects	934,464	-	934,464
Acquistion and construction	7,639,555	-	7,639,555
Compensated absences	5,301,513	812,215	6,113,728
Debt service	8,555,119	2,052,756	10,607,875
Other purposes	2,178,605	182,605	2,361,210
Nonexpendable trust	533,056	-	533,056
Unrestricted	11,571,383	14,196,383	25,767,766
Total net assets	<u>\$ 246,641,357</u>	<u>\$ 170,617,074</u>	<u>\$ 417,258,431</u>

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

CITY OF PRESCOTT, ARIZONA  
Statement of Activities  
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services, Fees, Fines, and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary Government</b>							
<i>Governmental activities:</i>							
General government	\$ 6,086,650	\$ 1,704,995	\$ 19,063		\$ (4,362,592)	\$ -	\$ (4,362,592)
Community services	2,409,814	329,140	125,088	430,885	(1,524,701)	-	(1,524,701)
Culture and recreation	6,177,208	1,342,645	52,219	1,258,212	(3,524,132)	-	(3,524,132)
Police and court	10,615,068	1,637,260	246,681	192,027	(8,539,100)	-	(8,539,100)
Fire	7,069,541	542,641	225,287	-	(6,301,613)	-	(6,301,613)
Public works	14,483,522	750,987	3,867,974	11,628,411	1,763,850	-	1,763,850
Interest on long-term debt	1,087,363	-	-	-	(1,087,363)	-	(1,087,363)
Total governmental	47,929,166	6,307,668	4,536,312	13,509,535	(23,575,651)	-	(23,575,651)
<i>Business-type activities:</i>							
Water	8,163,189	9,472,952	-	5,783,839	-	7,093,602	7,093,602
Wastewater	6,100,960	4,139,815	-	4,084,734	-	2,123,589	2,123,589
Golf course	2,629,179	2,570,842	-	-	-	(58,337)	(58,337)
Airport	5,052,283	4,472,618	-	1,529,620	-	949,955	949,955
Solid waste	4,931,475	5,301,908	-	-	-	370,433	370,433
Regional transfer station	3,705,833	4,217,447	-	-	-	511,614	511,614
Parking garage	102,270	64,632	-	-	-	(37,638)	(37,638)
Total business-type activities	30,685,189	30,240,214	-	11,398,193	-	10,953,218	10,953,218
Total primary government	\$ 78,614,355	\$ 36,547,882	\$ 4,536,312	\$ 24,907,728	(23,575,651)	10,953,218	(12,622,433)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					1,044,116	-	1,044,116
Property taxes, levied for debt service					1,690,354	-	1,690,354
Utility franchise taxes					1,369,307	-	1,369,307
City privilege and use tax, general purposes					15,129,080	-	15,129,080
City privilege and use tax, major street and open space program					14,731,785	-	14,731,785
Transient lodging tax					417,001	-	417,001
Intergovernmental revenues - unrestricted					10,124,341	-	10,124,341
Interest earnings					1,790,200	676,194	2,466,394
Miscellaneous					818,055	839,545	1,657,600
Transfers					(6,345,662)	6,345,662	-
Total general revenues and transfers					40,768,577	7,861,401	48,629,978
Change in net assets					17,192,926	18,814,619	36,007,545
Net assets - beginning					230,797,324	152,031,281	382,828,605
Prior period adjustment					(1,348,893)	(228,826)	(1,577,719)
Net assets - beginning, as restated					229,448,431	151,802,455	381,250,886
Net assets - ending					\$ 246,641,357	\$ 170,617,074	\$ 417,258,431

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

# FUND FINANCIAL STATEMENTS

## Major Governmental Funds

### GENERAL FUND

The general fund is established to account for the revenues and expenditures necessary to carry out the basic activities of the City such as culture and recreation, general government, police and fire protection.

Principal sources of revenue are privilege (sales) tax, property tax, state and county shared revenue, licenses and permits and charges for various services.

Funds are expended primarily for day-to-day operating expenses and equipment. Capital expenditures for large-scale public improvements, such as buildings, parks or streets, are accounted for elsewhere in capital projects, special revenue or enterprise funds.

### SPECIAL REVENUE FUNDS

#### **Streets and Open Space**

This fund is used to account for the additional 1% privilege tax which is limited to street improvements and maintenance and/or open space acquisition. The funding source will sunset in December 2015.

#### **Capital Improvement**

This fund accumulates resources for the purchase of land or buildings, improvements to city owned properties, grant matches, public safety projects and equipment purchases, economic development activities and other capital projects as determined by the City Council. Revenues are determined annually and are based on excess general fund revenues.

### DEBT SERVICE

#### **City of Prescott**

This fund accounts for the accumulation of resources and payment of principal and interest on general obligation and special assessment long-term debt.

#### **Community Facilities Districts**

This fund is used to account for the special assessments and the principal and interest expenditures of the debt issued by the districts. Although these bonds are not obligations of the City, generally accepted accounting principles indicate that the bonds be disclosed herein.

CITY OF PRESCOTT, ARIZONA  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Streets and Open Space	Capital Improvement	City of Prescott Debt Service	Community Facilities Districts Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and short-term investments	\$ 9,327,385	\$ 20,336,740	\$ 8,052,577	\$ 91,882	\$ 1,625,427	\$ 6,058,315	\$ 45,492,326
Accounts receivable (net)	2,524,734	1,443,182	-	-	-	46,144	4,014,060
Property taxes receivable	38,341	-	-	59,565	-	-	97,906
Special assessments receivable	-	-	-	3,036,193	5,454,719	-	8,490,912
Intergovernmental receivable	568,049	-	-	-	-	732,569	1,300,618
Interfund receivables	1,482,783	-	-	-	-	-	1,482,783
Inventory	19,401	-	-	-	-	-	19,401
Interest receivable	225,849	-	-	-	-	2,294	228,143
Long-term interfund receivables	611,401	-	-	-	-	-	611,401
Total assets	<u>\$ 14,797,943</u>	<u>\$ 21,779,922</u>	<u>\$ 8,052,577</u>	<u>\$ 3,187,640</u>	<u>\$ 7,080,146</u>	<u>\$ 6,839,322</u>	<u>\$ 61,737,550</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 609,692	\$ 384,415	\$ 413,022	\$ -	\$ -	\$ 638,858	\$ 2,045,987
Accrued payroll	1,425,413	42	-	-	-	93,382	1,518,837
Interfund payable	-	-	-	-	-	539,413	539,413
Deposits returnable	50,735	-	-	-	-	-	50,735
Unearned revenue	-	-	-	-	-	257,363	257,363
Deferred revenue	31,182	53,196	-	3,069,218	5,454,719	-	8,608,315
Total liabilities	<u>2,117,022</u>	<u>437,653</u>	<u>413,022</u>	<u>3,069,218</u>	<u>5,454,719</u>	<u>1,529,016</u>	<u>13,020,650</u>
<b>Fund Balance</b>							
Fund balance:							
Reserved for:							
Advances	906,288	-	-	-	-	-	906,288
Interfund loans	1,187,896	-	-	-	-	-	1,187,896
Dedicated purposes	-	-	-	-	-	533,056	533,056
Unreserved, reported in:							
General fund	10,586,737	-	-	-	-	-	10,586,737
Special revenue fund	-	21,342,269	7,639,555	-	-	5,114,310	34,096,134
Debt service fund	-	-	-	118,422	1,625,427	-	1,743,849
Capital projects fund	-	-	-	-	-	(337,060)	(337,060)
Total fund balances	<u>12,680,921</u>	<u>21,342,269</u>	<u>7,639,555</u>	<u>118,422</u>	<u>1,625,427</u>	<u>5,310,306</u>	<u>48,716,900</u>
Total liabilities and fund balances	<u>\$ 14,797,943</u>	<u>\$ 21,779,922</u>	<u>\$ 8,052,577</u>	<u>\$ 3,187,640</u>	<u>\$ 7,080,146</u>	<u>\$ 6,839,322</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$68,693,397.

210,105,522

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Deferred special assessment revenue	\$ 8,490,912	
Deferred property tax revenue	63,738	
	<hr/>	

8,554,650

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds Payable	(18,638,181)	
Compensated absences	(4,723,251)	
	<hr/>	

(23,361,432)

Internal service funds are used by management to charge central garage, engineering and insurance costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.

2,625,717

Net assets of governmental activities

\$ 246,641,357

**CITY OF PRESCOTT, ARIZONA**

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

**Governmental Funds**

For the year ended June 30, 2006

Revenues	City of Prescott		Community Facilities Districts		Other Governmental Funds		Total Governmental Funds
	General	Streets and Open Space	Capital Improvement	City of Prescott Debt Service	Community Facilities Districts Debt Service	Other Governmental Funds	
Taxes	\$ 17,549,198	\$ 14,731,785	\$ -	\$ 1,703,150	\$ -	\$ 417,001	\$ 34,401,134
Intergovernmental revenues	10,124,341	-	-	-	-	5,256,791	15,381,132
Licenses and permits	1,532,570	-	-	-	-	2,359,892	3,892,462
Charges for services	1,334,862	-	-	-	-	-	1,334,862
Fines and forfeitures	1,480,324	-	-	-	-	-	1,480,324
Gifts and donations	-	-	-	-	-	102,716	102,716
Interest income	286,372	363,517	202,854	167,574	490,760	179,586	1,690,663
Miscellaneous	366,374	102,490	593,895	326,421	542,746	206,341	2,138,267
<b>Total revenues</b>	<b>32,674,041</b>	<b>15,197,792</b>	<b>796,749</b>	<b>2,197,145</b>	<b>1,033,506</b>	<b>8,522,327</b>	<b>60,421,560</b>
<b>Expenditures</b>							
Current operating							
General government	3,492,049	-	2,395,052	-	-	24,049	5,911,150
Community services	1,681,731	-	-	-	-	509,121	2,190,852
Culture and recreation	5,009,801	-	-	-	-	597,905	5,607,706
Police and court	10,091,316	-	-	-	-	244,705	10,336,021
Fire	6,024,978	-	-	-	-	388,621	6,413,599
Public works	-	-	-	-	-	3,650,496	3,650,496
Capital outlay	712,681	6,667,008	5,485,596	-	-	4,209,084	17,074,369
Debt service - principal	67,060	-	-	1,587,151	505,000	-	2,159,211
Debt service - interest	13,947	-	-	598,524	472,444	-	1,084,915
<b>Total expenditures</b>	<b>27,093,563</b>	<b>6,667,008</b>	<b>7,880,648</b>	<b>2,185,675</b>	<b>977,444</b>	<b>9,623,981</b>	<b>54,428,319</b>
Excess (deficiency) of revenues over expenditures	5,580,478	8,530,784	(7,083,899)	11,470	56,062	(1,101,654)	5,993,241
<b>Other Financing Sources (Uses)</b>							
Capital lease proceeds	734,000	-	-	-	-	-	734,000
Transfers in	-	400,000	5,719,738	-	-	710,854	6,830,592
Transfers out	(4,388,557)	(839,664)	(462,709)	-	-	(1,244,595)	(6,935,525)
<b>Total other financing sources (uses)</b>	<b>(3,654,557)</b>	<b>(439,664)</b>	<b>5,257,029</b>	<b>-</b>	<b>-</b>	<b>(533,741)</b>	<b>629,067</b>
Net change in fund balances	1,925,921	8,091,120	(1,826,870)	11,470	56,062	(1,635,395)	6,622,308
Fund balance - beginning	9,980,052	13,251,149	9,466,425	106,952	1,569,365	6,892,365	41,266,308
Prior period adjustment	774,948	-	-	-	-	53,336	828,284
Fund balance - beginning, as restated	10,755,000	13,251,149	9,466,425	106,952	1,569,365	6,945,701	42,094,592
<b>Fund balance - ending</b>	<b>\$ 12,680,921</b>	<b>\$ 21,342,269</b>	<b>\$ 7,639,555</b>	<b>\$ 118,422</b>	<b>\$ 1,625,427</b>	<b>\$ 5,310,306</b>	<b>\$ 48,716,900</b>

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

**CITY OF PRESCOTT, ARIZONA**

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

For the year ended June 30, 2006

Net change in fund balances - total governmental funds		\$	6,622,308
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those costs over the lives of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.			
Expenditures for capital assets		\$	16,937,277
Less: current year depreciation			<u>8,943,003</u>
			7,994,274
Donations of capital assets are not shown in the governmental fund statements, but are included in the assets of the City. On the statement of activities, these donations are shown as capital contribution revenues.			
			11,757,938
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.			
			(734,000)
The disposition of capital assets is reported in the statement of activities. This does not represent a use of current resources and, thus, is not reported in the funds. Transfers to proprietary funds			
Other dispositions			<u>(6,332,379)</u>
			<u>(1,661,892)</u>
			(7,994,271)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: Property taxes			
Assessments receivable			<u>(19,491)</u>
			<u>(868,885)</u>
			(888,376)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			
			2,159,211
Internal service funds are used by management to charge central garage, engineering and insurance costs to individual funds. The net operating income (loss) of certain activities of internal service funds is reported with governmental activities.			
			(561,193)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: Compensated absences			
			(1,162,965)
Change in net assets of governmental activities		\$	<u>17,192,926</u>

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

CITY OF PRESCOTT, ARIZONA

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

General Fund

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final	Amounts	Final Budget
			Budget	Positive
			Basis	(Negative)
<b>Revenues</b>				
Privilege (sales) tax	\$ 13,716,933	\$ 13,716,933	\$ 15,129,080	\$ 1,412,147
Property tax	1,048,406	1,048,406	1,050,811	2,405
Franchise tax	1,142,832	1,142,832	1,369,307	226,475
State revenue sharing	3,551,883	3,551,883	3,553,288	1,405
State shared sales tax	3,324,444	3,324,444	3,638,647	314,203
Auto in-lieu tax	2,365,570	2,365,570	2,576,593	211,023
County aid	334,322	334,322	355,813	21,491
Licenses and permits	1,057,550	1,057,550	1,532,570	475,020
Charges for services	1,186,304	1,186,304	1,334,862	148,558
Fines and forfeitures	1,284,626	1,284,626	1,480,324	195,698
Interest income	180,000	180,000	286,372	106,372
Miscellaneous	253,149	253,149	366,374	113,225
Total revenues	29,446,019	29,446,019	32,674,041	3,228,022
<b>Expenditures</b>				
Current operating				
General government	4,215,711	4,215,711	3,492,049	723,662
Community services	1,830,722	1,830,722	1,681,731	148,991
Culture and recreation	5,213,462	5,213,462	5,009,801	203,661
Police and court	10,562,945	10,562,945	10,091,316	471,629
Fire	6,182,502	6,182,502	6,024,978	157,524
Capital outlay	327,913	327,913	712,681	(384,768)
Debt service - principal	73,004	73,004	67,060	5,944
Debt service - interest	16,780	16,780	13,947	2,833
Total expenditures	28,423,039	28,423,039	27,093,563	1,329,476
Excess of revenues over expenditures	1,022,980	1,022,980	5,580,478	4,557,498
<b>Other Financing Sources (Uses)</b>				
Lease proceeds	800,000	800,000	734,000	(66,000)
Transfers out	(1,471,568)	(1,471,568)	(4,388,557)	(2,916,989)
Total other financing sources and uses	(671,568)	(671,568)	(3,654,557)	(2,982,989)
Net change in fund balances	351,412	351,412	1,925,921	1,574,509
Fund balance - beginning	7,779,827	7,779,827	10,755,000	2,975,173
Fund balance - ending	\$ 8,131,239	\$ 8,131,239	12,680,921	\$ 4,549,682

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

CITY OF PRESCOTT, ARIZONA

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

Streets and Open Space Fund

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 13,422,933	\$ 13,422,933	\$ 14,731,785	\$ 1,308,852
Intergovernmental revenues	301,792	301,792	-	(301,792)
Interest income	100,000	100,000	363,517	263,517
Miscellaneous	-	-	102,490	102,490
Total revenues	<u>13,824,725</u>	<u>13,824,725</u>	<u>15,197,792</u>	<u>1,373,067</u>
<b>Expenditures</b>				
Current operating				
Capital outlay	25,722,791	25,722,791	6,667,008	19,055,783
Total expenditures	<u>25,722,791</u>	<u>25,722,791</u>	<u>6,667,008</u>	<u>19,055,783</u>
Excess (deficiency) of revenues over expenditures	<u>(11,898,066)</u>	<u>(11,898,066)</u>	<u>8,530,784</u>	<u>20,428,850</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	(400,000)	(400,000)	400,000	800,000
Transfers out	-	-	(839,664)	(839,664)
Total other financing sources and uses	<u>(400,000)</u>	<u>(400,000)</u>	<u>(439,664)</u>	<u>(39,664)</u>
Net change in fund balances	<u>(12,298,066)</u>	<u>(12,298,066)</u>	<u>8,091,120</u>	<u>20,389,186</u>
Fund balance - beginning	(11,056,990)	(11,056,990)	13,251,149	24,308,139
Fund balance - ending	<u>\$ (23,355,056)</u>	<u>\$ (23,355,056)</u>	<u>\$ 21,342,269</u>	<u>\$ 44,697,325</u>

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

CITY OF PRESCOTT, ARIZONA

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

Capital Improvement Fund

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ 150,000	\$ 150,000	\$ 202,854	\$ 52,854
Miscellaneous	1,050,000	1,050,000	593,895	(456,105)
Total revenues	1,200,000	1,200,000	796,749	(403,251)
<b>Expenditures</b>				
Current operating				
General government	2,125,000	2,125,000	2,395,052	(270,052)
Capital outlay	7,737,000	7,521,000	5,485,596	2,251,404
Total expenditures	9,862,000	9,646,000	7,880,648	1,981,352
Excess (deficiency) of revenues over expenditures	(8,662,000)	(8,446,000)	(7,083,899)	1,578,101
<b>Other Financing Sources (Uses)</b>				
Transfers in	750,000	750,000	5,719,738	4,969,738
Transfers out	(450,672)	(450,672)	(462,709)	(12,037)
Total other financing sources and uses	299,328	299,328	5,257,029	4,957,701
Net change in fund balances	(8,362,672)	(8,146,672)	(1,826,870)	6,535,802
Fund balance - beginning	(7,735,488)	(7,735,488)	9,466,425	17,201,913
Fund balance - ending	\$ (16,098,160)	\$ (15,882,160)	\$ 7,639,555	\$ 23,737,715

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

## **FUND FINANCIAL STATEMENTS**

### **Proprietary Funds**

The City has seven enterprise funds. Enterprise funds are used to account for the acquisition, operation and maintenance of water, wastewater, golf course, airport, solid waste, regional transfer station and parking garage facilities. These funds are entirely or predominately self-supported through user charges to the customers. Funds included are:

- **Water**
- **Wastewater**
- **Golf course**
- **Airport**
- **Solid waste**
- **Regional transfer**
- **Parking garage**

The City has five internal service funds. Internal service funds are used to account for services and commodities furnished by one department to other departments in the City on a cost reimbursement basis. Funds included are:

- **Central garage**
- **General self-insurance**
- **Workers' compensation**
- **Engineering services**
- **Facilities maintenance**

CITY OF PRESCOTT, ARIZONA  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

	Business-type Activities - Enterprise Funds							Governmental Activities- Internal Service Funds
	<u>Water</u>	<u>Waste Water</u>	<u>Golf Course</u>	<u>Airport</u>	<u>Solid Waste</u>	<u>Nonmajor Funds</u>	<u>Totals</u>	
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 10,891,887	\$ 4,964,361	\$ -	\$ 385,616	\$ 3,147,292	\$ 830,970	\$ 20,220,126	\$ 4,312,777
Accounts receivable (net)	1,495,851	-	14,461	113,434	-	8,099	1,631,845	-
Intergovernmental receivables - grants	-	-	-	69,272	-	-	69,272	-
Interfund receivables	125,000	-	-	-	-	-	125,000	-
Inventory at cost	168,351	-	84,129	167,105	-	-	419,585	205,802
Total current assets	<u>12,681,089</u>	<u>4,964,361</u>	<u>98,590</u>	<u>735,427</u>	<u>3,147,292</u>	<u>839,069</u>	<u>22,465,828</u>	<u>4,518,579</u>
<b>Noncurrent Assets</b>								
Restricted cash and cash equivalents								
Water development	4,338,437	-	-	-	-	-	4,338,437	-
Landfill closure reserve	-	-	-	-	264,110	-	264,110	-
Cash with fiscal agent	175,487	312,262	10,601	-	-	-	498,350	-
Customer deposits	182,605	-	-	-	-	-	182,605	-
Total restricted assets	<u>4,696,529</u>	<u>312,262</u>	<u>10,601</u>	<u>-</u>	<u>264,110</u>	<u>-</u>	<u>5,283,502</u>	<u>-</u>
Long-term interfund receivables	<u>1,025,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,025,000</u>	<u>-</u>
Investment in regional landfill	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,658</u>	<u>-</u>	<u>187,658</u>	<u>-</u>
Capital Assets								
Land and construction in process	24,712,581	75,901	1,963,554	1,143,261	102,302	898,978	28,896,577	13,191
Buildings	1,552,232	5,760,829	680,275	5,176,501	77,526	6,470,371	19,717,734	695,723
Improvements other than buildings	79,800,363	60,171,087	5,644,180	34,093,639	49,538	900,600	180,659,407	49,023
Machinery and equipment	4,866,771	2,093,668	1,584,478	450,060	3,676,994	435,830	13,107,801	2,971,508
Less accumulated depreciation	<u>(28,873,574)</u>	<u>(22,133,002)</u>	<u>(2,944,633)</u>	<u>(12,089,064)</u>	<u>(2,715,345)</u>	<u>(661,074)</u>	<u>(69,416,692)</u>	<u>(895,936)</u>
Total capital assets (net of accumulated depreciation)	<u>82,058,373</u>	<u>45,968,483</u>	<u>6,927,854</u>	<u>28,774,397</u>	<u>1,191,015</u>	<u>8,044,705</u>	<u>172,964,827</u>	<u>2,833,509</u>
Total noncurrent assets	<u>87,779,902</u>	<u>46,280,745</u>	<u>6,938,455</u>	<u>28,774,397</u>	<u>1,642,783</u>	<u>8,044,705</u>	<u>179,460,987</u>	<u>2,833,509</u>
Total assets	<u>100,460,991</u>	<u>51,245,106</u>	<u>7,037,045</u>	<u>29,509,824</u>	<u>4,790,075</u>	<u>8,883,774</u>	<u>201,926,815</u>	<u>7,352,088</u>

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

**Business-type Activities - Enterprise Funds**

	<u>Water</u>	<u>Waste Water</u>	<u>Golf Course</u>	<u>Airport</u>	<u>Solid Waste</u>	<u>Nonmajor Funds</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts payable	\$ 1,318,005	\$ 257,591	\$ 48,225	\$ 319,536	\$ 73,857	\$ 332,946	\$ 2,350,160	\$ 242,543
Accrued payroll	174,857	63,890	61,038	21,242	32,904	50,245	404,176	106,445
Compensated absences - current	62,920	65,924	19,074	19,001	30,498	7,790	205,207	107,901
Advance customer payments	91,874	-	-	-	-	-	91,874	-
Interfund payables	-	540,759	373,657	28,953	-	-	943,369	125,000
Contracts payable - current	328,085	320,691	451,225	-	-	-	1,100,001	-
Notes and assessments - current	289,719	-	309,467	353,569	-	-	952,755	-
Landfill closure/postclosure cost - current	-	-	-	-	40,000	-	40,000	-
Deferred revenue - current	-	-	259,409	86,624	-	-	346,033	-
Claims payable	-	-	-	-	-	-	-	2,649,121
Customer water deposits	192,178	-	-	-	-	-	192,178	-
Total current liabilities	<u>2,457,638</u>	<u>1,248,855</u>	<u>1,522,095</u>	<u>828,925</u>	<u>177,259</u>	<u>390,981</u>	<u>6,625,753</u>	<u>3,231,010</u>
<b>Noncurrent Liabilities</b>								
Compensated absences	159,745	232,486	60,161	94,687	52,952	6,977	607,008	470,361
Contracts payable	2,522,916	3,128,105	1,337,064	-	-	-	6,988,085	-
Interfund payable	-	562,716	26,238	22,447	-	-	611,401	1,025,000
Notes and assessments payable	11,788,275	-	796,078	2,569,065	-	-	15,153,418	-
Landfill closure/postclosure cost	-	-	-	-	1,297,800	-	1,297,800	-
Deferred revenue	-	-	-	26,276	-	-	26,276	-
Total noncurrent liabilities	<u>14,470,936</u>	<u>3,923,307</u>	<u>2,219,541</u>	<u>2,712,475</u>	<u>1,350,752</u>	<u>6,977</u>	<u>24,683,988</u>	<u>1,495,361</u>
Total liabilities	<u>16,928,574</u>	<u>5,172,162</u>	<u>3,741,636</u>	<u>3,541,400</u>	<u>1,528,011</u>	<u>397,958</u>	<u>31,309,741</u>	<u>4,726,371</u>
<b>NET ASSETS</b>								
Invested in capital assets, net of related debt	67,129,378	42,519,687	4,034,020	25,851,763	1,191,015	1,712,326	148,770,568	2,833,509
Restricted for capital projects	4,338,437	-	10,601	-	264,110	-	4,602,547	-
Restricted for debt service	617,804	320,691	760,692	353,569	-	-	2,052,756	-
Restricted for other purposes	182,605	-	-	-	-	-	182,605	-
Unrestricted	11,264,193	3,232,566	(1,509,904)	(236,908)	1,806,939	6,773,490	15,008,598	(207,792)
Total net assets	<u>\$ 83,532,417</u>	<u>\$ 46,072,944</u>	<u>\$ 3,295,409</u>	<u>\$ 25,968,424</u>	<u>\$ 3,262,064</u>	<u>\$ 8,485,816</u>	<u>\$ 170,617,074</u>	<u>\$ 2,625,717</u>

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



CITY OF PRESCOTT, ARIZONA

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

For the year ended June 30, 2006

	Business-type Activities							Governmental Activities- Internal Service Funds
	Enterprise Funds							
	Water	Waste Water	Golf Course	Airport	Solid Waste	Nonmajor Funds	Totals	
<b>Operating Revenues</b>								
Water sales	\$ 6,345,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,345,783	\$ -
Water connection fees	559,887	-	-	-	-	-	559,887	-
Alternative water source fees	565,840	-	-	-	-	-	565,840	-
Alternative water impact fees	1,936,720	-	-	-	-	-	1,936,720	-
Sewer service fees	-	3,975,575	-	-	-	-	3,975,575	-
Sewer connection fees	-	14,240	-	-	-	-	14,240	-
Effluent recharge fees	-	150,000	-	-	-	-	150,000	-
Golf course green fees	-	-	1,510,285	-	-	-	1,510,285	-
Golf course rentals	-	-	661,575	-	-	-	661,575	-
Golf pro-shop sales	-	-	398,982	-	-	-	398,982	-
Fuel sales	-	-	-	3,513,659	-	-	3,513,659	-
Tie down and hangar rentals	-	-	-	958,959	-	-	958,959	-
Refuse collection fees	-	-	-	-	4,961,348	-	4,961,348	-
Tipping fees	-	-	-	-	340,560	4,217,447	4,558,007	-
Other services	-	-	-	-	-	64,632	64,632	6,981,110
Miscellaneous	187,284	572,648	49,633	29,131	-	849	839,545	2,123
Total operating revenues	9,595,514	4,712,463	2,620,475	4,501,749	5,301,908	4,282,928	31,015,037	6,983,233
<b>Operating Expenses</b>								
Personnel services	1,932,503	1,748,652	913,209	574,364	895,803	378,571	6,443,102	2,670,521
Supplies	688,676	334,914	375,933	41,552	477,498	64,028	1,982,601	659,521
Other services and charges	3,143,844	2,070,470	647,278	515,614	3,307,999	3,307,482	12,992,687	1,822,882
Cost of fuel sales	-	-	-	2,774,369	-	-	2,774,369	-
Depreciation	1,711,341	1,727,661	577,048	976,799	250,175	57,311	5,300,335	198,720
Claims expense	-	-	-	-	-	-	-	974,190
Total operating expenses	7,476,364	5,881,697	2,513,468	4,882,698	4,931,475	3,807,392	29,493,094	6,325,834
Operating income (loss)	2,119,150	(1,169,234)	107,007	(380,949)	370,433	475,536	1,521,943	657,399
<b>Non-Operating Revenues (Expenses)</b>								
Interest income	461,422	118,924	-	15,112	68,942	11,794	676,194	99,536
Interest expense	(686,825)	(219,263)	(115,711)	(169,585)	-	(711)	(1,192,095)	(2,448)
Net gain (loss) on disposal of assets	64,722	-	-	-	-	-	64,722	77,075
Total non-operating Revenues (expenses)	(160,681)	(100,339)	(115,711)	(154,473)	68,942	11,083	(451,179)	174,163
Income (loss) before contributions and transfers	1,958,469	(1,269,573)	(8,704)	(535,422)	439,375	486,619	1,070,764	831,562
Grant contributions	-	-	-	1,529,620	-	-	1,529,620	-
Capital contributions	5,783,839	4,084,734	-	-	-	6,332,379	16,200,952	-
Transfers in (out)	-	-	(69,389)	48,741	-	33,931	13,283	91,650
Change in net assets	7,742,308	2,815,161	(78,093)	1,042,939	439,375	6,852,929	18,814,619	923,212
Total net assets - beginning	75,849,922	43,342,644	3,393,509	24,971,393	2,831,110	1,642,703	152,031,281	1,908,049
Prior period adjustment	(59,813)	(84,861)	(20,007)	(45,908)	(8,421)	(9,816)	(228,826)	(205,543)
Total net assets - beginning, as restated	75,790,109	43,257,783	3,373,502	24,925,485	2,822,689	1,632,887	151,802,455	1,702,506
Total net assets - ending	\$ 83,532,417	\$ 46,072,944	\$ 3,295,409	\$ 25,968,424	\$ 3,262,064	\$ 8,485,816	\$ 170,617,074	\$ 2,625,718

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

## CITY OF PRESCOTT, ARIZONA

## Statement of Cash Flows

## Proprietary Funds

For the year ended June 30, 2006

	<u>Water</u>	<u>Waste Water</u>	<u>Golf Course</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 9,513,979	\$ 4,139,815	\$ 2,865,232
Cash payments to suppliers for goods and services	(2,968,506)	(2,567,601)	(1,555,972)
Cash payments to employees for services	(1,878,905)	(1,654,133)	(886,731)
Other operating receipts	187,284	572,648	49,633
Net cash provided by (used for) operating activities	<u>4,853,852</u>	<u>490,729</u>	<u>472,162</u>
<b>Cash flows from noncapital financing activities:</b>			
Repayments under interfund loan arrangement	125,000	-	-
Receipts (payments) under interfund loan arrangement	-	-	(86,752)
Interest paid on noncapital financing	-	-	-
Transfers in (out)	-	-	(69,389)
Net cash provided by (used for) noncapital financing activity	<u>125,000</u>	<u>-</u>	<u>(156,141)</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from debt issues	-	-	-
Acquisition and construction of capital assets	(6,299,600)	(1,185,014)	(7,700)
Principal paid on capital financing	(596,517)	(830,555)	(743,017)
Interest paid on capital financing	(686,825)	(219,263)	(115,711)
Proceeds from sales of fixed assets	70,328	-	-
Contributed from capital grant	-	-	-
Contributed from customers	1,880,500	1,190,538	-
Net cash provided by (used for) capital and related financing activities	<u>(5,632,114)</u>	<u>(1,044,294)</u>	<u>(866,428)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	461,422	118,924	-
Net cash provided by (used for) investing activities	<u>461,422</u>	<u>118,924</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(191,840)	(434,641)	(550,407)
Cash and cash equivalents at July 1	15,780,256	5,711,264	561,008
Cash and cash equivalents at June 30	<u>\$ 15,588,416</u>	<u>\$ 5,276,623</u>	<u>\$ 10,601</u>
<b>Reconciliation to statement of net assets</b>			
Cash and cash equivalents at June 30, unrestricted	\$ 10,891,887	\$ 4,964,361	\$ -
Cash and cash equivalents at June 30, restricted	4,696,529	312,262	10,601
Total	<u>\$ 15,588,416</u>	<u>\$ 5,276,623</u>	<u>\$ 10,601</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating income (loss)	\$ 2,119,150	\$ (1,169,234)	\$ 107,007
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	1,711,341	1,727,661	577,048
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	76,915	-	332,388
(Increase) decrease in inventory	108,594	-	1,809
Increase (decrease) in accounts payable	755,420	(162,217)	(534,570)
Increase (decrease) in accrued expenses	15,304	8,523	16,117
Increase (decrease) in compensated absences	(424)	10,103	(3,071)
Increase (decrease) in advance customer payments	34,808	-	-
Increase (decrease) in customer water deposits	(5,974)	-	-
Increase (decrease) in accrued vacation and sick payable	38,718	75,893	13,432
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in landfill closure & postclosure cost payable	-	-	-
Increase (decrease) in deferred revenue	-	-	(37,998)
Total adjustments	<u>2,734,702</u>	<u>1,659,963</u>	<u>365,155</u>
Net cash provided by operating activities	<u>\$ 4,853,852</u>	<u>\$ 490,729</u>	<u>\$ 472,162</u>
<b>Noncash investing, capital and financing activities</b>			
Contributions from developers	\$ 3,902,747	\$ 2,894,197	\$ -
Total noncash investing, capital and financing activities	<u>\$ 3,902,747</u>	<u>\$ 2,894,197</u>	<u>\$ -</u>

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

<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental</b>
<b>Airport</b>	<b>Solid Waste</b>	<b>Nonmajor Funds</b>	<b>Totals</b>	<b>Activities- Internal Service Funds</b>
\$ 4,504,793	\$ 5,301,908	\$ 4,281,380	\$ 30,607,107	\$ 7,006,316
(3,430,722)	(3,631,030)	(3,574,529)	(17,728,360)	(3,055,379)
(554,315)	(878,365)	(368,622)	(6,221,071)	(2,500,020)
29,131	-	849	839,545	2,123
<u>548,887</u>	<u>792,513</u>	<u>339,078</u>	<u>7,497,221</u>	<u>1,453,040</u>
-	-	-	125,000	(125,000)
-	-	-	(86,752)	(35,659)
-	-	-	-	(2,448)
48,741	-	33,931	13,283	91,650
<u>48,741</u>	<u>-</u>	<u>33,931</u>	<u>51,531</u>	<u>(71,457)</u>
-	-	-	-	-
(1,605,660)	(101,157)	(22,737)	(9,221,868)	(1,484,406)
(362,937)	-	-	(2,533,026)	-
(169,585)	-	(711)	(1,192,095)	-
-	-	-	70,328	77,076
1,652,462	-	-	1,652,462	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,071,038</u>	<u>-</u>
(485,720)	(101,157)	(23,448)	(8,153,161)	(1,407,330)
15,112	68,942	11,794	676,194	99,536
<u>15,112</u>	<u>68,942</u>	<u>11,794</u>	<u>676,194</u>	<u>99,536</u>
127,020	760,298	361,355	71,785	73,789
258,596	2,651,104	597,330	25,559,558	4,238,988
<u>\$ 385,616</u>	<u>\$ 3,411,402</u>	<u>\$ 958,685</u>	<u>\$ 25,631,343</u>	<u>\$ 4,312,777</u>
\$ 385,616	\$ 3,147,292	\$ 830,970	\$ 20,220,126	\$ 4,312,777
-	264,110	-	5,283,502	-
<u>\$ 385,616</u>	<u>\$ 3,411,402</u>	<u>\$ 830,970</u>	<u>\$ 25,503,628</u>	<u>\$ 4,312,777</u>
\$ (380,949)	\$ 370,433	\$ 475,536	1,521,943	\$ 657,399
976,799	250,175	57,311	5,300,335	198,720
(9,901)	-	(699)	398,703	25,206
(23,178)	-	-	87,225	(8,858)
(76,009)	(4,891)	(203,019)	(225,286)	143,456
(1,553)	903	36,342	75,636	146,912
965	1,558	(2,966)	6,165	23,589
-	-	-	34,808	-
-	-	-	(5,974)	-
20,637	14,977	(23,427)	140,230	-
-	-	-	-	266,616
-	159,358	-	159,358	-
42,076	-	-	4,078	-
<u>929,836</u>	<u>422,080</u>	<u>(136,458)</u>	<u>5,975,278</u>	<u>795,641</u>
<u>\$ 548,887</u>	<u>\$ 792,513</u>	<u>\$ 339,078</u>	<u>\$ 7,497,221</u>	<u>\$ 1,453,040</u>
\$ -	\$ -	\$ -	6,796,944	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,796,944</u>	<u>\$ -</u>

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



## **FUND FINANCIAL STATEMENTS**

### **Fiduciary Funds**

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity for others. The City maintains one agency fund.

#### **County Justice Court Agency**

Accounts for the cash collection of the County Justice and Juvenile Courts. These clearing accounts are offset by an equal liability. There is no measurement of the results of operations.

**CITY OF PRESCOTT, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
 June 30, 2006

	<u>Agency County Justice Court</u>
<b>ASSETS</b>	
Cash and short-term investments	\$ 156,200
Total assets	<u>156,200</u>
<b>LIABILITIES</b>	
Due to other governments	<u>156,200</u>
Total liabilities	<u>156,200</u>
<b>NET ASSETS</b>	
Held in trust for other purposes	<u><u>\$ -</u></u>

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

**CITY OF PRESCOTT, ARIZONA**  
**Notes to the Financial Statements**  
For the year ended June 30, 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The City of Prescott, Arizona was incorporated in 1883. The City presently operates under a Charter that was adopted in 1958. The Charter provides for a Council/City Manager form of government. The City Manager administers policies and coordinates the activities of the City. The City provides basic government services to its citizens including roads, water, wastewater, solid waste, parks and recreation facilities, police and fire.

The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies.

The accompanying financial statements include the City of Prescott (the primary government) and its component units collectively referred to as "the financial reporting entity." The component units discussed below have been blended into the City's reporting entity because of the significance of their operational or financial relationship with the City.

The Municipal Property Corporation (MPC) is a non-profit corporation organized under the laws of the State of Arizona to assist the City in the acquisition and financing of municipal projects and facilities. The MPC is governed by a board of directors who are responsible for approving the corporation's bond sales. Bond sales must also be approved by the City Council. Although it is legally separate from the City, the MPC is reported as if it is part of the primary government within the enterprise funds because its sole purpose is to finance municipal facilities for the City.

The Hassayampa Community Facilities District #1 and #2 were formed by petition to the City Council in 1996 and 1999. The districts' purposes are to improve public infrastructure in a specified land area. As special purpose districts and separate political subdivisions under the Arizona Constitution, the districts can levy assessments and issue bonds independently of the City. Property owners in the designated area are levied an assessment for the costs of operating the Districts. The City Council serves as the board of directors. The City has no liability for the districts' debt. For financial reporting purposes, the districts transactions are combined together and included as if they were part of the City's operations. The activities of the districts are reflected in the capital projects and debt service funds.

Separate financial statements of the MPC and the Community Facilities Districts may be obtained at the City's finance department, 201 South Cortez, Prescott, Arizona 86303.

**B. Basic Financial Statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on user fees and charges for support.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the changes in aggregate financial position resulting from activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities. Fiduciary funds are not included in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset with program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and

other items not included among program revenues are reported instead as *general revenues*.

*Fund Financial Statements* display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated into a separate column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the City's business-type activities/enterprise funds, as well as some special revenue funds and the general fund. The City allocates charges as reimbursement for services provided by the general fund in support of those functions based on levels of service provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **C. Basis of Presentation - Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenue and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by generic classification within the financial statements.

The GASB 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either the governmental fund type/enterprise fund type or the combined type) for the determination of major funds. Nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

The general fund is the primary fund of the City. It is used to account for all the financial transactions except those required to be accounted for in other funds. Primary sources of revenue are privilege taxes, property taxes, state and county shared revenues, licenses and permits and charges for administrative services from other funds. Principal expenditures are for general government, police and fire protection and culture and recreation.

The streets and open space fund is used to account for the additional 1% privilege and use tax which is limited to street improvements and maintenance and/or open space acquisition. The funding source will sunset in December 2015.

The capital improvement fund accumulates resources for the purchase of land or buildings, improvements to city owned properties, grant matches, public safety projects and equipment purchases, economic development activities and other capital projects as determined by the City Council. Excess general fund revenues and the proceeds from the sale of nonessential general fund real property are used to finance the activity.

The City of Prescott debt service fund accounts for the accumulation of resources and payment of principal and interest on general obligation and special assessment debt.

The Community Facilities District debt service fund accounts for the special assessments of the districts and the principal and interest expenditures of debt issued by the district.

Additionally, the City reports nonmajor funds within the governmental fund category.

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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 capital improvement funds, proprietary funds and trust funds).

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

The City reports five of its seven enterprise funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of water, wastewater, golf course, airport, and solid waste facilities. Furthermore, the City has two nonmajor funds, the regional transfer station and parking garage. These funds are entirely or predominately self-supported through user charges to the customer.

Additionally, the City reports the following fund types:

Internal Service – This fund accounts for services and commodities furnished by one department or agency to other departments and agencies of the City on a cost reimbursement basis. These consist of central garage, general self-insurance, workers' compensation, engineering services and facilities maintenance.

Fiduciary Funds - These funds are used to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the City's own programs. The City reports an agency fund that accounts for Yavapai County Justice Court activities as a fiduciary fund.

#### **D. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus.

The government-wide financial statements, proprietary funds financial statements and fiduciary fund financial statements are presented on the *full accrual* basis of accounting with an *economic resource* measurement focus. The agency fund statements do not have a measurement focus. An economic resource focus concentrates on an entity's or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a *modified accrual* basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between economic resource management focus and full accrual accounting, a current financial resource management focus is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

A deferred revenue liability arises in the governmental funds balance sheet when potential revenue does not meet either the *measurable* and *available* criteria for recognition in the current period. In the government-wide statement of net assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of availability. Thus, the liability created on the governmental fund balance sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to incurring the qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund

liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenses affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is necessary to explain the adjustments needed to transform the fund-based financial statements into the governmental activities column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods and services, or privileges provided and fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water, wastewater, solid waste, regional transfer station, airport, golf course and parking garage (when completed) are charges to customers for sales and services. The water and wastewater funds also recognize fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds apply the accrual basis of accounting, but do not have a measurement focus.

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.

#### **E. Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Funds are invested primarily with the Arizona State Treasurer's Local Government Investment Pool, securities of the U.S. government, agencies of the U.S. government, and other investments. Investments are stated at fair market value. The reported value of the pool is the same as the face value of the pool shares less a reserve for possible loss on investment.

#### **F. Receivables and Payables**

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

All accounts and property tax receivables are shown net of an allowance for uncollectibles.

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 Yavapai County Assessor. Levies are due and payable in two installments, on September 1 and March 1 and become delinquent on the first business day of November and May, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Yavapai County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent.

Property taxes levied for the current operation and maintenance expenses on residential property are limited to one percent of the primary full cash value of such property. In addition, taxes levied for the current operation and maintenance expenses on all types of property are limited to a maximum increase of two percent over the prior year's levy, adjusted for new construction and annexations.

Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

**G. Inventories**

Inventories are valued at cost using a first-in, first-out (FIFO) basis and charged to expense as used.

**H. Restricted Assets**

Assets whose use is restricted for construction, debt service or any other agreement are segregated on the government-wide statement of net assets and the proprietary fund statement of net assets.

**I. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, curbs and gutters, streets and sidewalks etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures when purchased, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than five years. Additions or improvements and other capital outlay that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net assets and is provided on the straight-line basis, less substantiated salvage value if any, over the following estimated useful lives:

Buildings and structures	40 years
Improvements other than buildings	40 years
Machinery and equipment	5-10 years
Infrastructure	20 years

Depreciation on property, plant, and equipment acquired by intergovernmental grants restricted to capital acquisitions is recognized through current operating expenses. Amortization on assets being lease/purchased is included with depreciation. Gains or losses from sales or retirements of capital assets are included in operations of the current period in the government-wide and proprietary financial statements.

**J. Compensated Absences**

The City's personnel ordinance provides full-time employees with vacation leave, sick leave, and a retirement bonus if certain conditions are met.

**Vacation Leave** - All permanent full-time employees of the City are entitled to 12 days of vacation each year during the first three years of service increasing to 15 days for three to ten years of service, 18 days for ten to fifteen years of service, and 20 days for fifteen or more years of service. Vacation can be carried over from year to year with a maximum of 25 days vacation time to be accrued for less than ten

years of service increasing to 30 days for ten or more years. At termination of employment, an employee is paid for any accumulated (vested) vacation time. The total amount of vested vacation leave at June 30, 2006, is as follows:

	Current Portion	Non-current Portion	Total
Governmental-type activities:			
General fund	\$ 913,402	\$ 634,975	\$ 1,548,377
Other	107,901	49,202	157,103
Total governmental	<u>1,021,303</u>	<u>684,177</u>	<u>1,705,480</u>
Business-type activities:			
Water	62,920	22,705	85,625
Wastewater	65,924	31,039	96,963
Golf course	19,074	15,966	35,040
Airport	19,001	6,664	25,665
Solid waste	30,498	19,617	50,115
Regional transfer station	7,790	2,631	10,421
Total business-type	<u>205,207</u>	<u>98,622</u>	<u>303,829</u>
Total vested	<u>\$ 1,226,510</u>	<u>\$ 782,799</u>	<u>\$ 2,009,309</u>

In determining the current portion, the assumption was made that each employee would take the annual allotted accrual during the next year (12 days each year during the first three years, etc.) or the amount of vacation accrual as of June 30, 2006, whichever is less.

**Sick Leave** - City employees accumulate sick leave with full pay at the rate of one working day for each month of paid service. Employees can have unlimited accrual of sick leave time. Upon termination, an employee will be paid for 1/3 of all sick leave accrued above the number of working hours in one month, not to exceed four months. However, when an employee retires they are paid 1/2 of all sick leave and are not subject to the one-month floor. The total aggregate amount of accrued sick pay benefits, using the vesting method described above, at June 30, 2006 is as follows:

	Accrued Liability 6/30/2005	Fiscal Year 2006 Change	Accrued Liability 6/30/2006
Governmental-type activities:			
General government	\$ 1,084,001	\$ 753,412	\$ 1,837,413
Other	66,506	104,857	171,363
Total governmental activities	<u>1,150,507</u>	<u>858,269</u>	<u>2,008,776</u>
Business-type activities:			
Water	36,837	28,690	65,527
Wastewater	48,425	50,869	99,294
Golf course	12,629	5,610	18,239
Airport	18,838	13,820	32,658
Solid waste	12,122	10,703	22,825
Regional transfer station	16,069	(11,724)	4,345
Total business-type activities	<u>144,920</u>	<u>97,968</u>	<u>242,888</u>
Total accrued sick pay	<u>\$ 1,295,427</u>	<u>\$ 956,237</u>	<u>\$ 2,251,664</u>

The current portion of the sick leave above is estimated to be \$280,359.

**Retirement Bonus** - Employees with ten or more years of service with the City of Prescott that are eligible

to retire under the Arizona State Retirement System or Public Safety Personnel Retirement System system receive a three month salary appreciation bonus. This retirement bonus was not reflected in prior years financial statements but is shown as a prior period adjustment in the current year statements. (See note N in section three of the detailed notes on all funds for additional information.)

	Accrued Liability 6/30/2005	Fiscal Year 2006 Change	Accrued Liability 6/30/2006
Governmental-type activities:			
General government	\$ 1,143,349	\$ 194,112	\$ 1,337,461
Other	205,544	44,252	249,796
Total governmental activities	<u>1,348,893</u>	<u>238,364</u>	<u>1,587,257</u>
Business-type activities:			
Water	59,813	11,700	71,513
Wastewater	84,862	17,291	102,153
Golf course	20,007	5,950	25,957
Airport	45,908	9,458	55,366
Solid waste	8,421	2,090	10,511
Regional transfer station	9,815	(9,815)	-
Total business-type activities	<u>228,826</u>	<u>36,674</u>	<u>265,500</u>
Total accrued sick pay	<u>\$ 1,577,719</u>	<u>\$ 275,038</u>	<u>\$ 1,852,757</u>

The current portion of the retirement bonus above is estimated to be \$230,691.

#### K. Long-Term Debt

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 statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and shown as other financing uses.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources 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.

#### L. Fund Equity

In the fund financial statements, Governmental Funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### M. Employee Pension Plans

The City of Prescott's permanent full-time employees belong to statewide government retirement systems. The police and fire personnel, except clerical and other support services, belong to the Arizona Public Safety Personnel Retirement System, which is an agent, multiple-employer public employee retirement plan. All other covered employees belong to the Arizona State Retirement System, which is a cost-sharing, multiple-employer retirement plan.

#### N. Use of Estimates

In preparing the City of Prescott's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent

assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **O. Reclassification of Certain Amounts**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The City Council formally adopts the budget and legally allocates, or appropriates available monies for the general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds and internal service funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented.
- The miscellaneous gift trust fund and the permanent fund have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds.
- Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1 of each year. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings on the budget are held each year in accordance with legal requirements in order to obtain citizen comments.
- State law requires that on, or before, the third Monday in July of each fiscal year, the City Council must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption; however, they may be decreased. The tentative budget must also be published once per week for two consecutive weeks prior to final adoption. Final adoption must take place on or before the second Monday in August.
- The level of control for each legally adopted annual budget is at the department level. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The City Manager may transfer any unencumbered appropriation from one expenditure category to another within a department. Only the Council may transfer any unencumbered appropriation balance, or portion thereof, from one department to another.
- Formal budgetary integration is employed as a management control device through line item levels during the fiscal year for the general, special revenue, debt service, capital projects, enterprise and internal service funds. The budgets are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP) with the major differences being: 1) accrued compensated absences are not recognized as expenditures for budgetary purposes, 2) capital outlays for proprietary funds are treated as expenditures, 3) debt service principal payments are treated as expenditures for proprietary funds, 4) capital grants in enterprise funds are budgeted as revenue, and 5) depreciation is not budgeted as an expenditure.

All appropriations and encumbrances unexpended at year-end lapse and are not available in the following year. Budgets for all funds are adopted in accordance with the requirements of the Arizona Constitution, Arizona Revised Statutes and the Prescott City Charter. There was one amendment to the budget after final adoption; resulting in the following appropriation transfers:

<u>To:</u>	<u>From:</u>	<u>Amount</u>
City Clerk	Budget & Finance	\$ 45,000
Administrative services	Budget & Finance	250,000
Transient occupancy tax	Capital Improvement	216,000
Total appropriation transfers		<u>\$ 511,000</u>

**B. Budget Basis of Accounting**

The City of Prescott's budget is adopted on a basis other than generally accepted accounting principles. The results of operations which provide a meaningful comparison of actual results with the budget are presented in the fund financial statements - statement of revenues, expenditures and changes in fund balances - budget and actual - for the general fund and major special revenue funds.

**C. Excess of Budgeted Expenditures over Budgeted Revenue and Other Financial Sources**

The following are the funds in which expenditures were budgeted to exceed revenues, as well as the anticipated amount of their respective fund balance surplus that would be needed to balance the budget compared to actual:

		<u>Budgeted</u>		<u>Actual</u>	
<b>Special</b>	Highway user	483,157	deficit	55,853	surplus
<b>Revenue</b>	Streets and open space	12,298,066	deficit	8,091,120	surplus
<b>Funds</b>	Capital improvement	8,146,672	deficit	1,826,870	deficit
	Transient lodging	224,210	deficit	214,565	deficit
	Grants	28,629	deficit	6,330	deficit
	Impact fees	1,523,660	deficit	1,159,678	deficit
<b>Capital Projects</b>					
<b>Funds</b>	Lakes purchase	412,229	deficit	227,556	deficit
<b>Enterprise</b>					
<b>Funds</b>	Water	13,631,851	deficit	1,807,697	deficit
	Wastewater	5,065,536	deficit	280,950	deficit
	Parking garage	10,000	deficit	2,176	deficit

**D. Excess of Budgeted Expenditures over Appropriations**

The following are components of the General fund and Major Special Revenue funds in which expenditures exceeded the appropriation:

	<u>Budgeted</u>	<u>Actual</u>	<u>Amount in excess of budget</u>
<b>General Fund</b>			
Capital outlay	327,913	712,681	384,768
<b>Capital Improvement Fund</b>			
General government	2,125,000	2,395,052	270,052

## **E. Deficit Fund Equity**

The Lakes Purchase Capital Project Fund had a deficit fund balance of \$540,358 created by expenses in excess of the original bond issue amount. The City approved a resolution during FY 2006 whereby it will be reimbursed from the proceeds of the sale of reimbursement bonds to be issued in the future by or on behalf of the City. These reimbursements will be recognized as revenue when actually received.

## **3. DETAILED NOTES ON ALL FUNDS**

### **A. Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds except for a portion of the Municipal Property Corporation and Community Facilities Districts Funds which have investments held separately by a trustee.

#### **Deposits**

At June 30, 2006, the carrying amount of the City's deposits was \$1,199,175 and the bank balance was \$3,582,270. The difference represents outstanding checks and other reconciling items.

#### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk. The City's investment policy requires collateralization of not less than 102% of the market value of investments less any FDIC coverage and requires a third-party custodian to verify collateral deposits prior to the City making payment for any investment requiring collateralization.

#### **Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of seven years or less. While the portfolio is managed to achieve a two-year dollar weighted maturity, the maximum dollar weighted average maturity authorized by the investment policy is four years. As reflected below, the modified duration of the City's investment portfolio on June 30, 2006 was 2.15, or slightly more than two years.

#### **Credit Risk**

The City is authorized by City Code, resolution and Trust Agreements to invest idle funds in obligations of the United States Government or its agencies, collateralized mortgage obligations and pass-through securities, federally insured certificates of deposit in eligible depositories, fully collateralized repurchase agreements, mutual funds consisting of the foregoing and the State Treasurer's Local Government Investment Pool. Investments in the State Treasurer's Local Government Investment Pool are not rated by a nationally recognized statistical rating organization.

#### **Concentration of Credit Risk**

There are no limits on the amounts that the City may invest in any one issuer or institution. More than five-percent (5%) of the City's investments are in collateralized mortgage obligations, mortgage pass through obligations and the State Treasurer's Local Government Investment Pool. These investments represent 65%, 21% and 9% respectively, of the City's total investments.

#### **Investments**

The City's investments at June 30, 2006 are summarized as follows (modified duration is in years):

Investment Type	Fair Value	Modified Duration
State Treasurer's pool	\$ 6,969,120	0.00
U.S. agencies	15,675,510	1.19
U.S. Government Mutual Fund	3,050,699	0.00
U.S. agency collateralized mortgage obligations (CMO's)	48,926,824	2.75
Total fair value	\$ 74,622,154	
Portfolio modified duration		2.15

**B. Receivables and Deferred Revenue**

Receivables at year-end for the City's major governmental funds and nonmajor governmental funds in the aggregate, net of applicable allowances for uncollectible accounts, are as follows:

	General	Streets and Open Space	City of Prescott Debt Service	Community Facilities Districts Debt Service	Nonmajor and Other Funds	Total
Receivables:						
Accounts (net)	\$ 2,524,734	\$ 1,443,182	\$ -	\$ -	\$ 46,144	\$ 4,014,060
Interest	225,849				2,294	228,143
Property taxes	38,341	-	59,565	-	-	97,906
Special assessments	-	-	3,036,193	5,454,719	-	8,490,912
Intergovernmental	568,049	-	-	-	732,569	1,300,618
Total	\$ 3,356,973	\$ 1,443,182	\$ 3,095,758	\$ 5,454,719	\$ 781,007	\$ 14,131,639

Receivables at year-end for the City's major enterprise funds and nonmajor enterprise funds in the aggregate, net of applicable allowances for uncollectible accounts are as follows:

	Water	Golf Course	Airport	Transfer Station	Total
Accounts receivable	\$ 1,495,851	\$ 14,461	\$ 113,434	\$ 8,099	\$ 1,631,845
Intergovernmental	-	-	69,272	-	69,272
Total	\$ 1,495,851	\$ 14,461	\$ 182,706	\$ 8,099	\$ 1,701,117

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable:		
General fund	\$ 31,182	\$ -
Debt service fund	33,025	-
Special assessments not yet due (debt service fund)	3,036,193	-
Community Facilities Districts assessments not yet due	5,454,719	-
Grant drawdowns prior to meeting eligibility requirements	-	257,363
Total	\$ 8,555,119	\$ 257,363

### C. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2006 was as follows:

Description	Beginning			Ending Balance
	Balance	Increases	Decreases	
Land and construction in progress	\$ 59,973,990	\$ 3,077,655	\$ 2,368,322	\$ 60,683,323
Total non-depreciable	59,973,990	3,077,655	2,368,322	60,683,323
Buildings	21,941,656	264,395	6,332,379	15,873,672
Improvements other than buildings	28,016,466	903,591	-	28,920,057
Machinery and equipment	15,297,636	2,667,319	279,729	17,685,226
Infrastructure	136,736,290	24,150,573	2,416,713	158,470,150
Total depreciable	201,992,048	27,985,878	9,028,821	220,949,105
Accumulated depreciation				
Buildings	(6,124,222)	(385,568)	-	(6,509,790)
Improvements other than buildings	(4,725,428)	(1,096,272)	-	(5,821,700)
Machinery and equipment	(9,775,998)	(797,181)	(240,943)	(10,332,236)
Infrastructure	(39,961,048)	(6,862,714)	(794,091)	(46,029,671)
Total accumulated depreciation	(60,586,696)	(9,141,735)	(1,035,034)	(68,693,397)
Governmental activities capital assets, net	\$ 201,379,342	\$ 21,921,798	\$ 10,362,109	\$ 212,939,031

During the year, the recently completed parking garage with a book value of \$6,332,379 was transferred to the parking garage enterprise fund.

Depreciation expense for governmental activities reported in the statement of activities is charged to functions as follows:

General government	\$ 677,240
Community services	94,917
Culture and recreation	633,492
Public safety - police	281,362
Public safety - fire	289,026
Public works	7,165,698
Total depreciation for governmental activities	<u>\$ 9,141,735</u>

Capital asset activity for business-type activities for the year ended June 30, 2006 was as follows:

Description	Beginning			Ending
	Balance	Increases	Decreases	Balance
Land and construction in process	\$ 28,682,725	\$ 3,321,110	\$ 5,606	\$ 31,998,229
Total non-depreciable	28,682,725	3,321,110	5,606	31,998,229
Buildings	13,285,822	6,332,379	-	19,618,201
Improvements other than buildings	165,077,162	12,580,125	-	177,657,287
Machinery and equipment	13,395,210	117,575	404,983	13,107,802
Total depreciable	191,758,194	19,030,079	404,983	210,383,290
Accumulated depreciation				
Buildings	(5,713,588)	(333,619)	-	(6,047,207)
Improvements other than buildings	(49,344,634)	(3,956,791)	-	(53,301,425)
Machinery and equipment	(9,590,833)	(1,009,925)	(532,698)	(10,068,060)
Total accumulated depreciation	(64,649,055)	(5,300,335)	(532,698)	(69,416,692)
Business-type activities				
capital assets,net	\$ 155,791,864	\$ 17,050,854	\$ (122,109)	\$ 172,964,827

Depreciation expense for business-type activities is charged to functions as follows:

Water	\$ 1,711,341
Wastewater	1,727,661
Golf course	577,048
Airport	976,799
Solid waste	250,175
Transfer station	57,311
Total depreciation for business-type activities	<u>\$ 5,300,335</u>

#### D. Interfund Receivables, Payables and Transfers

Interfund receivables and payables have primarily been recorded when funds overdraw their share of pooled cash. In 2004, the airport fund borrowed \$112,124 from the general fund to acquire a new mower; and, the golf course fund borrowed \$48,739 from the general fund to acquire kitchen equipment, tables and chairs for the restaurant concession. In 2003, the wastewater fund borrowed \$2,602,412 from the general fund to facilitate the early retirement of Municipal Properties Corporation bonds. In 1999, the water fund loaned the internal service self-insurance fund money to cover a large claim. The composition of interfund balances as of June 30, 2006 is as follows:

		Interfund	Interfund
		Receivables	Payables
General fund		\$ 2,094,183	\$ -
Nonmajor fund - lakes			539,413
Major enterprise funds:	Water	1,150,000	-
	Golf course	-	399,895
	Airport	-	51,400
	Wastewater	-	1,103,475
Internal service funds	Facilities Maintenance		
	Self-insurance	-	1,150,000
Total		<u>\$ 3,244,183</u>	<u>\$ 3,244,183</u>

Of the \$51,400 amount due to the general fund from the airport fund, \$28,953 represents the annual amount to be paid within one year, the balance, \$22,447 will be paid off in full in 2008.

Of the \$33,020 amount due to the general fund from the golf course fund, \$6,782 represents the annual amount to be paid within one year, the balance, \$26,238 will be paid off in full in 2011.

Of the \$1,103,475 amount due to the general fund from the wastewater fund, \$540,759 represents the annual amount to be paid within one year, the balance, \$562,716 will be paid off in full in 2008.

Of the \$1,150,000 amount due to the water fund from the self-insurance fund, \$125,000 represents annual amount to be paid within one year, the balance, \$1,025,000 will be paid off in full in 2015.

The remaining amounts represent deficit cash positions in funds which are anticipate to be paid during the upcoming year.

Transfers are used to fund capital projects, reallocate special revenue funds to operating divisions and to cover the City's share of grants.

Transfers as of June 30, 2006 were as follows:

Transfers Out From:		Transfers In To:	
General	<u>\$ 4,388,557</u>	Major special revenue	
		Streets & open space	\$ 400,000
Major special revenue		Capital improvement	5,719,737
Capital improvement	462,709	Nonmajor special revenue	<u>710,855</u>
Streets & open space	839,664	Total special revenue	<u>6,830,592</u>
Nonmajor special revenue	<u>1,244,595</u>		
Total special revenue	<u>2,546,968</u>	Enterprise	
Enterprise		Airport	62,484
Airport	13,743	Nonmajor	<u>33,931</u>
Golf	<u>69,389</u>	Total enterprise	<u>96,415</u>
Total enterprise	<u>83,132</u>	Internal Service	
Internal Service		Central Garage	82,484
Self Insurance	<u>13,095</u>	Facilities Maintenance	<u>22,261</u>
Total internal service	<u>13,095</u>		<u>104,745</u>
Total	<u><u>\$ 7,031,752</u></u>	Total	<u><u>\$ 7,031,752</u></u>

## E. Leases

### Capital Leases

The City has entered into several lease/purchase contracts for purchase of equipment and other improvements. These are included as notes payable in the accompanying financial statements. A summary of capitalized assets is as follows:

	Machinery and Equipment
Business-type activities	
Water	\$ 3,478,214
Golf course	2,334,246
Airport	5,242,655
Less accumulated amortization	(2,196,782)
	<u>8,858,333</u>
Governmental activities	547,615
Less accumulated amortization	-
	<u><u>9,405,948</u></u>

Following is a schedule of the future minimum lease payments under the above capital leases and the present value of net minimum lease payments at June 30, 2006:

Year Ending June 30,	Amount
2007	\$ 1,064,483
2008	1,258,322
2009	903,167
2010	735,715
2011	582,743
2012-2015	1,014,801
Total minimum lease payments	<u>5,559,231</u>
Less: amounts representing interest	(748,032)
Present value of net minimum lease payments at June 30, 2005	<u><u>\$ 4,811,199</u></u>

## F. Long-Term Debt

### General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City, and are repaid through the City's levying of property taxes. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds were issued in 1998 to acquire Willow and Watson Lakes real property, water rights and to make improvements to the lakes and to refund \$2,395,000 in general obligation bonds issued in 1989. These fifteen (15) year term bonds were issued with an interest rate of 4.34% and a final maturity date in 2013.

The balance outstanding at June 30, 2006 was as follows:

Purpose	Interest rate	Amount
Governmental activities	4.34%	\$ 8,130,000
Governmental activities - refunding	4.34%	1,010,000
		<u><u>\$ 9,140,000</u></u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending		
June 30,	Principal	Interest
2007	\$ 1,315,000	\$ 391,275
2008	1,390,000	338,675
2009	1,455,000	281,685
2010	1,155,000	220,575
2011	1,215,000	170,910
2012-2013	2,610,000	177,525
Total	<u>\$ 9,140,000</u>	<u>\$ 1,580,645</u>

### Special Assessment Bonds and Notes

The City has established several Municipal Improvement Districts (MID's) to finance capital improvements in specific areas through the sale of special assessment bonds or a note payable. Project costs are assessed to each property owner benefiting from the improvement, with payments then used to pay debt service on the bonds or notes. In the event a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received.

The outstanding balance of the various improvement district bonds is reflected below:

Issue	District	Issue	Installment	Matures	Rate	6/30/2006
1997	159	\$ 250,000	\$ 25,000	1/1/2007	5.11%	\$ 25,000
1998	160	56,286	5,000	1/1/2008	6.75%	10,000
2001	161	128,030	12,107	7/1/2010	7.00%	60,534
2001	162	1,920,000	110,000	9/1/2015	5.10%	1,315,000
2001	163	2,470,000	175,000	2/1/2016	4.60%	1,575,000
2004	164	95,840	5,044	1/1/2022	2.54%	80,707
						<u>\$ 3,066,241</u>

Annual debt service requirements to maturity for special assessment bonds and notes in the City's governmental activities are as follows:

Year Ending		
June 30,	Principal	Interest
2007	\$ 342,151	\$ 139,052
2008	322,151	123,054
2009	322,150	107,365
2010	332,151	91,464
2011	337,151	75,180
2012-2016	1,380,221	139,354
2017-2021	25,221	3,000
2022	5,045	78
Total	<u>\$ 3,066,241</u>	<u>\$ 678,547</u>

**Community Facilities District Bonds:**

Community Facilities District bonds are issued by Community Facilities Districts (CFD), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. Assessments are levied against property owners in the district to pay all the costs of the district. The City has no liability for Community Facilities District bonds. The following districts have been established and have issued bonds:

- Hassayampa CFD Number 1, \$7,315,000 special assessment lien bonds issued on November 1, 1996, the bonds carry an interest rate of 7.75% with final maturity in July, 2021. The balance of these bonds at June 30, 2006 was \$4,980,000.
- Hassayampa CFD Number 2, \$1,240,000 special assessment lien bonds issued on February 1, 2000, the bonds carry an interest rate of 7.5% with a final maturity in July, 2024. The balance of these bonds at June 30, 2006 was \$785,000.

Annual debt service requirements to maturity for Community Facilities District Bonds are as follows:

Year Ending	Principal	Interest
June 30,		
2007	\$ 205,000	\$ 444,825
2008	225,000	428,988
2009	245,000	411,612
2010	260,000	392,688
2011	280,000	372,600
2012-2016	1,770,000	1,502,287
2017-2021	2,570,000	703,263
2022-2024	210,000	32,250
Total	<u>\$ 5,765,000</u>	<u>\$ 4,288,513</u>

**Municipal Property Corporation Bonds:**

The Municipal Property Corporation (MPC) is a non-profit corporation created by the City to finance construction or acquisition of municipal buildings and improvements on land owned by the City. The MPC issues its own bonds. Under various agreements, the City makes lease payments, which approximate the amount of debt service payable by the corporation.

The City has collateralized the contracts payable to the corporation by:

- a first lien pledge of all excise, transaction privilege and franchise taxes collected by the City, and
- a pledge of all net revenues derived by the City's water and wastewater system and/or golf course which remain after payment of necessary operation and maintenance expenses of the systems and all financial requirements of all present and future water and wastewater revenue bonds of the City, and
- the building, equipment and/or machinery.

The MPC retains legal title to the properties until the contracts with the City are paid in full. The City has sole right to the use of the facilities and is responsible for all operating and maintenance costs.

The MPC has the following outstanding bonds:

During 1998, series 1998F bonds were issued in the amount of \$6,160,000 for the purpose of paying the cost of construction of three water tanks for the City and upgrades to the airport wastewater treatment

plant. These twenty (20) year term bonds were issued with an interest rate of 4.69% and a final maturity date in 2018.

In December 2004, series 2004G bonds were issued in the amount of \$16,875,000. \$12,525,000 of this amount was issued to acquire the City's portion of the Big Chino Water Ranch, this portion of the issue matures in thirty (30) years and was issued with an interest rate of 4.62% and a final maturity date in 2034. The remaining portion, \$4,350,000 represents refunding bonds issued to refund a 1993 issue. This portion of the issue matures in 2010 and was issued with an interest rate of 2.92%.

Annual debt service requirements to maturity for MPC bonds are as follows:

Year Ending	Principal	Interest
June 30,		
2007	\$1,345,000	\$856,702
2008	1,405,000	817,377
2009	1,440,000	774,390
2010	1,295,000	727,095
2011	620,000	681,213
2012-2016	3,550,000	2,987,363
2017-2021	2,840,000	2,193,762
2022-2026	2,360,000	1,646,950
2027-2031	3,005,000	1,012,750
2032-2034	2,190,000	222,500
Total	<u>\$20,050,000</u>	<u>\$11,920,102</u>

The MPC bonds are recorded in and paid out of revenues of the following enterprise funds:

Serviced by:		Payment	Interest	Balance
Fund	Reason for Financing	Period	Rate	6/30/2006
Water	Various improvements	Semi-annual	2.92%	\$ 894,144
	Water tanks	Semi-annual	4.69%	1,628,771
	JWK ranch	Semi-annual	4.62%	12,290,000
				<u>14,812,915</u>
Wastewater	Various improvements	Semi-annual	2.92%	547,567
	Airport WWTP upgrade	Semi-annual	4.69%	2,901,229
				<u>3,448,796</u>
Golf				
course	Expansion improvement	Semi-annual	2.92%	1,788,289
	Total MPC debt			<u>\$ 20,050,000</u>

### Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2006.

	Beginning Balance	Additional obligations, and net increases	Current maturities, retirements, and net decreases	Ending Balance	Amounts due within one year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation	\$ 10,395,000	\$ -	\$ (1,255,000)	\$ 9,140,000	\$ 1,315,000
Special assessment	3,398,392	-	(332,151)	3,066,241	342,151
Community Facilities Districts	6,270,000	-	(505,000)	5,765,000	205,000
Total bonds payable	<u>20,063,392</u>	<u>-</u>	<u>(2,092,151)</u>	<u>17,971,241</u>	<u>1,862,151</u>
Lease purchase contracts	-	734,000	(67,060)	666,940	138,153
Compensated absences (1)	<u>1,689,963</u>	<u>3,682,192</u>	<u>(70,641)</u>	<u>5,301,514</u>	<u>3,064,726</u>
Governmental activity long-term liabilities	<u>\$ 21,753,355</u>	<u>\$ 4,416,192</u>	<u>\$ (2,229,852)</u>	<u>\$ 23,939,695</u>	<u>\$ 5,065,030</u>
<b>Business-type Activities:</b>					
Bonds payable:					
Municipal Properties Corporation	\$ 21,355,000	\$ -	\$ (1,305,000)	\$ 20,050,000	\$ 1,345,000
Lease purchase contracts	4,818,455		(674,195)	4,144,260	707,755
Landfill closure/postclosure costs	1,178,442	165,684	(6,326)	1,337,800	66,890
Compensated absences (1)	<u>237,952</u>	<u>611,767</u>	<u>(37,503)</u>	<u>812,216</u>	<u>600,749</u>
Business-type activity long-term liabilities	<u>\$ 27,589,849</u>	<u>\$ 777,451</u>	<u>\$ (2,023,024)</u>	<u>\$ 26,344,276</u>	<u>\$ 2,720,394</u>

(1) During the year the compensated absences were modified. The amounts above now reflect retirement bonus calculations for both governmental and business-type activities as well as short-term vacation accruals for the governmental activities. These changes resulted in a prior period adjustment. See the prior period adjustment note N below for additional details.

Details of other obligations (contracts, installment notes, and compensated absences payable) as of June 30, 2006 include the following:

Serviced By	Reason for Financing	Payment Period	Interest Rate	Type	Balance 6/30/2006
<u>Governmental-type Activities</u>					
General Fund	Payroll/HR and VOIP phone sys. Compensated absences	Monthly	3.95%	Lease/purchase Payable	\$ 666,940 \$ 5,301,512
Total Governmental-type					<u>5,968,452</u>
<u>Business-type Activities</u>					
Water Fund	Water rights Compensated absences	Semi-annual	5.00%	Lease/purchase Payable	116,079 222,665
Total water fund					<u>338,744</u>
Wastewater Fund	Compensated absences			Payable	<u>298,410</u>
Golf Course Fund	Golf course irrigation sys. Golf carts Golf Equipment/improvements Compensated absences	Monthly Monthly Monthly	4.64% 4.08% 4.80%	Lease/purchase Lease/purchase Lease/purchase Payable	407,303 392,271 305,971 79,236
Total golf course fund					<u>1,184,781</u>
Airport Fund	T-hangars Fuel farm Commercial hangar T-hangars T-hangars and taxilane Hangar design Compensated absences	Quarterly Quarterly Quarterly Quarterly Monthly Monthly	6.35% 5.35% 7.55% 4.99% 4.84% 4.84%	Lease/purchase Lease/purchase Lease/purchase Lease/purchase Lease/purchase Lease/purchase Payable	291,730 255,635 296,172 452,947 1,450,189 175,963 113,688
Total airport fund					<u>3,036,324</u>
Solid Waste Fund	Landfill closure/post closure costs Compensated absences			Payable Payable	1,337,800 83,451
					<u>1,421,251</u>
Transfer Station Fund	Compensated absences			Payable	<u>14,768</u>
Total Business-type					<u>6,294,278</u>
Total other obligations					<u>\$ 12,262,730</u>

Due to restrictions by state statute, funds for lease/purchase agreements are appropriated on a year-by-year basis. The agreements are written as a series of renewable one-year contracts beginning July 1 and ending June 30 of each fiscal year. The City, when initially entering into these contracts, has every intention of honoring the full term of the agreement. Thus, this amount represents the recognition of the total remaining contracted liability in compliance with generally accepted accounting principles, while not actually being a legal obligation at June 30, 2006. The lease/purchases of the City are generally received from a third party financing company and are secured by liens on the items purchased.

Internal service funds predominately serve governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. At year-end, \$578,263 of internal service funds' compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

The annual debt requirements until maturity for all long-term debt are provided below:

Annual Requirements to Amortize All Long-Term Debt  
June 30, 2006  
(in thousands of dollars)

	General Obligation		Special Assessments		Community Facilities	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,315	\$ 391	\$ 342	\$ 139	\$ 205	\$ 445
2008	1,390	339	322	123	225	429
2009	1,455	282	322	108	245	411
2010	1,155	221	332	91	260	393
2011	1,215	171	337	75	280	373
2012-2016	2,610	177	1,380	140	1,770	1,502
2017-2021	-	-	26	3	2,570	704
2022-2026	-	-	5	-	210	32
Total	<u>\$ 9,140</u>	<u>\$ 1,581</u>	<u>\$ 3,066</u>	<u>\$ 679</u>	<u>\$ 5,765</u>	<u>\$ 4,289</u>

	Municipal Property Corp.		Other Debt		Total Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,345	\$ 857	\$ 1,218	\$ 218	\$ 4,425	\$ 2,050
2008	1,405	817	1,454	176	4,796	1,884
2009	1,440	774	1,146	129	4,608	1,704
2010	1,295	727	1,013	95	4,055	1,527
2011	620	681	889	65	3,341	1,365
2012-2016	3,550	2,987	2,814	65	12,124	4,871
2017-2021	2,840	2,194	1,865	-	7,301	2,901
2022-2026	2,360	1,647	1,864	-	4,439	1,679
2027-2031	3,005	1,013	-	-	3,005	1,013
2030-2034	2,190	223	-	-	2,190	223
Total	<u>\$ 20,050</u>	<u>\$ 11,920</u>	<u>\$ 12,263</u>	<u>\$ 748</u>	<u>\$ 50,284</u>	<u>\$ 19,217</u>

## Legal Debt Margins

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, wastewater, lighting, parks, open space and recreational purposes may not exceed 20% of a City's net secondary assessed valuation. Outstanding general obligation bonded debt for other general municipal purposes may not exceed 6% of a City's net secondary assessed valuation. As of June 30, 2006, the City is well within its debt limits, having \$91.3 million in borrowing capacity in the 20% category, and \$28.8 million in borrowing capacity in the 6% category.

## G. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management activities are recorded in the general self-insurance and workers' compensation internal service funds. The purpose of these funds is to administer the City's property liability and workers' compensation insurance programs on a cost reimbursement basis. These funds account for the risk financing activities of the City but do not constitute a transfer of risk from the City.

Under this program, the funds provide coverage for up to a maximum of \$500,000 for each worker's compensation claim and \$500,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss.

Significant losses are covered by commercial insurance. There have been no other significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### Claims Liabilities

The City records an estimated liability for indemnity based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses), and an estimate for claims incurred but not reported (IBNRs) based on historical experience. Claims liabilities include specific, incremental claim adjustment expenses, allocated loss adjustment expenses, and are reduced for estimated recoveries on unsettled claims such as salvage, or subrogation. Workers' compensation unpaid claims liabilities are discounted at 6 percent.

### Unpaid Claims Liabilities

The claims liability of \$1,730,708 for general self-insurance and \$918,413 for workers' compensation reported in the funds at June 30, 2006 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The following represents the changes in approximate aggregate liabilities for the City from June 30, 2003 to June 30, 2006:

	General Self-Insurance	Workers' Compensation
Liability balance, June 30, 2004	\$ 870,675	\$ 562,955
Claims and changes in estimates	996,906	335,963
Claims payments	(164,603)	(319,391)
Liability balance, June 30, 2005	1,702,978	579,527
Claims and changes in estimates	524,291	561,790
Claims payments	(496,561)	(222,904)
Liability balance, June 30, 2006	<u>\$ 1,730,708</u>	<u>\$ 918,413</u>

The entire amount shown above is due within one year and classified as a current liability.

## **H. Litigation**

The City is a defendant in several lawsuits. The City Attorney estimates that any potential claims against the City not covered by insurance resulting from such lawsuits would not materially affect the financial position of the City.

In management's opinion, all other claims or litigation pending at June 30, 2006, which could have a significant effect on the financial position of the City have been provided for in the accounts.

## **I. Contingent Liabilities**

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Management intends to vigorously contest these matters and does not believe their ultimate resolution will have a material effect upon the City's financial position, results of operations or cash flows.

The City's economic development department has several negotiations in progress that could result in future liabilities to the City.

The City participates in a number of Federal and State assisted grant programs that are subject to financial and compliance audits. Audits for these programs may be conducted at a future date, and the City expects the amount, if any, of the expenditures that may be disallowed by the granting agency to be immaterial.

## **J. Intergovernmental Agreements**

The City's solid waste enterprise fund (City) has entered into an agreement with Yavapai County (County) to provide a regional transfer station and land for the possible future development of a regional landfill. The City and County agreed to participate financially in this enterprise 65% and 35%, respectively. The transfer station was constructed with proceeds from a lease/purchase agreement, which is scheduled to be repaid through user fees.

The only contributions from the County have been for the purchase of the land for a possible future landfill. The City has total responsibility for operating the enterprise and all profits will be used to retire debt and fund future expansions with any losses being shared by the City and County based on the above percentages.

The City has an agreement with the Town of Prescott Valley to share costs for development of groundwater located on the Big Chino Water Ranch for municipal supply purposes. During the year, the City acquired 4,500 deeded acres, along with a leasehold interest in 2,000 acres of state land. A conservation easement on the balance of the Ranch acreage, will preclude development of that property and eliminate the associated groundwater demand.

Through this purchase, the City will implement the right, granted by ARS 45-555, to transport groundwater from the Big Chino basin into the Prescott Active Management Area (AMA). The amount anticipated to be pumped consists of 8,717 acre-feet per year, plus up to 4,500 acre-feet per year corresponding to the retirement of approximately 1,500 acres of historically irrigated land within the Ranch property acquired. The intergovernmental agreement (IGA) with the Town of Prescott Valley provides for sharing of the 8,717 acre-feet per year, 4,717 acre-feet/year to the City (54.1%), and 4,000 acre-feet per year to the Town (45.9%). The estimated 4,500 acre-feet per year balance from conversion of historically irrigated lands is to be held in reserve to mitigate the effects of groundwater pumping, should any occur necessitating such action and/or for contributing to achieving safe-yield in the little Chino aquifer located within the AMA. The IGA further provides for prorated sharing of acquisition, production, and transport costs by the parties. Development of the well field, transmission lines, and other infrastructure is estimated at an additional \$170 million. The target date for delivery of water from the Big Chino Water Ranch is 2009.

## **K. Retirement and Pension Plans**

### **Plan Descriptions:**

The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor and health insurance premium benefits.

The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The Arizona Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS	PSPRS
3300 North Central Phoenix, AZ 85012-0250 (800)621-3778	3010 East Camelback Road Suite 200 Phoenix, Arizona 85016 (602)255-5575

**Funding Policy:**

The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate.

Cost-sharing plan - For the year ended June 30, 2006, active ASRS members and the City were each required to contribute at the actuarially determined rate of 7.4% (6.9% retirement and .5% long-term disability) of members' annual covered payroll. The City's contribution to ASRS for the years ended June 30, 2006, 2005 and 2004 were \$1,253,310, \$869,523 and \$788,075, respectively, which were equal to the required contributions for the years.

Agent plans - For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 20.99% for police and 16.60% for fire.

**Annual Pension Cost:**

The City's pension cost for the two agent plans for the year ended June 30, 2005 (the date of the most recent actuarial valuation) and related information follow.

	PSPRS
Contributions rates	
Police	20.99%
Fire	16.60%
Annual pension cost	
Police	\$558,343
Fire	\$433,037
Contributions made	
Police	\$558,343
Fire	\$433,037
Actuarial valuation date	06/30/05
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	20 years
Asset valuation method	Smoothed market value
Actuarial assumptions	
Investment rate of return	8.50%
Projected salary increases (includes inflation at 5.00%)	6.00% - 9.00%
Cost-of living adjustments	None

**Trend Information:**

Information for the agent plans as of the most recent actuarial valuations follows.

<u>Fiscal Year Ended June 30.</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<b>Police</b>			
2003	\$363,813	100%	\$ 0
2004	511,883	100%	0
2005	558,343	100%	0
<b>Fire</b>			
2003	\$152,262	100%	\$ 0
2004	273,701	100%	0
2005	433,037	100%	0

**L. Landfill Closure and Postclosure Care Cost**

State and federal laws and regulations required the City to place a final cover on its Sundog Ranch Road landfill site when it stopped accepting waste in 1999; additionally, the City is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City stopped receiving waste at its landfill and received a small landfill exemption from the EPA in fiscal year 1998 and started installing the final cover in fiscal year 1999. The final phase of the landfill closure was completed during the year. The \$1,297,800 reported in the solid waste enterprise fund as landfill closure and postclosure care liability at June 30, 2006, represents the total amount of estimated cost of closure and postclosure care. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations.

The postclosure care costs are paid for by landfill closure surcharge fees imposed on each solid waste user.

**M. Commitments and Future Obligations**

The City has entered into several agreements whereby it will reimburse businesses for development fees or the construction costs of certain public infrastructure improvements. The City does not become liable for the reimbursements until construction is complete. The funding source for the reimbursements will come from new tax revenues generated by the businesses. The City's maximum liability under these agreements is \$11.7 million.

**N. Prior Period Adjustments**

The City has recorded the current portion of vacation and sick leave liabilities in the governmental fund statements in error for many years. Since these amounts do not constitute an outflow of current financial resources they should not result in the recognition of a governmental fund liability. Prior period adjustments were made to the general fund and the highway user fund beginning fund balances to correct these errors.

	<u>General Fund</u>	<u>Highway User Fund</u>
Fund balance - June 30, 2005	8,292,678	431,785
Prior period adjustment	774,948	53,336
Fund balance - June 30, 2005, as restated	<u>9,067,626</u>	<u>485,121</u>

Additionally, the City provides employees with 10 or more years of service that are eligible to retire under

the ASRS or PSPRS system with a three month salary appreciation bonus. Although this policy has been in place for a number of years the estimated amounts due had not been reflected in the financial reports. Prior period adjustments were made to the Governmental statement of activities and following enterprise and internal service funds beginning net asset balances to correct these errors.

Governmental activities

Net assets - beginning	230,797,324
Prior period adjustment	(1,348,893)
Net assets - beginning, as restated	<u>229,448,431</u>

Enterprise Fund	Fund Balance Beginning	Prior Period Adjustment	Fund Balance Beginning - as restated
Water	75,849,922	(59,813)	75,790,109
Wastewater	43,342,644	(84,861)	43,257,783
Golf Course	3,993,509	(20,007)	3,973,502
Airport	24,971,393	(45,908)	24,925,485
Solid Waste	2,831,110	(8,421)	2,822,689
Transfer Station	1,642,703	(9,816)	1,632,887
	<u>152,631,281</u>	<u>(228,826)</u>	<u>152,402,455</u>

Internal Service Fund	Net Assets Beginning	Prior Period Adjustment	Net Assets Beginning - as restated
Central Garage	2,281,985	(57,385)	2,224,600
Engineering Services	114,634	(136,942)	(22,308)
Facilities Maintenance	(67,119)	(11,216)	(78,335)
	<u>2,329,500</u>	<u>(205,543)</u>	<u>2,123,957</u>

## REQUIRED SUPPLEMENTARY INFORMATION



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PRESCOTT, ARIZONA**  
**Schedule of Funding Progress**  
**Arizona Public Safety Personnel Retirement System**  
 For the year ended June 30, 2006

An analysis of funding progress for each of the Arizona Public Safety Personnel Retirement System agent plans as of the most recent actuarial valuation follows.

Valuation Date <u>June 30,</u>	(1) Actuarial Value of <u>Assets</u>	(2) Entry Age Actuarial Accrued Liability <u>(AAL)</u>	(3) Percent Funded <u>(1)/(2)</u>	(4) Unfunded AAL <u>(2)-(1)</u>	(5) Annual Covered <u>Payroll</u>	(6) Unfunded AAL as a Percentage of Covered Payroll <u>(4)/(5)</u>
<b>Police</b>						
2000	\$12,316,797	\$ 13,343,251	92.3%	\$1,026,454	\$2,520,629	40.7%
2001	13,465,721	13,511,273	99.7	45,552	2,699,456	1.7
2002	13,387,130	15,476,798	86.5	2,089,668	2,929,780	71.3
2003	13,421,537	17,507,107	76.7	4,085,570	3,224,009	126.7
2004	13,166,987	18,892,985	69.7	5,725,998	2,985,970	191.8
2005	13,093,401	22,734,128	57.6	9,640,727	3,256,530	296.0
<b>Fire</b>						
2000	\$16,609,612	\$ 14,651,380	113.4%	\$ ( 1,958,232)	\$2,401,863	- %
2001	18,089,763	14,630,633	123.6	(3,459,130)	2,755,856	-
2002	18,204,580	16,956,679	107.4	(1,247,901)	2,987,622	-
2003	18,500,014	19,967,900	92.6	1,467,886	2,727,989	53.8
2004	18,403,108	22,002,449	83.6	3,599,341	2,922,346	123.2
2005	18,547,038	25,301,003	73.3	6,753,965	3,165,228	213.4

# COMBINING STATEMENTS

## Nonmajor Governmental Funds

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. These funds are usually required by statute, charter provision or ordinance to finance particular functions or activities. The nonmajor special revenue funds of the City of Prescott are listed below.

#### **Highway User Fund**

This fund is used to account for the operation of the street maintenance department. Financing is provided by the City's share of state gasoline taxes.

#### **Transient Lodging Tax Fund**

This fund receives and expends tax revenues charged on transient lodging activity within the City. Revenues are to be used for the promotion of tourism and development of recreational facilities within the City.

#### **Grant Funds**

This represents a group of funds, which expends grant monies received by the City for various projects. Grant funds must be used for the stated purpose of the grant and must meet grantor expenditure guidelines.

#### **Impact Fees Fund**

This fund is used to account for impact fees charged to new residential construction to cover the cost of new capital facilities required to serve this new development.

#### **Miscellaneous Gift Trust**

This fund accounts for miscellaneous gifts and donations to the City.

### CAPITAL PROJECTS FUNDS

Capital projects funds are established to account for the purchase or construction of major capital facilities other than those financed by proprietary funds or trust funds. The City of Prescott has the following nonmajor capital projects funds:

#### **Lakes Purchase Fund**

This fund is used to account for the purchase of Willow and Watson Lakes, which was financed with a general obligation bond, approved by the voters.

#### **Community Facilities District Fund**

This fund is used to account for the expenditures of debt issued by the Community Facilities Districts.

### PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

#### **Acker Trust**

Accounts for the assets willed to the City by J.S. Acker. Revenue from investments and land sales are to be expended for cultural and recreational purposes only.

CITY OF PRESCOTT, ARIZONA  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

	Special Revenue Funds					Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
	Highway User	Transient Lodging Tax	Grants	Impact Fees	Miscellaneous Gift Trust	Lakes Purchase	Community Facilities Districts	Acker Trust	
<b>ASSETS</b>									
Cash and short-term investments	\$ 713,342	\$ 229,679	151,972	\$ 4,101,989	\$ 130,567		\$ 203,298	\$ 527,468	\$ 6,058,315
Accounts receivable	-	40,556	-	-	-	-	-	5,588	46,144
Intergovernmental receivables	370,676	-	361,893	-	-	-	-	-	732,569
Interest receivable	-	-	-	-	-	2,294	-	-	2,294
Total assets	<u>\$ 1,084,018</u>	<u>\$ 270,235</u>	<u>\$ 513,865</u>	<u>\$ 4,101,989</u>	<u>\$ 130,567</u>	<u>\$ 2,294</u>	<u>\$ 203,298</u>	<u>\$ 533,056</u>	<u>\$ 6,839,322</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities</b>									
Accounts payable	\$ 70,208	\$ 136	\$ 221,651	\$ 343,624	\$ -	\$ 3,239	\$ -	\$ -	\$ 638,858
Accrued payroll	79,346	-	14,036	-	-	-	-	-	93,382
Interfund payable	-	-	-	-	-	539,413	-	-	539,413
Unearned revenue	-	-	257,363	-	-	-	-	-	257,363
Total liabilities	<u>149,554</u>	<u>136</u>	<u>493,050</u>	<u>343,624</u>	<u>-</u>	<u>542,652</u>	<u>-</u>	<u>-</u>	<u>1,529,016</u>
<b>Fund Balances</b>									
Fund balance:									
Reserved for:									
Dedicated purposes								533,056	533,056
Unreserved, reported in:									
Special revenue fund	934,464	270,099	20,815	3,758,365	130,567	-	-	-	5,114,310
Capital projects fund						(540,358)	203,298	-	(337,060)
Total fund balances	<u>934,464</u>	<u>270,099</u>	<u>20,815</u>	<u>3,758,365</u>	<u>130,567</u>	<u>(540,358)</u>	<u>203,298</u>	<u>533,056</u>	<u>5,310,306</u>
Total liabilities and fund balances	<u>\$ 1,084,018</u>	<u>\$ 270,235</u>	<u>\$ 513,865</u>	<u>\$ 4,101,989</u>	<u>\$ 130,567</u>	<u>\$ 2,294</u>	<u>\$ 203,298</u>	<u>\$ 533,056</u>	<u>\$ 6,839,322</u>

CITY OF PRESCOTT, ARIZONA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2006

	Special Revenue Funds				Miscellaneous Gift Trust	Capital Projects Funds		Permanent Fund Acker Trust	Total Other Governmental Funds
	Highway User	Transient Lodging Tax	Grants	Impact Fees		Lakes Purchase	Community Facilities Districts		
<b>Revenues</b>									
Taxes	\$ -	\$ 417,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 417,001
Intergovernmental revenues	3,867,974	-	1,388,817	-	-	-	-	-	5,256,791
Licenses and permits	456,924	-	-	1,902,968	-	-	-	-	2,359,892
Gifts and donations	-	57,258	-	-	45,458	-	-	-	102,716
Interest income	19,444	5,587	3,337	124,709	283	-	6,838	19,388	179,586
Miscellaneous	197,291	-	7,500	-	50	-	-	1,500	206,341
Total revenues	4,541,633	479,846	1,399,654	2,027,677	45,791	-	6,838	20,888	8,522,327
<b>Expenditures</b>									
Current operating									
General government	-	-	21,850	-	2,199	-	-	-	24,049
Community services	-	211,605	297,516	-	-	-	-	-	509,121
Culture and recreation	-	458,322	116,814	-	4,699	-	-	18,070	597,905
Police and court	-	-	221,833	-	22,872	-	-	-	244,705
Fire	-	-	388,621	-	-	-	-	-	388,621
Public works	3,650,496	-	-	-	-	-	-	-	3,650,496
Capital outlay	835,284	24,484	669,980	2,437,580	-	227,556	14,200	-	4,209,084
Total expenditures	4,485,780	694,411	1,716,614	2,437,580	29,770	227,556	14,200	18,070	9,623,981
Excess (deficiency) of revenues over (under) expenditures	55,853	(214,565)	(316,960)	(409,903)	16,021	(227,556)	(7,362)	2,818	(1,101,654)
<b>Other Financing Sources (Uses)</b>									
Transfers in	-	-	310,629	400,225	-	-	-	-	710,854
Transfers out	-	-	-	(1,150,000)	(94,595)	-	-	-	(1,244,595)
Total other financing sources (uses)	-	-	310,629	(749,775)	(94,595)	-	-	-	(533,741)
Net change in fund balance	55,853	(214,565)	(6,331)	(1,159,678)	(78,574)	(227,556)	(7,362)	2,818	(1,635,395)
Fund balance - beginning	825,275	484,664	27,146	4,918,043	209,141	(312,802)	210,660	530,238	6,892,365
Prior period adjustment	53,336	-	-	-	-	-	-	-	53,336
Fund balance - beginning, as restated	878,611	484,664	27,146	4,918,043	209,141	(312,802)	210,660	530,238	6,945,701
Fund balance - ending	\$ 934,464	\$ 270,099	\$ 20,815	\$ 3,758,365	\$ 130,567	\$ (540,358)	\$ 203,298	\$ 533,056	\$ 5,310,306

# SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

## GOVERNMENTAL FUNDS

### *Special Revenue Funds*

- Highway user
- Transient lodging tax
- Grants
- Impact fees

### *Debt Service Funds*

- City of Prescott
- Community Facilities Districts

### *Capital Projects Funds*

- Lakes purchase
- Community Facilities Districts

CITY OF PRESCOTT, ARIZONA

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

Highway User Fund

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental revenues				
Highway user revenue	\$ 3,341,684	\$ 3,341,684	\$ 3,491,992	\$ 150,308
Local transportation assistance funds	199,896	199,896	199,806	(90)
Intergovernmental contributions	168,144	168,144	176,176	8,032
Total intergovernmental revenues	<u>3,709,724</u>	<u>3,709,724</u>	<u>3,867,974</u>	<u>158,250</u>
Charges for services	285,482	285,482	456,924	171,442
Interest income	7,500	7,500	19,444	11,944
Miscellaneous	-	-	197,291	197,291
Total revenues	<u>4,002,706</u>	<u>4,002,706</u>	<u>4,541,633</u>	<u>538,927</u>
<b>Expenditures</b>				
Current operating				
Public works	3,684,122	3,684,122	3,650,496	33,626
Capital outlay	801,741	801,741	835,284	(33,543)
Total expenditures	<u>4,485,863</u>	<u>4,485,863</u>	<u>4,485,780</u>	<u>83</u>
Excess (deficiency) of revenues over expenditures	<u>(483,157)</u>	<u>(483,157)</u>	<u>55,853</u>	<u>539,010</u>
Fund balance - beginning	<u>(707,583)</u>	<u>(707,583)</u>	<u>878,611</u>	<u>1,646,196</u>
Fund balance - ending	<u>\$ (1,190,740)</u>	<u>\$ (1,190,740)</u>	<u>934,464</u>	<u>\$ 2,185,206</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Transient Lodging Tax Special Revenue Fund**

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes - transient lodging tax	\$ 360,500	\$ 360,500	\$ 417,001	\$ 56,501
Interest income	5,000	5,000	5,587	587
Gifts and donations	-	-	57,258	57,258
Total revenues	<u>365,500</u>	<u>365,500</u>	<u>479,846</u>	<u>114,346</u>
<b>Expenditures</b>				
Current operating - community services				
Other services and charges	230,250	230,250	211,605	18,645
Current operating - culture and recreation				
Other services and charges	115,460	331,460	458,322	(342,862)
Capital outlay	28,000	28,000	24,484	3,516
Total expenditures	<u>373,710</u>	<u>589,710</u>	<u>694,411</u>	<u>(320,701)</u>
Excess (deficiency) of revenues over expenditures	(8,210)	(224,210)	(214,565)	(206,355)
Fund balance - beginning	484,664	484,664	484,664	-
Fund balance - ending	<u>\$ 476,454</u>	<u>\$ 260,454</u>	<u>\$ 270,099</u>	<u>\$ (206,355)</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Grants Special Revenue Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final	Amounts Budget Basis	Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental revenues	\$ 4,094,939	\$ 4,094,939	\$ 1,388,817	\$ (2,706,122)
Interest income	-	-	3,337	3,337
Miscellaneous	-	-	7,500	7,500
Total revenues	4,094,939	4,094,939	1,399,654	(2,695,285)
<b>Expenditures</b>				
Current operating - general government				
Supplies	-	-	21,850	(21,850)
Other services and charges	10,000	10,000	-	10,000
Total general government	10,000	10,000	21,850	(11,850)
Current operating - general government				
Personnel services	65,527	65,527	75,351	(9,824)
Supplies	-	-	110	(110)
Other services and charges	651,889	651,889	222,055	429,834
Total community services	717,416	717,416	297,516	419,900
Current operating - culture and recreation				
Supplies	40,223	40,223	1,946	38,277
Other services and charges	221,217	221,217	114,868	106,349
Total culture and recreation	261,440	261,440	116,814	144,626
Current operating - police and court				
Personnel services	96,871	96,871	125,919	(29,048)
Supplies	77,902	77,902	45,424	32,478
Other services and charges	134,113	134,113	50,490	83,623
Total police and court	308,886	308,886	221,833	87,053
Current operating - fire				
Personnel services	410,147	410,147	350,337	59,810
Supplies	26,930	26,930	17,582	9,348
Other services and charges	71,200	71,200	20,703	50,497
Total fire	508,277	508,277	388,622	119,655
Capital outlay	2,810,077	2,810,077	669,980	2,140,097
Total expenditures	4,616,096	4,616,096	1,716,615	2,899,481
Excess (deficiency) of revenues over expenditures	(521,157)	(521,157)	(316,961)	204,196
<b>Other Financing Sources (Uses)</b>				
Transfers in	492,528	492,528	310,630	(181,898)
Total other financing sources (uses)	492,528	492,528	310,630	(181,898)
Net change in fund balances	(28,629)	(28,629)	(6,331)	22,298
Fund balance - beginning	27,146	27,146	27,146	-
Fund balance - ending	\$ (1,483)	\$ (1,483)	\$ 20,815	\$ 22,298

CITY OF PRESCOTT, ARIZONA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Impact Fees Special Revenue Fund

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Licenses and permits - impact fees	\$ 1,851,450	\$ 1,851,450	\$ 1,902,968	\$ 51,518
Interest income	103,000	103,000	124,709	21,709
Total revenues	<u>1,954,450</u>	<u>1,954,450</u>	<u>2,027,677</u>	<u>73,227</u>
<b>Expenditures</b>				
Capital outlay	<u>3,323,725</u>	<u>3,323,725</u>	<u>2,437,580</u>	<u>886,145</u>
Excess (deficiency) of revenues over expenditures	<u>(1,369,275)</u>	<u>(1,369,275)</u>	<u>(409,903)</u>	<u>959,372</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	400,225	400,225	400,225	-
Transfers out	<u>(554,610)</u>	<u>(554,610)</u>	<u>(1,150,000)</u>	<u>(595,390)</u>
Total other financing sources (uses)	<u>(154,385)</u>	<u>(154,385)</u>	<u>(749,775)</u>	<u>(595,390)</u>
Net change in fund balances	<u>(1,523,660)</u>	<u>(1,523,660)</u>	<u>(1,159,678)</u>	<u>363,982</u>
Fund balance - beginning	4,918,043	4,918,043	4,918,043	-
Fund balance - ending	<u>\$ 3,394,383</u>	<u>\$ 3,394,383</u>	<u>\$ 3,758,365</u>	<u>\$ 363,982</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
City of Prescott Debt Service Fund**

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property tax revenue	\$ 1,697,025	\$ 1,697,025	\$ 1,703,150	\$ 6,125
Interest income	165,627	165,627	167,574	1,947
Miscellaneous income	332,151	332,151	326,421	(5,730)
Total revenues	<u>2,194,803</u>	<u>2,194,803</u>	<u>2,197,145</u>	<u>2,342</u>
<b>Expenditures</b>				
Debt service				
Principal	1,587,151	1,536,507	1,587,151	(50,644)
Interest	598,570	598,570	598,523	47
Total expenditures	<u>2,185,721</u>	<u>2,135,077</u>	<u>2,185,674</u>	<u>(50,597)</u>
Excess (deficiency) of revenues over expenditures	9,082	59,726	11,471	(48,255)
Fund balance - beginning	106,951	106,951	106,951	-
Fund balance - ending	<u>\$ 116,033</u>	<u>\$ 166,677</u>	<u>\$ 118,422</u>	<u>\$ (48,255)</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Community Facilities Districts Debt Service Fund**

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	\$ -	\$ 490,760	\$ 490,760
Miscellaneous income	1,188,838	1,188,838	542,746	(646,092)
Total revenues	<u>1,188,838</u>	<u>1,188,838</u>	<u>1,033,506</u>	<u>(155,332)</u>
<b>Expenditures</b>				
Debt service				
Principal	716,394	716,394	505,000	211,394
Interest	472,444	472,444	472,444	-
Total expenditures	<u>1,188,838</u>	<u>1,188,838</u>	<u>977,444</u>	<u>211,394</u>
Excess (deficiency) of revenues over expenditures	-	-	56,062	56,062
Fund balance - beginning	1,569,365	1,569,365	1,569,365	-
Fund balance - ending	<u>\$ 1,569,365</u>	<u>\$ 1,569,365</u>	<u>\$ 1,625,427</u>	<u>\$ 56,062</u>

CITY OF PRESCOTT, ARIZONA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Lakes Purchase Capital Projects Fund

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ 7,000	\$ 7,000	\$ -	\$ (7,000)
Total revenues	7,000	7,000	-	(7,000)
<b>Expenditures</b>				
Capital outlay	419,299	419,299	227,556	191,743
Total expenditures	419,299	419,299	227,556	191,743
Excess (deficiency) of revenues over expenditures	(412,299)	(412,299)	(227,556)	184,743
Fund balance - beginning	(312,802)	(312,802)	(312,802)	-
Fund balance - ending	\$ (725,101)	\$ (725,101)	\$ (540,358)	\$ 184,743

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Community Facilities Districts Capital Projects Fund**

For the year ended June 30, 2006

	Budget		Actual Amounts Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	\$ -	\$ 6,838	\$ 6,838
Miscellaneous income	60,000	60,000	-	(60,000)
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>6,838</u>	<u>(53,162)</u>
<b>Expenditures</b>				
Capital outlay	60,000	60,000	14,200	45,800
Total expenditures	<u>60,000</u>	<u>60,000</u>	<u>14,200</u>	<u>45,800</u>
Excess (deficiency) of revenues over expenditures	-	-	(7,362)	(7,362)
Fund balance - beginning	210,660	210,660	210,660	-
Fund balance - ending	<u>\$ 210,660</u>	<u>\$ 210,660</u>	<u>\$ 203,298</u>	<u>\$ (7,362)</u>

# COMBINING STATEMENTS

## Nonmajor Proprietary Funds

### ENTERPRISE FUNDS

#### **Regional transfer station**

This fund accounts for the intergovernmental agreement between the City of Prescott and Yavapai County to provide solid waste transfer station services to the residents of the City and County.

#### **Parking Garage**

This fund accounts for the activity related to the operation of the proposed parking garage.

**CITY OF PRESCOTT, ARIZONA**  
**Combining Statement of Net Assets**  
**Nonmajor Proprietary Funds**  
June 30, 2006

	<u>Transfer Station</u>	<u>Parking Garage</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 830,970	\$ -	\$ 830,970
Accounts receivable (net)	8,099	-	8,099
Total current assets	<u>839,069</u>	<u>-</u>	<u>839,069</u>
<b>Noncurrent Assets</b>			
Capital Assets			
Land	898,978	-	898,978
Buildings	137,992	6,332,379	6,470,371
Improvements other than buildings	900,600	-	900,600
Machinery and equipment	435,830	-	435,830
Less accumulated depreciation	(661,074)	-	(661,074)
Total capital assets (net of accumulated depreciation)	<u>1,712,326</u>	<u>6,332,379</u>	<u>8,044,705</u>
Total noncurrent assets	<u>1,712,326</u>	<u>6,332,379</u>	<u>8,044,705</u>
Total assets	<u>2,551,395</u>	<u>6,332,379</u>	<u>8,883,774</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	331,437	1,509	332,946
Accrued payroll	49,577	668	50,245
Compensated absences	7,790	-	7,790
Total current liabilities	<u>388,804</u>	<u>2,177</u>	<u>390,981</u>
<b>Noncurrent Liabilities</b>			
Accrued vacation and sick pay	6,977	-	6,977
Total noncurrent liabilities	<u>6,977</u>	<u>-</u>	<u>6,977</u>
Total liabilities	<u>395,781</u>	<u>2,177</u>	<u>397,958</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,712,326	-	1,712,326
Unrestricted	443,288	6,330,202	6,773,490
Total net assets	<u>\$ 2,155,614</u>	<u>\$ 6,330,202</u>	<u>\$ 8,485,816</u>

**CITY OF PRESCOTT, ARIZONA**

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

**Nonmajor Proprietary Funds**

For the year ended June 30, 2006

	<u>Transfer Station</u>	<u>Parking Garage</u>	<u>Totals</u>
<b>Operating Revenues</b>			
Tipping fees	\$ 4,217,447	\$ -	\$ 4,217,447
Other services	-	64,632	64,632
Miscellaneous	(651)	1,500	849
Total operating revenues	<u>4,216,796</u>	<u>66,132</u>	<u>4,282,928</u>
<b>Operating Expenses</b>			
Personnel services	351,567	27,004	378,571
Supplies	64,028	-	64,028
Other services and charges	3,232,927	74,555	3,307,482
Depreciation	57,311	-	57,311
Total operating expenses	<u>3,705,833</u>	<u>101,559</u>	<u>3,807,392</u>
Operating income (loss)	<u>510,963</u>	<u>(35,427)</u>	<u>475,536</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest income	<u>11,764</u>	<u>30</u>	<u>11,794</u>
Interest expense	<u>-</u>	<u>(711)</u>	<u>(711)</u>
Total non-operating Revenues (expenses)	<u>11,764</u>	<u>(681)</u>	<u>11,083</u>
Income (loss) before contributions and transfers	522,727	(36,108)	486,619
Capital contribution	-	6,332,379	6,332,379
Transfers in	-	33,931	33,931
Change in net assets	<u>522,727</u>	<u>6,330,202</u>	<u>6,852,929</u>
Total net assets - beginning	1,642,703	-	1,642,703
Prior period adjustment	(9,816)	-	(9,816)
Total net assets - beginning, as restated	<u>1,632,887</u>	<u>-</u>	<u>1,632,887</u>
Total net assets - ending	<u>\$ 2,155,614</u>	<u>\$ 6,330,202</u>	<u>\$ 8,485,816</u>

**CITY OF PRESCOTT, ARIZONA**  
**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
For the year ended June 30, 2006

	<u>Transfer Station</u>	<u>Parking Garage</u>	<u>Totals</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 4,216,748	\$ 64,632	\$ 4,281,380
Cash payments to suppliers for goods and services	(3,440,518)	(73,046)	(3,513,564)
Cash payments to employees for services	(342,286)	(26,336)	(368,622)
Other operating receipts	(651)	1,500	849
Internal activity - payments to other funds	(60,965)		(60,965)
Net cash provided by (used for) operating activities	<u>372,328</u>	<u>(33,250)</u>	<u>339,078</u>
<b>Cash flows from noncapital financing activities:</b>			
Operating transfers in (out)	-	33,931	33,931
Net cash provided by (used for) noncapital financing activity	<u>-</u>	<u>33,931</u>	<u>33,931</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(22,737)	-	(22,737)
Interest paid on capital financing	-	(711)	(711)
Net cash provided by (used for) capital and related financing activities	<u>(22,737)</u>	<u>(711)</u>	<u>(23,448)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	11,764	30	11,794
Net cash provided by (used for) investing activities	<u>11,764</u>	<u>30</u>	<u>11,794</u>
Net increase (decrease) in cash and cash equivalents	361,355	-	361,355
Cash and cash equivalents at July 1	597,330	-	597,330
Cash and cash equivalents at June 30	<u>\$ 958,685</u>	<u>\$ -</u>	<u>\$ 958,685</u>
<b>Reconciliation to statement of net assets</b>			
Cash and cash equivalents at June 30, unrestricted	<u>\$ 830,970</u>	<u>\$ -</u>	<u>\$ 830,970</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating income (loss)	<u>\$ 510,963</u>	<u>(35,427)</u>	<u>475,536</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	57,311	-	57,311
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(699)	-	(699)
Increase (decrease) in accounts payable	(204,528)	1,509	(203,019)
Increase (decrease) in accrued expenses	35,674	668	36,342
Increase (decrease) in compensated absences	(2,966)	-	(2,966)
Increase (decrease) in accrued vacation and sick payable	(23,427)	-	(23,427)
Total adjustments	<u>(138,635)</u>	<u>2,177</u>	<u>(136,458)</u>
Net cash provided by operating activities	<u>\$ 372,328</u>	<u>\$ (33,250)</u>	<u>\$ 339,078</u>

**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND  
ACTUAL WITH RECONCILIATION TO GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES**

**PROPRIETARY FUNDS**

*Enterprise Funds*

- Water
- Wastewater
- Golf course
- Airport
- Solid waste
- Transfer station
- Parking garage

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Water Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Water sales	\$ 6,695,000	\$ 6,695,000	\$ 6,345,783	\$ (349,217)
Water connection fees	480,000	480,000	559,887	79,887
Alternative water source fees	509,850	509,850	565,840	55,990
Alternative water impact fees	1,525,000	1,525,000	1,936,720	411,720
Interest income	350,000	350,000	461,422	111,422
Proceeds from sales of assets	-	-	70,328	70,328
Proceeds from bonds	26,635,000	26,635,000	-	(26,635,000)
Miscellaneous	1,182,098	1,182,098	187,284	(994,814)
Water buy-in fees	1,300,000	1,300,000	1,374,708	74,708
Total revenues	<u>38,676,948</u>	<u>38,676,948</u>	<u>11,501,972</u>	<u>(27,174,976)</u>
<b>Expenditures</b>				
Personnel services	1,970,359	1,970,359	1,894,209	76,150
Supplies	674,770	674,770	688,676	(13,906)
Other services and charges	4,488,328	4,488,328	4,359,494	128,834
Capital expenditures	42,922,000	42,922,000	5,083,948	37,838,052
Debt service: principal	767,517	767,517	596,517	171,000
Debt service: interest	1,485,825	1,485,825	686,825	799,000
Total expenditures	<u>52,308,799</u>	<u>52,308,799</u>	<u>13,309,669</u>	<u>38,999,130</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (13,631,851)</u>	<u>\$ (13,631,851)</u>	<u>(1,807,697)</u>	<u>\$ 11,824,154</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			6,299,598	
Gain on asset sale			(5,606)	
Principal repayment			596,517	
Sick and vacation accrual			(38,294)	
Depreciation expense			(1,711,341)	
Capital contributions			4,409,131	
Change in net assets (GAAP basis)			<u>\$ 7,742,308</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Wastewater Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>Revenues</b>				
Wastewater service fees	\$ 4,149,807	\$ 4,149,807	\$ 3,975,575	\$ (174,232)
Wastewater connection fees	10,000	10,000	14,240	4,240
Effluent recharge fees	150,000	150,000	150,000	-
Interest income	140,800	140,800	118,924	(21,876)
Proceeds from bonds	9,665,000	9,665,000	-	(9,665,000)
Miscellaneous	531,500	531,500	572,648	41,148
Wastewater buy-in fees	1,133,000	1,133,000	1,190,537	57,537
Total revenues	<u>15,780,107</u>	<u>15,780,107</u>	<u>6,021,924</u>	<u>(9,758,183)</u>
<b>Expenditures</b>				
Personnel services	1,812,905	1,812,905	1,662,657	150,248
Supplies	280,463	280,463	334,914	(54,451)
Other services and charges	2,130,109	2,130,109	1,738,412	391,697
Capital expenditures	15,430,348	15,430,348	1,517,073	13,913,275
Debt service: principal	874,555	874,555	830,555	44,000
Debt service: interest	317,263	317,263	219,263	98,000
Total expenditures	<u>20,845,643</u>	<u>20,845,643</u>	<u>6,302,874</u>	<u>14,542,769</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (5,065,536)</u>	<u>\$ (5,065,536)</u>	<u>(280,950)</u>	<u>\$ 4,784,586</u>

**Reconciliation to Generally Accepted Accounting Principles**

Assets capitalized	1,185,014
Principal repayment	830,555
Sick and vacation accrual	(85,995)
Depreciation expense	(1,727,661)
Capital contributions	2,894,198
Change in net assets (GAAP basis)	<u>\$ 2,815,161</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Golf Course Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>Revenues</b>				
Golf course green fees	\$ 1,829,518	\$ 1,829,518	\$ 1,510,285	\$ (319,233)
Golf course rentals	787,152	787,152	661,575	(125,577)
Golf pro-shop sales	386,527	386,527	398,982	12,455
Miscellaneous	54,437	54,437	49,633	(4,804)
Total revenues	<u>3,057,634</u>	<u>3,057,634</u>	<u>2,620,475</u>	<u>(437,159)</u>
<b>Expenditures</b>				
Personnel services	1,004,414	1,004,414	902,848	101,566
Supplies	322,250	322,250	375,933	(53,683)
Other services and charges	605,078	605,078	646,388	(41,310)
Capital expenditures	-	-	8,590	(8,590)
Debt service: principal	744,871	744,871	743,017	1,854
Debt service: interest	125,204	125,204	115,711	9,493
Transfer out	-	-	69,389	(69,389)
Total expenditures	<u>2,801,817</u>	<u>2,801,817</u>	<u>2,861,876</u>	<u>(60,059)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 255,817</u>	<u>\$ 255,817</u>	<u>(241,401)</u>	<u>\$ (497,218)</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			7,700	
Principal repayment			743,017	
Sick and vacation accrual			(10,361)	
Depreciation expense			(577,048)	
Change in net assets (GAAP basis)			<u>\$ (78,093)</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Airport Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>Revenues</b>				
Gross fuel sales	\$ 2,545,268	\$ 2,545,268	\$ 3,513,659	\$ 968,391
Less: Cost of fuel sales	1,773,202	1,773,202	2,774,369	(1,001,167)
Gross profit on fuel sales	772,066	772,066	739,290	(32,776)
Tie down and hangar rentals	1,095,945	1,095,945	958,959	(136,986)
Capital grant revenue	1,097,447	1,097,447	1,529,620	432,173
Interest income	-	-	15,112	15,112
Miscellaneous	14,882	14,882	29,131	14,249
Transfer in	50,447	50,447	62,484	12,037
Total revenues	4,380,787	4,380,787	3,334,596	(1,046,191)
<b>Expenditures</b>				
Personnel services	605,907	605,907	552,762	53,145
Supplies	45,850	45,850	41,552	4,298
Other services and charges	492,399	492,399	515,614	(23,215)
Capital expenditures	2,497,894	2,497,894	1,605,659	892,235
Debt service: principal	415,895	415,895	362,937	52,958
Debt service: interest	262,715	262,715	169,585	93,130
Transfer out	-	-	13,743	(13,743)
Total expenditures	4,320,660	4,320,660	3,261,852	1,058,808
Excess (deficiency) of revenues over expenditures	\$ 60,127	\$ 60,127	72,744	\$ 12,617

**Reconciliation to Generally Accepted Accounting Principles**

Assets capitalized	1,605,660
Principal repayment	362,937
Sick and vacation accrual	(21,601)
Depreciation expense	(976,801)
Change in net assets (GAAP basis)	\$ 1,042,939

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Solid Waste Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Refuse collection fees	\$ 4,635,583	\$ 4,635,583	\$ 4,961,348	\$ 325,765
Tipping fees	259,480	259,480	340,560	81,080
Interest income	50,000	50,000	68,942	18,942
Total revenues	<u>4,945,063</u>	<u>4,945,063</u>	<u>5,370,850</u>	<u>425,787</u>
<b>Expenditures</b>				
Personnel services	843,993	843,993	879,750	(35,757)
Supplies	526,200	526,200	477,498	48,702
Other services and charges	3,405,977	3,405,977	3,151,137	254,840
Capital expenditures	-	-	98,182	(98,182)
Operating transfer out	50,447	50,447	-	50,447
Total expenditures	<u>4,826,617</u>	<u>4,826,617</u>	<u>4,606,567</u>	<u>220,050</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 118,446</u>	<u>\$ 118,446</u>	764,283	<u>\$ 645,837</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			101,158	
Landfill closure accrual			(159,358)	
Sick and vacation accrual			(16,533)	
Depreciation expense			(250,175)	
Change in net assets (GAAP basis)			<u>\$ 439,375</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Transfer Station Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>Revenues</b>				
Tipping fees	\$ 3,816,020	\$ 3,816,020	\$ 4,217,447	\$ 401,427
Proceeds from financing	3,900,000	3,900,000	-	(3,900,000)
Interest income	4,500	4,500	11,764	7,264
Miscellaneous	-	-	(650)	(650)
Total revenues	<u>7,720,520</u>	<u>7,720,520</u>	<u>4,228,561</u>	<u>(3,491,959)</u>
<b>Expenditures</b>				
Personnel services	422,840	422,840	377,959	44,881
Supplies	40,000	40,000	64,028	(24,028)
Other services and charges	3,037,247	3,037,247	3,232,928	(195,681)
Capital expenditures	3,900,000	3,900,000	22,737	3,877,263
Debt service: principal	55,925	55,925	-	55,925
Debt service: interest	107,250	107,250	-	107,250
Total expenditures	<u>7,563,262</u>	<u>7,563,262</u>	<u>3,697,652</u>	<u>3,865,610</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 157,258</u>	<u>\$ 157,258</u>	530,909	<u>\$ 373,651</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			22,738	
Sick and vacation accrual			26,391	
Depreciation expense			(57,311)	
Change in net assets (GAAP basis)			<u>\$ 522,727</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Parking Garage Enterprise Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
<b>Revenues</b>				
Parking revenue	\$ 107,800	\$ 107,800	\$ 64,632	\$ (43,168)
Interest income	-	-	30	30
Miscellaneous	-	-	1,501	1,501
Transfer in	8,650	8,650	33,931	25,281
Total revenues	<u>116,450</u>	<u>116,450</u>	<u>100,094</u>	<u>(16,356)</u>
<b>Expenditures</b>				
Personnel services	27,500	27,500	27,004	496
Other services and charges	98,950	98,950	74,555	24,395
Interest expense	-	-	711	(711)
Total expenditures	<u>126,450</u>	<u>126,450</u>	<u>102,270</u>	<u>24,180</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (10,000)</u>	<u>\$ (10,000)</u>	<u>\$ (2,176)</u>	<u>\$ 7,824</u>

**Reconciliation to Generally Accepted Accounting Principles**

Capital contributions	6,332,378
Change in net assets (GAAP basis)	<u>\$ 6,330,202</u>

## **FUND FINANCIAL STATEMENTS**

### **Internal Service Funds**

Internal service funds are used to account for services and commodities furnished by one department to other departments of the City on a cost reimbursement basis. Funds included are:

#### **Central Garage**

To account for the cost of operating a maintenance facility for automotive and other equipment used by various departments. These costs, including depreciation, are billed to the various using departments. The various user departments who acquire automotive and other equipment are responsible for replacement costs.

#### **General Self-insurance**

To account for the costs, both direct and indirect, of maintaining comprehensive property damage and general liability insurance coverage. Revenue to this fund is derived from charges to City departments.

#### **Workers' Compensation**

To account for the costs, both direct and indirect, of maintaining the workers' compensation program. Revenue to this fund is derived from charges to City departments based on their total payroll and level of risk.

#### **Engineering Services**

To account for the costs, both direct and indirect, of the engineering department, which does work for other departments of the City. Revenue to this fund is derived from charges to City departments based on the work performed for the department.

#### **Facilities Maintenance**

To provide maintenance and custodial service to all city owned facilities.

**CITY OF PRESCOTT, ARIZONA**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
June 30, 2006

<b>ASSETS</b>	<b>Central Garage</b>	<b>General Self- Insurance</b>	<b>Workers' Compensation</b>	<b>Engineering Services</b>	<b>Facilities Maintenance</b>	<b>Totals</b>
<b>Current Assets</b>						
Cash and short-term investments	\$ 816,810	\$ 1,463,983	\$ 1,779,075	\$ 209,688	\$ 43,221	\$ 4,312,777
Inventory at cost	205,802	-	-	-	-	205,802
Total current assets	1,022,612	1,463,983	1,779,075	209,688	43,221	4,518,579
<b>Property, Plant and Equipment</b>						
Land	13,191	-	-	-	-	13,191
Buildings	695,723	-	-	-	-	695,723
Improvements other than buildings	12,473	-	-	36,550	-	49,023
Machinery and equipment	2,721,511	-	-	217,787	32,210	2,971,508
Total property, plant and equipment	3,442,898	-	-	254,337	32,210	3,729,445
Less accumulated depreciation	(756,940)	-	-	(138,029)	(967)	(895,936)
Net property, plant and equipment	2,685,958	-	-	116,308	31,243	2,833,509
Total assets	3,708,570	1,463,983	1,779,075	325,996	74,464	7,352,088
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable	65,180	90,048	19,937	13,601	53,777	242,543
Accrued payroll	21,398	1,666	1,666	70,975	10,740	106,445
Compensated absences	22,547	-	-	78,213	7,141	107,901
Interfund payable	-	125,000	-	-	-	125,000
Claims payable	-	1,730,708	918,413	-	-	2,649,121
Total current liabilities	109,125	1,947,422	940,016	162,789	71,658	3,231,010
<b>Noncurrent Liabilities</b>						
Accrued vacation and sick pay	139,601	-	-	306,507	24,253	470,361
Interfund payable	-	1,025,000	-	-	-	1,025,000
Total long-term liabilities	139,601	1,025,000	-	306,507	24,253	1,495,361
Total liabilities	248,726	2,972,422	940,016	469,296	95,911	4,726,371
<b>Net Assets</b>						
Invested in capital assets	2,685,958	-	-	116,308	31,243	2,833,509
Unrestricted	773,886	(1,508,439)	839,059	(259,608)	(52,690)	(207,792)
Total net assets	\$ 3,459,844	\$ (1,508,439)	\$ 839,059	\$ (143,300)	\$ (21,447)	\$ 2,625,717

**CITY OF PRESCOTT, ARIZONA**

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

**Internal Service Funds**

For the year ended June 30, 2006

	<u>Central Garage</u>	<u>General Self- Insurance</u>	<u>Workers' Compensation</u>	<u>Engineering Services</u>	<u>Facilities Maintenance</u>	<u>Total</u>
<b>Operating Revenues</b>						
Billings to departments	\$ 2,656,759	\$ 811,465	\$ 676,822	\$ 2,050,406	\$ 785,658	\$ 6,981,110
Miscellaneous	-	-	-	2,123	-	2,123
Total operating revenues	<u>2,656,759</u>	<u>811,465</u>	<u>676,822</u>	<u>2,052,529</u>	<u>785,658</u>	<u>6,983,233</u>
<b>Operating Expenses</b>						
Personnel services	572,156	55,346	48,747	1,727,621	266,651	2,670,521
Supplies	524,214	2,148	1,262	67,493	64,404	659,521
Other services and charges	339,826	567,622	143,893	352,663	418,878	1,822,882
Depreciation	173,504	-	-	24,249	967	198,720
Claims expense	-	421,246	552,944	-	-	974,190
Total operating expenses	<u>1,609,700</u>	<u>1,046,362</u>	<u>746,846</u>	<u>2,172,026</u>	<u>750,900</u>	<u>6,325,834</u>
Operating income (loss)	<u>1,047,059</u>	<u>(234,897)</u>	<u>(70,024)</u>	<u>(119,497)</u>	<u>34,758</u>	<u>657,399</u>
<b>Non-operating Revenues (Expenses)</b>						
Interest income	28,627	33,642	36,445	822	-	99,536
Interest expense	-	-	-	(2,317)	(131)	(2,448)
Net gain (loss) on disposal of assets	77,075	-	-	-	-	77,075
Transfers in (out)	82,484	(13,095)	-	-	22,261	91,650
Total non-operating revenues	<u>188,186</u>	<u>20,547</u>	<u>36,445</u>	<u>(1,495)</u>	<u>22,130</u>	<u>265,813</u>
Change in net assets	<u>1,235,245</u>	<u>(214,350)</u>	<u>(33,579)</u>	<u>(120,992)</u>	<u>56,888</u>	<u>923,212</u>
Total net assets - beginning	<u>2,281,985</u>	<u>(1,294,089)</u>	<u>872,638</u>	<u>114,634</u>	<u>(67,119)</u>	<u>1,908,049</u>
Prior period adjustment	(57,385)			(136,942)	(11,216)	(205,543)
Total net assets - beginning, as restated	<u>2,224,600</u>	<u>(1,294,089)</u>	<u>872,638</u>	<u>(22,308)</u>	<u>(78,335)</u>	<u>1,702,506</u>
Total net assets - ending	<u>\$ 3,459,845</u>	<u>\$ (1,508,439)</u>	<u>\$ 839,059</u>	<u>\$ (143,300)</u>	<u>\$ (21,447)</u>	<u>\$ 2,625,718</u>



**CITY OF PRESCOTT, ARIZONA**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
For the year ended June 30, 2006

	<u>Central Garage</u>	<u>General Self- Insurance</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from departmental billings	\$ 2,656,759	\$ 811,465
Cash payments to suppliers for goods and services	(844,132)	(988,934)
Cash payments to employees for services	(528,531)	(69,548)
Other operating revenues	-	-
Net cash provided by (used for) operating activities	<u>1,284,096</u>	<u>(247,017)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Repayments under interfund loan arrangement	-	(125,000)
Payments under interfund loan arrangement	-	-
Interest paid on noncapital financing	-	-
Operating transfers in (out)	82,484	(13,095)
Net cash provided by (used for) noncapital financing activities	<u>82,484</u>	<u>(138,095)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition of capital assets	(1,427,177)	-
Proceeds from sales of fixed assets	77,076	-
Net cash provided by (used for) capital and related financing activities	<u>(1,350,101)</u>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>		
Interest on investments	28,627	33,642
Net cash provided by (used for) investing activities	<u>28,627</u>	<u>33,642</u>
Net increase (decrease) in cash and cash equivalents	45,106	(351,470)
Cash and cash equivalents - beginning	771,704	1,815,453
Cash and cash equivalents - ending	<u>\$ 816,810</u>	<u>\$ 1,463,983</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities:</b>		
Operating income (loss)	\$ 1,047,059	\$ (234,897)
Adjustments to reconcile operating income activities:		
Depreciation	173,504	-
Change in assets and liabilities:		
(Increase) decrease in inventory	(8,858)	-
(Increase) decrease in accounts receivable	-	-
Increase (decrease) in accounts payable	28,766	74,352
Increase (decrease) in accrued expenses	41,552	(14,202)
Increase (decrease) in compensated absences	2,073	-
Increase (decrease) in claims payable	-	(72,270)
Total adjustments	<u>237,037</u>	<u>(12,120)</u>
Net cash provided by (used for) operating activities	<u>\$ 1,284,096</u>	<u>\$ (247,017)</u>

**Noncash Investing, Capital and Financing Activities**  
None

	<u>Workers'</u> <u>Compensation</u>	<u>Engineering</u> <u>Services</u>	<u>Facilities</u> <u>Maintenance</u>	<u>Total</u>
\$	702,028	\$ 2,050,406	\$ 785,658	\$ 7,006,316
	(357,247)	(426,031)	(439,035)	(3,055,379)
	(62,949)	(1,581,329)	(257,663)	(2,500,020)
	-	2,123	-	2,123
	<u>281,832</u>	<u>45,169</u>	<u>88,960</u>	<u>1,453,040</u>
	-	-	-	(125,000)
	-	-	(35,659)	(35,659)
	-	(2,317)	(131)	(2,448)
	-	-	22,261	91,650
	<u>-</u>	<u>(2,317)</u>	<u>(13,529)</u>	<u>(71,457)</u>
	-	(25,019)	(32,210)	(1,484,406)
	-	-	-	77,076
	<u>-</u>	<u>(25,019)</u>	<u>(32,210)</u>	<u>(1,407,330)</u>
	36,445	822	-	99,536
	<u>36,445</u>	<u>822</u>	<u>-</u>	<u>99,536</u>
	318,277	18,655	43,221	73,789
	1,460,798	191,033	-	4,238,988
\$	<u>1,779,075</u>	<u>\$ 209,688</u>	<u>\$ 43,221</u>	<u>\$ 4,312,777</u>
\$	<u>(70,024)</u>	<u>\$ (119,497)</u>	<u>\$ 34,758</u>	<u>\$ 657,399</u>
	-	24,249	967	198,720
	-	-	-	(8,858)
	25,206	-	-	25,206
	1,966	(5,875)	44,247	143,456
	(14,202)	127,638	6,126	146,912
	-	18,654	2,862	23,589
	338,886	-	-	266,616
	<u>351,856</u>	<u>164,666</u>	<u>54,202</u>	<u>795,641</u>
\$	<u>281,832</u>	<u>\$ 45,169</u>	<u>\$ 88,960</u>	<u>\$ 1,453,040</u>

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Central Garage Internal Service Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Billings to departments	\$ 2,737,198	\$ 2,737,198	\$ 2,656,759	\$ (80,439)
Interest income	2,000	2,000	28,627	26,627
Proceeds on sales of assets	52,000	52,000	77,075	25,075
Proceeds from financing	3,800,000	3,800,000	-	(3,800,000)
Transfer in	-	-	82,484	82,484
Total revenues	<u>6,591,198</u>	<u>6,591,198</u>	<u>2,844,945</u>	<u>(3,746,253)</u>
<b>Expenditures</b>				
Personnel services	539,598	539,598	520,004	19,594
Supplies	384,696	384,696	524,214	(139,518)
Other services and charges	140,610	140,610	185,188	(44,578)
Capital expenditures	5,883,000	5,883,000	1,581,814	4,301,186
Debt service: principal	25,000	25,000	-	25,000
Debt service: interest	117,000	117,000	-	117,000
Total expenditures	<u>7,089,904</u>	<u>7,089,904</u>	<u>2,811,220</u>	<u>4,278,684</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (498,706)</u>	<u>\$ (498,706)</u>	33,725	<u>\$ 532,431</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			1,427,177	
Sick and vacation accrual			(52,153)	
Depreciation			(173,504)	
Change in net assets (GAAP basis)			<u>\$ 1,235,245</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**General Self-Insurance Internal Service Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Billings to departments	\$ 811,464	\$ 811,464	\$ 811,465	\$ 1
Interest income	35,000	35,000	33,643	(1,357)
Total revenues	<u>846,464</u>	<u>846,464</u>	<u>845,108</u>	<u>(1,356)</u>
<b>Expenditures</b>				
Personnel services	80,539	80,539	55,346	25,193
Supplies	3,445	3,445	2,148	1,297
Other services and charges	655,753	655,753	563,663	92,090
Claims expenditures	70,000	70,000	193,516	(123,516)
Capital expenditures	3,750	3,750	3,960	(210)
Transfer Out	-	-	13,095	(13,095)
Total expenditures	<u>813,487</u>	<u>813,487</u>	<u>831,728</u>	<u>(18,241)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 32,977</u>	<u>\$ 32,977</u>	13,380	<u>\$ (19,597)</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Record actuarial report adjustment			(227,730)	
			<u>\$ (214,350)</u>	

CITY OF PRESCOTT, ARIZONA

Schedule of Revenues and Expenditures - Budget and Actual

Workers' Compensation Internal Service Fund

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Billings to departments	\$ 638,545	\$ 638,545	\$ 676,822	\$ 38,277
Interest income	30,000	30,000	36,446	6,446
Total revenues	<u>668,545</u>	<u>668,545</u>	<u>713,268</u>	<u>44,723</u>
<b>Expenditures</b>				
Personnel services	80,539	80,539	48,747	31,792
Supplies	1,400	1,400	1,262	138
Other services and charges	199,828	199,828	139,933	59,895
Claims expenditures	350,000	350,000	214,058	135,942
Capital expenditures	3,750	3,750	3,960	(210)
Total expenditures	<u>635,517</u>	<u>635,517</u>	<u>407,960</u>	<u>227,557</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 33,028</u>	<u>\$ 33,028</u>	305,308	<u>\$ 272,280</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Record actuarial report adjustment			(338,887)	
			<u>\$ (33,579)</u>	

CITY OF PRESCOTT, ARIZONA

Schedule of Revenues and Expenditures - Budget and Actual

Engineering Services Internal Service Fund

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Billings to departments	\$ 2,150,012	\$ 2,150,012	\$ 2,050,406	\$ (99,606)
Interest income	4,100	4,100	822	(3,278)
Miscellaneous	1,500	1,500	2,123	623
Total revenues	<u>2,155,612</u>	<u>2,155,612</u>	<u>2,053,351</u>	<u>(102,261)</u>
<b>Expenditures</b>				
Personnel services	1,725,634	1,725,634	1,602,913	122,721
Supplies	55,500	55,500	67,493	(11,993)
Other services and charges	344,878	344,878	352,172	(7,294)
Capital expenditures	24,000	24,000	25,511	(1,511)
Debt service: interest	-	-	2,317	(2,317)
Total expenditures	<u>2,150,012</u>	<u>2,150,012</u>	<u>2,050,406</u>	<u>99,606</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 5,600</u>	<u>\$ 5,600</u>	2,945	<u>\$ (2,655)</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Assets capitalized			25,019	
Sick and vacation accrual			(124,707)	
Depreciation			(24,249)	
Change in net assets (GAAP basis)			<u>\$ (120,992)</u>	

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Revenues and Expenditures - Budget and Actual**

**Facilities Maintenance Internal Service Fund**

For the year ended June 30, 2006

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Billings to departments	\$ 812,666	\$ 812,666	\$ 785,658	\$ (27,008)
Transfer in	-	-	22,261	22,261
Total revenues	<u>812,666</u>	<u>812,666</u>	<u>807,919</u>	<u>(4,747)</u>
<b>Expenditures</b>				
Personnel services	103,150	103,150	256,415	(153,265)
Supplies	52,110	52,110	73,624	(21,514)
Other services and charges	656,429	656,429	411,906	244,523
Capital expenditures	-	-	29,962	(29,962)
Debt service: interest	-	-	131	(131)
Total expenditures	<u>811,689</u>	<u>811,689</u>	<u>772,038</u>	<u>39,651</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 977</u>	<u>\$ 977</u>	35,881	<u>\$ 34,904</u>
<b>Reconciliation to Generally Accepted Accounting Principles</b>				
Capitalized assets			32,210	
Sick and vacation accrual			(10,236)	
Depreciation			(967)	
Change in net assets (GAAP basis)			<u>\$ 56,888</u>	

## **FUND FINANCIAL STATEMENTS**

### **Fiduciary Funds**

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity for others. The City maintains one agency fund.

#### **County Justice Court Agency**

Accounts for the cash collection of the County Justice and Juvenile Courts. These clearing accounts are offset by an equal liability. There is no measurement of the results of operations.

**CITY OF PRESCOTT, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
 June 30, 2006

	Agency County Justice Court
<b>ASSETS</b>	
Cash and short-term investments	\$ 156,200
Total assets	<u>156,200</u>
<b>LIABILITIES</b>	
Due to other governments	156,200
Total liabilities	<u>156,200</u>
<b>NET ASSETS</b>	
Held in trust for other purposes	<u><u>\$ -</u></u>

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

**CITY OF PRESCOTT, ARIZONA**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
For the year ended June 30, 2006

	Agency Funds			
	County Justice Court			
	Balance July 1, 2005	Additions	Deductions	Balance July 1, 2006
<b>ASSETS</b>				
Cash and short-term investments	\$ 144,584	\$ 1,729,446	\$ 1,717,830	\$ 156,200
Total assets	\$ 144,584	\$ 1,729,446	\$ 1,717,830	\$ 156,200
<b>LIABILITIES</b>				
Due to other governments	\$ 144,584	\$ 1,729,446	\$ 1,717,830	\$ 156,200
Total liabilities	\$ 144,584	\$ 1,729,446	\$ 1,717,830	\$ 156,200

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

## OTHER SUPPLEMENTARY INFORMATION

**CITY OF PRESCOTT, ARIZONA**

**Schedule of General Obligation Bonds Payable**

June 30, 2006

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	<b>Refunding &amp; Municipal Facilities Bond Series 1998</b>	<b>Total General Obligation Bonds</b>
Interest rates	4.34%	N/A
Issue date	12/1/1998	N/A
Final maturity date	7/1/2013	N/A
Authorized	\$ 15,895,000	\$ 15,895,000
Issued	15,895,000	15,895,000
Retired	6,755,000	6,755,000
Outstanding	9,140,000	9,140,000
Principal retirement:		
2007	1,315,000	1,315,000
2008	1,390,000	1,390,000
2009	1,455,000	1,455,000
2010	1,155,000	1,155,000
2011	1,215,000	1,215,000
2012	1,275,000	1,275,000
2013	1,335,000	1,335,000

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Contracts Payable to the City of Prescott's Municipal Property Corporation**

June 30, 2006

	Water, Sewer & Golf Course Imp. Refunding Bond <u>Series 2004-G</u>	Water & Sewer Improvement Bond <u>Series 1998-F</u>	Big Chino Ranch <u>Series 2004-G</u>	Total Contracts <u>Payable</u>
Interest rates	2.920%	4.69%	4.62%	N/A
Issue date	12/29/2004	12/1/1998	12/29/2004	N/A
Final maturity	7/1/2010	7/1/2018	7/1/2034	N/A
Authorized	\$ 4,350,000	\$ 6,160,000	\$ 12,525,000	\$ 23,035,000
Issued	4,350,000	6,160,000	12,525,000	23,035,000
Retired	1,120,000	1,630,000	235,000	2,985,000
Outstanding	3,230,000	4,530,000	12,290,000	20,050,000
Principal retirement:				
2007	815,000	285,000	245,000	1,345,000
2008	850,000	300,000	255,000	1,405,000
2009	865,000	315,000	260,000	1,440,000
2010	700,000	330,000	265,000	1,295,000
2011	-	345,000	275,000	620,000
2012	-	365,000	285,000	650,000
2013	-	380,000	295,000	675,000
2014	-	400,000	310,000	710,000
2015	-	420,000	320,000	740,000
2016	-	440,000	335,000	775,000
2017	-	465,000	345,000	810,000
2018	-	485,000	360,000	845,000
2019	-	-	375,000	375,000
2020	-	-	395,000	395,000
2021	-	-	415,000	415,000
2022	-	-	430,000	430,000
2023	-	-	450,000	450,000
2024	-	-	470,000	470,000
2025	-	-	495,000	495,000
2026	-	-	515,000	515,000
2027	-	-	545,000	545,000
2028	-	-	570,000	570,000
2029	-	-	600,000	600,000
2030	-	-	630,000	630,000
2031	-	-	660,000	660,000
2032	-	-	695,000	695,000
2033	-	-	730,000	730,000
2034	-	-	765,000	765,000

**CITY OF PRESCOTT, ARIZONA**  
**Schedule of Special Assessment Bonds Payable**  
June 30, 2006

	Imp. District #158	Imp. District #159	Imp. District #160	Imp. District #161	Imp. District #162	Imp. District #163	Imp. District #164	Total Imp. District
Interest rates	6.25%	5.11%	6.75%	7.00%	5.10%	4.60%	2- 3.082%	N/A
Issue date	8/1/1994	8/13/1996	4/1/1998	7/1/2000	9/1/2000	2/1/2001	10/1/2003	N/A
Final maturity date	1/1/2005	1/1/2007	1/1/2008	7/1/2010	9/1/2015	2/1/2016	1/1/2022	N/A
Authorized	\$ 19,900	\$ 250,000	\$ 56,285	\$ 124,096	\$ 1,920,000	\$ 2,470,000	\$ 95,840	\$ 4,936,121
Issued	19,900	250,000	56,285	124,096	1,920,000	2,470,000	95,840	4,936,121
Retired	19,900	225,000	46,285	63,563	605,000	895,000	15,132	1,869,880
Outstanding	-	25,000	10,000	60,533	1,315,000	1,575,000	80,708	3,066,241
Principal retirement:								
2007	-	25,000	5,000	12,107	120,000	175,000	5,044	342,151
2008	-	-	5,000	12,107	125,000	175,000	5,044	322,151
2009	-	-	-	12,106	130,000	175,000	5,044	322,150
2010	-	-	-	12,106	140,000	175,000	5,044	332,150
2011	-	-	-	12,107	145,000	175,000	5,044	337,151
2012	-	-	-	-	150,000	175,000	5,044	330,044
2013	-	-	-	-	160,000	175,000	5,044	340,044
2014	-	-	-	-	170,000	175,000	5,044	350,044
2015	-	-	-	-	175,000	175,000	5,044	355,044
2016	-	-	-	-	-	-	5,044	5,044
2017	-	-	-	-	-	-	5,044	5,044
2018	-	-	-	-	-	-	5,044	5,044
2019	-	-	-	-	-	-	5,044	5,044
2020	-	-	-	-	-	-	5,044	5,044
2021	-	-	-	-	-	-	5,044	5,044
2022	-	-	-	-	-	-	5,048	5,048

**CITY OF PRESCOTT, ARIZONA**

**Schedule of Community Facilities Districts Bonds Payable**

June 30, 2006

	Hassayampa #1 Community Facilities Bonds Series 1996	Hassayampa #2 Community Facilities Bonds Series 2000	Total Community Facilities Bonds
Interest rates	7.75%	7.50%	N/A
Issue date	11/1/1996	2/1/2000	N/A
Final maturity date	7/1/2021	7/1/2024	N/A
Authorized	\$ 7,315,000	\$ 1,240,000	\$ 8,555,000
Issued	7,315,000	1,240,000	8,555,000
Retired	2,335,000	455,000	2,790,000
Outstanding	4,980,000	785,000	5,765,000
Principal retirement:			
2007	185,000	20,000	205,000
2008	200,000	25,000	225,000
2009	220,000	25,000	245,000
2010	235,000	25,000	260,000
2011	250,000	30,000	280,000
2012	270,000	30,000	300,000
2013	295,000	35,000	330,000
2014	315,000	35,000	350,000
2015	340,000	40,000	380,000
2016	365,000	45,000	410,000
2017	395,000	45,000	440,000
2018	425,000	50,000	475,000
2019	460,000	55,000	515,000
2020	495,000	55,000	550,000
2021	530,000	60,000	590,000
2022	-	65,000	65,000
2023	-	70,000	70,000
2024	-	75,000	75,000

## STATISTICAL SECTION

The City early implemented the provisions of Governmental Accounting Standards Board Statement No. 44 for the year ended June 30, 2005.

Statistical section information is presented for five categories - financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

**Financial trends information** is intended to assist users in understanding and assessing how the City's financial position has changed over time.

**Revenue capacity information** is intended to assist users in understanding and assessing the factors affecting the City's ability to generate its own-source revenues.

**Debt capacity information** is intended to assist users in understanding and assessing the City's debt burden and its ability to issue additional debt.

**Demographic and economic information** is intended:

- ◆ to assist users in understanding the socioeconomic environment within which the City operates and
- ◆ to provide information that facilitates comparisons of financial statement information over time and among governments.

**Operating information** is intended to provide contextual information about the City's operations and resources to assist readers in using financial statement information to understand and assess the City's economic condition.

CITY OF PRESCOTT, ARIZONA

Table I

Statistical Section - Financial Trends

Net Assets by Component

Last five fiscal years (in millions of dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Governmental activities</b>					
Invested in capital assets, net of related debt	\$150.0	\$151.8	\$163.0	\$177.9	\$184.8
Restricted	36.4	43.7	45.4	43.9	50.2
Unrestricted	5.3	6.5	7.7	8.9	11.6
Total governmental activities net assets	<u>191.7</u>	<u>202.0</u>	<u>216.1</u>	<u>230.7</u>	<u>246.6</u>
<b>Business-type activities</b>					
Invested in capital assets, net of related debt	102.2	110.0	115.9	129.6	148.8
Restricted	8.0	4.9	4.5	7.1	7.6
Unrestricted	11.7	11.8	14.2	15.4	14.2
Total business-type activities net assets	<u>121.9</u>	<u>126.7</u>	<u>134.6</u>	<u>152.1</u>	<u>170.6</u>
<b>Primary government</b>					
Invested in capital assets, net of related debt	252.2	261.8	278.9	307.5	333.6
Restricted	44.4	48.6	49.9	51.0	57.8
Unrestricted	17.0	18.3	21.9	24.3	25.8
Total primary government net assets	<u>\$313.6</u>	<u>\$328.7</u>	<u>\$350.7</u>	<u>\$382.8</u>	<u>\$417.2</u>

Source: City of Prescott finance department

CITY OF PRESCOTT, ARIZONA

Table II

Statistical Section - Financial Trends

Government-wide Expenses by Function

Last five fiscal years

*Governmental activities:*

<u>Fiscal Year</u>						Total	Public	Public	Interest on	<u>Total</u>
	<u>General Government</u>	<u>Community Services</u>	<u>Culture and Recreation</u>	<u>Police and Court</u>	<u>Fire</u>	<u>Safety</u>	<u>Works</u>	<u>Debt</u>	<u>Long-term</u>	
2002	\$ 4,518,316	\$ 1,984,672	\$ 4,414,069	\$ -	\$ -	\$ 11,897,746	\$ 9,152,996	\$ 1,468,910	\$	\$ 33,436,709
2003	3,798,901	2,083,451	4,724,473	7,774,898	5,410,325	13,185,223	10,859,477	1,359,238		36,010,763
2004	5,552,612	2,147,067	5,412,480	8,154,036	5,883,210	14,037,246	11,131,614	1,263,727		39,544,746
2005	5,903,541	2,504,447	5,323,256	8,888,639	6,221,770	15,110,409	10,964,098	1,161,057		40,966,808
2006	6,086,650	2,409,814	6,177,208	10,615,068	7,069,541	17,684,609	14,483,522	1,087,363		47,929,166

*Business-type activities:*

<u>Fiscal Year</u>									Total
	<u>Water</u>	<u>Waste Water</u>	<u>Golf Course</u>	<u>Airport</u>	<u>Solid Waste</u>	Regional <u>Transfer Station</u>	<u>Parking Garage</u>		<u>Total</u>
2002	\$ 6,132,824	\$ 4,586,322	\$ 2,118,559	\$ 3,332,768	\$ 4,741,566	\$ 2,749,348	\$ -	\$	\$ 23,661,387
2003	6,634,008	4,754,234	2,031,656	3,649,511	3,526,496	3,152,264	660		23,748,829
2004	6,958,715	4,660,494	2,147,973	3,619,357	3,888,569	3,503,582	400		24,779,090
2005	7,384,458	5,801,765	1,971,548	4,324,540	4,792,152	3,697,857	-		27,972,320
2006	8,163,189	6,100,960	2,629,179	5,052,283	4,931,475	3,705,833	102,270		30,685,189

	Total Primary <u>Government</u>
2001-02	\$ 57,098,096
2002-03	59,759,592
2003-04	64,323,836
2004-05	68,939,128
2005-06	78,614,355

Source: City of Prescott finance department

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 and include depreciation expense.

CITY OF PRESCOTT, ARIZONA  
 Table III  
 Statistical Section - Financial Trends  
 Governmental Activities Revenues  
 Last five fiscal years

<b>Governmental activities:</b>											
<u>Fiscal Year</u>	<u>Program Revenues</u>				<u>General Revenues</u>					<u>Total</u>	<u>Total Net</u>
	<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Total</u>	<u>Taxes</u>	<u>Intergovernmental</u>	<u>Interest</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Program and</u>	<u>Revenue/</u>
<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Contributions</u>								
										<u>Revenue</u>	<u>Net Assets</u>
2002	\$ 3,645,282	\$ 7,081,311	\$ 905,334	\$ 11,631,927	\$ 22,706,358	\$ 8,746,519	\$ 1,936,527	\$ 1,578,550	\$ 34,967,954	\$ 46,599,881	\$ 13,056,701
2003	5,119,368	3,960,189	2,575,571	11,655,128	23,828,619	8,840,065	1,425,352	595,506	34,689,542	46,344,670	10,279,551
2004	5,103,949	4,879,585	6,296,262	16,279,796	27,401,443	8,416,354	935,209	636,217	37,389,223	53,669,019	14,099,201
2005	5,868,694	4,841,655	2,761,682	13,472,031	30,420,785	8,816,640	2,036,084	1,317,671	42,591,180	56,063,211	14,746,026
2006	6,307,668	4,536,312	13,509,535	24,353,515	34,381,643	10,124,341	1,790,200	818,055	47,114,239	71,467,754	17,192,926

Source: City of Prescott finance department

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.

CITY OF PRESCOTT, ARIZONA

Table IV

Statistical Section - Financial Trends

Business-type Activities Revenues

Last five fiscal years

<b>Business-type activities:</b>														
<u>Fiscal Year</u>	<u>Program Revenues</u>									<u>General Revenues</u>			<u>Total Program and General Revenue</u>	<u>Total Net Revenue/Change in Net Assets</u>
	<u>Charges for Services</u>					<u>Capital Grants and Contributions</u>				<u>Interest</u>	<u>Miscellaneous</u>	<u>Total</u>		
	<u>Water</u>	<u>Waste Water</u>	<u>Golf</u>	<u>Airport</u>	<u>Solid Waste</u>	<u>Transfer Station</u>	<u>Parking Garage</u>	<u>and Contributions</u>	<u>Total</u>					
2002	\$ 6,578,870	\$ 3,805,400	\$ 2,423,769	\$ 2,819,818	\$ 3,970,025	\$ 2,772,425	\$ -	\$ 5,815,099	\$ 28,185,406	\$ 633,461	\$ 684,847	\$ 1,318,308	\$ 29,503,714	\$ 5,948,798
2003	6,991,854	3,908,024	2,149,134	2,997,688	4,142,580	3,131,601	-	4,116,293	27,437,174	436,335	607,466	1,043,801	28,480,975	4,786,502
2004	7,133,069	3,894,327	2,162,487	3,226,483	4,394,885	3,430,790	-	7,731,228	31,973,269	103,650	597,869	701,519	32,674,788	7,920,770
2005	8,667,426	4,146,635	2,218,301	3,834,834	4,764,901	3,768,809	-	15,913,794	43,314,700	715,632	1,022,528	1,738,160	45,052,860	17,430,917
2006	9,472,952	4,139,815	2,570,842	4,472,618	5,301,908	4,217,447	64,632	11,398,193	41,638,407	676,194	839,545	1,515,739	43,154,146	18,814,619

Source: City of Prescott finance department

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.

**CITY OF PRESCOTT, ARIZONA**

**Table V**

**Statistical Section - Financial Trends**

**Governmental Activities Program Revenues by Function/Program**

Last five fiscal years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Governmental activities</b>					
General government	\$1,065,663	\$1,365,986	\$1,328,746	\$1,716,487	\$1,724,058
Community services	846,264	960,756	410,900	607,916	885,113
Culture and recreation	1,177,637	1,515,797	2,352,876	2,748,219	2,653,076
Police and court	1,555,080	1,438,315	1,607,611	1,331,412	2,075,968
Fire (1)	-	851,011	1,074,515	725,709	767,928
Public works	6,987,283	5,523,263	9,505,148	6,342,288	16,247,372
Interest on long-term debt	-	-	-	-	-
Total governmental activities program revenues	<u>\$11,631,927</u>	<u>\$11,655,128</u>	<u>\$16,279,796</u>	<u>\$13,472,031</u>	<u>\$24,353,515</u>

Source: City of Prescott finance department

(1) In fiscal year 2003, the public safety activity was expanded to show the police/court and fire activities separately. Police and fire activity were previously reported as public safety, court activity was presented as part of general government.

Fluctuations in program revenues result primarily from grant revenues which vary from year to year.

**CITY OF PRESCOTT, ARIZONA**

**Table VI**

**Statistical Section - Financial Trends**

**Changes in Fund Balances, Governmental Funds**

Last five fiscal years (in millions of dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>General Fund</b>					
Excess of revenues over expenditures	\$3.3	\$3.6	\$3.6	\$5.2	\$5.6
Other Financing Sources (Uses)					
Lease proceeds	0.0	0.0	0.0	0.0	0.7
Transfers in	0.1	0.0	0.0	0.0	0.0
Transfers out	(2.4)	(0.7)	(3.1)	(3.5)	(4.4)
Total other financing sources (uses)	<u>(2.3)</u>	<u>(0.7)</u>	<u>(3.1)</u>	<u>(3.5)</u>	<u>(3.7)</u>
Net change in fund balance	<u>1.0</u>	<u>2.9</u>	<u>0.5</u>	<u>1.7</u>	<u>1.9</u>
Beginning fund balance	3.9	4.9	7.8	8.3	10.0
Prior period adjustment	0.0	0.0	0.0	0.0	0.8
Beginning fund balance - as restated	<u>3.9</u>	<u>4.9</u>	<u>7.8</u>	<u>8.3</u>	<u>10.8</u>
Ending fund balance	<u>4.9</u>	<u>7.8</u>	<u>8.3</u>	<u>10.0</u>	<u>12.7</u>
Reserved	0.7	3.2	2.8	3.2	2.1
Unreserved	<u>4.2</u>	<u>4.6</u>	<u>5.5</u>	<u>6.8</u>	<u>10.6</u>
Total general fund balance	<u>\$4.9</u>	<u>\$7.8</u>	<u>\$8.3</u>	<u>\$10.0</u>	<u>\$12.7</u>
<b>All Other Governmental Funds</b>					
Excess (deficiency)of revenues over expenditures	(\$1.7)	\$4.8	(\$0.3)	(\$3.9)	\$0.4
Other Financing Sources (Uses)					
Transfers in	2.8	1.8	3.9	3.8	6.8
Transfers out	(0.7)	(1.1)	(1.0)	(1.0)	(2.5)
Total other financing sources (uses)	<u>2.1</u>	<u>0.7</u>	<u>2.9</u>	<u>2.8</u>	<u>4.3</u>
Net change in fund balance	<u>0.4</u>	<u>5.5</u>	<u>2.6</u>	<u>(1.1)</u>	<u>4.7</u>
Beginning fund balance	23.8	24.2	29.7	32.3	31.2
Ending fund balance	<u>24.2</u>	<u>29.7</u>	<u>32.3</u>	<u>31.2</u>	<u>35.9</u>
Reserved for dedicated purposes Permanent Fund	0.6	0.5	0.5	0.5	0.5
Unreserved, reported in:					
Special revenue funds	20.1	26.2	29.3	29.2	34.1
Debt service funds	1.3	1.4	1.4	1.7	1.7
Capital projects funds	<u>2.2</u>	<u>1.6</u>	<u>1.1</u>	<u>(0.1)</u>	<u>(0.3)</u>
Total all other governmental funds fund balance	<u>\$24.2</u>	<u>\$29.7</u>	<u>\$32.3</u>	<u>\$31.3</u>	<u>\$36.0</u>
Total general and other governmental funds - fund balance	<u>\$29.1</u>	<u>\$37.5</u>	<u>\$40.6</u>	<u>\$41.3</u>	<u>\$48.7</u>

Source: City of Prescott finance department

These amounts are presented on the accrual basis of accounting.

CITY OF PRESCOTT, ARIZONA

Table VII

Statistical Section - Financial Trends

General Government Expenditures by Function

Last ten fiscal years (1)

Fiscal Year	General Government	Community Services	Culture and Recreation	Public Safety		Public Works	Subtotal Current Expenditures	Capital Outlay	Debt Service Principal	Debt Service Interest	Total	Debt Service as a percentage of noncapital expenditures
				Police & Courts	Fire							
1997	\$ 2,300,279	\$ 987,286	\$ 2,467,290	\$ 7,630,800		\$ 1,592,471	\$ 14,978,126	\$ 5,175,576	\$ 734,105		\$ 20,887,807	
1998	2,432,378	955,390	2,606,905	7,959,885		1,772,343	15,726,901	5,485,575	653,221		21,865,697	
1999	2,658,965	1,082,893	2,867,160	8,529,716		1,882,827	17,021,561	9,319,519	179,329		26,520,409	
2000	2,864,098	1,103,357	3,264,115	8,989,091		1,881,707	18,102,368	11,787,515	454,214		30,344,097	
2001	3,289,431	1,345,762	3,391,994	9,855,935		2,081,956	19,965,078	31,695,096	53,863		51,714,037	
2002	3,507,893	1,737,515	3,880,000	11,044,795		2,247,948	22,418,151	18,965,560	1,653,723	1,467,968	44,505,402	12.2%
2003	3,112,805	1,921,862	4,152,052	7,328,394	5,098,237	2,691,222	24,304,572	9,193,799	1,843,153	1,358,938	36,700,462	11.6%
2004	3,664,500	2,152,142	4,125,700	7,873,737	5,358,362	2,934,571	26,109,012	16,399,864	1,952,003	1,263,420	45,724,299	11.0%
2005	4,639,844	2,314,246	4,735,603	8,516,869	5,817,037	3,145,141	29,168,740	22,109,095	1,720,051	1,160,334	54,158,220	9.0%
2006	5,911,150	2,190,852	5,607,706	10,336,021	6,413,599	3,650,496	34,109,824	17,074,369	2,159,211	1,084,915	54,428,319	8.7%

Source: City of Prescott finance department

(1) Prior to 2001-02 amounts were from the general fund and special revenue funds. The 2001-02 and forward amounts contain all governmental funds.

In fiscal year 2003, the public safety activity was expanded to show the police/court and fire activities separately. Police and fire activity were previously reported as public safety, court activity was presented as part of general government.

CITY OF PRESCOTT, ARIZONA

Table VIII

Statistical Section - Financial Trends

General Government Revenues by Sources

Last ten fiscal years (1) (2)

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Inter- governmental Revenues</u>	<u>Licenses and Permits</u>	<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Interest Income</u>	<u>Miscel- laneous</u>	<u>Total</u>
1997	\$ 8,487,472	\$ 10,576,163	\$ 990,419	\$ 593,547	\$ 404,335	\$ 739,582	\$ 924,587	\$ 22,716,105
1998	9,238,405	10,946,032	1,232,099	621,180	355,100	931,552	416,690	23,741,058
1999	9,402,073	13,477,694	1,723,377	652,868	396,723	836,119	752,806	27,241,660
2000	18,177,798	13,818,155	1,564,969	692,733	379,949	1,480,055	674,791	36,788,450
2001	19,220,526	14,967,912	1,561,537	733,362	362,102	2,078,477	741,371	39,665,287
2002	22,706,358	16,326,996	2,387,963	858,072	399,247	1,830,934	1,455,569	45,965,139
2003	23,845,928	13,514,966	3,170,195	1,436,338	512,835	1,383,229	1,206,372	45,069,863
2004	27,418,458	14,104,448	2,615,347	1,761,234	727,368	925,387	1,506,518	49,058,760
2005	30,433,859	15,154,725	3,661,079	1,299,622	907,993	1,944,433	2,071,771	55,473,482
2006	34,401,134	15,381,132	3,892,462	1,334,862	1,480,324	1,690,663	2,240,983	60,421,560

Source: City of Prescott finance department

(1) The additional 1% privilege tax for roads and open space was reclassified in FY 2000 from a capital project fund to a special revenue fund.

(2) Prior to FY 2002 amounts were from the general fund and special revenue funds. The FY 2002 and forward amounts contain all governmental funds.

CITY OF PRESCOTT, ARIZONA

Table IX

Statistical Section - Revenue Capacity

Assessed and Estimated Actual Value of Taxable Property

Last ten fiscal years

<u>Fiscal Year</u>		<u>Real Estate</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Utilities</u>	<u>Gross Valuations</u>	<u>Less Exemptions</u>	<u>Net Assessed Valuation</u>	<u>Percent of Increase</u>	<u>Estimated Actual Value</u>	<u>Total Direct Tax Rate</u>
1997	P	\$ -	\$ 187,172,933	\$ 9,781,090	\$ 16,034,751	\$ 212,988,774	\$ 12,529,362	\$ 200,459,412	7.8%	\$ 1,618,520,768	\$9.0845
	S	64,274,605	127,163,699	9,781,090	16,040,936	217,260,330	12,997,556	204,262,774	4.9%	1,643,342,134	1.3009
1998	P	-	209,954,206	14,846,462	13,477,138	238,277,806	16,710,867	221,566,939	10.5%	1,785,640,618	8.3843
	S	72,684,791	147,181,339	14,846,462	13,477,138	248,189,730	18,285,483	229,904,247	12.6%	1,854,677,503	1.1854
1999	P	-	229,284,403	13,157,290	15,635,534	258,077,227	17,373,446	240,703,781	8.6%	1,922,721,282	8.3882
	S	78,313,549	156,322,029	13,149,400	15,640,302	263,425,280	18,520,099	244,905,181	6.5%	1,956,487,013	1.1662
2000	P	-	249,063,290	13,489,333	16,413,953	278,966,576	45,528,479	233,438,097	-3.0%	2,092,232,685	8.2047
	S	119,583,499	153,161,018	13,474,471	16,428,815	302,647,803	43,444,813	259,202,990	5.8%	2,265,959,664	1.4691
2001	P	-	270,767,262	15,084,880	18,406,551	304,258,693	22,070,164	282,188,529	20.9%	2,274,048,212	7.8270
	S	124,002,003	164,506,274	15,051,055	18,437,147	321,996,479	24,843,875	297,152,604	14.6%	2,401,274,248	1.4810
2002	P	-	298,523,370	16,568,026	20,270,308	335,361,704	23,276,557	312,085,147	10.6%	2,512,369,029	7.5298
	S	128,101,429	185,985,911	16,559,405	20,270,308	350,917,053	25,009,576	325,907,477	9.7%	2,621,445,412	1.7228
2003	P	-	325,807,051	16,215,575	22,171,331	364,193,957	23,875,505	340,318,452	9.0%	2,740,841,490	7.5540
	S	131,615,879	209,475,582	16,230,175	22,171,331	379,492,967	25,227,311	354,265,656	8.7%	2,847,617,642	1.6541
2004	P	-	369,580,785	15,003,540	24,730,430	409,314,755	24,574,660	384,740,095	13.1%	3,059,452,688	7.6004
	S	159,328,874	239,175,556	15,003,540	24,730,430	438,238,400	26,873,584	411,364,816	16.1%	3,232,742,974	1.4420
2005	P	-	409,982,059	14,665,909	20,921,184	445,569,152	25,723,206	419,845,946	9.1%	3,366,027,959	7.4160
	S	174,363,451	265,094,752	14,670,567	20,921,184	475,049,954	27,239,856	447,810,098	8.9%	3,548,266,877	0.9915
2006	P	-	454,345,973	16,408,454	21,047,306	491,801,733	24,805,656	466,996,077	11.2%	3,744,454,238	7.0503
	S	181,287,420	304,464,222	16,408,431	21,047,306	523,207,379	25,981,170	497,226,209	11.0%	3,974,902,455	0.7977

Source: Yavapai County assessor

Under Arizona law, there are two primary valuation bases: Primary (P) and Secondary (S). The primary (limited) assessed valuation is used when levying for maintenance and operation of cities, counties, school districts, community college districts, and the state. The secondary (full cash) assessed valuation is used when levying for debt retirement, voter-approved budget overrides, and maintenance and operation of special service districts.

Real estate and improvements are combined in the primary valuation.

CITY OF PRESCOTT, ARIZONA

Table X

Statistical Section - Revenue Capacity

Property Tax Rates and Tax Levies - All Direct and Overlapping Governments

Last ten fiscal years

Fiscal Year		City of	High School	Community	Yavapai	State of	Total
		Prescott	& Elementary	College	County	Arizona	
Tax Rates (per \$1,000 Assessed Valuation)							
1997	P	\$ 0.4614	\$ 4.5886	\$ 1.5237	\$ 2.5108	\$ -	\$ 9.0845
	S	0.1705	0.5803	0.1223	0.4278	-	1.3009
1998	P	0.4152	4.1739	1.4589	2.3363	-	8.3843
	S	0.1519	0.5183	0.1055	0.4097	-	1.1854
1999	P	0.3822	4.2661	1.4631	2.2768	-	8.3882
	S	0.1447	0.4803	0.1058	0.4354	-	1.1662
2000	P	0.3169	4.1210	1.5294	2.2374	-	8.2047
	S	0.5067	0.4216	0.0956	0.4452	-	1.4691
2001	P	0.2906	3.8751	1.5330	2.1283	-	7.8270
	S	0.5592	0.3989	0.0875	0.4354	-	1.4810
2002	P	0.2627	3.6306	1.5325	2.1040	-	7.5298
	S	0.5121	0.3658	0.4163	0.4286	-	1.7228
2003	P	0.2522	3.6222	1.5835	2.0961	-	7.5540
	S	0.4707	0.3583	0.3954	0.4297	-	1.6541
2004	P	0.2415	3.6392	1.5672	2.1525	-	7.6004
	S	0.4072	0.2935	0.3106	0.4307	-	1.4420
2005	P	0.2383	3.4583	1.5626	2.1568	-	7.4160
	S	0.3763	0.2857	0.2888	0.4069	-	0.9915
2006	P	0.2245	3.1992	1.4900	2.1366	-	7.0503
	S	0.3413	0.0269	0.0261	0.4034	-	0.7977
Tax Levies							
1997	P	\$ 950,000	\$ 11,989,487	\$ 12,811,554	\$ 20,495,445	\$ 3,897,847	\$ 50,144,333
	S	1,009,027	2,245,405	1,071,288	3,775,169	-	8,100,889
1998	P	920,000	12,810,741	14,029,805	22,466,746	-	50,227,292
	S	349,120	1,656,751	1,061,930	2,732,084	-	5,799,885
1999	P	920,000	14,142,306	14,978,983	23,309,493	-	53,350,782
	S	354,280	1,628,476	1,109,134	4,158,476	-	7,250,366
2000	P	820,000	14,650,581	16,779,826	24,547,733	-	56,798,140
	S	1,411,354	1,659,543	1,135,081	4,869,938	-	9,075,916
2001	P	820,000	15,065,840	18,109,635	25,141,805	-	59,137,280
	S	1,661,716	1,670,688	1,091,840	5,059,091	-	9,483,335
2002	P	820,000	15,596,853	19,630,398	26,951,447	-	62,998,698
	S	1,669,115	1,670,560	5,598,026	5,373,092	-	14,310,793
2003	P	858,120	16,979,781	21,980,482	29,096,384	-	68,914,767
	S	1,667,615	1,768,595	5,735,780	5,845,096	-	15,017,086
2004	P	929,147	18,984,254	23,771,406	32,649,944	-	76,334,751
	S	1,674,875	1,637,296	4,977,303	6,503,406	-	14,792,880
2005	P	1,000,493	19,589,747	26,189,637	36,148,695	-	82,928,572
	S	1,685,025	1,723,513	5,155,584	6,889,175	-	15,453,297
2006	P	1,048,406	20,179,874	27,980,856	40,122,659	-	89,331,795
	S	1,697,025	1,820,494	5,282,090	7,723,835	-	16,523,444

The portion of the 2005-06 levies paid by City of Prescott property owners is reflected below:

Amount	P	\$ 1,048,406	\$ 16,636,761	\$ 8,614,772	\$ 12,353,002	\$ -	\$ 38,652,941
	S	1,697,025	1,500,547	1,638,955	2,396,593	-	7,233,120
Percent	P	100%	82.4%	30.8%	30.8%	-	43.3%
	S	100%	82.4%	31.0%	31.0%	-	43.8%

Source: Yavapai County Board of Supervisors

CITY OF PRESCOTT, ARIZONA

Table XI

Statistical Section - Revenue Capacity

Principal Property Taxpayers

Current fiscal year and nine years ago

		2005/06			1996/97		
		Assessed Valuation	Rank	As a % of City's Total Secondary Assessed Valuation	Assessed Valuation	Rank	As a % of City's Total Secondary Assessed Valuation
<u>Taxpayer</u>	<u>Type of Business</u>						
Arizona Public Service	Electric utility	\$ 11,376,518	1	2.3%	\$ 7,113,723	1	3.5%
TWC II Prescott Mall LLC	Shopping center	9,982,086	2	2.0%			
Qwest Corporation / US West	Telecommunications	5,615,582	3	1.1%	5,105,673	2	2.5%
Tucson Electric / Citizens	Gas utility	3,818,503	4	0.8%	3,767,857	3	1.8%
Wal-Mart	Shopping center	2,471,758	5	0.5%			
LFRV LLC (Las Fuentes)	Commercial rental	2,073,427	6	0.4%			
Costco	Shopping center	1,962,888	7	0.4%	1,341,984	7	0.7%
Willow Creek Corner LLC	Shopping center	1,877,530	8	0.4%			
Wal-Mart Stores Inc. 5303	Shopping center	1,778,927	9	0.4%			
1000 Morse LTD UI (Willow Creek Plz)	Shopping center	1,850,870	10	0.4%	1,823,947	6	0.9%
Ponderosa Plaza	Shopping center				2,524,644	4	1.2%
Sturm-Ruger	Manufacturing				1,894,369	5	0.9%
Smiths Management Corporation	Grocery store				1,166,516	8	0.6%
Prescottonian Motel	Motel				767,159	9	0.4%
Albertsons	Grocery store				716,789	10	0.4%
Total		<u>\$ 44,452,308</u>		<u>8.7%</u>	<u>\$ 26,222,661</u>		<u>12.8%</u>

Source: Yavapai County assessor's office

**CITY OF PRESCOTT, ARIZONA**  
**Table XII**  
**Statistical Section - Revenue Capacity**  
**Property Tax Levies and Collections**  
 Last ten fiscal years

<u>Fiscal Year</u>	<u>Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Collections</u>	<u>Total Collections As Percent of Current Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes As Percent of Current Levy</u>
1997	\$ 1,271,305	\$ 1,252,701	98.5%	\$ 48,957	\$ 1,301,658	102.4%	\$ 95,633	7.5%
1998	1,269,858	1,252,096	98.6%	31,378	1,283,474	101.1%	82,017	6.5%
1999	1,274,280	1,213,362	95.2%	50,735	1,264,097	99.2%	92,200	7.2%
2000	2,231,354	2,161,688	96.9%	28,029	2,189,717	98.1%	133,837	6.0%
2001	2,481,716	2,445,577	98.5%	19,762	2,465,339	99.3%	150,214	6.1%
2002	2,489,115	2,428,916	97.6%	39,658	2,468,574	99.2%	170,755	6.9%
2003	2,525,735	2,402,338	95.1%	79,912	2,482,250	98.3%	193,699	7.7%
2004	2,604,022	2,580,873	99.1%	48,567	2,629,440	101.0%	145,337	5.6%
2005	2,685,518	2,677,274	99.7%	34,941	2,712,215	101.0%	118,640	4.4%
2006	2,745,431	2,725,807	99.3%	33,699	2,759,506	100.5%	104,565	3.8%

Source: Yavapai County treasurer's office

Beginning in 1950-51, Yavapai County was assigned the responsibility for assessing and collecting property taxes. Annual over collections (except for the year of change) are usually assured in that only the first six months total of unsecured personal property is included in the levy. The same tax rate is applied to the unsecured personal property assessed during the last six months of the year.

Yavapai County, in 1959-60, engaged in a more realistic approach in assessing unsecured personal property by using the previous year's actual percentage distribution to governmental units within the County applied to the current year's valuation.

Penalties are not recorded in the above collection figures.

The City tax rate is set before the final assessed valuation is known. Levies shown here are the product of the tax rate times the actual valuation; consequently, they may differ slightly from the estimated levies shown in the budget for each of these years.

CITY OF PRESCOTT, ARIZONA

Table XIII

Statistical Section - Revenue Capacity

Property Tax Information

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**Tax Rate Limitation**

The state constitution and state law specify a property tax limitation system. The system consists of two levies, a limited levy known as the primary tax levy and an unlimited levy referred to as the secondary property tax levy. The primary levy is limited to an increase of 2% over the previous year's maximum allowable primary levy plus an increased dollar amount for property not taxed the previous year including new construction and annexed properties. The primary tax from all taxing jurisdictions for homeowners may not exceed 1% of the home's market value. The secondary property tax allows a city to levy property tax for the purpose of retiring the principal and interest on bonded indebtedness. Further, the actual full cash value of property is used to determine this tax rate.

**Assessments**

Since 1950-51, Yavapai County has assessed and collected all city property taxes at no charge to the City. Prior to that time, City taxes were separately billed by the City tax collector. Remittances are made periodically as collections accrue.

**Taxes Due**

First installment due September 1; second installment due March 1.

**Payable**

City property taxes are payable at the office of the Yavapai County Treasurer. The first installment can be paid on the first day of September through the first day of November. The second installment can be paid on the first day of March through the first day of May. The first installment becomes delinquent on the first day of November at 5:00 p.m. The second installment becomes delinquent on the first day of May at 5:00 p.m. Interest at the rate of 16% per annum attaches on first and second installments following their delinquent dates.

**Tax Sales**

The sales of delinquent real estate taxes begin on a date not earlier than February 1 nor later than March 1 following the May 1 date upon which the second installment becomes delinquent. The sales are made at public auctions 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 provided by law is 10% per annum. The purchaser of this tax sale is given a Certificate of Purchase for each parcel of real estate concerned.

**Tax Deed**

Five years subsequent to the annual tax sale, a holder of a Certificate of Purchase which has not been redeemed may demand of the Yavapai County Treasurer a County Treasurer's Deed. However, at the end of three full years, a holder of a Certificate of Purchase may institute a 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 the issuance of the tax deed. Payment may be made to the Yavapai County Treasurer.

CITY OF PRESCOTT, ARIZONA

Table XIV

Statistical Section - Revenue Capacity

Tax Revenues by Source

Last ten fiscal years

<u>Fiscal Year</u>	<u>Total Tax Per Capita</u>	<u>Total Taxes</u>	<u>General Property Taxes</u>	<u>General Privilege and Use Taxes</u>	<u>Additional 1% Privilege Tax (1)</u>	<u>Franchise Taxes</u>	<u>Transient Lodging Tax (2)</u>
1997	\$457	\$ 14,355,733	\$ 1,296,123	\$ 6,299,553	\$ 5,868,261	\$ 678,298	\$ 213,498
1998	493	15,790,331	1,284,416	6,955,576	6,551,926	778,926	219,487
1999	528	16,949,809	1,268,036	7,484,984	7,195,537	773,407	227,845
2000	581	19,494,931	2,161,034	8,289,438	7,999,852	778,302	266,305
2001	615	20,865,681	2,462,504	8,705,838	8,445,405	960,603	291,331
2002	634	22,706,358	2,505,335	9,615,252	9,270,390	1,008,081	307,300
2003	656	23,845,928	2,524,888	10,126,355	9,872,177	1,020,608	301,900
2004	718	27,418,458	2,592,210	11,835,113	11,517,650	1,147,098	326,387
2005	757	30,433,859	2,704,676	13,215,116	12,918,249	1,235,890	359,928
2006	838	34,401,134	2,753,961	15,129,080	14,731,785	1,369,307	417,001

Source: City of Prescott finance department

(1) Voters approved an additional 1% privilege tax in 1995 for street improvements to sunset December 31, 2005. In May 2000, the voters expanded the use of funds to include open space acquisition while extending the sunset to December 31, 2015.

(2) Proceeds from this tax are used for the promotion of tourism and development of recreational facilities within the City.

CITY OF PRESCOTT, ARIZONA

Table XV

Statistical Section - Revenue Capacity  
Privilege Tax - Taxable Sales by Category

Last ten fiscal years

Fiscal Year	Automotive	Construction	General Merchandise	Misc. Retail	Food Stores	Real Estate				Communica-tions	Business Services	Furniture	Hotel & Motel		All Other		Total	Tax Rate	Top 10 as percentage to Total
						Rentals	Restaurants & Bars	Utilities	Hotels				Motels	Printing	Apparel				
1997	\$87,000,259	\$72,316,213	\$66,695,914	\$71,289,367	\$78,649,571	\$45,977,517	\$41,335,050	\$32,543,929	\$19,752,494	\$17,673,753	\$12,116,858	\$12,799,233	\$15,995,611	\$7,713,127	\$33,380,452	\$615,239,348	2%	0%	
1998	78,543,948	75,798,086	76,974,947	81,180,919	80,424,975	53,098,243	44,640,436	36,186,354	24,772,686	22,485,688	14,094,923	13,096,610	17,088,228	7,561,849	48,576,477	674,524,369	2%	0%	
1999	108,794,634	92,228,924	87,341,760	82,721,051	81,901,213	57,607,283	47,429,467	34,773,664	28,083,930	21,748,885	18,152,300	13,789,982	18,027,279	7,026,161	29,525,982	729,152,515	2%	17%	
2000	124,739,691	104,695,997	98,866,858	91,437,880	85,734,413	63,133,219	50,445,774	35,206,623	32,355,201	24,805,751	19,629,326	16,687,877	17,910,909	7,898,882	32,078,518	805,626,919	2%	29%	
2001	121,341,182	131,930,266	100,489,135	100,312,340	86,333,711	69,185,620	50,674,772	39,934,785	34,331,735	26,783,580	17,862,870	17,233,341	17,106,846	7,141,110	32,883,233	853,544,526	2%	28%	
2002	136,333,290	154,467,159	118,190,428	105,748,135	86,026,584	72,592,687	53,544,387	48,808,891	33,566,891	26,417,224	18,888,190	19,615,264	16,857,074	9,764,782	36,300,917	937,121,903	2%	24%	
2003	154,945,794	142,172,896	131,270,398	109,836,419	89,060,155	79,503,263	58,555,851	46,581,908	33,645,178	26,539,070	25,167,507	19,119,481	18,161,694	13,852,217	40,219,648	988,631,479	2%	28%	
2004	182,502,741	169,760,812	192,381,804	120,809,690	96,292,469	85,530,789	60,635,063	48,629,410	33,896,483	27,665,158	25,324,216	20,248,084	16,718,696	15,008,164	43,453,018	1,138,856,597	2%	29%	
2005	211,529,204	202,047,222	251,059,469	136,654,086	100,186,426	89,353,937	66,913,229	53,176,362	32,236,998	33,348,721	32,293,206	22,349,436	17,922,992	16,187,744	48,248,017	1,313,507,049	2%	28%	
2006	237,947,384	224,080,037	286,561,856	157,055,001	105,112,216	99,702,102	76,329,871	61,349,829	33,464,157	42,910,975	32,968,047	24,811,014	19,509,210	20,256,945	61,371,213	1,483,429,857	2%	30%	

Top 10 Taxpayers

FY 2006	FY 1997
Arizona Public Service	Albertson's
Best Buy Stores	Arizona Public Service
Costco	Costco
Frys Food & Drug	Fry's Food & Drug
Lamb Chevrolet	Galpin Ford
Tim's Buick-Pontiac	K-Mart
UNS Gas, Inc.	Safeway
Wal-Mart Supercenter (Gail Gardner)	Sears
Wal-Mart Supercenter (Hwy 69)	Smith's Food & Drug
York Car Company	Tim's Buick, Pontiac, GMC
<b>Percent of Total Privilege Tax Collected: 30%</b>	<b>Percent of Total Privilege Tax Collected: Estimated at 15-25%.</b>

Source: City of Prescott finance department

- (1) Voters approved an additional 1% privilege tax in 1995 for street improvements to sunset December 31, 2005. In May 2000, the voters expanded the use of funds to include open space acquisition while extending the sunset to December 31, 2015.
- (2) Proceeds from this tax are used for the promotion of tourism and development of recreational facilities within the City.
- (3) The FY 1997 and 1998 tax collection amounts for the top 10 taxpayers is not readily available, we believe the percentage would be 15% - 25%.

**CITY OF PRESCOTT, ARIZONA**

**Table XVI**

**Statistical Section - Revenue Capacity**

**Privilege Tax Overlapping Rates**

Last ten fiscal years

<u>Fiscal Year</u>	<u>Prescott Privilege Tax General</u>	<u>Prescott Privilege Tax - Roads &amp; Open Space (1)</u>	<u>Yavapai County Privilege Tax</u>	<u>State of Arizona Privilege Tax</u>	<u>Total Privilege Tax</u>	<u>Transient Lodging Tax (2)</u>
1997	1.00%	1.00%	0.50%	5.00%	7.50%	2.00%
1998	1.00%	1.00%	0.50%	5.00%	7.50%	2.00%
1999	1.00%	1.00%	0.50%	5.00%	7.50%	2.00%
2000	1.00%	1.00%	0.50%	5.00%	7.50%	2.00%
2001	1.00%	1.00%	0.70%	5.60%	8.30%	2.00%
2002	1.00%	1.00%	0.70%	5.60%	8.30%	2.00%
2003	1.00%	1.00%	0.75%	5.60%	8.35%	2.00%
2004	1.00%	1.00%	0.75%	5.60%	8.35%	2.00%
2005	1.00%	1.00%	0.75%	5.60%	8.35%	2.00%
2006	1.00%	1.00%	0.75%	5.60%	8.35%	2.00%

Source: City of Prescott finance department

(1) Voters approved an additional 1% privilege tax in 1995 for street improvements to sunset December 31, 2005. In May 2000, the voters expanded the use of funds to include open space acquisition while extending the sunset to December 31, 2015.

(2) Proceeds from this tax are used for the promotion of tourism and development of recreational facilities within the City.

CITY OF PRESCOTT, ARIZONA

Table XVII

Statistical Section - Debt Capacity

Ratios of Outstanding Debt by type

Last ten fiscal years

Fiscal Year	Governmental Activities					Business-type Activities				Total Primary Government	Net Bonded Debt Per Capita	Adjusted Net Bonded Debt Per Capita (1)	Percentage of Personal Income	Adjusted Percentage of Personal Income
	General Obligation Bonds	Community Facilities District Bonds	Lease Purchase Contracts	Municipal Properties Corporation Bonds	Special Assessment Bonds	Municipal Properties Corporation Bonds	General Obligation Bonds	Lease Purchase Contracts						
1997	\$ 2,915,000	\$ 7,315,000	\$ 347,170	\$ 227,100	\$ 450,760	\$ 15,360,000	\$ 470,000	\$ 1,450,802	\$ 28,535,832	\$ 908	\$ 661	1.08%	0.79%	
1998	2,755,000	6,910,000	259,313	-	413,425	14,020,000	445,000	4,343,361	29,146,099	910	681	1.01%	0.76%	
1999	16,080,000	6,795,000	223,895	-	314,477	15,815,000	420,000	6,734,476	46,382,848	1,446	1,224	1.47%	1.25%	
2000	15,800,000	7,780,000	185,670	-	245,528	14,705,000	-	5,522,412	44,238,610	1,317	1,078	1.33%	1.09%	
2001	14,840,000	7,550,000	144,418	-	4,602,063	13,530,000	-	4,516,234	45,182,715	1,331	973	1.26%	0.92%	
2002	13,815,000	7,280,000	99,898	-	4,287,860	15,245,000	-	5,984,488	46,712,246	1,304	981	1.26%	0.95%	
2003	12,730,000	6,889,000	51,852	-	3,967,753	10,500,000	-	5,377,816	39,516,421	1,086	788	1.01%	0.73%	
2004	11,590,000	6,460,000	-	-	3,733,442	9,600,000	-	4,772,479	36,155,921	947	680	0.82%	0.59%	
2005	10,395,000	6,270,000	-	-	3,398,392	12,525,000	-	4,818,455	37,406,847	930	690	0.85%	0.63%	
2006	9,140,000	5,765,000	666,940	-	3,066,241	12,290,000	-	5,482,060	36,410,241	887	672	0.82%	0.62%	

Source: City of Prescott finance department

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

Population information can be found on Table XXV. 2005 and 2006 percentage columns are based on 2004 personal income amounts. The 2005 and 2006 personal income amounts were not available.

(1) The total debt for the primary government is reduced by the amount of community facilities district bonds and special assessment bonds which are levied against specific property owners, and, therefore not an obligation of every citizen.

CITY OF PRESCOTT, ARIZONA

Table XVIII

Statistical Section - Debt Capacity

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita

Last ten fiscal years

<u>Fiscal Year</u>	<u>Net Assessed Value</u>	<u>Gross Bonded Debt (2)</u>	<u>Less Debt Payable from Enterprise Funds</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1997	\$ 204,262,774	\$ 3,385,000	\$ 470,000	\$ 2,915,000	1.4%	\$93
1998	244,905,181	3,200,000	445,000	2,755,000	1.1%	86
1999	259,202,990	16,500,000	420,000	16,080,000	6.2%	501
2000	297,152,604	15,800,000	-	15,800,000	5.3%	471
2001	325,907,477	14,840,000	-	14,840,000	4.6%	437
2002	325,907,477	13,815,000	-	13,815,000	4.2%	386
2003	354,265,656	12,730,000	-	12,730,000	3.6%	350
2004	411,364,816	11,590,000	-	11,590,000	2.8%	304
2005	447,810,098	10,395,000	-	10,395,000	2.3%	258
2006	497,226,209	9,140,000	-	9,140,000	1.8%	223

Source: City of Prescott finance department

(1) Population information is shown on table XXV.

(2) Includes all general obligation bonded debt.

CITY OF PRESCOTT, ARIZONA

Table XIX

Statistical Section - Debt Capacity

Ratio of Annual Debt Service Expenditures for General Obligation Bond Debt to Total General Expenditures

Last ten fiscal years

<u>Fiscal Year</u>	<u>GO Bond Principal</u>	<u>GO Bond Interest</u>	<u>GO Bond Debt Service (1)</u>	<u>Total General Expenditures</u>	<u>Percent of Debt Service to Total General Expenditures</u>
1997	\$ 150,000	\$ 198,270	\$ 348,270	\$ 20,887,807	1.7%
1998	160,000	189,120	349,120	21,865,697	1.6%
1999	175,000	147,196	322,196	26,520,409	1.2%
2000	280,000	1,131,353	1,411,353	30,344,097	4.7%
2001	960,000	701,715	1,661,715	51,714,037	3.2%
2002	1,025,000	644,115	1,726,715	44,505,402	3.9%
2003	1,085,000	582,615	1,667,615	36,700,462	4.5%
2004	1,140,000	534,875	1,674,875	45,724,299	3.7%
2005	1,195,000	489,275	1,684,275	54,158,220	3.1%
2006	1,255,000	441,475	1,696,475	54,428,319	3.1%

Source: City of Prescott finance department

(1) The GO bond debt service includes all debt service paid for by secondary property taxes, including those paid through enterprise funds.

(2) This is the amount of secondary property tax transferred to the water fund to pay a portion of GO bond debt serviced by the water and sewer fund.

CITY OF PRESCOTT, ARIZONA

Table XX

Statistical Section - Debt Capacity

Schedule of Water and Wastewater Revenue Bond Coverage

Last ten fiscal years

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses (1)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Revenue Bond Debt Service</u>			<u>Coverage (2)</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1997	\$ 9,036,916	\$ 5,265,147	\$ 3,771,769	\$ -	\$ -	\$ -	-
1998	8,818,381	5,668,869	3,149,512	-	-	-	-
1999	9,603,732	4,998,126	4,605,606	-	-	-	-
2000	10,194,379	5,855,785	4,338,594	-	-	-	-
2001	10,461,178	6,171,567	4,289,611	-	-	-	-
2002	10,909,306	7,057,951	3,851,355	-	-	-	-
2003	14,510,866	11,388,242	3,122,624	-	-	-	-
2004	17,341,679	11,619,209	5,722,470	-	-	-	-
2005	27,905,262	13,186,223	14,719,039	-	-	-	-
2006	23,481,340	14,264,149	9,217,191	-	-	-	-

Source: City of Prescott finance department

(1) Total expenses exclusive of depreciation, bond interest and capital costs.

(2) Revenue bond ordinances preclude the issuance of additional party bonds unless net revenues for the preceding twelve month period are equal to 1.2 times the highest future annual debt service requirement (including debt service on the bonds to be issued).

CITY OF PRESCOTT, ARIZONA  
**Table XXI**  
**Statistical Section - Debt Capacity**  
**Direct and Overlapping Debt**  
June 30, 2006

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	<u>Net Bonds</u> <u>Outstanding</u>	<u>Percentage</u> <u>Applicable</u> <u>to Prescott (1)</u>	<u>Amount</u> <u>Applicable</u> <u>to Prescott</u>
<b><u>Direct Debt</u></b>			
General obligation bonds payable from property tax:			
Municipal facilities & refunding bond series 1998	\$ 9,140,000	100.0%	\$ 9,140,000
Total direct debt			<u>9,140,000</u>
<b><u>Overlapping Debt</u></b>			
Yavapai Community College District	59,235,000	24.9%	14,730,969
Prescott Unified School District	19,075,000	74.0%	14,121,944
Total overlapping debt			<u>28,852,913</u>
Total direct & overlapping debt			<u>\$ 37,992,913</u>

(1) Debt allocation is based on distribution of assessed valuation within overlapping tax districts.

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	<u>Total</u> <u>Assessed</u> <u>Valuation</u>		<u>Valuation</u> <u>in</u> <u>Prescott</u>	<u>Percent</u> <u>in</u> <u>Prescott</u>
<b><u>Taxing District</u></b>				
Yavapai Community College District	\$ 1,877,847,425	\$	466,996,077	24.9%
Prescott Unified School District	630,787,795		466,996,077	74.0%

Source: Yavapai County assessor's office

**CITY OF PRESCOTT, ARIZONA**  
**Table XXII**  
**Statistical Section - Debt Capacity**  
**Legal Debt Margins**  
June 30, 2006

	<u>General Obligation Bonds</u>	
	<u>All Others</u> <u>6% (1)</u>	<u>Water &amp; Sewer</u> <u>20% (2)</u>
<b><u>Legal Debt Limitation</u></b>		
(2005-06 secondary assessed valuation \$497,226,209)	\$ 29,833,573	\$ 99,445,242
<b><u>Outstanding Debt</u></b>		
Municipal facilities & refunding bond series 1998	1,010,000	8,130,000
Total outstanding debt	1,010,000	8,130,000
Total margin available	\$ 28,823,573	\$ 91,315,242
Total debt applicable to the limit as a percentage of the debt limit	3.4%	8.2%

Source: City of Prescott finance department

(1) Arizona's Constitution states that a municipality cannot issue general obligation bonds in excess of 6% of assessed valuation for general municipal purposes.

(2) Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purposes such as supplying water and sewer services and recreational and playground facilities.

**Computation of Debt Margin Highway User Tax Bonds**

Arizona law states that municipalities may issue highway users bonds to the extent that 50% of the highway user revenues in the preceding year will be sufficient to pay annual principal and interest of such bonds.

Highway user tax revenue FY 2005-06	\$ 3,491,992
Percent of margin	50%
Highway user margin	1,745,996
Bond principal due FY 2005-2006	-
Bond interest due FY 2005-2006	-
Margin available	\$ 1,745,996

Total debt service applicable to the margin as a percentage of the margin n/a

CITY OF PRESCOTT, ARIZONA

Table XXIII

Statistical Section - Debt Capacity

Legal Debt Margins

Last ten fiscal years (in thousands of dollars)

<u>Legal Debt Limitation or Margin</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>General Obligation Bonds 6% limit (1)</b>	\$ 11,679	\$ 13,794	\$ 14,694	\$ 16,713	\$ 17,829	\$ 19,554	\$ 21,256	\$ 24,682	\$ 26,869	\$ 29,834
Outstanding debt subject to limit	<u>3,556</u>	<u>3,200</u>	<u>2,590</u>	<u>2,405</u>	<u>2,405</u>	<u>2,155</u>	<u>1,885</u>	<u>1,605</u>	<u>1,315</u>	<u>1,010</u>
Total margin available	<u>\$ 8,123</u>	<u>\$ 10,594</u>	<u>\$ 12,104</u>	<u>\$ 14,308</u>	<u>\$ 15,424</u>	<u>\$ 17,399</u>	<u>\$ 19,371</u>	<u>\$ 23,077</u>	<u>\$ (1,315)</u>	<u>\$ 28,824</u>
Total debt applicable to the limit as a percentage of the debt limit	30.4%	23.2%	17.6%	14.4%	13.5%	11.0%	8.9%	6.5%	4.9%	3.4%
<b>Water &amp; Wastewater 20% limit (2)</b>	\$ 40,853	\$ 45,981	\$ 48,981	\$ 55,710	\$ 59,431	\$ 65,181	\$ 70,853	\$ 82,273	\$ 89,562	\$ 99,445
Outstanding debt subject to limit	<u>-</u>	<u>-</u>	<u>13,910</u>	<u>13,395</u>	<u>12,435</u>	<u>11,660</u>	<u>10,845</u>	<u>9,985</u>	<u>9,080</u>	<u>8,130</u>
Total margin available	<u>\$ 40,853</u>	<u>\$ 45,981</u>	<u>\$ 35,071</u>	<u>\$ 42,315</u>	<u>\$ 46,996</u>	<u>\$ 53,521</u>	<u>\$ 60,008</u>	<u>\$ 72,288</u>	<u>\$ 80,482</u>	<u>\$ 91,315</u>
Total debt applicable to the limit as a percentage of the debt limit	n/a	n/a	28.4%	24.0%	20.9%	17.9%	15.3%	12.1%	10.1%	8.2%
<b>Highway User Margin 50% limit (3)</b>	\$ 1,369	\$ 1,343	\$ 1,454	\$ 1,524	\$ 1,519	\$ 1,397	\$ 1,433	\$ 1,595	\$ 1,622	\$ 1,746
Bond principal due	<u>-</u>	<u>-</u>								
Bond interest due	<u>-</u>	<u>-</u>								
Margin available	<u>\$ 1,369</u>	<u>\$ 1,343</u>	<u>\$ 1,454</u>	<u>\$ 1,524</u>	<u>\$ 1,519</u>	<u>\$ 1,397</u>	<u>\$ 1,433</u>	<u>\$ 1,595</u>	<u>\$ 1,622</u>	<u>\$ 1,746</u>
Total debt service applicable to the margin as a percentage of the margin	n/a	n/a								

Source: City of Prescott finance department

(1) Arizona's Constitution provides that a municipality cannot issue general obligation bonds in excess of 6% of assessed valuation for general municipal purposes.

(2) Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purposes such as supplying water and wastewater services and recreational and playground facilities.

(3) Arizona law states that municipalities may issue highway users bonds to the extent that 50% of the highway user revenues in the preceding year will be sufficient to pay annual principal and interest of such bonds.

CITY OF PRESCOTT, ARIZONA

Table XXIV

Statistical Section - Debt Capacity

Pledged-Revenue Coverage

Last ten fiscal years

Fiscal Year	Special Assessment Bonds				Community Facilities District Bonds				Municipal Property Corporation Bonds			
	Special Assessments Collected	Debt Service		Coverage	CFD Assessments Collected	Debt Service		Coverage	Excise Tax Collected	Debt Service		Coverage
		Principal	Interest			Principal	Interest			Principal (1)	Interest	
1997	\$ 37,918	\$ 46,596	\$ 14,414	62%	\$ 1,088,073	\$ -	\$ 377,942	n/a	\$ 12,846,112	\$ 1,260,000	\$ 974,138	575%
1998	33,057	47,596	10,202	57%	1,127,503	405,000	571,419	115%	14,286,428	1,340,000	895,985	639%
1999	90,760	98,149	24,996	74%	726,826	115,000	541,391	111%	15,453,928	1,410,000	981,982	646%
2000	86,809	69,320	17,871	100%	835,506	255,000	566,348	102%	17,067,592	1,110,000	1,021,050	801%
2001	305,749	157,533	148,216	100%	884,380	230,000	620,163	104%	18,111,846	1,175,000	959,685	848%
2002	532,232	314,203	218,193	100%	926,479	270,000	588,615	108%	19,893,723	1,240,000	894,068	932%
2003	522,415	320,107	202,475	100%	823,983	390,000	561,275	87%	21,019,140	4,745,000	824,370	377%
2004	511,743	330,151	187,855	99%	893,919	430,000	536,218	93%	24,499,861	900,000	505,833	1743%
2005	504,341	335,051	172,029	99%	977,151	190,000	498,512	142%	27,369,255	5,120,000	853,395	458%
2006	479,501	332,151	155,627	98%	1,033,506	505,000	472,444	106%	31,230,172	1,305,000	910,278	1410%

Source: City of Prescott finance department

**Special Assessment Bonds** are used to finance capital improvements in specific areas of the City. Project costs are assessed to each benefiting property owner, with payments used to pay debt service. The underlying property secures the debt and may be foreclosed in the event of a default.

**Community Facilities District Bonds** are issued by special districts specifically created to acquire and improve public infrastructure in specified land areas. Assessments are levied against property owners in the district to pay all of the costs associated with the districts. The underlying property secures the debt and may be foreclosed in the event of a default.

**Municipal Property Corporation Bonds** are issued by a non-profit corporation created by the City to finance construction or acquisition of municipal buildings and improvements on land owned by the City. The City makes lease payments to the Corporation to approximate the debt service. The City pledges all excise, transaction privilege and franchise taxes as collateral.

(1) - The Municipal Property Corporation Bonds principal for 2005 includes \$4,535,000 in refunded bonds, without this refunding the principal would be \$585,000 and the coverage would increase to 1903%.

CITY OF PRESCOTT, ARIZONA

Table XXV

Statistical Section

Demographic and Economic Statistics

Last ten calendar years

<u>Year</u>	<u>Population</u>	<u>Personal Income (thousands of dollars) (1)</u>	<u>Per Capita Personal Income (1)</u>	<u>Annual Unemployment Rate (1)</u>	<u>School Enrollment (2)</u>
1997	31,428	\$ 2,641,352	\$ 18,040	4.8%	5,195
1998	32,037	2,876,320	18,933	4.0%	5,242
1999	32,086	3,144,911	19,944	3.3%	5,149
2000	33,581	3,315,373	20,347	3.9%	5,046
2001	33,938	3,574,050	21,153	4.2%	5,049
2002	35,815	3,713,436	21,379	5.1%	5,031
2003	36,375	3,927,080	21,936	4.8%	5,000
2004	38,180	4,425,695	23,203	4.3%	5,113
2005	40,225			4.1%	5,242
2006	41,050			3.7%	5,461

Source: Arizona Department of Economic Security

(1) Income and employment information shown is for the Prescott Metropolitan Statistical Area (MSA).

(2) Source: Arizona Department of Education.

The 2005 and 2006 income amounts were not available.

**CITY OF PRESCOTT, ARIZONA**

**Table XXVI**

**Statistical Section**

**Demographic and Economic Statistics**

**Principal Employers**

Current fiscal year and nine years ago

<u>Employer</u>	<u>Type of Business</u>	<u>2005/06</u>			<u>1996/97</u>		
		<u>Number of Employees</u>	<u>Rank</u>	<u>As a % of City's Total Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>As a % of City's Total Employment</u>
Yavapai County	Government	1,739	1	10.4%	1,213	1	7.5%
Yavapai Regional Medical Center	Hospital	1,599	2	9.6%	730	3	4.5%
Prescott Unified School District	Public Schools	808	3	4.8%	573	4	3.5%
Wal-Mart Stores	Retail	775	4	4.6%			
Veteran's Administration Medical Center	Hospital	682	5	4.1%	550	5	3.4%
City of Prescott	Government	510	6	3.1%	380	6	2.3%
State of Arizona	Government	440	7	2.6%	330	7	2.0%
Yavapai College	College	410	8	2.5%	300	9	1.8%
Embry-Riddle Aeronautical University	College	383	9	2.3%	300	8	1.8%
West Yavapai Guidance Clinic	Clinic	240	10	1.4%	182	10	1.1%
Sturm Ruger	Manufacturing				1176	2	7.2%
		<u>7,586</u>		<u>35.9%</u>	<u>5,734</u>		<u>37.6%</u>

The 2005/06 total City employment was 16,693 based on Arizona Department of Economic Security information for 2005.

The 1995/96 total City employment was 16,273 based on Arizona Department of Economic Security information for 1997.

CITY OF PRESCOTT, ARIZONA

Table XXVII

Statistical Section - Operating Information

City Employees by Function/Program

Last ten fiscal years

Function/ Program	<i>Full-time Equivalent Employees at June 30</i>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Government	19	19	21	21	28	29	31	31	35	33
Administrative Services (1)	8	8	9	9	12	12	6	6	6	5
Budget and Finance (1)	9	9	10	10	11	11	24	23	22	23
Community Development	18	18	19	20	21	23	23	27	27	27
Cultural & Recreation	36	39	41	44	45	47	65	66	65	76
Police	85	89	90	97	99	100	103	108	112	124
Fire	52	52	57	57	63	63	63	64	84	84
Central Garage	7	7	7	7	7	7	7	7	8	9
Self Insurance	2	2	2	2	2	2	3	3	2	2
Facilities Maintenance (2)	3	3	3	4	3	3	0	0	7	5
Engineering	15	16	19	19	19	20	25	23	24	25
Water	34	39	39	40	40	40	36	35	35	36
Wastewater	27	27	26	26	27	27	27	27	29	30
Solid Waste	12	12	12	12	13	13	13	15	16	16
Transfer Station	5	5	5	5	5	5	5	6	6	7
Airport	9	9	11	11	11	12	12	13	13	11
Golf Course	10	10	15	18	15	14	28	28	29	30
Streets	24	27	24	24	28	29	30	34	34	35
<b>Total</b>	<b>375</b>	<b>391</b>	<b>410</b>	<b>426</b>	<b>449</b>	<b>457</b>	<b>501</b>	<b>516</b>	<b>551</b>	<b>575</b>
Number of citizens per employee	84	82	78	79	76	78	73	74	73	71

Source: City of Prescott finance department

(1) In 2003, the Information Technology division was moved from Administrative Services to Budget and Finance.

(2) In 2005 a Facilities Maintenance program was initiated.

CITY OF PRESCOTT, ARIZONA

Table XXVIII

Statistical Section - Operating Information

Operating Indicators by Function/Program

Last ten fiscal years (unless noted otherwise)

<u>Function/Program</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Community Development</b>										
Building permits issued	1,793	1,724	1,559	1,840	1,714	2,060	2,002	1,970	2,039	2,135
Permit valuations (in millions)	78	76	111	104	118	162	188	167	200	184
<b>Cultural &amp; Recreation</b>										
Library circulation (3)	557,423	648,501	756,393	779,478	832,829	886,398	913,474	943,107	962,922	723,141
Library visits (3)	260,114	354,229	371,039	369,497	387,699	408,448	400,000	473,993	477,768	246,594
Library resources available	138,177	126,689	151,959	160,108	160,145	147,175	149,130	161,545	156,790	169,784
New cards issued	5,231	5,283	5,245	5,061	4,943	5,362	7,212	8,288	8,550	4,091
<b>Police (Calendar Year)</b>										
Calls for service	34,449	34,108	31,914	32,075	33,283	35,226	35,159	36,284	36,671	-
Part 1 crimes (1)	2,348	1,757	1,844	1,942	1,939	2,132	2,386	2,080	2,088	-
Part 2 crimes (2)	3,247	3,261	3,311	3,632	3,439	3,760	3,683	3,521	3,856	-
<b>Fire</b>										
Responses	4,225	4,428	4,477	5,247	5,343	5,744	6,136	6,001	6,444	7,007
Inspections	551	565	1,272	1,422	1,680	1,200	851	1,450	1,856	1,620
<b>Water</b>										
Connections	15,661	16,204	16,705	16,904	16,629	17,222	19,062	19,760	19,205	21,143
<b>Wastewater</b>										
Connections	11,580	11,613	12,609	13,709	13,467	14,180	14,948	15,478	16,091	16,696
<b>Solid Waste</b>										
Residential accounts	11,922	11,871	12,590	13,274	13,625	13,655	14,066	14,346	15,098	16,974
Commercial accounts	1,203	1,248	1,248	1,311	1,350	1,380	1,501	1,581	1,613	1,532
Tons collected	26,917	27,515	29,000	31,019	33,237	32,569	32,629	33,876	34,916	34,986
<b>Transfer Station</b>										
Transactions per year	35,615	39,626	53,205	59,334	60,854	68,957	73,935	78,228	84,330	84,826
Tons per year	38,453	39,100	45,503	50,565	51,456	51,903	57,069	60,413	63,494	70,905
<b>Airport (Calendar Year)</b>										
Passenger aircraft landings	n/a	2,339	1,921	1,834	1,618	1,324	1,586	1,697	1,576	-
Passengers	19,205	16,455	12,301	11,752	8,708	9,168	10,827	15,600	10,363	-
FAA traffic count	353,299	349,915	336,672	320,037	325,491	338,208	298,789	272,855	237,990	-
<b>Public Works</b>										
Potholes repaired	6,277	6,114	7,829	7,785	6,611	6,577	7,678	7,868	8,250	7,493

(1) Part 1 Homicide, forcible rape, robbery, aggravated assault, burglary, larceny/theft, auto theft & arson

(2) Part 2 Simple assault, narcotics, forgery/fraud/embezzlement, vandalism & DUI

(3) The library circulation and visits dropped in 2006 because the main library was closed for remodeling.

CITY OF PRESCOTT, ARIZONA

Table XXIX

Statistical Section - Operating Information

Capital Asset Statistics by Function/Program

Last ten fiscal years

<u>Function/Program</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>General Government</b>										
Area square miles	36	36	37	37	38	39	39	39	39	39
<b>Cultural and Recreation</b>										
Parks	20	20	22	22	24	24	24	24	24	24
Playgrounds	5	5	5	5	6	6	7	7	7	7
Other recreation facilities	11	11	11	11	11	11	11	11	11	11
Open space (acres)							10	10	10	10
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
<b>Fire</b>										
Stations	5	5	5	5	5	5	5	5	5	5
<b>Water</b>										
Miles of water mains	383	401	436	452	472	472	482	496	505	509
<b>Wastewater</b>										
Miles of sanitary sewers	547	550	588	605	615	622	635	647	647	345 (2)
<b>Solid Waste</b>										
Collection trucks	12	12	12	12	12	12	12	15	15	14
<b>Airport</b>										
Total based aircraft	288	290	310	319	343	347	364	338	349	340
<b>Golf Course</b>										
Holes	36	36	36	36	36	36	36	36	36	36
<b>Public Works</b>										
Streets (paved miles) (1)	390	406	421	425	430	205	215	221	221	222

(1) Street miles were reviewed during 2002 in conjunction with the implementation of GASB 34. The street miles are now shown based on centerline miles, which measure the length of a road in miles. Prior to 2002, the figure shown was for lane miles, which is the product of centerline miles and the number of lanes.

(2) Sewer miles dropped in FY 2006. In connection with a Hydraulic Sewer Model project, the entire sewer system was surveyed. This survey has documented the locations of our manholes and the lines with lengths. To date with the 95% completion we have logged about 345 miles of collection system. This provides a more accurate measure and will provide greater accuracy in the future.