

TOWN OF PARADISE VALLEY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

Mr. Ed Winkler
Mayor

Ms. Mary Hamway
Vice Mayor

Councilmembers

Mr. Ronald B. Clarke Mr. Brian Cooney

Mr. Scott LeMarr Mr. Dan Schweiker Ms. Virginia "Jini" Simpson

Thomas M. Martinsen
Town Manager

Lenore Platt Lancaster, CPA
Management Services Director

Prepared by:
Management Services Department

TOWN OF PARADISE VALLEY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

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**TOWN OF
PARADISE VALLEY**

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September 21, 2006

To the Honorable Mayor, Members of the Town Council,
and Citizens of the Town of Paradise Valley, Arizona,

State law requires that all general-purpose local governments publish within 120 days (240 days with an extension) of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Town of Paradise Valley for the fiscal year ended June 30, 2006, is hereby submitted. This document represents a joint effort by staff as well as our auditors, Cronstrom, Osuch & Company, P.C.

This report consists of management's representations concerning the finances of the Town of Paradise Valley. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Paradise Valley has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Paradise Valley's basic financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the Town's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the basic financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Cronstrom, Osuch & Company, a firm of licensed certified public accountants, has audited the Town of Paradise Valley's financial statements. The goal of the independent audit was to provide a reasonable assurance that the basic financial statements of the Town of Paradise Valley, Arizona for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town of Paradise Valley's MD&A can be found immediately following the report of the independent auditors.

TOWN OF PARADISE VALLEY PROFILE

Paradise Valley was incorporated in May 1961. The Town is centrally located in Maricopa County and is surrounded by the cities of Phoenix and Scottsdale. It has a land area of approximately 16 square miles.

The Town of Paradise Valley is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised Statutes. The Town government operates under the Council/Manager form of government. Policy making and legislative authority are vested in the Town Council, which consists of seven Council members. Council members are elected to four year terms. The Mayor and Vice Mayor are selected by the Council from among its members. The Town Council is responsible for, but not limited to, the adoption of local ordinances, budget adoption, the development of citizen advisory committees, and the appointment of the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council. The Town Manager appoints all positions except the Town Clerk, Town Marshal, Town Engineer, Town Attorney and Municipal Judges.

The annual budget serves as the foundation for the Town's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, the Special Revenues Funds, the Debt Service Fund and the Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented for the governmental funds. Prior to the third Monday in July, the Town Manager presents the preliminary budget to the Town Council. The budget includes proposed expenditures and the means of financing them. The preliminary budget sets the limit for expenditures during the fiscal year. A public hearing is held prior to the budget's final adoption in order to obtain resident comments.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year. Upon the recommendation of the Town Manager, and with the approval of the Town Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another. Management control of budgets is further maintained at a line item level within each department.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Paradise Valley operates.

Local economy. Similar to the State of Arizona, the Town's economy has improved during the last fiscal year. Local tax revenues generated by the hospitality industry increased \$215,449 or 4.6% from fiscal year 2004-05. The hospitality industry accounted for \$4,891,194, or 53.6% of local taxes. Local taxes generated by the construction industry accounted for \$2,751,534 or 30.1% of the local tax revenues. Through the Town's sales tax audit program, the Town has an outreach program to contractors to educate them regarding the calculation of sales tax.

The Town's share of State shared revenues increased 14.1% from fiscal year 2004-05. Income tax is distributed out of the income tax collections from two years prior to the current fiscal year. Sales tax revenue is distributed from the current year's collection. These revenues are allocated based on the Town's population in relation to the total State population as of the 2000 census. The Town's population is growing at a slower rate than other communities. The Town's revenues from State shared income taxes increased \$174,414, or 13.9%, while revenues from State shared sales tax increased \$178,930, or 14.1%. The Town's revenues from State shared gasoline taxes increased \$53,128, or 5.3%. The Town's revenues from vehicle license fees increased \$61,726, or 10.6%.

Long-term financial planning. The Town's Financial Policy Statement requires that a reserve equal to one-year of annual general governmental operating expenditures and debt service expenditures be maintained for unforeseen emergencies, loss of revenues or catastrophic impacts on the Town. As part of the budget process, the Town develops a five-year financial plan and capital improvement plan. The current five-year financial plan exceeds the Financial Policy Statement requirement in each of the five years.

Cash management policies and practices. In compliance with State statutes, the Town's investment policy limits its investments to U.S. Treasury obligations, Federal agency securities, Federal instrumentality securities, repurchase agreements, the Local Government Investment Pool maintained by the State Treasurer, and time certificates of deposits.

Risk management. The Town of Paradise Valley is a member of the Arizona Municipal Risk Retention Pool (AMRRP). Risk coverage includes general liability, errors and omissions, property and automobile insurance. The policy insures up to \$2 million per occurrence plus any excess liability of up to \$18 million, excluding land use liability claims. The excess coverage for land use liability is \$5 million. Coverage is provided on a claims-made basis. The liability coverage retroactive date is January 24, 1986.

There were no significant claims made or settled during fiscal year 2005-06.

The AMRRP also provides the Town's Workers Compensation insurance through June 30, 2006. The rate varies according to the functions performed by personnel.

Pension and other postemployment benefits. The Town participates in the Arizona State Retirement System and the Public Safety Personnel Retirement System. These plans are offered to state and local governments statewide and are funded by employee wage deductions and Town contributions. In addition, the Town provides two deferred compensation plans through the International City/County Management Association (ICMA) in accordance with Internal Revenue Code Sections 401A and 457. Employees may join the 401A on their one-year anniversary with the Town. The 401A is funded by mandatory employee wage deductions and Town contributions. The 457 is voluntary and funded 100% through employee participation.

MAJOR INITIATIVES

The Town continued reconstruction of the Tatum Boulevard and McDonald road intersection project. This is a joint effort with the Arizona Department of Transportation to provide a safer and more efficient flow of traffic through this intersection, to decrease noise and air pollution, and to reduce the adverse impact traffic has on McDonald Drive east of Tatum Boulevard. This project will be completed in fiscal year 2006-07.

The Town began construction of the Invergordon Road improvement project from Mountain View Road to Northern Ave. in fiscal year 2005-06. This project will reconstruct the roadway to minor arterial standards with curb and gutter, a new roadway surface, minor drainage improvements, traffic calming, landscaping, and esthetic improvements. This project will be completed in fiscal year 2006-07.

The Town purchased 146,479 gpd of sewer capacity from the City of Scottsdale in accordance with its intergovernmental agreement.

The Town also completed one APS neighborhood underground project.

The Town received voter approval to permanently adjust its expenditure base as determined by the Economic Estimates Commission. The 2006-07 expenditure limitation was increased by \$4,900,300.

ACKNOWLEDGEMENTS

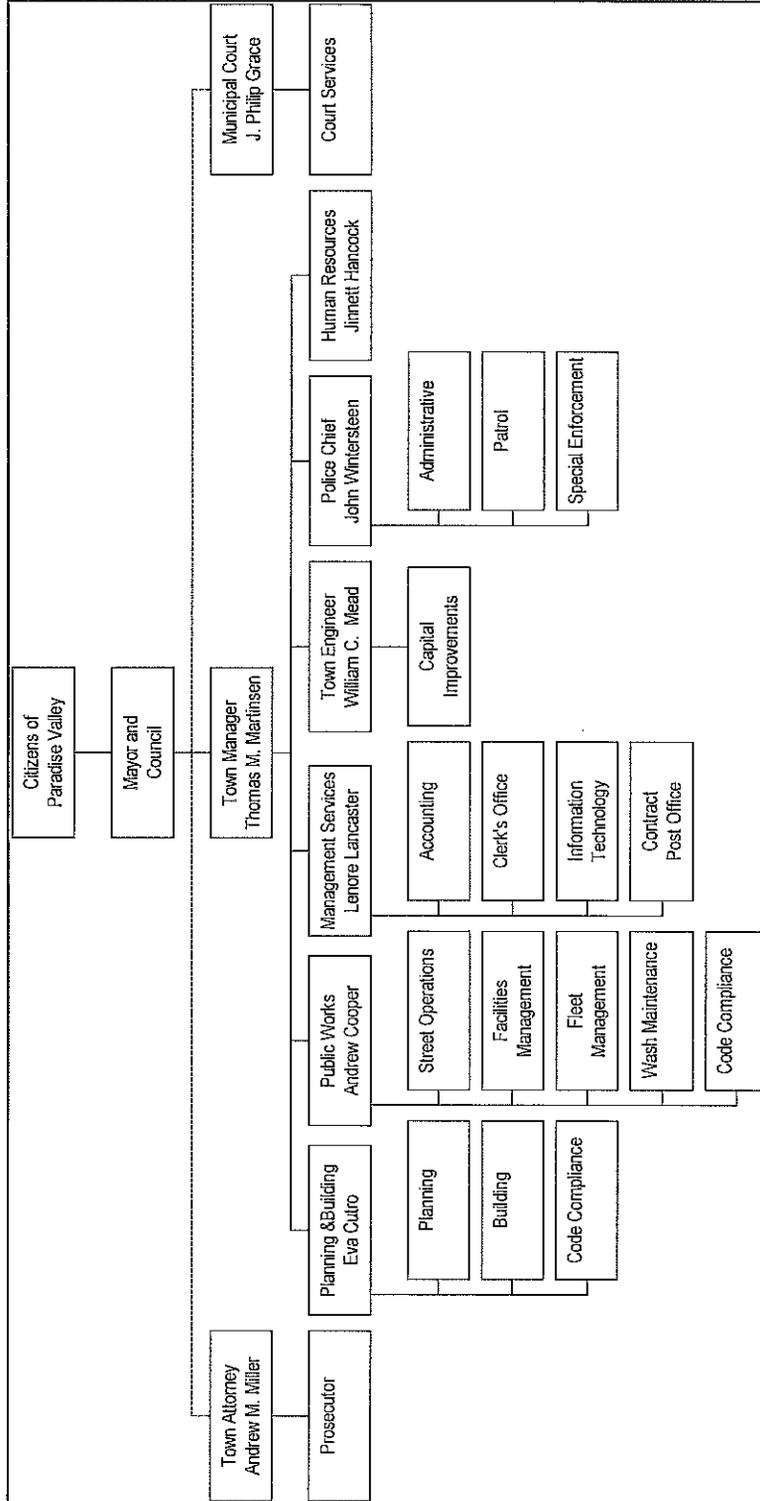
The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Management Services Department, and through the competent service of our independent auditors. I also wish to express my sincere appreciation to the Town Council and the Town Manager for their interest and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner.

Respectfully submitted,



Lenore Lancaster, CPA
Management Services Director

Town of Paradise Valley, Arizona Organizational Chart Fiscal Year Ended June 30, 2006



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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the Town Council of the
Town of Paradise Valley, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paradise Valley, Arizona (Town), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

A prior period adjustment is recorded and presented in Note 4.E. to correct errors in the previously issued financial statements.

The management's discussion and analysis on pages 11 - 20 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 21, 2006

Management's Discussion and Analysis

This section of the Town of Paradise Valley's (Town) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

The assets of the Town exceeded its liabilities at the close of the fiscal year 2006 and 2005 by \$88,159,641 and \$79,143,419 (net assets), respectively. Of this amount, \$26,258,200 and \$24,062,620 (unrestricted net assets), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2006 and 2005, the Town's governmental funds reported combined ending fund balances of \$26,314,719 and \$25,461,748, respectively, all of which is unreserved fund balance available for spending at the government's discretion. The increase is primarily due to an increase in General Fund revenues over budget and savings in the General Government and Public Safety expenses from budget.

At the close of the current fiscal year, unreserved fund balance for the general fund was \$23,838,710 or 222% of total general fund expenditures of \$10,760,418. At the close of fiscal year 2005, unreserved fund balance for the general fund was \$21,897,439 or 215% of total general fund expenditures of \$10,185,672.

During fiscal year 2006, the Town's total bonded debt decreased by \$385,000 in contrast to the decrease of \$370,000 in fiscal year 2005. The Town did not issue any new bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components:

- 1) **Government-wide** financial statements
- 2) **Fund** financial statements, and
- 3) **Notes** to the basic financial statements.

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

Government-wide Financial Statements

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

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected court fines and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town included general government, police, and streets. The business-type activities of the Town include sewer and alarm operations.

The government-wide financial statements include not only the Town itself (known as the primary government), but also two legally separate nonprofit corporations: the Mummy Mountain Preserve Trust and the Paradise Valley Municipal Property Corporation. Although legally separate from the Town, these component units are blended with the primary government because of their governance or financial relationship to the Town.

The government-wide financial statements can be found on pages 22 - 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into the following two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to fund the Town's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

Proprietary funds are generally used to account for services for which the Town charges customers. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The Town maintains only one type of proprietary fund – enterprise funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for the sewer and alarm operations of the Town.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

Combining Statements

The combining statements referred to earlier, in connection with nonmajor governmental funds and proprietary funds, are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as useful indicators of a government's financial position. For the Town, assets exceeded liabilities by \$88,159,641 and \$79,143,419 at the close of fiscal years 2006 and 2005 respectively.

Net Assets June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005 (restated)	2006	2005 (restated)
ASSETS						
Current and other assets	\$ 29,410,828	\$ 27,915,332	\$ 7,027,491	\$ 6,022,573	\$ 36,438,319	\$ 33,937,905
Capital assets						
Non-depreciable	28,900,241	21,781,399	14,370,593	10,321,527	43,270,834	32,102,926
Depreciable (net)	<u>17,622,285</u>	<u>18,141,630</u>	<u>6,937,907</u>	<u>6,775,720</u>	<u>24,560,192</u>	<u>24,917,350</u>
Total assets	<u>75,933,354</u>	<u>67,838,361</u>	<u>28,335,991</u>	<u>23,119,820</u>	<u>104,269,345</u>	<u>90,958,181</u>
LIABILITIES						
Other liabilities	2,966,264	2,230,592	619,555	843,009	3,585,819	3,073,601
Non-current liabilities						
Due within one year	1,335,003	1,096,406	594,342	251,883	1,929,345	1,348,289
Due in more than one year	<u>2,806,289</u>	<u>3,070,293</u>	<u>7,788,251</u>	<u>4,322,579</u>	<u>10,594,540</u>	<u>7,392,872</u>
Total liabilities	<u>7,107,556</u>	<u>6,397,291</u>	<u>9,002,148</u>	<u>5,417,471</u>	<u>16,109,704</u>	<u>11,814,762</u>
NET ASSETS						
Invested in capital assets, net of related debt	43,245,381	36,681,403	12,944,276	12,537,954	56,189,657	49,219,357
Restricted	2,458,089	3,547,005	3,253,695	2,314,437	5,711,784	5,861,442
Unrestricted	<u>23,122,328</u>	<u>21,212,662</u>	<u>3,135,872</u>	<u>2,849,958</u>	<u>26,258,200</u>	<u>24,062,620</u>
Total net assets	<u>\$ 68,825,798</u>	<u>\$ 61,441,070</u>	<u>\$ 19,333,843</u>	<u>\$ 17,702,349</u>	<u>\$ 88,159,641</u>	<u>\$ 79,143,419</u>

The largest portion of the Town's net assets reflects its investment of \$56,189,657 (63.7%) and \$49,219,357 (62.2%) in capital assets (e.g. land, buildings, infrastructure, sewer system, vehicles and equipment), less any related outstanding debt used to acquire those assets, for the fiscal years 2006 and 2005, respectively. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the Town's net assets, \$5,711,784 (6.5%) for fiscal year 2006 and \$5,861,442 (7.4%) for fiscal year 2005, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2006 and 2005, \$26,258,200 (29.8%) and \$24,062,620 (30.4%), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Analysis of Changes in Net Assets

The Town's net assets overall increased by \$9,016,222 and \$4,058,992 during the fiscal years 2006 and 2005, respectively. These increases are explained in the governmental and business-type activities discussion below, and are primarily the result of an increase in General Fund revenues, capital contributions, savings from budget for General Government and Public Safety, and development fees paid by residents connecting to the sewer system.

Changes in Net Assets Fiscal Year Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005 (restated)	2006	2005 (restated)
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 3,528,281	\$ 3,170,453	\$ 3,002,746	\$ 2,733,443	\$ 6,531,027	\$ 5,903,896
Operating grants and contributions	1,238,887	1,097,104	-	-	1,238,887	1,097,104
Capital grants and contributions	1,520,470	57,356	422,750	160,620	1,943,220	217,976
General revenues:						
Local taxes	9,951,208	9,019,881	-	-	9,951,208	9,019,881
State shared revenues	3,522,088	3,107,018	-	-	3,522,088	3,107,018
Investment earnings	991,870	608,214	214,509	94,233	1,206,379	702,447
Total Revenues	20,752,804	17,060,026	3,640,005	2,988,296	24,392,809	20,048,322
Expenses						
General government	5,572,020	5,830,167	-	-	5,572,020	5,830,167
Public safety	5,427,430	5,230,079	-	-	5,427,430	5,230,079
Highways and streets	2,232,994	2,826,197	-	-	2,232,994	2,826,197
Interest on long-term debt	135,632	132,501	-	-	135,632	132,501
Sewer system	-	-	1,874,049	1,842,192	1,874,049	1,842,192
Alarm monitor system	-	-	134,462	128,194	134,462	128,194
Total Expenses	13,368,076	14,018,944	2,008,511	1,970,386	15,376,587	15,989,330
Change in net assets	7,384,728	3,041,082	1,631,494	1,017,910	9,016,222	4,058,992
Net assets, beginning of year (restated)	61,441,070	58,399,988	17,702,349	16,684,439	79,143,419	75,084,427
Total Net Assets, end of year	\$ 68,825,798	\$ 61,441,070	\$ 19,333,843	\$ 17,702,349	\$ 88,159,641	\$ 79,143,419

Governmental activities. Governmental activities increased the Town's net assets by \$7,384,728 in fiscal year 2006 and \$3,041,082 in fiscal year 2005, accounting for 81.9% and 74.9%, respectively, of the total growth in the net assets of the Town. Key factors of this increase, primarily due to the strong economy, are as follows:

- Local sales tax revenues increased \$931,327, or 10.3%, over fiscal year 2005, primarily for businesses related to the hospitality and construction industries.
- Licenses and permits increased \$161,730, or 9.6%, over fiscal year 2005 due to the strong construction market.
- The Mummy Mountain Preserve Trust received donations of land valued at \$1,326,000.
- State shared revenues increased \$415,070, 13.4%, over fiscal year 2005.
- Investment earnings increased \$383,656, or 63%, over fiscal year 2005.

Business-type activities. Business-type activities increased the Town's net assets by \$1,631,494 in fiscal year 2006 and \$1,017,910 in fiscal year 2005, accounting for 18.1% and 25.1%, respectively, of the total growth in the Town's net assets. Key factors of this increase are as follows:

- Development fees exceeded current year debt-service by \$810,834 in 2006 and by \$607,757 in 2005.
- Capital contributions of sewer lines increased \$269,750 compared to fiscal year 2005.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$26,314,719, an increase of \$852,971 in comparison with the prior year. The combined ending fund balances for fiscal year 2005 were \$25,461,748. The increase in the combined ending fund balance is primarily due to the increase in General Fund revenues. The entire fund balance is unreserved and is available for spending at the Town's discretion.

The General Fund is the chief operating fund of the Town of Paradise Valley, Arizona. At June 30, 2006, the fund balance of the General Fund was \$23,838,710, or 90.6% of the combined governmental fund balance. The fund balance of the general fund at June 30, 2006 was \$23,838,710, or 91% of the combined Governmental Funds balance. As a measure of the General Fund's liquidity, it may be useful to compare general fund balance to general fund expenditures. The General Fund balance represents 221.5% and 215.0% of General Fund expenditures for fiscal years 2006 and 2005, respectively. Total combined governmental fund balance represents 135% and 171.3% of combined Governmental Funds' expenditures.

Despite revenues exceeding expenditures by \$7,459,572, the General Fund increased by only \$1,941,271. The primary reason is transfers from the General Fund to other funds as follows:

- The General Fund transferred \$254,215 to the Debt Service Fund.
- The General Fund transferred \$4,601,655 to the Capital Projects Fund.
- The General Fund transferred \$1,095,798 to the Highway User Revenue Fund.

Revenues for governmental funds overall totaled \$19,519,951 and \$16,978,589 for fiscal years ended June 30, 2006 and 2005, respectively, which represent an increase of 15.0% or \$2,541,362 and an increase of 6.1% or \$981,226 from the fiscal years ended June 30, 2005 and 2004, respectively. The primary reason for the increase in 2006 is an increase of \$866,152, or 10.5% in local sales tax revenues, primarily for business related to the hospitality and construction industries. Additionally licenses and permits increased \$161,730, or 9.6% as a result of the increase in number and value of construction permits. Investment earnings increased \$383,656, or 63%, primarily due to the increase in interest rates.

Expenditures for governmental functions for the fiscal years ended June 30, 2006 and 2005 totaled \$19,498,191 and \$14,865,549 respectively. The 2006 increase of \$4,632,642 or 31.2% is primarily due to an increase in capital outlay of \$3,831,982 due to major road projects in 2006.

Proprietary Funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the Sewer System Fund were \$2,694,285 and for the Alarm Monitor System Fund were \$441,587.

The total growth in net assets for the enterprise funds was \$1,631,494 and \$1,017,910 at June 30, 2006 and 2005, respectively. Factors concerning the finances of these funds have been addressed previously in the discussion of the Town's business-type activities. In particular the Sewer System Fund's net assets increased by \$1,556,726 and \$939,399 for June 30, 2006 and 2005, respectively, due to development fees in excess of current year debt service and an increase in the capital contribution of sewer lines.

General Fund Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. The Town closely monitored its revenues, particularly in local taxes, licenses and permits, state shared revenues and investment earnings, for any potential shortfall. Local taxes, state shared revenues and interest improved over budgeted amounts due to the improved economic conditions. Licenses and permits were lower than budget due to the timing of redevelopment of a major resort in the Town.

There were no reductions in total budgeted expenditures. However, budget transfers were made from the General Fund – Contingency and between various Town Departments as follows:

General Fund - Town Manager	\$ 10,000
General Fund - Non-departmental	14,660
General Fund - Engineering	(22,956)
General Fund - Management Services	(3,760)
General Fund - Contingency	(260,000)
Highway User Revenue Fund	2,086
Donations Fund	36,000
Grants Fund	(36,000)
Capital Improvements Program	260,000

Capital Assets and Debt Administration

Capital Assets

The Town's capital assets for its governmental and business-type activities as of June 30, 2006 amount to \$67,831,026 (net of accumulated depreciation). Capital assets as of June 30, 2005 totaled \$57,020,276 (net of accumulated depreciation). The net increase in capital assets (net of accumulated depreciation) was \$10,810,750. Capital assets include land and improvements, building and improvements, sewer systems, sewer capacity rights, vehicles, machinery and equipment, furniture and fixtures, and construction in progress.

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

- The Mummy Mountain Preserve Trust received a donation of two parcels of land valued at \$1,326,000.
- The Town is currently working on the Tatum/McDonald road improvement project with the Arizona Department of Transportation. Approximately \$896,917 was added to construction in process for this project in fiscal year 2006. The project will be completed in the summer of 2006.
- The Town is currently working on the Invergordon Road project. Approximately \$4,399,438 was added to construction in process for this project in fiscal year 2006. The project will be completed in the summer of 2006.

Business-type capital asset events included sewer line extensions contributed by developers and the purchase of \$4,049,066 in sewer capacity rights from the City of Scottsdale.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 3.A.4 to the Financial Statements for further information regarding capital assets. The following is a summary of 2006 and 2005 assets, net of depreciation.

**Capital Assets (Net)
June 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005 (restated)	2006	2005 (restated)
Land and land improvements	\$ 22,677,897	\$ 21,370,295	\$ -	\$ -	\$ 22,677,897	\$ 21,370,295
Construction in progress	7,697,307	1,904,465	20,827	20,827	7,718,134	1,925,292
Infrastructure	11,249,199	11,487,687	-	-	11,249,199	11,487,687
Buildings and improvements	3,189,945	3,408,175	-	-	3,189,945	3,408,175
Machinery, furniture and fixtures, equipment, and vehicles	1,708,178	1,752,407	305,013	373,206	2,013,191	2,125,613
Sewer capacity rights	-	-	14,349,766	10,300,700	14,349,766	10,300,700
Sewer system	-	-	6,632,894	6,402,514	6,632,894	6,402,514
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 46,522,526</u>	<u>\$ 39,923,029</u>	<u>\$ 21,308,500</u>	<u>\$ 17,097,247</u>	<u>\$ 67,831,026</u>	<u>\$ 57,020,276</u>

The Town has not recorded its infrastructure as part of governmental capital assets prior to fiscal year 2002-03. As of June 30, 2006, infrastructure includes only those assets added since July 1, 2002. Infrastructure from prior years will be accounted for by fiscal year 2006-07.

The infrastructure for the sewer fund was recorded as it was built or donated.

Debt Administration

At the end of the current fiscal year, the Town had total long-term obligations of its Municipal Property Corporation outstanding \$6,805,000. The 1998 Municipal Property Corporation debt was fully insured.

**Outstanding Debt and Other Long-term Liabilities
June 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	\$ 2,489,842	\$ 2,630,707	\$ 4,315,158	\$ 4,559,293	\$ 6,805,000	\$ 7,190,000
Capital leases	787,303	610,919	4,049,066	-	4,836,369	610,919
Compensated absences	<u>864,147</u>	<u>925,073</u>	<u>18,369</u>	<u>15,169</u>	<u>882,516</u>	<u>940,242</u>
Total long-term liabilities	<u>\$ 4,141,292</u>	<u>\$ 4,166,699</u>	<u>\$ 8,382,593</u>	<u>\$ 4,574,462</u>	<u>\$ 12,523,885</u>	<u>\$ 8,741,161</u>

Economic Factors and Next Year's Budget

The Town's 2006 revenues have improved compared to 2005. Despite one resort closing in September 2004 and a second resort closing in May 2005, bed and sales taxes continue to increase. Bed and sales taxes from the hospitality industry increased \$215,449, or 4.6%, from 2005 to 2006. Sales taxes from the construction industry increased \$547,442, or 24.8%, from 2005 to 2006. The redevelopment of two resorts, as well as submittal of plans for a new resort, will produce revenues from special use permits, building permits, demolition permits, plan review fees, and construction sales tax next year. All of the above factors were considered in preparing the Town's budget for fiscal year 2006. The budget for the 2006-07 fiscal year includes:

- A conservative economic forecast and limited revenues growth.
- Consideration for the closing and subsequent redevelopment of two resorts.
- A zero-based approach to the operating budget, leading to limited increases in department budgets.
- An increase of 1.5 full-time equivalent positions.
- Transition expenses for the Town provided fire service for residents.
- Continued investment in the Town's basic infrastructure and public facilities.
- An emphasis on a "pay-as-you-go" approach to funding Town capital investments.
- Sustained funding of general fund reserves to ensure the Town can provide basic services during economic downturns or major emergencies.

REQUESTS FOR INFORMATION

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

Town of Paradise Valley
Management Services Department
6401 E. Lincoln Drive
Paradise Valley, AZ 85253

(480) 348-3532

Or visit our website at:
<http://www.ci.paradise-valley.az.us/townhall>

Basic Financial Statements

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 26,864,783	\$ 6,954,390	\$ 33,819,173
Restricted cash for customer deposits	-	13,273	13,273
Receivables, net			
Accounts	2,326,395	29,010	2,355,405
Interest	194,035	49,362	243,397
Internal balances	21,767	(21,767)	-
Prepaid items	3,848	3,223	7,071
Capital assets			
Non-depreciable	28,900,241	14,370,593	43,270,834
Depreciable (net)	<u>17,622,285</u>	<u>6,937,907</u>	<u>24,560,192</u>
Total assets	<u>75,933,354</u>	<u>28,335,991</u>	<u>104,269,345</u>
Liabilities			
Accounts payable	1,772,459	-	1,772,459
Contracts payable	-	46,508	46,508
Accrued wages and benefits	143,121	1,878	144,999
Interest payable	55,412	96,035	151,447
Unearned revenue	262,212	461,861	724,073
Customer deposits payable	733,060	13,273	746,333
Long-term liabilities			
Due within one year	1,335,003	594,342	1,929,345
Due in more than one year	<u>2,806,289</u>	<u>7,788,251</u>	<u>10,594,540</u>
Total liabilities	<u>7,107,556</u>	<u>9,002,148</u>	<u>16,109,704</u>
Net assets			
Invested in capital assets, net of related debt	43,245,381	12,944,276	56,189,657
Restricted for			
Highways and streets	2,341,943	-	2,341,943
Debt service	367	-	367
Capital outlay	-	3,253,695	3,253,695
Other	115,779	-	115,779
Unrestricted	<u>23,122,328</u>	<u>3,135,872</u>	<u>26,258,200</u>
Total net assets	<u>\$ 68,825,798</u>	<u>\$ 19,333,843</u>	<u>\$ 88,159,641</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs						
Governmental activities						
General government	\$ 5,572,020	\$ 3,519,743	\$ 1,326,000	\$ (611,596)	\$	\$ (611,596)
Public safety	5,427,430	8,538	-	(5,412,715)		(5,412,715)
Highways and streets	2,232,994	1,118,029	194,470	(920,495)		(920,495)
Interest on long-term debt	135,632	-	-	(135,632)		(135,632)
Total governmental activities	<u>13,368,076</u>	<u>3,528,281</u>	<u>1,520,470</u>	<u>(7,080,438)</u>		<u>(7,080,438)</u>
Business-type activities						
Sewer system	1,874,049	2,793,516	422,750		\$ 1,342,217	1,342,217
Alarm monitor system	134,462	209,230	-		74,768	74,768
Total business-type activities	<u>2,008,511</u>	<u>3,002,746</u>	<u>422,750</u>		<u>1,416,985</u>	<u>1,416,985</u>
Totals	<u>\$ 15,376,587</u>	<u>\$ 6,531,027</u>	<u>\$ 1,943,220</u>	<u>(7,080,438)</u>	<u>1,416,985</u>	<u>(5,663,453)</u>
General revenues						
Taxes						
Sales taxes				9,126,426	-	9,126,426
Franchise taxes				824,782	-	824,782
State revenue sharing				1,430,613	-	1,430,613
State sales tax revenue sharing				1,444,767	-	1,444,767
Auto lieu tax revenue sharing				646,708	-	646,708
Investment earnings				991,870	214,509	1,206,379
Total general revenues				<u>14,465,166</u>	<u>214,509</u>	<u>14,679,675</u>
Change in net assets				7,384,728	1,631,494	9,016,222
Net assets, beginning of year (restated)				<u>61,441,070</u>	<u>17,702,349</u>	<u>79,143,419</u>
Net assets, end of year				<u>\$ 68,825,798</u>	<u>\$ 19,333,843</u>	<u>\$ 88,159,641</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Totals
Assets				
Cash and cash equivalents	\$ 24,393,747	\$ 1,626	\$ 2,469,410	\$ 26,864,783
Receivables, net				
Accounts	2,240,012	-	86,383	2,326,395
Interest	193,866	-	169	194,035
Due from other funds	22,929	-	-	22,929
Prepaid items	3,848	-	-	3,848
Total assets	\$ 26,854,402	\$ 1,626	\$ 2,555,962	\$ 29,411,990
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,772,459	\$ -	\$ -	\$ 1,772,459
Accrued wages and benefits	118,116	1,626	23,379	143,121
Interest payable	-	-	55,412	55,412
Due to other funds	-	-	1,162	1,162
Deferred revenue	392,057	-	-	392,057
Customer deposits payable	733,060	-	-	733,060
Total liabilities	3,015,692	1,626	79,953	3,097,271
Fund balances				
Unreserved:				
Undesignated	23,838,710	-	-	23,838,710
Unreserved, reported in				
Special revenue funds	-	-	2,475,642	2,475,642
Debt service funds	-	-	367	367
Total fund balances	23,838,710	-	2,476,009	26,314,719
Total liabilities and fund balances	\$ 26,854,402	\$ 1,626	\$ 2,555,962	\$ 29,411,990

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

TOWN OF PARADISE VALLEY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2006

Fund balances - total governmental funds	\$ 26,314,719
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 governmental funds.	
Governmental capital assets	53,105,237
Less accumulated depreciation	<u>(6,582,711)</u>
Capital assets used in governmental activities	<u>46,522,526</u>
Accounts receivable, net of allowance for doubtful accounts, that were not available to finance current financial resources.	
	129,845
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Revenue bonds	(2,489,842)
Capital leases	(787,303)
Compensated absences	<u>(864,147)</u>
Long-term liabilities not due and payable in the current period	<u>(4,141,292)</u>
Net assets of governmental activities	<u>\$ 68,825,798</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues				
Taxes				
Sales taxes	\$ 9,126,426	\$ -	\$ -	\$ 9,126,426
Franchise taxes	824,782	-	-	824,782
Intergovernmental	3,656,558	-	1,193,266	4,849,824
Fines and forfeitures	1,228,545	-	-	1,228,545
Licenses and permits	1,847,924	-	-	1,847,924
Contributions and donations	-	-	105,621	105,621
Investment earnings	990,796	-	1,074	991,870
Other	544,959	-	-	544,959
Total Revenues	<u>18,219,990</u>	<u>-</u>	<u>1,299,961</u>	<u>19,519,951</u>
Expenditures				
Current				
General government	5,394,508	-	56,078	5,450,586
Public safety	5,365,910	-	5,519	5,371,429
Highways and streets	-	-	1,622,491	1,622,491
Debt Service				
Principal retirement	-	-	140,865	140,865
Interest on long-term debt	-	-	113,642	113,642
Capital outlay	-	6,799,178	-	6,799,178
Total Expenditures	<u>10,760,418</u>	<u>6,799,178</u>	<u>1,938,595</u>	<u>19,498,191</u>
Excess (deficiency) or revenues over expenditures	<u>7,459,572</u>	<u>(6,799,178)</u>	<u>(638,634)</u>	<u>21,760</u>
Other financing sources (uses)				
Transfers in	-	4,601,655	1,350,013	5,951,668
Transfers out	(5,951,668)	-	-	(5,951,668)
Proceeds from capital leases	433,367	368,000	29,844	831,211
Total other financing sources (uses)	<u>(5,518,301)</u>	<u>4,969,655</u>	<u>1,379,857</u>	<u>831,211</u>
Net change in fund balances	1,941,271	(1,829,523)	741,223	852,971
Fund balances, beginning of year	<u>21,897,439</u>	<u>1,829,523</u>	<u>1,734,786</u>	<u>25,461,748</u>
Fund balances, end of year	<u>\$ 23,838,710</u>	<u>\$ -</u>	<u>\$ 2,476,009</u>	<u>\$ 26,314,719</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ 852,971

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	6,228,945
Donated assets	1,326,000
Less current year depreciation	<u>(955,448)</u>
Excess capital expenditures over depreciation	<u>6,599,497</u>

Some revenues and expenses reported in the statement of activities do not provide current financial resources or uses and therefore are not reported as revenues in governmental funds:

Deferred court revenues recognized in prior years	(93,147)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets.

Principal payments on long-term debt	795,692
Proceeds of capital leases	(831,211)

Net decrease in compensated absences	<u>60,926</u>
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Change in net assets of governmental activities	<u>\$ 7,384,728</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

TOWN OF PARADISE VALLEY, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 8,662,720	\$ 8,662,720	\$ 9,951,208	\$ 1,288,488
Intergovernmental	3,488,324	3,488,324	3,656,558	168,234
Fines and forfeitures	1,105,000	1,105,000	1,228,545	123,545
Licenses and permits	2,040,287	2,040,287	1,847,924	(192,363)
Investment earnings (loss)	767,300	767,300	990,796	223,496
Other	<u>226,450</u>	<u>226,450</u>	<u>544,959</u>	<u>318,509</u>
Total Revenues	<u>16,290,081</u>	<u>16,290,081</u>	<u>18,219,990</u>	<u>1,929,909</u>
Expenditures				
Current				
General government				
Mayor and council	89,552	89,552	76,093	13,459
Town manager	445,236	455,236	440,907	14,329
Town attorney	500,452	500,452	468,826	31,626
Management services	1,029,653	1,025,893	953,666	72,227
Non-departmental	1,606,527	1,621,187	1,122,379	498,808
Community development	1,071,388	1,071,388	855,506	215,882
Engineering	295,227	272,271	249,230	23,041
Public works	490,894	490,894	465,974	24,920
Municipal court	<u>445,457</u>	<u>445,457</u>	<u>402,051</u>	<u>43,406</u>
Total general government	<u>5,974,386</u>	<u>5,972,330</u>	<u>5,034,632</u>	<u>937,698</u>
Public safety				
Police	<u>5,869,194</u>	<u>5,869,194</u>	<u>5,365,910</u>	<u>503,284</u>
Total public safety	<u>5,869,194</u>	<u>5,869,194</u>	<u>5,365,910</u>	<u>503,284</u>
Contingency	<u>3,000,000</u>	<u>2,740,000</u>	<u>-</u>	<u>2,740,000</u>
Total Expenditures	<u>14,843,580</u>	<u>14,581,524</u>	<u>10,400,542</u>	<u>4,180,982</u>
Excess (deficiency) of revenues over expenditures	<u>1,446,501</u>	<u>1,708,557</u>	<u>7,819,448</u>	<u>6,110,891</u>
Other financing sources (uses)				
Transfers out	<u>(6,132,841)</u>	<u>(6,132,841)</u>	<u>(5,951,668)</u>	<u>181,173</u>
Total other financing sources (uses)	<u>(6,132,841)</u>	<u>(6,132,841)</u>	<u>(5,951,668)</u>	<u>181,173</u>
Net change in fund balances	(4,686,340)	(4,424,284)	1,867,780	6,292,064
Fund balances, beginning of year	<u>21,546,925</u>	<u>21,546,925</u>	<u>21,897,439</u>	<u>350,514</u>
Fund balances, end of year	<u>\$ 16,860,585</u>	<u>\$ 17,122,641</u>	<u>\$ 23,765,219</u>	<u>\$ 6,642,578</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer System</u>	<u>Alarm Monitor System</u>	<u>Totals</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 6,497,482	\$ 456,908	\$ 6,954,390
Restricted cash for customer deposits	-	13,273	13,273
Receivables, net			
Accounts receivable, net of allowance	27,429	1,581	29,010
Interest receivable	49,362	-	49,362
Prepaid items	3,223	-	3,223
Noncurrent assets			
Capital assets			
Non-depreciable	14,370,593	-	14,370,593
Depreciable (net)	<u>6,926,482</u>	<u>11,425</u>	<u>6,937,907</u>
Total assets	<u>27,874,571</u>	<u>483,187</u>	<u>28,357,758</u>
Liabilities			
Current liabilities			
Contracts payable	46,508	-	46,508
Accrued wages and benefits	762	1,116	1,878
Interest payable	96,035	-	96,035
Due to other funds	21,767	-	21,767
Unearned revenue	459,550	2,311	461,861
Customer deposits payable	-	13,273	13,273
Compensated absences	1,712	5,769	7,481
Capital leases payable	333,215	-	333,215
Bonds payable	253,646	-	253,646
Noncurrent liabilities			
Compensated absences	3,182	7,706	10,888
Capital leases payable	3,715,851	-	3,715,851
Bonds payable	<u>4,061,512</u>	<u>-</u>	<u>4,061,512</u>
Total liabilities	<u>8,993,740</u>	<u>30,175</u>	<u>9,023,915</u>
Net assets			
Invested in capital assets, net of related debt	12,932,851	11,425	12,944,276
Restricted for			
Capital outlay	3,253,695	-	3,253,695
Unrestricted	<u>2,694,285</u>	<u>441,587</u>	<u>3,135,872</u>
Total net assets	<u>\$ 18,880,831</u>	<u>\$ 453,012</u>	<u>\$ 19,333,843</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer System</u>	<u>Alarm Monitor System</u>	<u>Totals</u>
Operating revenues			
Charges for services	\$ 1,541,594	\$ 209,230	\$ 1,750,824
Total operating revenues	<u>1,541,594</u>	<u>209,230</u>	<u>1,750,824</u>
Operating expenses			
Costs of sales and services	1,419,875	131,119	1,550,994
Depreciation	<u>257,220</u>	<u>3,343</u>	<u>260,563</u>
Total operating expenses	<u>1,677,095</u>	<u>134,462</u>	<u>1,811,557</u>
Operating income (loss)	<u>(135,501)</u>	<u>74,768</u>	<u>(60,733)</u>
Nonoperating revenues (expenses)			
Development fees	1,251,922	-	1,251,922
Investment earnings	214,509	-	214,509
Interest expense	<u>(196,954)</u>	<u>-</u>	<u>(196,954)</u>
Total nonoperating revenues (expenses)	<u>1,269,477</u>	<u>-</u>	<u>1,269,477</u>
Income (loss) before contributions	1,133,976	74,768	1,208,744
Capital contributions	<u>422,750</u>	<u>-</u>	<u>422,750</u>
Change in net assets	1,556,726	74,768	1,631,494
Total net assets, beginning of year (restated)	<u>17,324,105</u>	<u>378,244</u>	<u>17,702,349</u>
Total net assets, end of year	<u>\$ 18,880,831</u>	<u>\$ 453,012</u>	<u>\$ 19,333,843</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer System</u>	<u>Alarm Monitor System</u>	<u>Totals</u>
Cash flows from operating activities			
Receipts from customers	\$ 1,555,251	\$ 206,935	\$ 1,762,186
Payments to suppliers	(1,371,421)	(74,372)	(1,445,793)
Payments to employees	(48,852)	(55,553)	(104,405)
Customer deposits	-	685	685
Net cash flows from operating activities	<u>134,978</u>	<u>77,695</u>	<u>212,673</u>
Cash flows from noncapital financing activities			
Cash received from (paid to) other funds for interfund borrowing	8,560	-	8,560
Development fees	<u>1,026,672</u>	-	<u>1,026,672</u>
Net cash flows from noncapital financing activities	<u>1,035,232</u>	<u>-</u>	<u>1,035,232</u>
Cash flows from capital and financing activities			
Principal paid on capital debt	(244,135)	-	(244,135)
Interest paid on capital debt	<u>(201,837)</u>	-	<u>(201,837)</u>
Net cash flows from capital and financing activities	<u>(445,972)</u>	<u>-</u>	<u>(445,972)</u>
Cash flows from investing activities			
Investment earnings	<u>186,888</u>	-	<u>186,888</u>
Net cash flows from investing activities	<u>186,888</u>	<u>-</u>	<u>186,888</u>
Net change in cash and cash equivalents	911,126	77,695	988,821
Cash and cash equivalents, beginning of year	<u>5,586,356</u>	<u>392,486</u>	<u>5,978,842</u>
Cash and cash equivalents, end of year (including \$13,273 of restricted cash in the Alarm System Monitor Fund)	<u>\$ 6,497,482</u>	<u>\$ 470,181</u>	<u>\$ 6,967,663</u>

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

TOWN OF PARADISE VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Sewer System</u>	<u>Alarm Monitor System</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (135,501)	\$ 74,768	\$ (60,733)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	257,220	3,343	260,563
Change in assets/liabilities:			
Receivables, net	6,390	(686)	5,704
Prepaid items	(2,740)	-	(2,740)
Accrued wages and benefits	176	160	336
Compensated absences	2,166	1,034	3,200
Unearned revenue	7,267	(1,609)	5,658
Customer deposits payable	<u>-</u>	<u>685</u>	<u>685</u>
Net cash provided by operating activities	<u>\$ 134,978</u>	<u>\$ 77,695</u>	<u>\$ 212,673</u>

Noncash Investing, Capital and Financing Activities

The Town received \$422,750 of developer contributed sewer lines recorded as capital contributions during the fiscal year and entered into a \$4,049,066 capital lease agreement for the purchase of sewer capacity rights.

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

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Paradise Valley, Arizona (Town) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations.

Included within the reporting entity:

Debt Service Fund. The Debt Service Fund consists of the Paradise Valley Municipal Property Corporation (PVMPC) of which the board of directors consists of seven members who are appointed by the Town Council. The PVMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The Town has a "moral obligation" for the repayment of the Paradise Valley Municipal Property Corporation's bonds.

The Mummy Mountain Preserve Trust. The Mummy Mountain Preserve Trust (MMPT) board of trustees consists of five members who are appointed by the Town Council. The MMPT was created for charitable purposes as defined in the Internal Revenue Code section 501(c)(3). The purpose of the MMPT is to acquire, maintain, preserve and protect in perpetuity undeveloped real property and developed real property that can be returned to its natural state, and interests therein, including scenic and conservation easements, on and around the Mummy Mountain Preserve in the Town of Paradise Valley.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Intergovernmental grants and aid, 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 cash is received by the government.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

The Town reports the following major governmental funds:

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

The *Capital Projects Fund* accounts for acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Town reports the following major proprietary funds:

The *Sewer System Fund* accounts for the costs to operate, construct and finance the Town's sewer system.

The *Alarm Fund* accounts for the costs to operate the Town's alarm services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 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.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

D. Assets, liabilities, and equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

5. Restricted assets

The Town reports customer deposits recorded in the Sewer System Fund as restricted because the use of these funds are restricted to refunds to customers.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

6. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002, with the exception of construction in progress at July 1, 2002, are not reported on the basic financial statements. Those assets will be transitioned in over the next fiscal year in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	25 years
Land improvements	25 years
Sewer lines	50 years
Infrastructure	50 years
Machinery, furniture, equipment and vehicles	5 to 20 years

7. Compensated absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

9. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the Town reports all Town assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund equity

In the fund financial statements, governmental funds report reservations 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. A public hearing is conducted to obtain taxpayer comment.
3. State law requires that, prior to April 1, the Economic Estimates commission provides the Town with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below for all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.

5. Legal budgets are adopted for all funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures with the exception of the Mummy Mountain Preserve Trust Nonmajor Funds in which an adopted budget is not prepared.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits	
Cash on hand	\$ 1,175
Cash in bank	1,081,720
Cash held by County Attorney	3,668
Investments	
U.S. Government Securities	28,924,382
State Treasurer's Investment Pool	3,669,514
Cash on deposit with trustee	<u>151,987</u>
Total cash and investments	33,832,446
Restricted assets	<u>(13,273)</u>
Total cash and equivalents	<u>\$ 33,819,173</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Deposits - The Town's deposits at June 30, 2006, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name. The deposits are not subject to any custodial credit risk.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. All other investments of the Town are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Town's name.

The Town invests funds pending clearance of outstanding checks in a Corporate Cash Management Account. Under the terms of the Corporate Cash Management Account agreement, excess funds in the Town's checking account are invested in overnight securities. At June 30, 2006, \$1,886,094 of total cash in the bank (\$2,086,201) was invested in an overnight repurchase agreement which was fully collateralized at June 30, 2006.

Interest rate risk. In accordance with the Town's investment policy, the Town manages its exposure to declines in fair values by limiting its investments to U.S. government securities.

Credit risk. The Town limits its investments to the State Treasurer's Investment Pool and U.S. Government Securities. The investment with the trustee is cash on hand at the end of the fiscal year in order to make the required principal and interest payments on outstanding bonds. The funds are on deposit with the trustee for less than one month and do not pose a credit risk to the Town. The Town's investment in U.S. Government Securities include \$1,995,697 invested in U.S. Treasury Notes, \$26,928,685 invested in Fannie Mae Securities, Freddie Mac Securities and Federal Home Loan Unsecured Bonds. The U.S. Treasury Notes do not have any credit risk and the Fannie Mae, Freddie Mac and the Federal Home Loan Bonds all have a Standard and Poor's AAA rating.

2. Restricted assets

Restricted assets in the business-type activities at June 30, 2006 consist of the following:

Customer deposits	\$ <u>13,273</u>
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TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

3. Receivables

Court fines of the General Fund are recorded net of uncollectible amounts. The allowance for uncollectibles at June 30, 2006 netted against accounts receivable in the General Fund totalled \$84,237.

Receivables consist of the following:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Office of the State Treasurer:			
Highway User Revenue	\$ -	\$ 85,221	\$ 85,221
State sales tax	109,812	-	109,812
Town sales tax	1,599,568	-	1,599,568
County Treasurer:			
Auto lieu tax	60,151	-	60,151
Franchise fees:			
Arizona Public Service	135,533	-	135,533
Cox Cable	53,602	-	53,602
Southwest Gas	29,337	-	29,337
Court receivable	214,082	-	214,082
Grant receivable	-	1,162	1,162
Note receivable	63,794	-	63,794
Insurance claims	7,937	-	7,937
Miscellaneous	<u>50,433</u>	<u>-</u>	<u>50,433</u>
Total	2,324,249	86,383	2,410,632
Less: allowance for doubtful accounts	<u>(84,237)</u>	<u>-</u>	<u>(84,237)</u>
Total	<u>\$ 2,240,012</u>	<u>\$ 86,383</u>	<u>\$ 2,326,395</u>

The Sewer System and Alarm Monitor System Enterprise Funds reported accounts receivable of \$27,429 and \$1,581 due from residents, respectively.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

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 current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Court fines not available at June 30, 2006 (General Fund)	\$ 129,845	\$ -
Cash payments not meeting all eligibility requirements (General Fund)	<u>-</u>	<u>262,212</u>
	<u>\$ 129,845</u>	<u>\$ 262,212</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

4. Capital assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 19,876,934	\$ 1,326,000	\$ -	\$ 21,202,934
Construction in progress	<u>1,904,465</u>	<u>5,854,168</u>	<u>(61,326)</u>	<u>7,697,307</u>
Total capital assets, not being depreciated	<u>21,781,399</u>	<u>7,180,168</u>	<u>(61,326)</u>	<u>28,900,241</u>
Capital assets being depreciated:				
Land improvements	1,962,434	61,326	-	2,023,760
Infrastructure	11,842,051	-	-	11,842,051
Buildings and improvements	6,040,216	-	-	6,040,216
Machinery, equipment and vehicles	<u>4,022,978</u>	<u>374,777</u>	<u>(98,786)</u>	<u>4,298,969</u>
Total capital assets being depreciated	<u>23,867,679</u>	<u>436,103</u>	<u>(98,786)</u>	<u>24,204,996</u>
Less accumulated depreciation for:				
Land improvements	(469,073)	(79,724)	-	(548,797)
Infrastructure	(354,364)	(238,488)	-	(592,852)
Buildings and improvements	(2,632,041)	(218,230)	-	(2,850,271)
Machinery, equipment and vehicles	<u>(2,270,571)</u>	<u>(419,006)</u>	<u>98,786</u>	<u>(2,590,791)</u>
Total accumulated depreciation	<u>(5,726,049)</u>	<u>(955,448)</u>	<u>98,786</u>	<u>(6,582,711)</u>
Total capital assets, being depreciated, net	<u>18,141,630</u>	<u>(519,345)</u>	<u>-</u>	<u>17,622,285</u>
Governmental activities capital assets, net	<u>\$ 39,923,029</u>	<u>\$ 6,660,823</u>	<u>\$ (61,326)</u>	<u>\$ 46,522,526</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

	Beginning Balances (restated)	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital assets not being depreciated:				
Sewer capacity rights	\$ 10,300,700	\$ 4,049,066	\$ -	\$ 14,349,766
Construction in progress	<u>20,827</u>	<u>-</u>	<u>-</u>	<u>20,827</u>
Total capital assets, not being depreciated	<u>10,321,527</u>	<u>4,049,066</u>	<u>-</u>	<u>14,370,593</u>
Capital assets being depreciated:				
Sewer system	9,618,544	422,750	-	10,041,294
Machinery and equipment	648,498	-	-	648,498
Furniture and fixtures	<u>57,429</u>	<u>-</u>	<u>-</u>	<u>57,429</u>
Total capital assets being depreciated	<u>10,324,471</u>	<u>422,750</u>	<u>-</u>	<u>10,747,221</u>
Less accumulated depreciation for:				
Sewer system	(3,216,030)	(192,370)	-	(3,408,400)
Machinery and equipment	(290,061)	(64,849)	-	(354,910)
Furniture and fixtures	<u>(42,660)</u>	<u>(3,344)</u>	<u>-</u>	<u>(46,004)</u>
Total accumulated depreciation	<u>(3,548,751)</u>	<u>(260,563)</u>	<u>-</u>	<u>(3,809,314)</u>
Total capital assets, being depreciated, net	<u>6,775,720</u>	<u>162,187</u>	<u>-</u>	<u>6,937,907</u>
Business-type activities capital assets, net	<u>\$ 17,097,247</u>	<u>\$ 4,211,253</u>	<u>\$ -</u>	<u>\$ 21,308,500</u>

The beginning balance for sewer capacity rights was adjusted by \$1,364,585 to record prior year capacity rights that were not included in capital assets.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 226,632
Public safety	298,482
Highways and streets	<u>430,334</u>
Total depreciation expense-governmental activities	<u>\$ 955,448</u>
Business-type Activities:	
Sewer Fund	\$ 257,220
Alarm Fund	<u>3,343</u>
Total depreciation expense-business-type activities	<u>\$ 260,563</u>

5. Construction commitments

The Town has active construction projects at June 30, 2006. The projects include various infrastructure projects listed below. At fiscal year end the Town's commitments with contractors were as follows:

Project	<u>Governmental</u>	
	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Tatum/McDonald Curve	\$ 2,346,417	\$ 201,253
Invergordon/Mockingbird/Northern	4,742,094	120,659
Lincoln Drive Sidewalk	276,317	1,612,622
Town Hall Expansion	<u>332,479</u>	<u>50,681</u>
	<u>\$ 7,697,307</u>	<u>\$ 1,985,215</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Interfund receivables, payables and transfers

As of June 30, 2006 interfund receivable and payables were as follows:

	Due From		
Due To	Nonmajor Governmental Funds	Sewer System Fund	Total
General Fund	\$ <u>1,162</u>	\$ <u>21,767</u>	\$ <u>22,929</u>

The above interfund receivable and payable was due to a short-term cash shortfall and the net amount of sewer development fees and bond payments.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	Transfers Out
Transfers In	General Fund
Capital Projects Fund	\$ 4,601,655
Nonmajor Governmental Funds	<u>1,350,013</u>
	<u>\$ 5,951,668</u>

The transfer from the General Fund to the Capital Projects Fund was recorded to fund various capital projects. The transfer from the General Fund to the Nonmajor Governmental Funds was recorded to transfer funds for the Municipal Property Corporation debt service payments and to fund highways and streets operating expenditures.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

C. Obligations under leases

Capital Leases

The Town has acquired land, sewer capacity rights, construction in progress and various equipment and vehicles under the provision of long-term lease agreements classified as capital leases. The principal amount of the assets totaling \$1,282,904 and \$4,049,066 is capitalized in Governmental Activities and Business-type Activities, respectively, if it meets the Town's capitalization policy of \$5,000. The leases provide for bargain purchase options. The amortization of these assets is included in depreciation expense reported in the Government-wide financial statements in the Governmental Activities. The lease agreements include \$73,491 of unspent proceeds.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital assets not depreciated		
Land	\$ 309,292	\$ -
Sewer capacity rights	-	4,049,066
Construction in progress	<u>316,463</u>	<u>-</u>
Total capital assets not being depreciated	<u>625,755</u>	<u>4,049,066</u>
Capital assets being depreciated		
Machinery, equipment and vehicles	<u>657,149</u>	<u>-</u>
Total capital assets being depreciated	657,149	-
Less: accumulated depreciation	<u>(72,399)</u>	<u>-</u>
Total capital assets, net	<u>\$ 1,210,505</u>	<u>\$ 4,049,066</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2006, were as follows:

Year Ending June 30,	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 541,449	\$ 497,982
2008	289,108	497,983
2009	-	497,983
2010	-	497,983
2011	-	497,983
2012-16	<u>-</u>	<u>2,489,914</u>
Total minimum lease payments	830,557	4,979,828
Less: amount representing interest	<u>(43,254)</u>	<u>(930,762)</u>
Present value of minimum lease payments	<u>\$ 787,303</u>	<u>\$ 4,049,066</u>

D. Long-term obligations

The Town has long-term bonds payable issued to provide funds for the acquisition and construction of major capital facilities. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Bonds payable at June 30, 2006 consisted of the MPC, Series 1998 revenue bond. Bonds maturing before or on January 1, 2009 are noncallable and bonds maturing thereafter are subject to call. Interest is payable semiannually. Principal and interest are payable out of the Debt Service Fund for the Governmental Activities and are paid out of the Sewer Fund for Business-type Activities through revenues earned from development fees.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>	<u>Due within One Year</u>
Governmental Activities:					
Revenue bonds	\$ 2,630,707	\$ -	\$ (140,865)	\$ 2,489,842	\$ 146,354
Capital leases	610,919	831,211	(654,827)	787,303	510,233
Compensated absences	<u>925,073</u>	<u>581,642</u>	<u>(642,568)</u>	<u>864,147</u>	<u>678,416</u>
	<u>\$ 4,166,699</u>	<u>\$ 1,412,853</u>	<u>\$ (1,438,260)</u>	<u>\$ 4,141,292</u>	<u>\$ 1,335,003</u>
Business-type Activities:					
Revenue bonds	\$ 4,559,293	\$ -	\$ (244,135)	\$ 4,315,158	\$ 253,646
Capital leases	-	4,049,066	-	4,049,066	333,215
Compensated absences	<u>15,169</u>	<u>10,285</u>	<u>(7,085)</u>	<u>18,369</u>	<u>7,481</u>
	<u>\$ 4,574,462</u>	<u>\$ 4,059,351</u>	<u>\$ (251,220)</u>	<u>\$ 8,382,593</u>	<u>\$ 594,342</u>

Debt service requirements on long-term debt at June 30, 2006 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year Ending June 30,				
2007	\$ 146,354	\$ 107,897	\$ 253,646	\$ 186,998
2008	151,842	101,895	263,158	176,596
2009	159,160	95,518	275,840	165,543
2010	164,648	88,758	285,352	153,827
2011	171,966	81,646	298,034	141,501
2012-16	987,887	283,527	1,712,113	491,383
2017-20	<u>707,985</u>	<u>50,945</u>	<u>1,227,015</u>	<u>88,293</u>
	<u>\$ 2,489,842</u>	<u>\$ 810,186</u>	<u>\$ 4,315,158</u>	<u>\$ 1,404,141</u>

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - OTHER INFORMATION

A. Budgetary basis of accounting

The adopted budget of the Town of Paradise Valley, Arizona was prepared on a basis consistent with U.S. generally accepted accounting principles, with one exception. The present value of net minimum capital lease payments was not budgeted as an expenditure and other financing source at the inception of the agreements. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis in order to provide a meaningful comparison.

	General Fund	
	Total Expenditures	Other Financing Sources
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 10,760,418	\$ (5,518,301)
Less: Present value of net minimum capital lease payments	(359,876)	(359,876)
Less: Unspent capital lease proceeds	-	(73,491)
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	\$ 10,400,542	\$ (5,951,668)

B. Risk management

The Town of Paradise Valley, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. The aggregate excess coverage is for an additional \$18,000,000, excluding land use liability claims, on a follow form, claims made basis. The excess land use liability aggregate is \$5,000,000. No settlements exceeded insurance coverage during any of the past three fiscal years.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town is also insured by Arizona Municipal Risk Retention Pool for potential worker related accidents.

C. Contingent liabilities

Accumulated sick leave - Sick leave benefits provide for ordinary sick pay, are cumulative and vest at 50 percent of an employee's rate of pay after 10 years of service and 100 percent of an employee's rate of pay after 15 years of service. In addition, sick leave accumulated in excess of 480 hours is paid annually at 50 percent of an employee's rate of pay. Unvested accumulated sick leave of Town employees at June 30, 2006, totaled \$341,837.

D. Retirement plans

Defined Contribution Pension Plan

All Town employees who work greater than 30 hours per week are eligible to participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan for the year ended June 30, 2006 was \$5,185,500. The Town's total payroll was \$6,114,298.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefit the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investment of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. All Town employees who work more than 30 hours per week are eligible to participate in the pension plan after one year of service and must apply within 60 days of the one year anniversary date. Contributions made by employer and employee vest immediately.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee's contribution and amount of employer's contribution is based upon the employee's status in accordance with the Fair Labor Standards Act (FLSA). For all non-exempt employees under FLSA the employee to employer contribution rate was 1:1; for exempt employees the ratio was 2:1; and directors and the Town Manager have a 3:1 ratio. During fiscal year 2005-06, the Town's required and actual contributions amounted to \$96,083. The employees' contributions totaled \$131,531.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees.

The ICMA Retirement Corporation held no securities of the Town or other related parties during the fiscal year 2005-06 or as of the close of the fiscal year.

Arizona State Retirement System

Plan Description - The Town of Paradise Valley, Arizona contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2002 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rate. For the year ended June 30, 2006, active plan members and the Town were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Town's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$266,853, \$198,222 and \$188,683, respectively, which were equal to the required contributions for the year.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute.

PSPRS funding policy is to provide for periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due, expressed as percentages of annual covered payroll. The required contributions are determined based on an entry age actuarial funding method. Unfunded actuarial accrued liabilities are amortized as a level percentage over a period of 20 years.

Annual Pension Cost and Net Pension Obligation - During the year ended June 30, 2005 (the date of the latest available information), the Town's annual pension cost of \$298,696 was equal to the Town's required and actual contributions.

The required contribution was determined as part of the June 30, 2005 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, (b) projected salary increases of 6.00% per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the Town of Paradise Valley, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Paradise Valley's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

TOWN OF PARADISE VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Three-Year Trend Information

Paradise Valley Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 119,831	100.0 %	\$ -
2004	195,188	100.0	-
2005	298,696	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed on page 56.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

E. Prior period adjustment

In the prior year, capital assets meeting the capitalization threshold were not included in capital assets in error. The following adjustment is necessary to reconcile beginning net assets and fund balance to the prior year audited financial statements:

	<u>Business-type Activities</u>
Net assets at June 30, 2005 (as previously reported)	\$ 16,337,764
Prior period adjustment:	
Net capital assets	<u>1,364,585</u>
Net assets at July 1, 2005 (as restated)	<u>\$ 17,702,349</u>

Required Supplementary Information

TOWN OF PARADISE VALLEY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

Paradise Valley Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Under (Overfunded) AAL	Annual Covered Payroll	Underfunded AAL as a Percentage of Covered Payroll
1996	\$ 4,289,173	\$ 4,653,264	92.2 %	\$ 364,091	\$1,483,761	24.5 %
1997	5,168,107	5,190,510	99.6	22,403	1,549,454	1.4
1998	5,842,864	5,730,477	102.0	(112,387)	1,669,877	-
1999	6,985,979	7,124,614	98.1	138,635	1,786,014	7.8
2000	8,066,987	7,698,335	104.8	(368,652)	1,880,223	-
2001	9,144,443	7,998,224	114.3	(1,146,219)	1,903,584	-
2002	9,338,401	9,637,887	96.9	299,486	2,086,268	14.4
2003	9,595,544	11,498,793	83.4	1,903,249	1,624,702	117.1
2004	9,672,497	12,439,928	77.8	2,767,431	1,808,362	153.0
2005	9,425,469	14,329,768	65.8	4,904,299	1,773,920	276.5

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Highway User Revenue Fund (HURF) - accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

Town Beautification Fund - accounts for donations, contributions and other revenues appropriated by the Town Council to enhance the aesthetic, landscaping, beautification and natural features of the Town.

Donations Fund - accounts for contributions and donations received by the Town.

Grants Fund - accounts for all grants received by the Town.

Forfeiture Fund - accounts for police seizures and forfeitures received by the Town.

Mummy Mountain Preserve Trust Fund - accounts for the activity of the Mummy Mountain Preserve Trust including acquiring, maintaining, preserving and protecting undeveloped property on and around the Mummy Mountain Preserve.

DEBT SERVICE FUND

Debt Service Fund - accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

TOWN OF PARADISE VALLEY, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue						Total
	Highway User Revenue Fund	Town Beautification Fund	Donations Fund	Grants Fund	Forfeiture Fund	Mummy Mountain Trust Fund	
Assets							
Cash and cash equivalents	\$ 2,280,101	\$ 1,605	\$ 81,315	\$ -	\$ 10,894	\$ 39,883	\$ 2,413,798
Accounts receivable, net	85,221	-	-	1,162	-	-	86,383
Interest receivable	-	-	-	-	-	2	2
Total assets	<u>\$ 2,365,322</u>	<u>\$ 1,605</u>	<u>\$ 81,315</u>	<u>\$ 1,162</u>	<u>\$ 10,894</u>	<u>\$ 39,885</u>	<u>\$ 2,500,183</u>
Liabilities and Fund Balances							
Liabilities							
Accrued wages and benefits	\$ 23,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,379
Interest payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	1,162	-	-	1,162
Total liabilities	<u>23,379</u>	<u>-</u>	<u>-</u>	<u>1,162</u>	<u>-</u>	<u>-</u>	<u>24,541</u>
Fund balances							
Unreserved	<u>2,341,943</u>	<u>1,605</u>	<u>81,315</u>	<u>-</u>	<u>10,894</u>	<u>39,885</u>	<u>2,475,642</u>
Total fund balances	<u>2,341,943</u>	<u>1,605</u>	<u>81,315</u>	<u>-</u>	<u>10,894</u>	<u>39,885</u>	<u>2,475,642</u>
Total liabilities and fund balances	<u>\$ 2,365,322</u>	<u>\$ 1,605</u>	<u>\$ 81,315</u>	<u>\$ 1,162</u>	<u>\$ 10,894</u>	<u>\$ 39,885</u>	<u>\$ 2,500,183</u>

<u>Debt Service</u>	
<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 55,612	\$ 2,469,410
-	86,383
<u>167</u>	<u>169</u>
<u>\$ 55,779</u>	<u>\$ 2,555,962</u>

\$ -	\$ 23,379
55,412	55,412
-	1,162
<u>55,412</u>	<u>79,953</u>

<u>367</u>	<u>2,476,009</u>
<u>367</u>	<u>2,476,009</u>

<u>\$ 55,779</u>	<u>\$ 2,555,962</u>
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TOWN OF PARADISE VALLEY, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Special Revenue						Total
	Highway User Revenue Fund	Town Beautification Fund	Donations Fund	Grants Fund	Forfeiture Fund	Mummy Mountain Trust Fund	
Revenues							
Intergovernmental	\$ 1,118,029	\$ -	\$ -	\$ 75,237	\$ -	\$ -	\$ 1,193,266
Contributions and donations	-	-	105,621	-	-	-	105,621
Investment earnings	-	-	-	-	105	520	625
Total revenues	<u>1,118,029</u>	<u>-</u>	<u>105,621</u>	<u>75,237</u>	<u>105</u>	<u>520</u>	<u>1,299,512</u>
Expenditures							
Current							
General government	-	-	36,632	17,522	-	1,924	56,078
Public safety	-	-	3,373	2,146	-	-	5,519
Highways and streets	1,538,815	-	-	83,676	-	-	1,622,491
Debt Service							
Principal retirement	-	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-	-
Total expenditures	<u>1,538,815</u>	<u>-</u>	<u>40,005</u>	<u>103,344</u>	<u>-</u>	<u>1,924</u>	<u>1,684,088</u>
Excess (deficiency) of revenues over expenditures	<u>(420,786)</u>	<u>-</u>	<u>65,616</u>	<u>(28,107)</u>	<u>105</u>	<u>(1,404)</u>	<u>(384,576)</u>
Other financing sources (uses)							
Transfers in	1,095,798	-	-	-	-	-	1,095,798
Proceeds from capital leases	29,844	-	-	-	-	-	29,844
Total other financing sources (uses)	<u>1,125,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,125,642</u>
Net change in fund balances	704,856	-	65,616	(28,107)	105	(1,404)	741,066
Fund balances, beginning of year	<u>1,637,087</u>	<u>1,605</u>	<u>15,699</u>	<u>28,107</u>	<u>10,789</u>	<u>41,289</u>	<u>1,734,576</u>
Fund balances, end of year	<u>\$ 2,341,943</u>	<u>\$ 1,605</u>	<u>\$ 81,315</u>	<u>\$ -</u>	<u>\$ 10,894</u>	<u>\$ 39,885</u>	<u>\$ 2,475,642</u>

Debt Service
Fund

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 1,193,266
-	105,621
<u>449</u>	<u>1,074</u>
<u>449</u>	<u>1,299,961</u>
-	56,078
-	5,519
-	1,622,491
140,865	140,865
<u>113,642</u>	<u>113,642</u>
<u>254,507</u>	<u>1,938,595</u>
<u>(254,058)</u>	<u>(638,634)</u>
254,215	1,350,013
-	29,844
<u>254,215</u>	<u>1,379,857</u>
157	741,223
<u>210</u>	<u>1,734,786</u>
<u>\$ 367</u>	<u>\$ 2,476,009</u>

TOWN OF PARADISE VALLEY, ARIZONA
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Capital outlay	\$ 7,093,459	\$ 7,353,459	\$ 6,799,178	\$ 554,281
Total Expenditures	<u>7,093,459</u>	<u>7,353,459</u>	<u>6,799,178</u>	<u>554,281</u>
Excess (deficiency) of revenues over expenditures	<u>(7,093,459)</u>	<u>(7,353,459)</u>	<u>(6,799,178)</u>	<u>554,281</u>
Other financing sources (uses)				
Transfers in	5,263,936	5,263,936	4,601,655	(662,281)
Proceeds from capital leases	-	-	368,000	368,000
Total other financing sources (uses)	<u>5,263,936</u>	<u>5,263,936</u>	<u>4,969,655</u>	<u>(294,281)</u>
Net change in fund balances	(1,829,523)	(2,089,523)	(1,829,523)	260,000
Fund balances, beginning of year	<u>1,829,523</u>	<u>1,829,523</u>	<u>1,829,523</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (260,000)</u>	<u>\$ -</u>	<u>\$ 260,000</u>

TOWN OF PARADISE VALLEY, ARIZONA
HIGHWAY USER REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 1,099,970	\$ 1,099,970	\$ 1,118,029	\$ 18,059
Total Revenues	<u>1,099,970</u>	<u>1,099,970</u>	<u>1,118,029</u>	<u>18,059</u>
Expenditures				
Current				
Highways and streets	1,567,708	1,569,794	1,538,815	30,979
Total Expenditures	<u>1,567,708</u>	<u>1,569,794</u>	<u>1,538,815</u>	<u>30,979</u>
Excess (deficiency) of revenues over expenditures	<u>(467,738)</u>	<u>(469,824)</u>	<u>(420,786)</u>	<u>49,038</u>
Other financing sources (uses)				
Transfers in	449,754	449,754	1,095,798	646,044
Proceeds from capital leases	17,984	17,984	29,844	11,860
Total other financing sources (uses)	<u>467,738</u>	<u>467,738</u>	<u>1,125,642</u>	<u>657,904</u>
Net change in fund balances	-	(2,086)	704,856	706,942
Fund balances, beginning of year	<u>744,962</u>	<u>744,962</u>	<u>1,637,087</u>	<u>892,125</u>
Fund balances, end of year	<u>\$ 744,962</u>	<u>\$ 742,876</u>	<u>\$ 2,341,943</u>	<u>\$ 1,599,067</u>

TOWN OF PARADISE VALLEY, ARIZONA
DONATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Contributions and donations	\$ 8.500	\$ 8.500	\$ 105.621	\$ 97.121
Total Revenues	<u>8.500</u>	<u>8.500</u>	<u>105.621</u>	<u>97.121</u>
Expenditures				
Current				
General government	-	36,000	36,632	(632)
Public safety	<u>8.500</u>	<u>8.500</u>	<u>3.373</u>	<u>5.127</u>
Total Expenditures	<u>8.500</u>	<u>44.500</u>	<u>40.005</u>	<u>4.495</u>
Net change in fund balances	-	(36,000)	65,616	101,616
Fund balances, beginning of year	<u>16.780</u>	<u>16.780</u>	<u>15.699</u>	<u>(1.081)</u>
Fund balances, end of year	<u>\$ 16.780</u>	<u>\$ (19,220)</u>	<u>\$ 81,315</u>	<u>\$ 100.535</u>

TOWN OF PARADISE VALLEY, ARIZONA
 GRANTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 586,900	\$ 586,900	\$ 75,237	\$ (511,663)
Total Revenues	<u>586,900</u>	<u>586,900</u>	<u>75,237</u>	<u>(511,663)</u>
Expenditures				
Current				
General government	140,600	104,600	17,522	87,078
Public safety	20,000	20,000	2,146	17,854
Highways and streets	460,400	460,400	83,676	376,724
Total Expenditures	<u>621,000</u>	<u>585,000</u>	<u>103,344</u>	<u>481,656</u>
Excess (deficiency) of revenues over expenditures	(34,100)	1,900	(28,107)	(30,007)
Fund balances, beginning of year	<u>39,340</u>	<u>39,340</u>	<u>28,107</u>	<u>(11,233)</u>
Fund balances, end of year	<u>\$ 5,240</u>	<u>\$ 41,240</u>	<u>\$ -</u>	<u>\$ (41,240)</u>

TOWN OF PARADISE VALLEY, ARIZONA
 FORFEITURE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ -	\$ 105	\$ 105
Total Revenues	<u>-</u>	<u>105</u>	<u>105</u>
 Expenditures			
Current			
Public safety	10,800	-	10,800
Total Expenditures	<u>10,800</u>	<u>-</u>	<u>10,800</u>
Excess (deficiency) of revenues over expenditures	(10,800)	105	10,905
Fund balances, beginning of year	<u>10,670</u>	<u>10,789</u>	<u>119</u>
Fund balances, end of year	<u><u>\$ (130)</u></u>	<u><u>\$ 10,894</u></u>	<u><u>\$ 11,024</u></u>

TOWN OF PARADISE VALLEY, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Investment earnings	\$ -	\$ 449	\$ 449
Total Revenues	<u>-</u>	<u>449</u>	<u>449</u>
Expenditures			
Debt Service			
Principal retirement	305,510	140,865	164,645
Interest on long-term debt	<u>113,641</u>	<u>113,642</u>	<u>(1)</u>
Total Expenditures	<u>419,151</u>	<u>254,507</u>	<u>164,644</u>
Excess (deficiency) of revenues over expenditures	<u>(419,151)</u>	<u>(254,058)</u>	<u>165,093</u>
Other financing sources (uses)			
Transfers in	<u>419,151</u>	<u>254,215</u>	<u>(164,936)</u>
Total other financing sources (uses)	<u>419,151</u>	<u>254,215</u>	<u>(164,936)</u>
Net change in fund balances	-	157	157
Fund balances, beginning of year	<u>-</u>	<u>210</u>	<u>210</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 367</u>	<u>\$ 367</u>

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STATISTICAL SECTION

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TOWN OF PARADISE VALLEY, ARIZONA
NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 24,086,252	\$ 36,521,049	\$ 36,681,403	\$ 43,245,381
Restricted	7,409,340	2,646,210	3,547,005	2,458,089
Unrestricted	<u>20,131,888</u>	<u>19,232,729</u>	<u>21,212,662</u>	<u>23,122,328</u>
Total governmental activities net assets	<u>\$ 51,627,480</u>	<u>\$ 58,399,988</u>	<u>\$ 61,441,070</u>	<u>\$ 68,825,798</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 12,317,460	\$ 12,387,573	\$ 12,537,954	\$ 12,944,276
Restricted	1,460,850	2,050,411	2,314,437	3,253,695
Unrestricted	<u>2,280,522</u>	<u>2,246,455</u>	<u>2,849,958</u>	<u>3,135,872</u>
Total business-type activities net assets	<u>\$ 16,058,832</u>	<u>\$ 16,684,439</u>	<u>\$ 17,702,349</u>	<u>\$ 19,333,843</u>
Primary government				
Invested in capital assets, net of related debt	\$ 36,403,712	\$ 48,908,622	\$ 49,219,357	\$ 56,189,657
Restricted	8,870,190	4,696,621	5,861,442	5,711,784
Unrestricted	<u>22,412,410</u>	<u>21,479,184</u>	<u>24,062,620</u>	<u>26,258,200</u>
Total primary government net assets	<u>\$ 67,686,312</u>	<u>\$ 75,084,427</u>	<u>\$ 79,143,419</u>	<u>\$ 88,159,641</u>

Source: The Town's Management Services Department.

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

TOWN OF PARADISE VALLEY, ARIZONA
 CHANGES IN NET ASSETS
 LAST FOUR FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 6,852,345	\$ 7,205,961	\$ 5,830,167	\$ 5,572,020
Public safety	4,699,476	4,895,582	5,230,079	5,427,430
Highways and streets	2,190,740	2,102,681	2,826,197	2,232,994
Interest on long-term debt	214,840	152,543	132,501	135,632
Total governmental activities	<u>13,957,401</u>	<u>14,356,767</u>	<u>14,018,944</u>	<u>13,368,076</u>
Business-type activities				
Sewer system	1,668,659	1,673,671	1,842,192	1,874,049
Alarm monitor system	111,710	116,989	128,194	134,462
Total business-type activities	<u>1,780,369</u>	<u>1,790,660</u>	<u>1,970,386</u>	<u>2,008,511</u>
Total primary government expenses	<u>\$ 15,737,770</u>	<u>\$ 16,147,427</u>	<u>\$ 15,989,330</u>	<u>\$ 15,376,587</u>
Program Revenues				
Governmental activities:				
Fines, fees and charges for services:				
General government	\$ 1,998,914	\$ 2,305,546	\$ 2,987,376	\$ 3,519,743
Public safety	-	-	-	8,538
Highways and streets	-	-	183,077	-
Operating grants and contributions	973,337	1,064,659	1,097,104	1,238,887
Capital grants and contributions	818,054	5,530,770	57,356	1,520,470
Total governmental activities program revenues	<u>3,790,305</u>	<u>8,900,975</u>	<u>4,324,913</u>	<u>6,287,638</u>
Business-type activities				
Charges for services:				
Sewer system	2,038,584	2,136,775	2,526,738	2,793,516
Alarm monitor system	216,830	210,724	206,705	209,230
Capital grants and contributions	124,272	36,210	160,620	422,750
Total business-type activities program revenues	<u>2,379,686</u>	<u>2,383,709</u>	<u>2,894,063</u>	<u>3,425,496</u>
Total primary government program revenues	<u>\$ 6,169,991</u>	<u>\$ 11,284,684</u>	<u>\$ 7,218,976</u>	<u>\$ 9,713,134</u>

	Fiscal Year			
	2003	2004	2005	2006
Net (expense)/revenue				
Governmental activities	\$ (10,167,096)	\$ (5,455,792)	\$ (9,694,031)	\$ (7,080,438)
Business-type activities	599,317	593,049	923,677	1,416,985
Total primary government net expense	<u>\$ (9,567,779)</u>	<u>\$ (4,862,743)</u>	<u>\$ (8,770,354)</u>	<u>\$ (5,663,453)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:				
Taxes:				
Sales taxes	\$ 7,532,660	\$ 7,890,578	\$ 8,260,274	\$ 9,126,426
Franchise taxes	715,402	745,992	759,607	824,782
State shared revenues	2,522,806	2,381,528	2,522,036	2,875,380
Auto lieu tax revenue sharing	538,002	553,579	584,982	646,708
Investment earnings	739,423	651,012	608,214	991,870
Other	(1,436)	-	-	-
Transfers	-	5,611	-	-
Total governmental activities:	<u>12,046,857</u>	<u>12,228,300</u>	<u>12,735,113</u>	<u>14,465,166</u>
Business-type activities:				
Investment earnings (loss)	(11,193)	38,169	94,233	214,509
Transfers	-	(5,611)	-	-
Total business-type activities	<u>(11,193)</u>	<u>32,558</u>	<u>94,233</u>	<u>214,509</u>
Total primary government	<u>\$ 12,035,664</u>	<u>\$ 12,260,858</u>	<u>\$ 12,829,346</u>	<u>\$ 14,679,675</u>
Change in Net Assets				
Governmental activities	\$ 1,879,761	\$ 6,772,508	\$ 3,041,082	\$ 7,384,728
Business-type activities	588,124	625,607	1,017,910	1,631,494
Total primary government	<u>\$ 2,467,885</u>	<u>\$ 7,398,115</u>	<u>\$ 4,058,992</u>	<u>\$ 9,016,222</u>

Source: The Town's Management Services Department.

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

TOWN OF PARADISE VALLEY, ARIZONA
PROGRAM REVENUES BY FUNCTION
LAST FOUR FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function/Program				
Governmental activities:				
General government	\$ 2,720,304	\$ 7,577,522	\$ 3,016,814	\$ 4,960,424
Public safety	5,377	39,238	6,241	14,715
Highways and streets	<u>1,064,624</u>	<u>1,284,215</u>	<u>1,301,858</u>	<u>1,312,499</u>
Subtotal governmental activities	<u>3,790,305</u>	<u>8,900,975</u>	<u>4,324,913</u>	<u>6,287,638</u>
Business-type activities:				
Sewer system	2,146,384	2,172,985	2,687,358	3,216,266
Alarm monitor system	<u>233,302</u>	<u>210,724</u>	<u>206,705</u>	<u>209,230</u>
Subtotal business-type activities	<u>2,379,686</u>	<u>2,383,709</u>	<u>2,894,063</u>	<u>3,425,496</u>
Total primary government	<u>\$ 6,169,991</u>	<u>\$ 11,284,684</u>	<u>\$ 7,218,976</u>	<u>\$ 9,713,134</u>

Source: The Town's Management Service Department.

TOWN OF PARADISE VALLEY, ARIZONA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 243,941	\$ 181,160	\$ 110,985	\$ 47,088	\$ 7,033	\$ 6,562	\$ -	\$ 102,818	\$ -	\$ -
Unreserved	16,419,179	17,467,421	18,805,652	19,688,956	20,426,716	20,452,255	20,237,163	19,900,194	21,897,439	23,838,710
Total General Fund	<u>\$ 16,663,120</u>	<u>\$ 17,648,581</u>	<u>\$ 18,916,637</u>	<u>\$ 19,736,044</u>	<u>\$ 20,433,749</u>	<u>\$ 20,458,817</u>	<u>\$ 20,237,163</u>	<u>\$ 20,003,012</u>	<u>\$ 21,897,439</u>	<u>\$ 23,838,710</u>
All other governmental funds										
Unreserved, reported in:										
Special revenue funds	\$ 1,254,040	\$ 1,220,454	\$ 1,181,539	\$ 1,221,358	\$ 1,133,776	\$ 822,904	\$ 810,472	\$ 816,602	\$ 1,734,376	\$ 2,475,642
Debt service funds	2,639	-	2,033	2,895	1,416	354	170	85	210	367
Capital projects funds	2,957,323	3,004,000	5,060,738	8,865,008	9,793,128	9,452,025	6,598,698	1,829,523	1,829,523	-
Total all other governmental funds	<u>\$ 4,214,002</u>	<u>\$ 4,224,454</u>	<u>\$ 6,244,310</u>	<u>\$ 10,089,261</u>	<u>\$ 10,928,320</u>	<u>\$ 10,275,283</u>	<u>\$ 7,409,340</u>	<u>\$ 2,646,210</u>	<u>\$ 3,564,309</u>	<u>\$ 2,476,009</u>

Source: The Town's Management Service Department.

TOWN OF PARADISE VALLEY, ARIZONA
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 6,417,435	\$ 6,706,432	\$ 7,247,314	\$ 8,119,159	\$ 8,345,971	\$ 8,138,494	\$ 8,248,062	\$ 8,636,570	\$ 9,019,881	\$ 9,951,208
Intergovernmental	3,038,340	3,212,499	3,633,113	4,073,334	4,326,270	4,093,680	4,134,715	4,235,005	4,249,702	4,849,824
Fines and forfeitures	428,431	457,043	508,919	511,805	619,438	902,293	1,020,489	905,824	1,083,724	1,228,545
Licenses and permits	557,488	498,811	657,674	736,350	897,042	772,843	864,180	1,204,140	1,686,194	1,847,924
Charges for services	-	-	-	-	-	-	-	-	187,077	-
Investment earnings	1,312,147	1,375,408	1,362,846	1,657,001	1,922,948	1,571,249	739,423	651,012	608,214	991,870
Other	61,703	77,367	73,026	162,513	148,711	159,080	131,729	364,812	143,797	650,580
Total revenues	<u>11,815,544</u>	<u>12,327,560</u>	<u>13,482,892</u>	<u>15,260,162</u>	<u>16,260,380</u>	<u>15,637,639</u>	<u>15,138,598</u>	<u>15,997,363</u>	<u>16,978,589</u>	<u>19,519,951</u>
Expenditures										
General government	3,638,802	3,758,150	3,263,847	3,915,638	4,126,971	4,941,590	4,801,152	5,215,411	5,059,155	5,450,586
Public safety	2,870,063	3,350,137	3,553,505	3,563,287	4,000,252	4,451,529	4,608,673	4,763,692	5,154,489	5,371,429
Highways and streets	1,310,372	1,100,007	1,038,989	1,237,890	1,361,034	1,593,172	1,408,277	1,532,470	1,430,165	1,622,491
Capital outlay	3,958,616	3,168,544	5,469,993	2,216,533	5,487,184	6,811,425	7,232,833	9,666,243	2,967,196	6,799,178
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	485,000	500,000	520,000	631,471	677,083	707,571	731,230	131,718	135,377	140,865
Interest on long-term debt	149,318	132,585	193,960	243,466	216,401	187,410	156,313	124,508	119,167	113,642
Total expenditures	<u>12,412,171</u>	<u>12,009,423</u>	<u>14,040,294</u>	<u>11,808,285</u>	<u>15,868,925</u>	<u>18,692,697</u>	<u>18,938,478</u>	<u>21,434,042</u>	<u>14,865,549</u>	<u>19,498,191</u>
Excess of revenues over (under) expenditures	<u>(596,627)</u>	<u>318,137</u>	<u>(557,402)</u>	<u>3,451,877</u>	<u>391,455</u>	<u>(3,055,058)</u>	<u>(3,799,880)</u>	<u>(5,436,679)</u>	<u>2,113,040</u>	<u>21,760</u>

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other financing sources (uses)										
Transfers in	4,777,874	3,843,392	4,884,020	6,740,112	7,086,884	5,686,872	5,328,615	5,309,176	4,086,764	5,951,668
Transfers out	(4,550,513)	(3,723,891)	(4,786,221)	(6,465,872)	(6,778,548)	(5,737,795)	(5,328,615)	(5,303,565)	(4,086,764)	(5,951,668)
Proceeds of long-term debt issuance	-	-	3,355,157	-	-	-	-	-	-	-
Proceeds from capital leases	759,006	558,275	392,358	938,241	836,973	2,478,012	712,283	433,787	699,486	831,211
Total other financing sources (uses)	986,367	677,776	3,845,314	1,212,481	1,145,309	2,427,089	712,283	439,398	699,486	831,211
Net change in fund balance	\$ 389,740	\$ 995,913	\$ 3,287,912	\$ 4,664,358	\$ 1,536,764	\$ (627,969)	\$ (3,087,597)	\$ (4,997,281)	\$ 2,812,526	\$ 852,971
Debt service as a percentage of noncapital expenditures	7.5 %	7.2 %	8.3 %	9.1 %	8.6 %	7.5 %	7.6 %	2.2 %	2.1 %	2.0 %

Source: The Town's Management Services Department.

TOWN OF PARADISE VALLEY, ARIZONA
 GENERAL GOVERNMENT TAX REVENUES BY SOURCE
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

Fiscal Year	Sales and Use	Occupancy	Franchise	Total
1997	\$ 3,339,594	\$ 2,476,953	\$ 600,888	\$ 6,417,435
1998	3,563,388	2,512,184	630,860	6,706,432
1999	4,019,668	2,575,154	652,492	7,247,314
2000	4,859,085	2,565,174	694,900	8,119,159
2001	5,216,902	2,417,867	711,202	8,345,971
2002	5,137,594	2,167,238	833,662	8,138,494
2003	5,353,856	2,178,804	715,402	8,248,062
2004	5,605,752	2,284,826	745,992	8,636,570
2005	6,059,493	2,200,781	759,607	9,019,881
2006	6,838,389	2,288,037	824,782	9,951,208

Source: The Town's Management Services Department.

TOWN OF PARADISE VALLEY, ARIZONA
 LOCAL TAXES COLLECTED BY CATEGORY
 LAST TEN FISCAL YEARS
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales and Use Tax Collected by Category (1)										
Communications and Utilities	\$ 168,453	\$ 194,294	\$ 209,533	\$ 271,207	\$ 285,320	\$ 277,710	\$ 314,342	\$ 229,257	\$ 362,906	\$ 385,466
Construction	921,054	1,117,551	1,220,650	1,647,083	1,878,176	1,843,284	2,080,016	2,208,058	2,204,092	2,751,534
Manufacturing	46,992	34,871	53,012	62,659	163,527	171,075	171,308	171,078	223,540	243,507
Retail trade	125,191	100,883	150,380	192,728	141,704	164,005	205,196	322,360	164,793	210,152
Finance, Insurance and Real Estate	22,892	28,266	55,439	86,233	88,024	204,334	195,185	250,747	241,291	267,236
Hospitality	1,956,795	1,970,461	2,204,255	2,426,853	2,452,965	2,177,665	2,173,731	2,089,442	2,474,965	2,603,157
Services	71,599	86,635	89,255	105,578	125,564	157,096	117,482	152,926	160,672	173,674
Other	26,618	30,427	37,144	66,744	81,622	142,425	96,596	181,884	227,234	203,663
Total	\$ 3,339,594	\$ 3,563,388	\$ 4,019,668	\$ 4,859,085	\$ 5,216,902	\$ 5,137,594	\$ 5,353,856	\$ 5,605,752	\$ 6,059,493	\$ 6,838,389
Bed Tax Collected	\$ 2,476,953	\$ 2,512,184	\$ 2,575,154	\$ 2,565,174	\$ 2,417,867	\$ 2,167,238	\$ 2,178,804	\$ 2,284,826	\$ 2,200,781	\$ 2,288,037

Source: Arizona Department of Revenue

(1) Sales tax increased from 1.2% to 1.4% effective January 1, 1999, and from 1.4% to 1.65% effective September 1, 2004. Use tax of 1.4% added effective April 1, 1999.

TOWN OF PARADISE VALLEY, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Town Direct Rate</u>	<u>Maricopa County</u>
1997	1.20 %	7.50 %
1998	1.20	7.50
1999	1.40	7.00
2000	1.40	7.00
2001	1.40	7.00
2002	1.40	7.00
2003	1.40	7.00
2004	1.40	7.00
2005	1.65	7.00
2006	1.65	7.00

Source: Maricopa County Treasurer.

TOWN OF PARADISE VALLEY, ARIZONA
 RATIO OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (DOLLARS IN THOUSANDS EXCEPT PER CAPITA)
 (UNAUDITED)

Fiscal Year	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total Primary Government	Per Capita	Population
	Excise Tax Revenue Bonds	Capital Leases	Excise Tax Revenue Bonds	Capital Leases			
1997	\$ 3,310	\$ 612	\$ -	\$ 1	\$ 3,923	\$ 307	12,785
1998	2,810	655	-	-	3,465	267	12,990
1999	5,645	497	5,815	4	11,961	898	13,315
2000	5,014	793	5,656	4	11,467	856	13,390
2001	4,337	888	5,453	1	10,679	782	13,664
2002	3,629	1,931	5,241	128	10,929	785	13,915
2003	2,898	1,301	5,022	64	9,285	659	14,090
2004	2,766	527	4,794	-	8,087	569	14,215
2005	2,631	611	4,559	-	7,801	541	14,410
2006	2,490	787	4,315	4,049	11,641	840	13,863

Source: The Town's Management Service Department

TOWN OF PARADISE VALLEY, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (DOLLARS IN THOUSANDS)
 (UNAUDITED)

Excise Tax Revenue Bonds					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Coverage	
1997	\$ 9,133	\$ 485	\$ 149		14.41
1998	9,533	500	133		15.06
1999	10,545	520	114		16.63
2000	11,773	790	94		13.32
2001	12,324	880	315		10.31
2002	11,840	920	458		8.59
2003	12,173	950	418		8.90
2004	12,776	360	340		18.25
2005	13,813	370	326		19.85
2006	15,456	385	311		22.21

Source: The Town's Management Services Department.

TOWN OF PARADISE VALLEY, ARIZONA
POPULATION STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Population</u>
1997	12,785
1998	12,990
1999	13,315
2000	13,390
2001	13,664
2002	13,915
2003	14,090
2004	14,215
2005	14,410
2006	13,863

Source: U.S. Census Bureau and Arizona Economic Estimates Commission.

TOWN OF PARADISE VALLEY, ARIZONA
 FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Function	Full-Time Equivalent Employees									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Town Manager	2.0	2.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0	3.0
Town Attorney	2.7	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services	5.0	7.0	7.0	8.0	7.0	7.0	8.0	8.0	7.7	7.7
Planning and Building	7.0	7.0	7.0	8.4	8.4	8.7	9.0	9.0	9.0	11.0
Court	4.4	4.4	4.6	4.6	4.6	4.6	5.3	5.3	5.3	5.4
Engineering	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Public Works	2.0	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Police										
Officers	33.0	33.0	35.0	35.0	35.0	35.0	34.0	35.0	36.0	36.0
Civilians	8.5	8.5	8.6	8.6	8.6	8.6	10.3	10.3	10.3	10.3
Highways and Streets	12.0	12.0	12.0	11.0	12.0	13.0	13.0	13.0	13.7	14.0
Sewer System	-	-	1.0	1.0	1.0	1.0	1.0	0.7	1.0	1.0
Alarm Monitoring System	0.6	0.6	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total	<u>80.2</u>	<u>82.5</u>	<u>87.8</u>	<u>89.6</u>	<u>90.6</u>	<u>91.9</u>	<u>94.6</u>	<u>95.3</u>	<u>97.0</u>	<u>99.4</u>

Source: Town's Management Services Department.

TOWN OF PARADISE VALLEY, ARIZONA
 OPERATING INDICATORS BY FUNCTION
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

Function	Fiscal Year				
	2002	2003	2004	2005	2006
General Government					
Building permits issued	880	850	823	941	1,014
Value of building permits issued	\$ 99,473,625	\$ 98,276,680	\$ 105,004,033	\$ 127,825,265	\$ 166,210,900
Police					
Physical arrests	(a)	267	240	293	341
Parking violations	(a)	273	280	490	514
Traffic violations	(a)	2,846	2,672	3,806	4,162
Other public works					
Street resurfacing (miles)	11	6	9	8	10
Sidewalks (linear feet)	-	-	1,371	3,374	-
Potholes repaired	198	211	204	193	205
Sewer system					
Number of customers	1,797	1,872	1,901	1,916	1,938

Source: The Town of Paradise Valley.

(a) Information was not available.

TOWN OF PARADISE VALLEY, ARIZONA
 CAPITAL ASSETS STATISTICS BY FUNCTION
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Police					
Stations	1	1	1	1	1
Patrol and detective vehicles	20	20	20	20	20
Other public works					
Streets (miles)	140	140	140	140	140
Traffic signals	17	17	17	17	17
Sewer system					
Sanitary sewers (feet)	301,772	304,467	305,319	307,444	311,409
Treatment capacity (thousands of gallons)	880	880	880	880	1,026

Source: The Town of Paradise Valley.