$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

CLOSING LIST OF DOCUMENTS

TERMS USED HEREIN

County	-	Pima County, Arizona
Underwriter	-	RBC Dain Rauscher Inc.
Registrar, Paying Agent and Depository Trustee	-	J.P. Morgan Trust Company, National Association, as successor in interest to Bank One Trust Company, N.A.
Bond Insurer	-	Financial Security Assurance Inc.

COUNTY PROCEEDINGS AND RELATED DOCUMENTS:

1. Certified copy of Resolution Nos. 1991-138 and 1991-182, passed, adopted and approved by the Board of Supervisors of the County on June 18, 1991 and August 6, 1991, respectively, relating to the issuance and sale of the County's Sewer Revenue Refunding Bonds, Series 1991.

2. Certified copy of Resolution No. 2004-58, passed, adopted and approved by the Board of Supervisors of the County on March 9, 2004, authorizing the issuance and sale of the Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds").

3. Preliminary Official Statement, dated April 22, 2004.

4. Official Statement, dated May 4, 2004.

5. Bond Purchase Agreement, dated May 4, 2004, between the County and the Underwriter.

6. Depository Trust Agreement, dated as of May 1, 2004, between the County and the Depository Trustee.

7. Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of May 1, 2004, between the County and the Registrar.

8. Continuing Disclosure Undertaking of the County, dated May 11, 2004.

9. Insurance Agreement, dated as of May 1, 2004, between the County, the Paying Agent and the Bond Insurer.

10. Municipal Bond Insurance Policy No. 202892-N (the "Insurance Policy"), issued by the Bond Insurer.

11. Blanket Issuer Letter of Representations of the County to The Depository Trust Company.

ACCOUNTANT'S REPORT:

12. Report of The Arbitrage Group, Inc., dated May 11, 2004, regarding the sufficiency of the Depository Trust.

CLOSING CERTIFICATES:

13. General Certificate of the County.

Exhibit A - Notice and Agenda of Board of Supervisors Meeting.

14. Certificate of the County Responsive to Bond Purchase Agreement.

15. Tax Certificate and Agreement of the County.

16. Certificate of Underwriter.

17. Certificate of Depository Trustee, Registrar and Paying Agent.

Exhibit A - Certificate of Authority.

18. Certificate of Bond Insurer.

19. Certificate as to Satisfaction of Requirements for Issuance of Parity Bonds.

RECEIPTS:

20. County Treasurer's Receipt for Bond Proceeds.

21. Depository Trustee's Receipt for Funds and Securities.

22. Paying Agent's Receipt for Insurance Policy.

23. Underwriter's Receipt for Bonds.

LEGAL OPINIONS:

24. Opinion of Snell & Wilmer L.L.P., as Bond Counsel.

25. Supplemental Opinion of Snell & Wilmer L.L.P.

26. Opinion of Snell & Wilmer L.L.P. regarding Defeasance of Bonds to be Refunded.

27. Opinion of Pima County Attorney's Office.

28. Opinion of Greenberg Traurig, LLP, as Underwriter's Counsel.

29. Opinion of Counsel to Bond Insurer.

MISCELLANEOUS:

30. Information Return for Tax-Exempt Governmental Obligations (IRS Form 8038-G), with proof of mailing.

31. Report of Bond and Security Issuance Pursuant to A.R.S. § 35-501B, with proof of mailing.

32. Specimen Bonds.

33. Rating Letters.

34. Debt Retirement Schedule.

TRANSCRIPT DISTRIBUTION:

Pima County, Arizona	2
Bond Counsel	1
Underwriter	1
Underwriter's Counsel	1
Registrar, Paying Agent & Trustee	1
Bond Insurer	3

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona }
County of Pima } ss

I, Jane S. Williams, do hereby certify that I am the duly appointed, qualified, and acting Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 1991-138

AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991.

(See attached copy)

is a true and correct copy of a resolution passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on the 18th *day of* June, *19* 91, *at which a quorum was present, and that the original resolution is officially of record in my possession.*

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the Board of Supervisors of Pima County, Arizona, this* 23rd *day of* August, *19* 91.

Jane S. Williams
Clerk

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RESOLUTION NO. 1991-138

AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991

Passed and adopted by the Pima County Board of Supervisors on June 18, 1991

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RESOLUTION NO. 1991-138

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991; PRESCRIBING THE FORM AND OTHER DETAILS OF SAID BONDS; PROVIDING FOR THE COLLECTION AND DISPOSITION OF THE REVENUES TO BE DERIVED FROM THE COUNTY'S SEWER SYSTEM; MAKING OTHER PROVISIONS WITH RESPECT TO THE OPERATION OF SAID SEWER SYSTEM; PROVIDING FOR THE SECURITY AND PAYMENT OF SAID BONDS; AUTHORIZING THE EXECUTION OF A DEPOSITORY TRUST AGREEMENT FOR THE SAFEKEEPING AND HANDLING OF THE SECURITIES PURCHASED WITH THE PROCEEDS OF THE BONDS; AUTHORIZING THE EXECUTION OF A REGISTRAR, TRANSFER AND PAYING AGENT AGREEMENT; AUTHORIZING THE PURCHASE OF BOND AND RESERVE FUND INSURANCE OR GUARANTIES; APPROVING THE DISTRIBUTION OF A FINAL OFFICIAL STATEMENT; AND RATIFYING THE ACTIONS OF ALL OFFICERS AND AGENTS OF THE COUNTY WITH RESPECT TO THE BONDS AND THE PRELIMINARY OFFICIAL STATEMENT.

WHEREAS, pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes, as amended, Pima County, Arizona (the "County") will refund the following respective maturities and amounts of the County's revenue bonds issued for sewer purposes:

Pima County, Arizona, Sewer Revenue Bonds, Series 1980, dated February 1, 1980

Maturity Date (February 1)	Principal Amount	Interest Rate
1992	$ 445,000	8.00%
1993	480,000	8.00%
1994	515,000	8.00%
1995	555,000	7.00%
2010	16,345,000	7.70%

Pima County, Arizona, Sewer Revenue Bonds, Series 1984, dated April 1, 1984

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	250,000	11.50%
1993	250,000	11.50%
1994	250,000	11.50%
1995	300,000	11.50%
1996	300,000	11.50%
1997	325,000	10.10%
1998	325,000	9.50%
1999	1,300,000	9.50%
2000	1,425,000	9.60%
2001	1,575,000	9.60%
2002	1,750,000	9.70%

Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 1985, dated December 1, 1985

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	470,000	7.00%
1993	510,000	7.25%
1994	570,000	7.50%
1995	605,000	7.70%
1996	660,000	7.80%
1997	715,000	7.90%
1998	815,000	8.00%

Pima County, Arizona, Sewer Revenue Bonds, Project of 1985, dated April 1, 1986

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	340,000	8.40%
1993	370,000	8.40%
1994	405,000	8.00%
1995	435,000	6.40%
1996	475,000	6.50%
1997	515,000	6.65%
1998	560,000	6.75%
1999	610,000	6.90%
2000	665,000	7.00%
2001	720,000	7.10%
2002	785,000	7.10%
2003	850,000	7.20%
2004	925,000	7.20%
2005	1,005,000	6.40%

Pima County, Arizona, Sewer Revenue Bonds, Project of 1986, Series A (1986), dated October 1, 1986

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	350,000	8.25%
1993	375,000	8.25%
1994	400,000	8.25%
1995	425,000	8.25%
1996	450,000	6.70%
1997	475,000	6.40%
1998	525,000	6.60%
1999	550,000	6.70%
2000	600,000	6.80%
2001	650,000	6.90%
2002	700,000	6.90%

2003	750,000	7.00%
2004	800,000	7.00%
2005	875,000	6.25%
2006	925,000	6.25%

Pima County, Arizona, Sewer Revenue Bonds, Series of 1988, dated March 1, 1988

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	290,000	8.75%
1993	310,000	8.75%
1994	330,000	8.75%
1995	355,000	8.75%
1996	380,000	8.75%
1997	405,000	7.70%
1998	435,000	6.75%
1999	470,000	6.80%
2000	505,000	7.00%
2001	540,000	7.10%
2002	585,000	7.20%
2003	630,000	7.25%
2004	680,000	7.30%
2005	735,000	7.00%
2006	795,000	7.00%
2007	860,000	7.00%
2008	930,000	7.00%

The foregoing revenue bonds are hereinafter referred to as the "Bonds Being Refunded"; and

WHEREAS, the Bonds will be sold to a syndicate managed by Rauscher Pierce Refsnes,Inc. (collectively, the "Purchaser"); and

WHEREAS, by this resolution, this Board of Supervisors (the "Board") will authorize and provide for the issuance and sale of not to exceed $60,000,000 principal amount of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991 to advance refund the Bonds Being Refunded, set the maximum interest rate thereon, maximum term of the Series 1991 Bonds, maximum principal amount of Bonds to be issued and authorize the Chairman to accept an offer of the Purchasers (the "Offer") to purchase the Bonds and to execute the Bond Purchase Contract binding the County to issue and deliver the Bonds if the Offer is within the maximum amounts, terms and rates prescribed herein and the Chairman determines it to be in the County's best interest to accept the Offer; and

WHEREAS, all acts, conditions and things required by the Constitution and the laws of the State of Arizona (the "State") to happen, exist and be performed precedent to and in

the adoption of this resolution have happened, exist and have been performed as required to make this resolution a valid and binding instrument for the security of the Bonds authorized herein; and

WHEREAS, this Board is now empowered to proceed with the issuance and sale of the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA, AS FOLLOWS:

Section 1. Authority. The Bonds authorized herein are issued pursuant to Section 11-264.01, Arizona Revised Statutes, as amended, and other applicable provisions of law. This resolution will stay in full force and effect until all Bonds authorized hereunder are fully paid or provided for and all Policy Costs shall have been paid in full.

Section 2. Definitions; Interpretation.

A. Definitions. The following terms shall have the following meanings in this resolution unless the text expressly or by necessary implication requires otherwise:

"Accreted Value" shall mean, with respect to Capital Appreciation Bonds, as of the date of calculation, the initial principal amount thereof plus interest accrued thereon to such calculation date, compounded from the date of initial delivery at the interest rate thereof on stated dates, as set forth in the resolution authorizing the issuance of such Capital Appreciation Bonds.

"Agreement" shall mean any agreement between a Reserve Fund Guarantor and the County, pertaining to a Reserve Fund Guarantor's reimbursement in the event of a Drawdown, as such Agreement may be amended, modified or supplemented from time to time.

"Assumed Interest Rate" shall mean an interest rate for Variable Rate Obligations at the computation date computed to be the lesser of (i) the maximum rate which Bonds of such series may bear under the terms of their issuance or (ii) the rate of interest then established for long-term bonds by the 30-year revenue bond index most recently published by The Bond Buyer of New York, New York prior to the date of computation (or in the absence of such published index, some other index selected in good faith by the Finance Director of the County after consultation with one or more reputable, experienced investment bankers as being equivalent thereto).

"Average Annual Debt Service" shall mean, at the time of computation, the average of each Bond Year's aggregate scheduled Bond principal and interest requirements; when

computing Average Annual Debt Service, Variable Rate Obligations shall be deemed to bear interest at the Assumed Interest Rate and Bonds subject to mandatory redemption shall be treated as maturing on their respective mandatory redemption dates and not at their stated maturity date and interest shall be deemed to cease on Bonds subject to mandatory redemption at the scheduled mandatory redemption dates.

"Beneficial Owner" shall mean the owner of any beneficial interest in any Book-Entry Bond as shown on the records of any Direct or Indirect Participant.

"Board" shall mean the Board of Supervisors of the County.

"Bond Fund" shall mean the Bond Fund created pursuant to Section 10 hereof.

"Bond Insurer" shall mean an issuer of a Municipal Bond Insurance Policy pertaining to the Bonds or any part thereof.

"Bond Register" shall mean the registration books pertaining to the ownership and transfer of the Bonds maintained by the Bond Registrar on behalf of the County.

"Bond Registrar" shall mean The Valley National Bank of Arizona, or its successor as bond registrar.

"Bonds" shall mean the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991, authorized to be issued herein and all Parity Bonds.

"Bond Year" shall mean initially the period from the date of the Series 1991 Bonds to July 1, 1992, and thereafter the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Book-Entry Bonds" shall mean, initially, all Series 1991 Bonds and such other series or portion of a series of Parity Bonds which are hereafter designated by the County as Book-Entry Bonds.

"Capital Appreciation Bonds" shall mean Parity Bonds whose interest component is compounded semiannually on stated dates until maturity or to a date on which such Capital Appreciation Bonds are converted to Bonds paying interest semiannually, if so permitted or required.

"Capitalized Reserve Account" shall mean the Capitalized Reserve Account created pursuant to Section 10 hereof.

"Chairman" means the Chairman of the Board.

"Clerk" shall mean the Clerk of the Board.

"Construction Fund" shall mean the Construction Fund created pursuant to Section 10 hereof.

"Contributed Reserve Account" shall mean the Contributed Reserve Account created pursuant to Section 10 hereof.

"County" shall mean Pima County, Arizona.

"Deficiency" shall mean the difference between (i) the total amount due on a principal or interest payment date for the Bonds and (ii) the amount that has been deposited in the Bond Fund for payment to the Owners (which amount shall not include payments made pursuant to a Municipal Bond Insurance Policy or a Reserve Fund Guaranty but shall include all moneys transferred from the Reserve Fund to the Bond Fund or available in the Reserve Fund for such transfer).

"Depository Trust Agreement" shall mean the agreement between the County and The Valley National Bank of Arizona, as Trustee, regarding the holding in trust of the securities purchased to secure payment of the Bonds Being Refunded and other matters.

"Direct Participant" or "DTC Participant" shall mean any broker-dealer, bank or other financial institution for which the DTC holds Book-Entry Bonds from time to time as a securities depository.

"Drawdown" shall mean any amount drawn by the Paying Agent under any Reserve Fund Guaranty.

"Drawdown Date" shall mean the date on which the Paying Agent makes a Drawdown.

"DTC" shall mean the Depository Trust Company, the depository for the Book-Entry Bonds.

"Finance Director" shall mean the Pima County Finance Director.

"Fiscal Year" shall mean the twelve month period beginning each July 1 and ending on June 30th of the next succeeding year.

"Government Obligations" shall mean (i) direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same, (ii) obligations issued by either the Resolution Trust Corporation or the Resolution Funding Corporation, the payment of which is ultimately backed by the United States Treasury; and (iii) pre-refunded municipal obligations meeting the following criteria:

(a) the municipal obligations may not be callable prior to maturity or, alternatively, the trustee has received irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by cash or securities described in subparagraphs (i) and (ii) above (the "Defeasance Obligations"), which cash or Defeasance Obligations may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Defeasance Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the municipal obligations;

(d) the Defeasance Obligations serving as security for the municipal obligations must be held by an escrow agent or a trustee; and

(e) the Defeasance Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

"Indirect Participant" shall mean any financial institution for whom any Direct Participant holds an interest in a Book-Entry Bond.

"Maximum Annual Debt Service" shall mean, at the time of computation, the greatest scheduled Bond principal and interest requirements occurring in the then-current, or any subsequent, Bond Year on all Bonds Outstanding; when computing Maximum Annual Debt Service, Variable Rate Obligations shall be deemed to bear interest at the Assumed Interest Rate and Bonds subject to mandatory redemption shall be treated as maturing on their respective mandatory redemption dates and not at their stated maturity date and interest shall be deemed to cease on Bonds subject to mandatory redemption at the scheduled mandatory redemption dates.

"Municipal Bond Insurance Policy" shall mean any Municipal Bond Insurance Policy insuring the payment of the principal of and interest on all or any part of the Bonds according to their terms.

"Net Revenues" shall mean Revenues remaining after deducting Operating Expenses.

"Operating Expenses" shall mean the reasonable and necessary costs of System operation, maintenance, and repair, including salaries, wages, cost of materials and supplies, and insurance, but shall exclude depreciation, payments into the Bond Fund, the Reserve Fund, the Reimbursement Fund and the Rebate Fund.

"Outstanding" or "Outstanding Bonds" when used with reference to the Bonds, shall mean, as of any determination date, all Bonds theretofore authenticated and delivered except:

(a) Bonds theretofore cancelled or delivered for cancellation;

(b) Bonds that are deemed paid and no longer Outstanding as provided herein; and

(c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions hereof relating to Bonds destroyed, stolen, lost or mutilated, unless evidence satisfactory to the County Treasurer has been received that any such Bond is owned by a bona fide purchaser.

"Owner", except as provided in Section 17(B), shall mean any person who shall be the registered owner of any Bond or Bonds Outstanding (including, with respect to a Book-Entry Bond, DTC or a successor depository).

"Parity Bonds" shall mean any additional Bonds issued in accordance with Section 13 hereof.

"Paying Agent" shall mean The Valley National Bank of Arizona, or its successor as paying agent.

"Permitted Investments" shall mean, to the extent permitted by law:

1. Direct and general obligations of the United States of America, or obligations unconditionally guaranteed as to principal and interest by the same.

Also permitted are evidences of ownership of proportionate interests in future interest and principal payments of the above United States obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a Bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

2. Obligations issued or guaranteed by the following instrumentalities or agencies of the United States of America:

(a) Federal Home Loan Bank System;
(b) Export-Import Bank of the United States;
(c) Federal Financing Bank;
(d) Government National Mortgage Association;
(e) Farmers Home Administration;
(f) Federal Home Loan Mortgage Company;
(g) Federal Housing Administration;
(h) Private Export Funding Corporation;
(i) Federal National Mortgage Association; and
(j) obligations issued by either the Resolution Trust Corporation or the Resolution Funding Corporation, the payment of which is ultimately backed by the United States Treasury.

3. Pre-refunded municipal obligations meeting the following conditions:

(a) the bonds are not to be callable prior to maturity or the trustee has been given irrevocable instructions concerning their calling and redemption;

(b) the bonds are secured by cash or Permitted Investments described in No. 1 (the "United States Obligations") which may be applied only to interest, principal, and premium payments of such bonds;

(c) the principal of and interest on the United States Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the bonds;

(d) the United States Obligations serving as security for the bonds are held by an escrow agent or trustee; and

(e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

4. Direct and general long-term obligations of any state on which the full faith and credit of the state is pledged and which are rated in either of the two highest rating categories by either Moody's Investors Service (hereinafter referred to as Moody's) or Standard and Poor's Corporation (hereinafter referred to as S&P) or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

5. Direct and general short term obligations of any state described in No. 4 above which are rated in the highest rating category by either Moody's or S&P or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in the highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

6. Interest bearing demand or time deposits issued by state banks, savings and loan associations or trust companies or any national banking associations which are members of the Federal Deposit Insurance Corporation (FDIC). These deposits must be (a) continuously and fully insured by FDIC, (b) with banks that are rated at least P-1 by Moody's or at least A-1 by S&P, or (c) fully secured by direct and general obligations of the United States, or those which are unconditionally guaranteed as to principal and interest by the same. Such United States' securities must have a market value at all times at least equal to the principal amount of the deposits. The United States' securities must be held by the County or the Bond Registrar and Paying Agent (who shall not be the provider of the collateral), or any Federal Reserve Bank or Depositary, as custodian for the institution issuing the deposits. The County or the Bond Registrar and Paying Agent should have a perfected first lien in the United States Obligations serving as collateral, and that collateral is to be free from all third party liens.

7. Long-term or medium-term corporate debt guaranteed by any corporation rated by Moody's and S&P in their two highest rating categories.

8. Repurchase agreements, the maturity of which are less than thirty (30) days, entered into with financial institutions such as banks or trust companies organized under state law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation or with a dealer or parent holding company rated investment grade by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits. The repurchase agreement should be secured by direct and general obligations of the United States of America or those unconditionally guaranteed as to principal and interest by the same. The United States obligations must have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreement. The County or the Paying Agent (who shall not be the provider of the collateral) must have a perfected first lien in, and retain possession of, the collateral. The obligations serving as collateral must be free from all third party claims.

9. Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's or at least "A-1" by S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

10. Interests in money market portfolios issued by state banks, trust companies, savings and loan associations, or national banking associations which are members of the FDIC. Such interest should be (a) fully insured by FDIC; or (b) secured by direct and general obligations of the United States or those guaranteed as to principal and interest by the same. The collateral obligations must have a market value, exclusive of accrued interest, at least equal to the principal amount of the interests in the money markets and should be held by a custodian.

11. Public housing bonds issued by public agencies. Such bonds must be fully secured by a pledge of annual contributions under a contract with the United States government; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States; or state or public agency or municipality obligations rated in the highest rating category by a nationally recognized bond rating agency.

12. Shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which has been rated in the highest rating categories by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits, or money market accounts of the Trustee or any state or federal bank which is rated at least P-1 by Moody's or at least A-1 by S&P or whose one bank holding company parent is rated at least A-1 by S&P or at least P-1 by Moody's; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in a comparable rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such entities, all to the extent not fully insured by FDIC having a combined capital and surplus of not less than $50,000,000 at the time of any such deposit.

Any other provision of this definition of Permitted Investments to the contrary notwithstanding, from and after the execution of the initial Agreement, this definition shall be deemed amended to conform to the definition set forth in such Agreement.

"Policy Costs" shall mean the amount necessary to reimburse a Reserve Fund Guarantor for any Drawdown(s) pursuant to the terms of an Agreement including, without limitation, the amount of any Drawdown, such Reserve Fund Guarantor's expenses (including any legal expenses) and interest thereon at the Reimbursement Rate until paid.

"Purchasers" shall mean, with respect to the Series 1991 Bonds, Rauscher Pierce Refsnes, Inc., Dean Witter Reynolds, Inc., First Southwest Company, Peacock, Hislop, Staley & Given, Inc. and Piper Jaffray & Hopwood, Inc.

"Rebate Fund" shall mean the Rebate Fund created pursuant to Section 10 hereof.

"Record Date" shall mean the fifteenth day of the month preceding an interest payment date (or if such day is a Saturday, Sunday or holiday, on the next preceding business day).

"Reimbursement Fund" shall mean the Reimbursement Fund created pursuant to Section 10 hereof.

"Reimbursement Period" shall mean, with respect to any Drawdown, the period commencing on the Drawdown Date and ending on the first anniversary of a Drawdown Date.

"Reimbursement Rate" shall mean the respective rate of interest to be paid by the County to reimburse a Reserve Fund Guarantor after a Drawdown as set forth in the respective Agreement.

"Representation Letter" shall mean letters to, or agreements with, a depository for Book-Entry Bonds to effectuate a book entry system with respect to certain Bonds registered in the Bond Register under the nominee name of the depository.

"Reserve Fund" shall mean the Reserve Fund created pursuant to Section 10 hereof.

"Reserve Fund Guarantor" shall mean, with respect to any series of Bonds, the issuer of a surety bond, letter of credit or line of credit or insurance policy executed and delivered to the Paying Agent as a Reserve Fund Guaranty, to be issued by an entity experienced in insuring municipal bonds or extending lines of credit with respect to municipal bonds whose insurance policies, surety bonds, letters or lines of credit will not adversely affect the Bonds' then-current rating if then rated by Moody's Investors Service or by Standard & Poor's Corporation.

"Reserve Fund Guaranty" shall mean any surety bond, letter of credit or line of credit or insurance policy executed and delivered by a Reserve Fund Guarantor to the County or the Paying Agent for the County as a reserve fund guaranty for purposes of this resolution.

"Reserve Fund Value" shall mean the value of moneys and investments credited to the Reserve Fund determined in accordance with Section 18 hereof plus the aggregate penal sums of all Reserve Fund Guaranties.

"Reserve Requirement" shall mean, initially, an amount equal to Average Annual Debt Service on the Series 1991 Bonds, which amount shall be adjusted upon the issuance of Parity Bonds to equal Average Annual Debt Service immediately after such issuance or the maximum amount the Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code of 1986, as amended, or any comparable statutory provision limiting the amount of a reasonably required reserve and replacement fund.

"Revenue Fund" shall mean the Revenue Fund created pursuant to Section 10 hereof.

"Revenues" shall mean and include all income, moneys and receipts derived by the County from the ownership, use and operation including, without limitation, interest received on, and profits realized from the sale of, investments made with System moneys (excluding from such determination interest and profits retained in either the Construction Fund or the System Development Fund pursuant to Section 10B(8)) however, the term Revenues shall not include Bond proceeds or the interest received on any Bond proceeds placed irrevocably in trust to pay, or provide for the payment of, any Bond or Bonds Being Refunded or any amounts received which the County is contractually required to pay out as reimbursement for acquisition, construction or installation of System facilities.

"Series 1991 Bonds" shall mean the series of Bonds authorized to be issued pursuant to Section 3 hereof.

"State" shall mean the State of Arizona.

"System" shall mean the County's entire sewer system, all sewer properties of every nature hereafter owned by the County and all acquisitions, improvements and extensions added thereto by the County while any Bonds remain Outstanding, including all real and personal property of every nature comprising part of, or used or useful in connection with, the County's sewer system, and including all appurtenances, contracts, leases, franchises, and other intangibles.

"System Development Fund" shall mean the system development fund created pursuant to Section 10 hereof.

"Variable Rate Obligations" shall mean any Parity Bonds which may, in the future, bear interest at rates which cannot be determined with specificity on their original issue date.

B. Interpretation.

1. Any reference herein to the County, its Board or any officer thereof shall include those succeeding to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

2. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender.

3. Section headings and the table of contents hereof are solely for convenience and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

4. The words "hereof" or "herein" shall refer to this resolution.

5. All accounting reports or statements required by this resolution shall be presented in accordance with generally accepted governmental accounting principles at the date of the report or statement.

Section 3. Authorization of Bonds.

A. To advance refund the Bonds Being Refunded, there are hereby authorized to be issued not to exceed $60,000,000 principal amount of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991. The Bonds shall never be construed to be general obligations of the County within the meaning of Title 35, Chapter 3, Article 3, Arizona Revised Statutes, as amended, or to create a debt of the County within the Constitution and laws of the State.

B. The Bonds are special obligations of the County payable solely from and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms and the provisions hereof. Subject to Section 10(B) hereof, Net Revenues are pledged as security for the payment of the principal and redemption price of, and interest on the Bonds in accordance with their terms and the provisions hereof. All Net Revenues shall be immediately subject to the pledge of this resolution without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the County, irrespective of whether such persons have notice thereof. Nothing contained in this section shall be construed as limiting any authority granted elsewhere herein to issue Parity Bonds nor be deemed a limitation upon the issuance of bonds, notes or other obligations under any law pertaining to the County secured by moneys, income and funds other than the Net Revenues and other moneys and investments pledged hereunder.

Section 4. Terms of Bonds. The Series 1991 Bonds shall be dated either the first or the 15th day of the month in which the Series 1991 Bond Purchase Agreement is executed, at the option of the Chairman, shall be numbered from 1 consecutively upwards, shall be fully registered Bonds without coupons, shall be in the denomination of $5,000 or any integral multiple thereof, shall bear interest at a rate or rates not exceeding eight and one-half percent (8-1/2%) per

annum from the most recent January 1 or July 1 to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from their date, which interest shall be payable on January 1, 1992, and semiannually thereafter on July 1 and January 1 of each year during the term of each Bond. The principal of the Bonds shall be payable at the principal corporate trust office of The Valley National Bank of Arizona in Phoenix, Arizona, as Paying Agent. Interest on the Bonds shall be payable by check mailed to the Owner thereof, as shown on the Bond Register at the address appearing therein at the close of business on the Record Date. Additionally, payment may also be made by wire transfer to DTC or upon two (2) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any Owner of Bonds (other than DTC) owning an aggregate principal amount of at least $1,000,000. No document of any nature whatsoever need be surrendered as a condition to payment of principal of and interest on Book-Entry Bonds.

All Series 1991 Bonds will be registered so as to participate in a book-entry system with DTC (the "DTC Program"). Either the Chairman or the Finance Director is authorized to execute a Representation Letter or such other documents as may be necessary for the County to participate in the DTC Program. Upon initial issuance, the ownership of the Bonds held by DTC shall be registered in the Bond Register in the name of Cede & Co., or any successor thereto, as nominee for DTC. The County shall have no responsibility or obligation to Direct or Indirect Participants or Beneficial Owners for which DTC holds Bonds from time to time as a depository. Without limiting the immediately preceding sentence, the County shall have no responsibility or obligation with respect to (a) the accuracy of the records of DTC, Cede & Co., or any Direct or Indirect Participant with respect to any beneficial ownership interest in the Bonds, (b) the delivery to any Direct or Indirect Participant or any person, other than a registered Owner of a Bond as shown in the Bond Register, of any notice with respect to the Bonds, or (c) the payment to any Direct or Indirect Participant or any other person, other than a registered Owner as shown in the Bond Register, of any amount with respect to the Bonds. No person other than an Owner as shown in the Bond Register shall receive a certificate evidencing a Bond or confirming ownership of a Book-Entry Bond.

The Series 1991 Bonds shall mature on July 1 of each year. The Series 1991 Bonds shall mature in such amounts in any of the years 1992 to 2015 as shall be acceptable to the Purchasers and accepted by the Chairman. No Series 1991 Bonds may mature later than July 1, 2015. The Series 1991 Bonds may be sold at a price which is below par, but the difference between the price for which the Series 1991 Bonds are sold and

their par value (exclusive of accrued interest) shall not be greater than 2½ % of such par value.

The terms of Bonds included in any series of Parity Bonds shall be set forth in the resolution authorizing such Parity Bonds.

The Valley National Bank of Arizona is hereby appointed as the Bond Registrar and the Paying Agent. The Bond Registrar shall maintain the Bond Register for registration of ownership of each Bond. A Bond may be transferred on the Bond Register upon its delivery to the Bond Registrar, accompanied by a written instrument of transfer in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by such Bond's Owner or the Owner's attorney-in-fact or legal representative, containing written instructions as to the details of its transfer. Transfers shall not be effective until entered on the Bond Register.

In all cases upon the transfer of a Bond, the Bond Registrar will enter the transfer of ownership on the Bond Register and will authenticate and deliver in the transferee or transferee's name a new fully registered Bond or Bonds in denominations of $5,000 or any integral multiple thereof (no Bond shall be issued which relates to more than a single principal maturity) for the aggregate principal amount which the Owner is entitled to receive. The County or the Bond Registrar will charge the Owner for every such transfer an amount sufficient to reimburse them for any transfer fee, tax or other governmental charge required to be paid with respect to such transfer, and may require that such transfer fee, tax or governmental charge be paid before any such new Bond or Bonds shall be delivered.

The Bond Registrar shall keep the Bond Register showing the Bonds' Owners and all ownership transfers. Bonds presented to the Bond Registrar for transfer after the close of business on the Record Date and before the close of business on the next subsequent interest payment date will be registered in the transferee's name but the related interest payment will be made to the Owners shown on the Bond Register at the close of business on the Record Date.

The Bond Registrar may but need not register the transfer of a Bond which has been selected for redemption and need not register the transfer of any Bond for a period of fifteen (15) days before the selection of Bonds to be redeemed; if the transfer of any Bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the Bond or Bonds.

Section 5. Redemption Prior to Maturity. On behalf of the County, the Chairman is authorized to agree to such provisions for redemption of the Series 1991 Bonds prior to maturity as he deems in the best interests of the County, and is authorized to include such prior redemption terms in the form of Series 1991 Bonds and to cause the Series 1991 Bonds to include such terms. The prior redemption features may include both optional and mandatory redemptions.

The Series 1991 Bonds shall be redeemed only in integral multiples of $5,000. If less than all Outstanding Series 1991 Bonds of a single maturity are to be redeemed, the Bonds in that maturity to be redeemed shall be selected by lot in such manner as the Bond Registrar may determine.

Not more than sixty (60) nor less than thirty (30) days before any prior redemption date, the Bond Registrar shall cause a notice of any such redemption to be mailed by registered or certified mail to each Reserve Fund Guarantor and to the Owner of each Bond to be redeemed at the address shown on the Bond Register. Failure to mail notice to any Owner shall not affect the validity of the proceeding for the redemption with respect to other Owners.

On the date designated for redemption by notice given as herein provided, the Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds on such date, and, if moneys for payment of the redemption price and accrued interest are held in separate accounts by the Paying Agent, interest on such Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security hereunder and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest and such Bonds shall be deemed paid and no longer Outstanding.

The County may redeem an amount which is included in a Bond in the denomination in excess of, but divisible by, $5,000. In that event, the Owner shall submit the Bond for partial redemption and the Paying Agent shall make such partial payment and the Bond Registrar shall cause to be issued a new Bond in a principal amount which reflects the redemption so made to be authenticated and delivered to the Owner thereof.

Whenever Bonds which are subject to mandatory redemption are purchased, redeemed (other than pursuant to mandatory redemption) or are delivered by the County to the Paying Agent for cancellation, the principal amount of the Bonds so retired shall satisfy and be credited against any

mandatory redemption requirements for the respective series of Bonds so purchased, redeemed or cancelled of the same maturity for such years as the County may direct.

The prior redemption terms for any Parity Bond series shall be as set forth in the resolution authorizing the issuance of such series of Bonds.

Section 6. Bond Execution. The Bonds shall be executed for the County by the Chairman and shall be attested by the Clerk by their manual or facsimile signatures and by imprinting thereon the corporate seal of the County, and such officials are authorized and directed to execute the Bonds as aforesaid.

Section 7. Source of Payment and Pledge of Revenues. The Bonds shall be payable solely from the Net Revenues. The Bonds shall be equally and ratably secured by a pledge thereof and lien thereon without priority one over the other.

Section 8. Bond Forms.

A. The Bonds shall be in substantially the form attached hereto as Exhibit A allowing those executing the Bonds to make insertions and deletions necessary to conform the Bonds to this resolution and the Offer.

B. The form of Bonds pertaining to Parity Bonds shall be determined by the County. The County shall cause the Bond forms applicable to any series of Parity Bonds to conform as nearly as practicable to the Bond form set forth in Exhibit A. Parity Bonds may be in the form of fixed interest rate obligations, Capital Appreciation Bonds or Variable Rate Obligations or any combination thereof.

Section 9. Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain rates, fees and other charges for all services supplied by the System to provide Revenues fully sufficient, after making reasonable allowance for contingencies and errors in estimates, to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least one hundred twenty percent (120%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates).

Section 10. Creation of Funds; Application of Revenues.

A. Upon the Series 1991 Bonds' issuance, the County Treasurer shall create the following special funds and accounts to be held in trust for the Owners, Reserve Fund Guarantors or the County, as the case may be, and expended as herein provided:

1. The Pima County Sewer Revenue Bond Revenue Fund (the "Revenue Fund").

2. The Pima County Sewer Revenue Bond Operation and Maintenance Fund (the "Operation and Maintenance Fund").

3. The Pima County Sewer Revenue Bond Principal and Interest Fund (the "Bond Fund").

4. The Pima County Sewer Revenue Bond Reserve Fund Guarantor Reimbursement Fund (the "Reimbursement Fund").

5. The Pima County Sewer Revenue Bond Reserve Fund (the "Reserve Fund"), which fund also shall contain separate accounts to be known as the Capitalized Reserve Account and the Contributed Reserve Account.

6. The Pima County Sewer Revenue Bond Rebate Fund (the "Rebate Fund").

7. The Pima County Sewer Revenue Bonds System Development Fund (the "System Development Fund").

8. The Pima County Revenue Bond Sewer Construction Fund (the "Construction Fund").

B. While any Bonds are Outstanding and unpaid either as to principal or interest, the entire Revenues shall be held in the County Treasurer's custody in the Revenue Fund. The Revenue Fund shall be disbursed only for the purposes herein authorized and only in the following order of priority:

1. Operation and Maintenance Fund. First, to the Operation and Maintenance Fund, on or before the tenth (10th) day of each month, an amount which, together with any money already on deposit in said Fund, will be sufficient to pay Operating Expenses for said month. Money in the Operation and Maintenance Fund shall be used only to pay Operating Expenses. The County may accumulate in the Operation and Maintenance Fund equitable allowances for accruals and accumulations to cover periodic Operating Expenses, including such items as insurance premiums and expenditures for

renewals, replacements and repairs normally classified as Operating Expenses. Where items such as insurance, gasoline and electrical energy are purchased by the County at large, it may allocate to the System only its share of such expenditure, which allocation shall not be contestable except for fraud or willful misconduct by the County.

2. Bond Fund. Second, on or before the tenth (10th) day of each month, to the Bond Fund the following amounts in the following manner:

(a) Commencing August 10, 1991, through December 10, 1991, one-fifth (1/5), and commencing January 10, 1992, one-sixth (1/6) of the interest becoming due on the next interest payment date on all Series 1991 Bonds then Outstanding; and

(b) Commencing August 10, 1991, through June 10, 1992, one-eleventh (1/11), and commencing July 10, 1992, one-twelfth (1/12) of the principal becoming due on the next principal payment date on all Series 1991 Bonds then Outstanding.

The proceedings pertaining to the issuance of Parity Bonds shall provide for additional deposits to the Bond Fund sufficient to satisfy all additional or modified debt service requirements.

The Bond Fund shall be a trust fund used solely to pay principal of and interest on the Bonds. Moneys in the Bond Fund shall be transferred to the Paying Agent as needed to pay punctually all principal and interest as it matures or comes due.

3. Reimbursement Fund. Third, if a Drawdown shall have occurred, there shall be deposited to the Reimbursement Fund to pay Policy Costs commencing the tenth (10th) day of the first month following a Drawdown and each month thereafter for the next succeeding eleven (11) months, or until the Reimbursement Fund contains amounts sufficient to reimburse all Policy Costs or all Policy Costs with respect to such Drawdown have been paid, an amount equal to at least one-twelfth (1/12) of the aggregate Policy Costs related to the Drawdown. Moneys in the Reimbursement Fund shall be used only to pay Reserve Fund Guarantors for Policy Costs.

Policy Costs owing to a Reserve Fund Guarantor shall be paid from the Reimbursement Fund in twelve (12) equal monthly installments commencing the tenth day of the first month following a Drawdown; provided, however, that if moneys are available in the System Development Fund the Finance

Director may elect to transfer moneys to the Reimbursement Fund and then direct that any such Policy Costs be paid at an earlier date or dates. Policy Costs with respect to any Drawdown which occurs against more than one Reserve Fund Guaranty shall be reimbursed on a pro rata basis (calculated by reference to the maximum amounts available for such reimbursement).

If the County fails to repay any Policy Costs, the Reserve Fund Guarantor or Guarantors shall be entitled to exercise all remedies available to the Owners at law or under this resolution or to any Reserve Fund Guarantor under any Agreement other than (i) acceleration of the maturity of the Bonds or (ii) any other remedies which would adversely affect the Owners' rights.

All Reserve Fund Guaranties shall be held by the Paying Agent acting as fiduciary for the Owners. All Reserve Fund Guaranties shall by their terms expire no earlier than the final maturity date of the respective series for which said Reserve Fund Guaranty applies.

4. Reserve Fund. Fourth, on or before the tenth (10th) day of each month to the Reserve Fund any amounts required to be deposited to the Reserve Fund in accordance with Section 13(A)(4)(ii) if applicable, or one-twelfth (1/12) of the amount required to restore the Reserve Fund to the Reserve Requirement after a Reserve Fund withdrawal.

If, on any principal or interest payment date, a Deficiency exists, then:

(a) If there are investments or cash in the Reserve Fund, such investment shall be liquidated and the cash and investment proceeds transferred to the Bond Fund; and

(b) If the Deficiency is not cured after any transfers pursuant to subparagraph (a) above, then the Paying Agent shall deliver a Drawdown request to each Reserve Fund Guarantor. All Drawdowns and Reserve Fund proceeds shall be applied solely to pay the interest on, and principal of, the Bonds then due.

All money so taken from the Reserve Fund to pay such principal and interest shall be replaced therein from the first moneys in the Revenue Fund thereafter received which are not required for current transfers into the Operation and Maintenance, Bond or Reimbursement Funds pursuant to subparagraphs (1), (2) and (3) of this Subsection.

The Reserve Fund shall contain two accounts, the Contributed Reserve Account and the Capitalized Reserve Account. The two accounts are created to segregate Reserve Fund moneys and investments to provide a means of tracking such deposits and investment income thereon for arbitrage rebate purposes. All Reserve Fund deposits made from Net Revenues or other available moneys of the County shall be deposited to the Contributed Reserve Account. All Bond proceeds deposited to the Reserve Fund shall be deposited in the Capitalized Reserve Account. Any proceedings hereinafter taken with respect to Parity Bonds may specify the amount to be deposited to either Account, so long as the minimum amount required by this resolution to be deposited to the Reserve Fund shall be so deposited. All Reserve Fund Guaranties shall be deemed deposited to, and a part of, the Capitalized Reserve Account.

If, after a Reserve Fund withdrawal, the Reserve Requirement exceeds the Reserve Fund Value, unless otherwise provided herein, such deficiency shall be made up over a twelve (12) month period by deposit of twelve (12) substantially equal payments to the Contributed Account of the Reserve Fund.

5. Rebate Fund. Fifth, to the Rebate Fund the balance remaining in the Revenue Fund until the amount in the Rebate Fund equals the amount to be deposited in the Rebate Fund for arbitrage rebate purposes during such Bond Year as determined by the Finance Director.

6. System Development Fund. Sixth, any moneys in the Revenue Fund exceeding the amounts necessary to be placed in the Operation and Maintenance Fund, the Bond Fund, the Reimbursement Fund, the Reserve Fund and the Rebate Fund shall be deposited in the System Development Fund. After all payments have been made in any month, moneys in the System Development Fund may be used (without priority): (1) for System extensions and betterments; (2) for unbudgeted maintenance and operation expenses; (3) for the redemption of Bonds then subject to optional redemption prior to maturity or to purchase from time to time in the open market any Outstanding Bonds as the Finance Director deems proper; (4) to pay general obligation bonds issued by the County for acquisition of the System or for construction of additions or improvements to the System; (5) to make loans to the County to be used for any lawful County purpose under equitable terms prescribed by the Board; or (6) used for any lawful System purpose.

7. The money in the Revenue Fund shall be allotted and paid into the various Funds hereinbefore established in the order in which said Funds are listed and if in any month the money in the Revenue Fund is insufficient to

make the required deposits to any Fund, the insufficiency shall be made up in the following month or months after payment into all Funds enjoying a prior claim to the Revenues has been met in full.

8. Money on deposit in the Revenue Fund, the Operation and Maintenance Fund, the Bond Fund, the Reserve Fund, the Reimbursement Fund and the Rebate Fund may be invested and reinvested by the County in Permitted Investments. All income derived from such investments shall be regarded as System Revenues and shall be deposited in the Revenue Fund. Such investments shall be liquidated as needed and the proceeds applied to the purpose for which the respective fund or account was created. Moneys in the Construction and System Development Funds may be invested in any investment which the County is permitted by law from time to time to make. At the option of the Finance Director, income derived from investments of moneys in either the Construction or System Development Funds shall be deposited to either the Revenue Fund or retained in the respective Fund.

Section 11. Covenants Regarding the System. The County covenants and agrees with each Owner that it will:

A. Permit no free sewer services to be furnished to any consumer or user;

B. Maintain the System in good condition and operate the same in an efficient manner and at reasonable cost;

C. Maintain insurance on all System properties (which may be in the form of or include an adequately-funded program of self-insurance) of the type and with the coverage normally carried by municipalities or private companies engaged in a similar business. System self-insurance may be maintained either separately or in connection with any County-wide self-insurance program; provided, that (i) any such program is in writing and has been adopted by the Board and (ii) an independent insurance or actuarial consultant appointed by the County annually reviews and certifies to the County in writing that any such program is adequate and actuarially sound. The proceeds of any such insurance, except public liability insurance, received by the County shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund in addition to all other moneys required to be deposited therein;

D. Cause to be kept proper books and accounts adapted to the System, and cause the books and accounts to be audited after each Fiscal Year by a recognized independent

certified public accountant firm in accordance with generally accepted governmental accounting practices;

The County will furnish copies of such audits to any Reserve Fund Guarantor and to any Owner at their request, no later than one hundred eighty (180) days after the end of each Fiscal Year;

E. Faithfully and punctually perform all its duties concerning the System required by the Constitution and laws of the State of Arizona;

F. Not sell, lease, mortgage or in any manner dispose of the System or any part thereof, including any extensions and additions that may be added thereto, until all Bonds and any County obligations under any Agreement have been paid or provided for in full. This covenant shall not be construed to prevent the disposition of property which the County determines to be inexpedient for use in connection with the System. All proceeds from such disposition shall be deposited in the Revenue Fund;

G. Prior to each Fiscal Year, prepare and adopt a budget showing the estimated Revenues and Operating Expenses for System operation and maintenance for the ensuing Fiscal Year, and will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any Owner upon request;

H. To the extent allowed by law, discontinue the service to any premises for which the owner or occupant shall be delinquent in the payment of System charges for a period beyond the period allowed by County policy from time to time, not resume the service until all delinquent charges, with interest and penalties, shall have been paid, and do all things and exercise all remedies legally available to assure the prompt payment of System charges;

I. Duly pay and discharge, from time to time, or cause to be paid and discharged, all taxes, assessments or other governmental charges, if any, lawfully imposed upon the System, or upon any Revenues when the same shall become due, as well as any lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the System, or upon any Revenues, or which might impair the security of the Bonds and subject to the provisions hereof, will duly observe and conform to all valid governmental requirements pertaining to the System and to all covenants, terms and conditions hereof;

J. Deposit the net proceeds realized by the County from any eminent domain proceeding concerning the System in the Revenue Fund;

K. To the extent allowed by law, refuse to grant any franchise or permits for any competing sewer system operation in the County. This covenant shall not prohibit the County from entering into "privatization" contracts, agreements or other similar arrangements with private parties.

L. Not cause or permit the moneys in the Bond Fund, the Reimbursement Fund, the Reserve Fund or the Construction Fund to be invested in any investments except Permitted Investments.

M. Not violate the terms of any Agreement and will give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Section 12. Remedies of Owners. Any Owner may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce and compel performance of all duties imposed upon the County by the provisions hereof or seek the appointment of a receiver as herein provided.

If any default occurs in the payment of principal of or interest on any Bonds, then upon the filing of suit by an Owner, any court having jurisdiction of the action may appoint a receiver to administer the System for the County with power to charge and collect fees sufficient to pay all Operating Expenses and to make all required payments to the Bond, Reimbursement and Reserve Funds.

Section 13. Equality of Lien; Parity Bonds. The Bonds shall each enjoy complete parity of lien on the Net Revenues despite the fact that any Bond may have been delivered before any other Bonds. The County will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the Net Revenues having priority over or parity with the Bonds herein authorized; provided, however, that additional Parity Bonds may be issued on a parity with the Bonds herein authorized under the following conditions, but not otherwise:

A. Parity Bonds may be issued on a parity with the Bonds herein authorized only if all the following conditions are met:

1. The Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Parity Bonds must have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt

Service on all Bonds to be Outstanding immediately after issuance of such Parity Bonds as shown by a certificate signed by the Finance Director. For the purposes of the computation required by this subsection, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) If all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing sewer properties, the net revenues which would have been derived from the operation of such acquired sewer properties during the entire immediately preceding Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, and (iii) if during such preceding Fiscal Year the County shall have increased its System rates, fees and charges, the increased amount which would have been received during such Fiscal Year had such increase been in effect throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues;

2. The payments required to be made into the various Funds provided in Section 10 hereof must be current at the time of issuance of the Parity Bonds;

3. The additional Parity Bond proceeds must be used solely to make extensions, renewals, improvements, or replacements to the System or to refund any Bonds; and

4. The Reserve Fund Value shall be increased with respect to such Parity Bonds, at the Board's option, by: (i) the immediate deposit of Parity Bond proceeds or available moneys of the County to the Reserve Fund or the immediate delivery of a Reserve Fund Guaranty to the Paying Agent, or any combination thereof in order for the Reserve Fund Value to equal or exceed the Reserve Requirement immediately after issuance of such Parity Bonds; or (ii) deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th

day of each month such that the Reserve Fund Value will equal or exceed the increased Reserve Requirement not later than the expiration of five years following the initial delivery of such Parity Bonds; or (iii) any combination of the methods described in clauses (i) and (ii) above in an aggregate amount equal to the increase in the Reserve Requirement resulting from the issuance of such Bonds.

B. Any provision of this Section 13 to the contrary notwithstanding, one series of Parity Bonds having an aggregate principal amount of not to exceed $7,000,000 may be issued prior to January 1, 1992, subject only to the conditions set forth in subparagraphs 2 through 4 of subsection A of this Section 13 but without regard to any requirements set forth in subparagraph 1 of subsection A.

Section 14. Bond Proceeds.

A. From the Series 1991 Bond proceeds, all accrued interest shall be deposited in the Bond Fund. All Series 1991 Bond proceeds not retained in the Bond Fund shall be delivered to the Trustee and shall be invested or expended by the Trustee as directed in the Depository Trust Agreement. The proceeds so invested or cash held by the Trustee, shall be held in trust by The Valley National Bank of Arizona, as the trustee (the "Trustee"), under the Depository Trust Agreement. After all the Bonds Being Refunded shall have become due and payable through maturity or redemption prior to maturity, any moneys or investments remaining under the Depository Trust Agreement over and above the amount necessary to be retained to pay any Bonds Being Refunded not yet presented shall be returned to the County and deposited in the Bond Fund.

B. Upon delivery of the Series 1991 Bonds, the Treasurer is ordered and directed to transfer from the reserve funds pertaining to the Bonds Being Refunded to the Construction Fund herein created all moneys and investments in such reserve funds, except amounts required by the Depository Trust Agreement to be transferred to the Trustee. All moneys so deposited to the Construction Fund shall be expended for the purposes for which the Bonds Being Refunded were originally issued.

C. All moneys deposited to the Construction Fund from the proceeds of Parity Bonds shall be held and expended solely for the purposes for which such Parity Bonds were issued.

Section 15. Resolution Incorporated Into the Bonds. The provisions of this resolution are deemed incorporated into the Bonds themselves and no change, variation or alteration of any kind in the provisions hereof shall be made in any manner, except as provided in the following Section and Section 17 hereof, until all Outstanding Bonds and interest due thereon have been paid in full or fully provided for.

Section 16. Resolution Modification.

A. Without the consent of or notice to any of the Owners, the County may modify this resolution for one or more of the following purposes:

(1) To cure any ambiguity or formal defect or omissions herein or to correct or supplement any provision herein which may be inconsistent with any other provision herein.

(2) To grant or confer upon the Owners any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(3) To secure additional Revenues for the System or provide additional security or reserves for the payment of the Bonds;

(4) To comply with the requirements of any federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;

(5) To permit, preserve or continue (in the event of a change in federal income tax laws (the "Code") which requires a Supplement hereto in order to continue such exclusion) the exclusion of the interest income borne on the Bonds from gross income as defined by the Code or the exemption from State income taxes and to preserve the power of the County to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest income on which is likewise excluded from gross income as defined by the Code for federal income tax purposes and exempt from State income taxes;

(6) To conform the definition of Permitted Investments to the definition set forth in the initial Agreement;

(7) To vest in any Reserve Fund Guarantor the rights same rights afforded herein to any Owner or to any other Reserve Fund Guarantor;

(8) To provide such remedies and assurances as may be necessary to induce Reserve Fund Guarantors to issue Reserve Fund Guaranties or to induce Bond Insurers to issue Municipal Bond Insurance Policies with respect to the Bonds, and to conform this Resolution to the Initial Agreement.

B. Except as provided in Subsection A of this Section 16, the Owners of fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds then Outstanding (not including in any case any Bonds that may then be held or owned by or for the County) shall have the right from time to time to consent to and approve the adoption by the Board of a resolution or resolutions modifying or amending any terms or provisions contained herein; provided, however, that this resolution may not be so modified or amended in any manner which:

1. Changes the maturity of any Outstanding Bond.

2. Changes the interest rate on any Outstanding Bond.

3. Reduces the principal or redemption premium payable on any Bond.

4. Modifies the principal, interest or redemption premium payment terms on any Bond or imposes any adverse conditions on such payments.

5. Adversely affects the rights of the Owners of less than all Bonds then Outstanding.

Whenever the County shall propose to amend or modify this resolution, it shall cause notice of the proposed amendment to be mailed by first class mail, postage prepaid to each Owner. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file with the Clerk for public inspection.

If, within one (1) year from said mailing, there shall be filed with the Clerk an instrument or instruments executed by the Owners of at least fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds then Outstanding referring to the proposed amendatory resolution described in said notice and specifically consenting to and approving its adoption, the Board may adopt such amendatory resolution and such resolution shall become effective.

If the Owners of at least fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds Outstanding at the time of the adoption of such amendment, or the predecessors in title of such Owners, shall have consented to the adoption thereof as herein provided, no Owner shall have any right or interest to object to such amendment's adoption or to object to any terms or provisions therein contained or to the operation thereof or to enjoin or restrain the County or the Board from taking any action pursuant thereto.

Any consent given by the Owner shall be irrevocable for six (6) months from the mailing date above provided for and shall be conclusive and binding upon all future Owners of the same Bond during such period. Such consent may be revoked after such six (6) months' period by the Owners who gave such consent or by a successor in title by filing a notice of revocation with the Clerk but such revocation shall not be effective if the Owners of fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds Outstanding have, prior to the attempted revocation, consented to and approved such amendment.

The fact and date of any consent or revocation's execution may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to acknowledge deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount and numbers of the Bonds held by any person executing such instrument and the date of such person's holding the same may be proved by a certificate executed by the Bond Registrar showing that on the date therein mentioned such person was shown as the Owner of the Bonds on the Bond Register.

Section 17. Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

A. If any Bond's principal or interest shall be paid by a Reserve Fund Guarantor, (i) the pledge of the Net Revenues and all of the County's covenants, agreements and other obligations to the Owner hereunder shall continue to exist and such Reserve Fund Guarantor shall be fully subrogated to all of such Owner's rights in accordance with the respective Agreement.

B. For all purposes hereunder, the County may treat the consent of any Bond Insurer as the consent of the Owners of any Bonds then insured by such Insurer, if such Bond Insurer's insurance is then in effect and if the credit of said Insurer is then such that Bonds insured by it are rated, because of such insurance, in one of the two highest grades of municipal securities by one of the two most widely recognized rating agencies then rating municipal bond credits.

Section 18. Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value. With respect to all Funds and Accounts, valuation shall occur annually and immediately upon a withdrawal from the Reserve Fund.

Section 19. Prior Redemption of Bonds Being Refunded. The Treasurer is ordered and directed to retain an amount of Series 1991 Bond proceeds and moneys in the redemption funds for the Bonds Being Refunded sufficient to pay on the prior redemption date all principal, interest and redemption premiums on all the Pima County, Arizona, Sewer Revenue Bonds, Series of 1980; which Bonds are called for redemption on September 1, 1991 if the Series 1991 Bonds are issued prior to July 25, 1991. If the Series 1991 Bonds are initially issued after July 25, 1991, the Series 1980 Bonds are called for redemption on a date occurring not more than 60 days after such issuance. The Clerk of this Board is directed to publish and mail a notice of redemption of the Series 1980 Bonds in the manner directed by this Board's Resolution No. 1979-185. The Treasurer is ordered and directed to pay the premium, accrued interest to the redemption date only and principal on the Series 1980 Bonds upon presentation and surrender on or after the redemption date.

If the Series 1991 Bonds are issued and the Depository Trust Agreement is fully funded, the remaining Bonds Being Refunded shall be called for redemption in accordance with the following schedule:

Name of Series	Prior Redemption Date
Series 1984	July 1, 1994
Refunding Series 1985	July 1, 1993
Project of 1985	July 1, 1995
Project of 1986	July 1, 1995
Series of 1988	July 1, 1997

Bonds of any of the above-mentioned series maturing on or before the prior redemption date will be paid in the normal manner.

Section 20. Defeasance. Payment of all or any part of the Bonds may be provided for by the irrevocable deposit with a trustee of moneys or Government Obligations, or both. The moneys and the maturing principal and interest income on such Government Obligations, if any, shall be sufficient, as evidenced by a certificate of an independent certified public accountant, a firm of such accountants or an actuary, or firm of actuaries, or other experts in the field who shall calculate the sufficiency of the subject moneys and Government Obligations to pay when due the principal or redemption price of and interest on such Bonds. The moneys and Government Obligations shall be held by a trustee irrevocably in trust for the Owners of such Bonds solely for the purpose of paying the principal or redemption price of and interest on such Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the trustee as to the dates upon which any such Bonds are to be redeemed prior to their respective maturities, if applicable.

If payment of Bonds is so provided for, the Trustee shall mail a notice so stating to each Owner of a Bond so provided for.

Bonds the payment of which has been provided for in accordance with this Section shall no longer be deemed Outstanding hereunder or secured hereby. The obligation of the County in respect of such Bonds shall nevertheless continue but the Owners thereof shall thereafter be entitled to payment only from the moneys or Government Obligations deposited with the trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with the provision for payment of such Bond, the interest payable on any Bond is thereby made subject to federal income taxes. The trustee and the County may rely upon an opinion of a nationally recognized bond counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that the provisions of this Section will not be breached by so providing for the payment of any Bonds.

Section 21. Bond Purchase Agreement Form; Authorization to Execute. A Bond Purchase Agreement substantially in the form attached hereto and marked Exhibit E is approved and the Chairman is authorized to execute such Bond Purchase Agreement, and Clerk to attest, and to cause such Bond Purchase Agreement to be delivered to the Purchasers upon receiving and approving the Offer. The Bond Purchase Agreement, when so executed and delivered, shall evidence the County's agreement to sell the Series 1991 Bonds to the Purchasers in accordance therewith.

The County Treasurer is authorized and directed to cause the Series 1991 Bonds to be authenticated by the Bond Registrar and to be delivered to or upon the Purchaser's order upon payment therefor and satisfaction of all conditions for delivery thereof in accordance with the terms hereof and of the Bond Purchase Agreement.

Section 22. Authorization of Certain Agreements.

A. For and on behalf of the County, the Chairman, the Treasurer and the Clerk (as applicable) are authorized and directed to execute, attest and deliver the following agreements:

1. The Depository Trust Agreement (see Exhibit B hereto) and
2. The Bond Registrar and Paying Agent Agreement (see Exhibit C hereto),

each in substantially the form attached hereto with such changes as may be approved by such officials whose signatures thereon shall be conclusive evidence of such approval.

B. The Chairman is authorized to execute and deliver an Agreement pertaining to the Series 1991 Bonds between the County and the initial Reserve Fund Guarantor.

Section 23. Approval of Official Statement. The use and distribution of the Preliminary Official Statement pertaining to the original issuance of the Series 1991 Bonds in the form now on file with the Clerk is approved and is "deemed final" (except for permitted omissions) by the County as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1). Either the Chairman or the Finance Director is authorized on behalf of the County and in such person's official capacity, to complete the Official Statement relating to the Series 1991 Bonds with such modifications, changes and supplements as may be necessary to conform the Official Statement to the terms set forth in the Series 1991 Bond Purchase Agreement. Such officers shall approve or authorize and certify, or otherwise represent, that such official statement is the final official statement for the Series 1991 Bonds for the purposes of the Securities and Exchange Commission Rule 15c2-12(b)(3) and (4).

The Chairman is further authorized to use and distribute, or authorize the use and distribution of, the final official statement and supplements thereto in connection with the original issuance and sale of the Series 1991 Bonds as may in the Chairman's judgment be necessary or appropriate.

The Chairman and the Clerk are also authorized to sign and deliver, on behalf of the County, and in their official capacities, such certificates in connection with the accuracy of the final official statement and any amendment thereto as may, in their judgment, be necessary or appropriate.

Section 24. Federal Tax Law Covenants. In consideration of the purchase and acceptance of the Bonds by the Owners and, as authorized by Arizona Revised Statutes, Title 35, Chapter 3, Article 7, and in consideration of retaining the exclusion of interest income on the Bonds from gross income for federal income tax purposes, the County covenants with the Owners neither to take nor fail to take any action which action or failure to act is within its power and authority and which would result in the interest income on the Bonds becoming includable in gross income for federal income tax purposes under either laws existing on the date of issuance of the Bonds or such laws as they may be modified or amended.

The County agrees that it will comply with such requirement(s) and will take any such action(s) as in the opinion of a nationally recognized bond counsel ("Bond Counsel") are necessary to prevent interest income on the Bonds becoming includable in gross income for federal income tax purposes. Such requirements may include but are not limited to making further specific covenants; making truthful certifications and representations and giving necessary assurances; complying with all representations, covenants and assurances contained herein; to pay to the United States of America any required amounts representing rebates of investment income relating to the Bonds; filing forms, statements and supporting documents as may be required under the federal tax laws; limiting the term of and yield on investments made with proceeds of the Bonds; and limiting the use of Bond proceeds.

To determine which Series 1991 Bonds are issued for advance refunding purposes and which are issued for prior redemption of the Series 1980 Bonds, the Finance Director is authorized and directed to allocate the various maturities of the Series 1991 Bonds to the Bonds Being Refunded. Such allocation shall be deemed binding upon the County and this Board. Such allocation shall be set forth in the County's no arbitrage statement executed and delivered with respect to the Series 1991 Bonds.

Section 25. Ratification of Actions. All actions of the officers and agents of the County that conform to the purposes and intent of this resolution and which further the issuance and sale of the Bonds as contemplated by this resolution, whether heretofore or hereafter taken, shall be

and are ratified, confirmed and approved. The proper officers and agents of the County are authorized and directed to do all such acts and things and to execute and deliver all such documents for the County as may be necessary to carry out the terms and intent hereof.

Section 26. Separability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this resolution.

Adopted and approved this 18th day of June, 1991.

Reg Morrison
Chairman, Board of Supervisors

ATTEST:

Jane S Williams
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Fred Rosenfeld
Bond Counsel

CERTIFICATION

I hereby certify that the foregoing Resolution No. 1991-138 was duly passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on June 18, 1991, and the vote was 4 aye's and 1 nay's and that the Supervisors were present thereat.

Jane S Williams
Clerk, Board of Supervisors of
Pima County, Arizona

EXHIBIT A TO BOND RESOLUTION

(Face of Bond)

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 1991

Number: Denomination:

Interest Rate:	Maturity Date:	Original Issue Date:	CUSIP:

Registered Owner:

Principal Amount:

PIMA COUNTY, ARIZONA, for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain bonds of the series of which this bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth on the reverse of this bond.

Interest is payable on January 1 and July 1 of each year commencing January 1, 1992 and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a year comprised of 360 days consisting of twelve (12) months having thirty (30) days each.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest will be paid by check payable in such money payable to the order of and mailed to the registered owner at the address shown on the registration books maintained by the registrar at the close of business on the record date as explained on the reverse hereof. Additionally, payment may also be made by wire transfer to DTC or to any Owner of Bonds (other than DTC) in an aggregate principal amount of at least $1,000,000 upon two (2) days' prior written request delivered to the Paying Agent by such Owner specifying a wire transfer address in the continental United States. The principal and any premium will be paid when due to the registered owner upon surrender of

this bond for payment at the designated office of the paying agent, which on the original issue date is the principal corporate trust office of The Valley National Bank of Arizona, Phoenix, Arizona; provided, however, that no such surrender shall be required if this bond is participating in the book-entry system pursuant to the resolution mentioned in the reverse hereof.

See the reverse side of this bond for additional provisions.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and laws of the State of Arizona to exist, to occur and to be performed precedent to and in the issuance of this bond exist, have occurred and have been performed.

The County has caused this bond to be executed by the Chairman of its Board of Supervisors and attested by its Clerk, which signatures may be facsimile signatures. This bond is not valid or binding upon the County without the manually affixed signature of an authorized representative of the registrar.

PIMA COUNTY, ARIZONA

(Facsimile)
Chairman

ATTEST:

(Facsimile)
Clerk

(SEAL)

DATE OF AUTHENTICATION AND REGISTRATION: _____

AUTHENTICATION CERTIFICATE

This bond is one of the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991, described in Resolution No. 1991-___ mentioned on the reverse hereof.

THE VALLEY NATIONAL BANK OF ARIZONA,
as Registrar

By_____
Authorized Representative

(Form of Reverse Side of Bond)

This bond is one of a series of bonds in the aggregate principal amount of $_____ of like date, tenor and effect except as to amount, rate of interest, number and maturity date, issued pursuant to the Constitution and laws of the State of Arizona and Resolution No. 1991-____ adopted by the Board of Supervisors of Pima County on _____, 1991 (the "Bond Resolution"), for the purpose of providing funds with which to advance refund all of the County's outstanding sewer revenue bonds and to pay all legal, financial consultant, engineering and other necessary costs in connection therewith.

This bond and the series of which it is a part are payable as to both principal and interest from and secured by a prior and paramount lien and pledge of the revenues, proceeds and receipts to be derived by the County from the operation of the County's sewer system (the "System"), subject only to the payment of the reasonable and necessary cost of operating and maintaining the System and any payments with respect to prior lien bonds. For purposes of this bond the term "prior lien bond" shall refer to: (i) Pima County, Arizona, Sewer Revenue Bonds, Series 1980, dated February 1, 1980, (ii) Pima County, Arizona, Sewer Revenue Bonds, Series 1984, dated April 1, 1984, (iii) Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 1985, dated December 1, 1985, (iv) Pima County, Arizona, Sewer Revenue Bonds, Project of 1985, dated April 1, 1986, (v) Pima County, Arizona, Sewer Revenue Bonds, Project of 1986, Series A (1986), dated October 1, 1986, and (vi) Pima County, Arizona, Sewer Revenue Bonds, Series of 1988, dated March 1, 1988; which were refunded by the series of which this bond is a part. Reference is made to the Bond Resolution for a more complete statement of the provisions made to secure payment hereof, the revenues from which and conditions under which this bond is payable, statements of the terms under which the Bond Resolution may be modified, and the general covenants and provisions pursuant to which this bond is issued. Said income and revenues are required by the Bond Resolution to be fully sufficient to pay the cost of operating and maintaining the System and to pay the principal of and interest on this Bond promptly as each becomes due and payable. The County has covenanted and does hereby covenant that it will fix and impose such rates and charges for the System's services and will collect and account for sufficient revenues to pay promptly the principal of and interest on this bond and all bonds on a parity with this bond. This bond and the interest hereon are enforceable exclusively from the revenues pledged thereto in the Bond Resolution and no holder hereof shall have the right to compel any exercise of the taxing power of the County to pay this bond or the interest hereon. This bond does not constitute an indebtedness or pledge of the County's general credit within

the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness.

Bonds maturing on or before July 1, 19__, are not subject to call for redemption prior to maturity. Bonds maturing on or after July 1, 19__, are subject to call for redemption prior to maturity, in whole at any time or in part, on July 1, 19__, or on any interest payment date thereafter, at the option of the County, by the payment of a redemption price equal to the principal amount of each bond called for redemption plus accrued interest to the date fixed for redemption plus a premium payable from any source lawfully available therefor, the premium (calculated as a percentage of the principal amount of the bonds to be redeemed) to be computed as follows:

Redemption Dates	Premium
July 1, 19__ through and including January 1, 19__	
July 1, 19__ through and including January 1, 19__	
July 1, 19__ through and including January 1, 19__	
and thereafter without premium.	

The bonds may be redeemed in any order of maturity designated by the County and only in integral multiples of $5,000. If less than all of the bonds outstanding of a single maturity are to be redeemed, the bonds in that maturity to be redeemed shall be selected by lot in such manner as the registrar may determine.

Bonds of the series of which this bond is one maturing on July 1, ____ are subject to mandatory redemption, by lot to be selected by the Paying Agent at a redemption price of par and accrued interest to the date fixed for redemption, without premium on July 1 of the years and in the amounts as follows:

Year	Amount to be Redeemed

Notice of redemption of any bond will be mailed to the registered owner of the bond or bonds being redeemed at the address shown on the bond register maintained by the bond registrar, such mailing to be not more than sixty (60) nor less than thirty (30) days prior to the redemption date. Failure to properly give notice of redemption shall not affect the redemption of any bond for which notice was properly given.

The registrar or paying agent may be changed by the County without notice.

This bond is transferable by the registered owner in person or by attorney duly authorized in writing at the designated office of the registrar, which on the original issue date is the principal corporate trust office of The Valley National Bank of Arizona, Phoenix, Arizona, upon surrender and cancellation of this bond, but only in the manner and subject to the limitation and upon payment of the charges provided in the Bond Resolution. Upon such transfer a new bond or bonds of the same aggregate principal amount, maturity and interest rate will be issued to the transferee in exchange. The registrar may require an owner, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes required by law. The County has chosen the fifteenth day of the month preceding an interest payment date (or if such day is a Saturday, Sunday or holiday, on the next preceding business day) as the record date for this series of bonds. Should this bond be submitted to the registrar for transfer during the period commencing after the close of business on the record date and continuing to and including the next subsequent interest payment date, ownership will be transferred in the normal manner but the interest payment will be made payable to and mailed to the registered owner as shown on the registrar's books at the close of business on the record date.

The registrar may but need not register the transfer of a bond which has been selected for redemption and need not register the transfer of any bond for a period of fifteen (15) days before a selection of bonds to be redeemed; if the transfer of any bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the bond or bonds.

Bonds of this issue are issuable only in fully registered form in the denomination of $5,000 each or integral multiples of $5,000.

The County, the registrar and the paying agent may treat the registered owner of this bond as the absolute owner for the purpose of receiving principal, interest and any premium and for all other purposes and none of them shall be affected by any notice to the contrary.

The following abbreviations, when used in the inscription on the face of this bond, shall be construed as

though they were written out in full according to applicable laws or regulations:

TEN COM-as tenants in common	UNIF GIFT/TRANS MIN ACT-
TEN ENT-as tenants by the entireties	_____Custodian_____
	(Cust) (Minor)
JT TEN-as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts/Transfers to Minors Act_____
	(State)

Additional abbreviations may also be used though not in list above

FORM OF ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____

_____

(Name and Address of Transferee)

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated _____

_____

Note: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within registered bond in every particular without alteration or enlargement or any change whatsoever

Signature Guaranteed:

_____

Commercial bank, trust company or member of a national securities exchange

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona }
County of Pima } ss

I, Jane S. Williams, do hereby certify that I am the duly appointed, qualified, and acting Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 1991-182

RESOLUTION AMENDING RESOLUTION NO. 1991-138 AND RATIFYING THE ADOPTION OF RESOLUTION NO. 1991-138 AS HEREIN AMENDED.

(See attached copy)

is a true and correct copy of a resolution passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on the 6th *day of* August, *19* 91, *at which a quorum was present, and that the original resolution is officially of record in my possession.*

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the Board of Supervisors of Pima County, Arizona, this* 23rd *day of* August, *19* 91.

Jane S. Williams
Clerk

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RESOLUTION NO. 1991-132

RESOLUTION AMENDING RESOLUTION NO. 1991-138 AND RATIFYING THE ADOPTION OF RESOLUTION NO. 1991-138 AS HEREIN AMENDED.

WHEREAS, the Board of Supervisors of Pima County, Arizona, has heretofore adopted its Resolution No. 1991-138 authorizing issuance of Pima County Sewer Revenue Refunding Bonds, Series 1991; and

WHEREAS, the County has now been presented with a commitment to purchase a reserve fund guaranty from Financial Guaranty Insurance Company ("FGIC"); and

WHEREAS, in order to purchase the reserve fund guaranty from FGIC, Resolution No. 1991-138 must be amended to conform as a condition to the issuance of a reserve fund guaranty by FGIC;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA, AS FOLLOWS:

Resolution No. 1991-138 be amended to read as follows (fully capitalized words indicate new matter; strike throughs indicate deleted matter):

A. That Section 9 of Resolution No. 1991-138 be amended to read as follows:

> Section 9. Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain rates, fees and other charges for all services supplied by the System to provide Revenues fully sufficient, after making reasonable allowance for contingencies and errors in estimates, to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least one hundred twenty percent (120%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) AND SAID RATES, FEES AND OTHER CHARGES SHALL ALSO BE ESTABLISHED AND MAINTAINED AT RATES SUFFICIENT TO PROVIDE AN AMOUNT OF NET REVENUES FOR THE THEN CURRENT FISCAL YEAR WHICH, NET OF THE AGGREGATE AMOUNTS REQUIRED TO BE DEPOSITED TO THE BOND FUND DURING SUCH FISCAL YEAR, WILL BE SUFFICIENT TO PROVIDE AT LEAST ONE HUNDRED PERCENT (100%) OF THE CITY'S POLICY COSTS DUE AND OWING IN SUCH FISCAL YEAR.

B. That Section 10B(2) be amended to read as follows:

2. Bond Fund. Second, on or before the tenth (10th) day of each month, to the Bond Fund the following amounts in the following manner:

(a) Commencing ~~August~~ SEPTEMBER 10, 1991, through December 10, 1991, ~~one-fifth (1/5)~~ ONE-FOURTH (1/4), and commencing January 10, 1992, one-sixth (1/6) of the interest becoming due on the next interest payment date on all Series 1991 Bonds then Outstanding; and

(b) Commencing ~~August~~ SEPTEMBER 10, 1991, through June 10, 1992, ~~one-eleventh (1/11)~~ ONE-TENTH (1/10), and commencing July 10, 1992, one-twelfth (1/12) of the principal becoming due on the next principal payment date on all Series 1991 Bonds then Outstanding.

The proceedings pertaining to the issuance of Parity Bonds shall provide for additional deposits to the Bond Fund sufficient to satisfy all additional or modified debt service requirements.

The Bond Fund shall be a trust fund used solely to pay principal of and interest on the Bonds. Moneys in the Bond Fund shall be transferred to the Paying Agent as needed to pay punctually all principal and interest as it matures or comes due.

C. That Section 12 be amended to read as follows:

Section 12. Remedies of Owners. Any Owner may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce and compel performance of all duties imposed upon the County by the provisions hereof or seek the appointment of a receiver as herein provided.

If any default occurs in the payment of principal of or interest on any Bonds, then upon the filing of suit by an Owner, any court having jurisdiction of the action may appoint a receiver to administer the System for the County with power to charge and collect fees sufficient to pay all Operating Expenses and to make all required payments to the Bond, Reimbursement and Reserve Funds.

FOR ALL PURPOSES OF SECTION 12, EXCEPT THE GIVING OF NOTICE OF DEFAULT TO BONDHOLDERS, THE BOND INSURER SHALL BE DEEMED TO BE THE SOLE HOLDER OF THE BONDS IT HAS INSURED FOR

SO LONG AS IT HAS NOT FAILED TO COMPLY WITH ITS PAYMENT OBLIGATIONS UNDER THE BOND INSURANCE POLICY.

D. That Section 13A(1) be amended to read as follows:

> 1. The Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Parity Bonds must have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all Bonds to be Outstanding immediately after issuance of such Parity Bonds AND SAID NET REVENUES MUST ALSO HAVE BEEN SUFFICIENT TO PROVIDE AN AMOUNT OF NET REVENUES FOR THE THEN CURRENT FISCAL YEAR WHICH, NET OF THE AGGREGATE AMOUNTS REQUIRED TO BE DEPOSITED TO THE BOND FUND DURING SUCH FISCAL YEAR, WILL BE SUFFICIENT TO PROVIDE AT LEAST ONE HUNDRED PERCENT (100%) OF THE CITY'S POLICY COSTS DUE AND OWING IN SUCH FISCAL YEAR as shown by a certificate signed by the Finance Director. For the purposes of the computation required by this subsection, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) If all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing sewer properties, the net revenues which would have been derived from the operation of such acquired sewer properties during the entire immediately preceding Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, and (iii) if during such preceding Fiscal Year the County shall have increased its System rates, fees and charges, the increased amount which would have been received during such Fiscal Year had such increase been in effect throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues;

E. That Section 16 of said Resolution No. 1991-138 be amended by adding a new Section C to read as follows:

C. ANY OTHER PROVISION OF THIS SECTION 16 TO THE CONTRARY NOTWITHSTANDING, NO AMENDMENT TO RESOLUTION NO. 1991-138 SHALL BECOME EFFECTIVE UNLESS AND UNTIL IT IS APPROVED BY ALL BOND INSURERS AND RESERVE FUND GUARANTORS APPLICABLE TO THE BONDS.

F. Section 18 of said Resolution No. 1991-138 is amended to read as follows:

Section 18. Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value EXCLUSIVE OF ACCRUED INTEREST. With respect to all Funds and Accounts, valuation shall occur annually ON THE FIRST BUSINESS DAY OF EACH BOND YEAR and immediately upon a withdrawal from the Reserve Fund.

F. Section 19 of said Resolution No. 1991-138 is amended to read as follows:

Section 19. Prior Redemption of Bonds Being Refunded. The Treasurer is ordered and directed to retain an amount of Series 1991 Bond proceeds and moneys in the redemption funds for the Bonds Being Refunded sufficient to pay on the prior redemption date all principal, interest and redemption premiums on all the Pima County, Arizona, Sewer Revenue Bonds, Series of 1980; which Bonds are called for redemption on September 1, 1991 if the Series 1991 Bonds are issued prior to July 25, 1991. If the Series 1991 Bonds are initially issued after July 25, 1991, the Series 1980 Bonds are called for redemption on a date occurring not more than ~~60~~ 89 days after such issuance. The Clerk of this Board is directed to publish and mail a notice of redemption of the Series 1980 Bonds in the manner directed by this Board's Resolution No. 1979-185. The Treasurer is ordered and directed to pay the premium, accrued interest to the redemption date only and principal on the Series 1980 Bonds upon presentation and surrender on or after the redemption date.

If the Series 1991 Bonds are issued and the Depository Trust Agreement is fully funded, the remaining Bonds Being Refunded shall be called for redemption in accordance with the following schedule:

Name of Series	Prior Redemption Date
Series 1984	July 1, 1994
Refunding Series 1985	July 1, 1993
Project of 1985	July 1, 1995
Project of 1986	July 1, 1995
Series of 1988	July 1, 1997

Bonds of any of the above-mentioned series maturing on or before the prior redemption date will be paid in the normal manner.

H. In all other respects Resolution No. 1991-138, as laid before this Board on June 18, 1991, shall remain the same. As so amended by this resolution, Resolution No. 1991-138 is hereby ratified. Further, this Board hereby incorporates all unamended provisions of said Resolution No. 1991-138 into this resolution as if set forth and as if adopted as a part hereof.

PASSED, ADOPTED AND APPROVED this 6th day of August, 1991.

Reg Morrison
Chairman, Board of Supervisors
AUG 6 1991

ATTEST:

Jane S. Williams
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Jane Conley for: Fred H. Rosenfeld
Bond Counsel

CERTIFICATE

I hereby certify that the foregoing Resolution No. 1991-193 was duly passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on August 6, 1991, and the vote was 3 aye's and 0 nay's and that the Supervisors were present thereat.

Jane S. Williams
Clerk, Board of Supervisors of
Pima County, Arizona

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona }
County of Pima } ss

I, Jane S. Williams, do hereby certify that I am the duly appointed, qualified, and acting Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 1991-138

AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991.

(See attached copy)

is a true and correct copy of a resolution passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on the 18th *day of* June, *19* 91, *at which a quorum was present, and that the original resolution is officially of record in my possession.*

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the Board of Supervisors of Pima County, Arizona, this* 23rd *day of* August, *19* 91.

Jane S. Williams
Clerk

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RESOLUTION NO. 1991-138

AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991

Passed and adopted by the Pima County Board of Supervisors on June 18, 1991

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RESOLUTION NO. 1991-138

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $60,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 1991; PRESCRIBING THE FORM AND OTHER DETAILS OF SAID BONDS; PROVIDING FOR THE COLLECTION AND DISPOSITION OF THE REVENUES TO BE DERIVED FROM THE COUNTY'S SEWER SYSTEM; MAKING OTHER PROVISIONS WITH RESPECT TO THE OPERATION OF SAID SEWER SYSTEM; PROVIDING FOR THE SECURITY AND PAYMENT OF SAID BONDS; AUTHORIZING THE EXECUTION OF A DEPOSITORY TRUST AGREEMENT FOR THE SAFEKEEPING AND HANDLING OF THE SECURITIES PURCHASED WITH THE PROCEEDS OF THE BONDS; AUTHORIZING THE EXECUTION OF A REGISTRAR, TRANSFER AND PAYING AGENT AGREEMENT; AUTHORIZING THE PURCHASE OF BOND AND RESERVE FUND INSURANCE OR GUARANTIES; APPROVING THE DISTRIBUTION OF A FINAL OFFICIAL STATEMENT; AND RATIFYING THE ACTIONS OF ALL OFFICERS AND AGENTS OF THE COUNTY WITH RESPECT TO THE BONDS AND THE PRELIMINARY OFFICIAL STATEMENT.

WHEREAS, pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes, as amended, Pima County, Arizona (the "County") will refund the following respective maturities and amounts of the County's revenue bonds issued for sewer purposes:

Pima County, Arizona, Sewer Revenue Bonds, Series 1980, dated February 1, 1980

Maturity Date (February 1)	Principal Amount	Interest Rate
1992	$ 445,000	8.00%
1993	480,000	8.00%
1994	515,000	8.00%
1995	555,000	7.00%
2010	16,345,000	7.70%

Pima County, Arizona, Sewer Revenue Bonds, Series 1984, dated April 1, 1984

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	250,000	11.50%
1993	250,000	11.50%
1994	250,000	11.50%
1995	300,000	11.50%
1996	300,000	11.50%
1997	325,000	10.10%
1998	325,000	9.50%
1999	1,300,000	9.50%
2000	1,425,000	9.60%
2001	1,575,000	9.60%
2002	1,750,000	9.70%

Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 1985, dated December 1, 1985

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	470,000	7.00%
1993	510,000	7.25%
1994	570,000	7.50%
1995	605,000	7.70%
1996	660,000	7.80%
1997	715,000	7.90%
1998	815,000	8.00%

Pima County, Arizona, Sewer Revenue Bonds, Project of 1985, dated April 1, 1986

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	340,000	8.40%
1993	370,000	8.40%
1994	405,000	8.00%
1995	435,000	6.40%
1996	475,000	6.50%
1997	515,000	6.65%
1998	560,000	6.75%
1999	610,000	6.90%
2000	665,000	7.00%
2001	720,000	7.10%
2002	785,000	7.10%
2003	850,000	7.20%
2004	925,000	7.20%
2005	1,005,000	6.40%

Pima County, Arizona, Sewer Revenue Bonds, Project of 1986, Series A (1986), dated October 1, 1986

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	350,000	8.25%
1993	375,000	8.25%
1994	400,000	8.25%
1995	425,000	8.25%
1996	450,000	6.70%
1997	475,000	6.40%
1998	525,000	6.60%
1999	550,000	6.70%
2000	600,000	6.80%
2001	650,000	6.90%
2002	700,000	6.90%

2003	750,000	7.00%
2004	800,000	7.00%
2005	875,000	6.25%
2006	925,000	6.25%

Pima County, Arizona, Sewer Revenue Bonds, Series of 1988, dated March 1, 1988

Maturity Date (July 1)	Principal Amount	Interest Rate
1992	290,000	8.75%
1993	310,000	8.75%
1994	330,000	8.75%
1995	355,000	8.75%
1996	380,000	8.75%
1997	405,000	7.70%
1998	435,000	6.75%
1999	470,000	6.80%
2000	505,000	7.00%
2001	540,000	7.10%
2002	585,000	7.20%
2003	630,000	7.25%
2004	680,000	7.30%
2005	735,000	7.00%
2006	795,000	7.00%
2007	860,000	7.00%
2008	930,000	7.00%

The foregoing revenue bonds are hereinafter referred to as the "Bonds Being Refunded"; and

WHEREAS, the Bonds will be sold to a syndicate managed by Rauscher Pierce Refsnes,Inc. (collectively, the "Purchaser"); and

WHEREAS, by this resolution, this Board of Supervisors (the "Board") will authorize and provide for the issuance and sale of not to exceed $60,000,000 principal amount of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991 to advance refund the Bonds Being Refunded, set the maximum interest rate thereon, maximum term of the Series 1991 Bonds, maximum principal amount of Bonds to be issued and authorize the Chairman to accept an offer of the Purchasers (the "Offer") to purchase the Bonds and to execute the Bond Purchase Contract binding the County to issue and deliver the Bonds if the Offer is within the maximum amounts, terms and rates prescribed herein and the Chairman determines it to be in the County's best interest to accept the Offer; and

WHEREAS, all acts, conditions and things required by the Constitution and the laws of the State of Arizona (the "State") to happen, exist and be performed precedent to and in

the adoption of this resolution have happened, exist and have been performed as required to make this resolution a valid and binding instrument for the security of the Bonds authorized herein; and

WHEREAS, this Board is now empowered to proceed with the issuance and sale of the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA, AS FOLLOWS:

Section 1. Authority. The Bonds authorized herein are issued pursuant to Section 11-264.01, Arizona Revised Statutes, as amended, and other applicable provisions of law. This resolution will stay in full force and effect until all Bonds authorized hereunder are fully paid or provided for and all Policy Costs shall have been paid in full.

Section 2. Definitions; Interpretation.

A. Definitions. The following terms shall have the following meanings in this resolution unless the text expressly or by necessary implication requires otherwise:

"Accreted Value" shall mean, with respect to Capital Appreciation Bonds, as of the date of calculation, the initial principal amount thereof plus interest accrued thereon to such calculation date, compounded from the date of initial delivery at the interest rate thereof on stated dates, as set forth in the resolution authorizing the issuance of such Capital Appreciation Bonds.

"Agreement" shall mean any agreement between a Reserve Fund Guarantor and the County, pertaining to a Reserve Fund Guarantor's reimbursement in the event of a Drawdown, as such Agreement may be amended, modified or supplemented from time to time.

"Assumed Interest Rate" shall mean an interest rate for Variable Rate Obligations at the computation date computed to be the lesser of (i) the maximum rate which Bonds of such series may bear under the terms of their issuance or (ii) the rate of interest then established for long-term bonds by the 30-year revenue bond index most recently published by The Bond Buyer of New York, New York prior to the date of computation (or in the absence of such published index, some other index selected in good faith by the Finance Director of the County after consultation with one or more reputable, experienced investment bankers as being equivalent thereto).

"Average Annual Debt Service" shall mean, at the time of computation, the average of each Bond Year's aggregate scheduled Bond principal and interest requirements; when

computing Average Annual Debt Service, Variable Rate Obligations shall be deemed to bear interest at the Assumed Interest Rate and Bonds subject to mandatory redemption shall be treated as maturing on their respective mandatory redemption dates and not at their stated maturity date and interest shall be deemed to cease on Bonds subject to mandatory redemption at the scheduled mandatory redemption dates.

"Beneficial Owner" shall mean the owner of any beneficial interest in any Book-Entry Bond as shown on the records of any Direct or Indirect Participant.

"Board" shall mean the Board of Supervisors of the County.

"Bond Fund" shall mean the Bond Fund created pursuant to Section 10 hereof.

"Bond Insurer" shall mean an issuer of a Municipal Bond Insurance Policy pertaining to the Bonds or any part thereof.

"Bond Register" shall mean the registration books pertaining to the ownership and transfer of the Bonds maintained by the Bond Registrar on behalf of the County.

"Bond Registrar" shall mean The Valley National Bank of Arizona, or its successor as bond registrar.

"Bonds" shall mean the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991, authorized to be issued herein and all Parity Bonds.

"Bond Year" shall mean initially the period from the date of the Series 1991 Bonds to July 1, 1992, and thereafter the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Book-Entry Bonds" shall mean, initially, all Series 1991 Bonds and such other series or portion of a series of Parity Bonds which are hereafter designated by the County as Book-Entry Bonds.

"Capital Appreciation Bonds" shall mean Parity Bonds whose interest component is compounded semiannually on stated dates until maturity or to a date on which such Capital Appreciation Bonds are converted to Bonds paying interest semiannually, if so permitted or required.

"Capitalized Reserve Account" shall mean the Capitalized Reserve Account created pursuant to Section 10 hereof.

"Chairman" means the Chairman of the Board.

"Clerk" shall mean the Clerk of the Board.

"Construction Fund" shall mean the Construction Fund created pursuant to Section 10 hereof.

"Contributed Reserve Account" shall mean the Contributed Reserve Account created pursuant to Section 10 hereof.

"County" shall mean Pima County, Arizona.

"Deficiency" shall mean the difference between (i) the total amount due on a principal or interest payment date for the Bonds and (ii) the amount that has been deposited in the Bond Fund for payment to the Owners (which amount shall not include payments made pursuant to a Municipal Bond Insurance Policy or a Reserve Fund Guaranty but shall include all moneys transferred from the Reserve Fund to the Bond Fund or available in the Reserve Fund for such transfer).

"Depository Trust Agreement" shall mean the agreement between the County and The Valley National Bank of Arizona, as Trustee, regarding the holding in trust of the securities purchased to secure payment of the Bonds Being Refunded and other matters.

"Direct Participant" or "DTC Participant" shall mean any broker-dealer, bank or other financial institution for which the DTC holds Book-Entry Bonds from time to time as a securities depository.

"Drawdown" shall mean any amount drawn by the Paying Agent under any Reserve Fund Guaranty.

"Drawdown Date" shall mean the date on which the Paying Agent makes a Drawdown.

"DTC" shall mean the Depository Trust Company, the depository for the Book-Entry Bonds.

"Finance Director" shall mean the Pima County Finance Director.

"Fiscal Year" shall mean the twelve month period beginning each July 1 and ending on June 30th of the next succeeding year.

"Government Obligations" shall mean (i) direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same, (ii) obligations issued by either the Resolution Trust Corporation or the Resolution Funding Corporation, the payment of which is ultimately backed by the United States Treasury; and (iii) pre-refunded municipal obligations meeting the following criteria:

(a) the municipal obligations may not be callable prior to maturity or, alternatively, the trustee has received irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by cash or securities described in subparagraphs (i) and (ii) above (the "Defeasance Obligations"), which cash or Defeasance Obligations may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Defeasance Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the municipal obligations;

(d) the Defeasance Obligations serving as security for the municipal obligations must be held by an escrow agent or a trustee; and

(e) the Defeasance Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

"Indirect Participant" shall mean any financial institution for whom any Direct Participant holds an interest in a Book-Entry Bond.

"Maximum Annual Debt Service" shall mean, at the time of computation, the greatest scheduled Bond principal and interest requirements occurring in the then-current, or any subsequent, Bond Year on all Bonds Outstanding; when computing Maximum Annual Debt Service, Variable Rate Obligations shall be deemed to bear interest at the Assumed Interest Rate and Bonds subject to mandatory redemption shall be treated as maturing on their respective mandatory redemption dates and not at their stated maturity date and interest shall be deemed to cease on Bonds subject to mandatory redemption at the scheduled mandatory redemption dates.

"Municipal Bond Insurance Policy" shall mean any Municipal Bond Insurance Policy insuring the payment of the principal of and interest on all or any part of the Bonds according to their terms.

"Net Revenues" shall mean Revenues remaining after deducting Operating Expenses.

"Operating Expenses" shall mean the reasonable and necessary costs of System operation, maintenance, and repair, including salaries, wages, cost of materials and supplies, and insurance, but shall exclude depreciation, payments into the Bond Fund, the Reserve Fund, the Reimbursement Fund and the Rebate Fund.

"Outstanding" or "Outstanding Bonds" when used with reference to the Bonds, shall mean, as of any determination date, all Bonds theretofore authenticated and delivered except:

(a) Bonds theretofore cancelled or delivered for cancellation;

(b) Bonds that are deemed paid and no longer Outstanding as provided herein; and

(c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions hereof relating to Bonds destroyed, stolen, lost or mutilated, unless evidence satisfactory to the County Treasurer has been received that any such Bond is owned by a bona fide purchaser.

"Owner", except as provided in Section 17(B), shall mean any person who shall be the registered owner of any Bond or Bonds Outstanding (including, with respect to a Book-Entry Bond, DTC or a successor depository).

"Parity Bonds" shall mean any additional Bonds issued in accordance with Section 13 hereof.

"Paying Agent" shall mean The Valley National Bank of Arizona, or its successor as paying agent.

"Permitted Investments" shall mean, to the extent permitted by law:

1. Direct and general obligations of the United States of America, or obligations unconditionally guaranteed as to principal and interest by the same.

Also permitted are evidences of ownership of proportionate interests in future interest and principal payments of the above United States obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a Bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

2. Obligations issued or guaranteed by the following instrumentalities or agencies of the United States of America:

(a) Federal Home Loan Bank System;
(b) Export-Import Bank of the United States;
(c) Federal Financing Bank;
(d) Government National Mortgage Association;
(e) Farmers Home Administration;
(f) Federal Home Loan Mortgage Company;
(g) Federal Housing Administration;
(h) Private Export Funding Corporation;
(i) Federal National Mortgage Association; and
(j) obligations issued by either the Resolution Trust Corporation or the Resolution Funding Corporation, the payment of which is ultimately backed by the United States Treasury.

3. Pre-refunded municipal obligations meeting the following conditions:

(a) the bonds are not to be callable prior to maturity or the trustee has been given irrevocable instructions concerning their calling and redemption;

(b) the bonds are secured by cash or Permitted Investments described in No. 1 (the "United States Obligations") which may be applied only to interest, principal, and premium payments of such bonds;

(c) the principal of and interest on the United States Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the bonds;

(d) the United States Obligations serving as security for the bonds are held by an escrow agent or trustee; and

(e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

4. Direct and general long-term obligations of any state on which the full faith and credit of the state is pledged and which are rated in either of the two highest rating categories by either Moody's Investors Service (hereinafter referred to as Moody's) or Standard and Poor's Corporation (hereinafter referred to as S&P) or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

5. Direct and general short term obligations of any state described in No. 4 above which are rated in the highest rating category by either Moody's or S&P or, in the event each of such rating agencies rate such obligations, by each of them; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in the highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

6. Interest bearing demand or time deposits issued by state banks, savings and loan associations or trust companies or any national banking associations which are members of the Federal Deposit Insurance Corporation (FDIC). These deposits must be (a) continuously and fully insured by FDIC, (b) with banks that are rated at least P-1 by Moody's or at least A-1 by S&P, or (c) fully secured by direct and general obligations of the United States, or those which are unconditionally guaranteed as to principal and interest by the same. Such United States' securities must have a market value at all times at least equal to the principal amount of the deposits. The United States' securities must be held by the County or the Bond Registrar and Paying Agent (who shall not be the provider of the collateral), or any Federal Reserve Bank or Depositary, as custodian for the institution issuing the deposits. The County or the Bond Registrar and Paying Agent should have a perfected first lien in the United States Obligations serving as collateral, and that collateral is to be free from all third party liens.

7. Long-term or medium-term corporate debt guaranteed by any corporation rated by Moody's and S&P in their two highest rating categories.

8. Repurchase agreements, the maturity of which are less than thirty (30) days, entered into with financial institutions such as banks or trust companies organized under state law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation or with a dealer or parent holding company rated investment grade by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits. The repurchase agreement should be secured by direct and general obligations of the United States of America or those unconditionally guaranteed as to principal and interest by the same. The United States obligations must have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreement. The County or the Paying Agent (who shall not be the provider of the collateral) must have a perfected first lien in, and retain possession of, the collateral. The obligations serving as collateral must be free from all third party claims.

9. Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's or at least "A-1" by S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating categories for comparable obligations by one of the two most widely recognized rating agencies then rating such credits.

10. Interests in money market portfolios issued by state banks, trust companies, savings and loan associations, or national banking associations which are members of the FDIC. Such interest should be (a) fully insured by FDIC; or (b) secured by direct and general obligations of the United States or those guaranteed as to principal and interest by the same. The collateral obligations must have a market value, exclusive of accrued interest, at least equal to the principal amount of the interests in the money markets and should be held by a custodian.

11. Public housing bonds issued by public agencies. Such bonds must be fully secured by a pledge of annual contributions under a contract with the United States government; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States; or state or public agency or municipality obligations rated in the highest rating category by a nationally recognized bond rating agency.

12. Shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which has been rated in the highest rating categories by Moody's or S&P; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in one of the two highest rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such credits, or money market accounts of the Trustee or any state or federal bank which is rated at least P-1 by Moody's or at least A-1 by S&P or whose one bank holding company parent is rated at least A-1 by S&P or at least P-1 by Moody's; provided, however, that if, at the time of purchase, neither Moody's nor S&P then rate comparable obligations, the obligations must be rated in a comparable rating category for comparable obligations by one of the two most widely recognized rating agencies then rating such entities, all to the extent not fully insured by FDIC having a combined capital and surplus of not less than $50,000,000 at the time of any such deposit.

Any other provision of this definition of Permitted Investments to the contrary notwithstanding, from and after the execution of the initial Agreement, this definition shall be deemed amended to conform to the definition set forth in such Agreement.

"Policy Costs" shall mean the amount necessary to reimburse a Reserve Fund Guarantor for any Drawdown(s) pursuant to the terms of an Agreement including, without limitation, the amount of any Drawdown, such Reserve Fund Guarantor's expenses (including any legal expenses) and interest thereon at the Reimbursement Rate until paid.

"Purchasers" shall mean, with respect to the Series 1991 Bonds, Rauscher Pierce Refsnes, Inc., Dean Witter Reynolds, Inc., First Southwest Company, Peacock, Hislop, Staley & Given, Inc. and Piper Jaffray & Hopwood, Inc.

"Rebate Fund" shall mean the Rebate Fund created pursuant to Section 10 hereof.

"Record Date" shall mean the fifteenth day of the month preceding an interest payment date (or if such day is a Saturday, Sunday or holiday, on the next preceding business day).

"Reimbursement Fund" shall mean the Reimbursement Fund created pursuant to Section 10 hereof.

"Reimbursement Period" shall mean, with respect to any Drawdown, the period commencing on the Drawdown Date and ending on the first anniversary of a Drawdown Date.

"Reimbursement Rate" shall mean the respective rate of interest to be paid by the County to reimburse a Reserve Fund Guarantor after a Drawdown as set forth in the respective Agreement.

"Representation Letter" shall mean letters to, or agreements with, a depository for Book-Entry Bonds to effectuate a book entry system with respect to certain Bonds registered in the Bond Register under the nominee name of the depository.

"Reserve Fund" shall mean the Reserve Fund created pursuant to Section 10 hereof.

"Reserve Fund Guarantor" shall mean, with respect to any series of Bonds, the issuer of a surety bond, letter of credit or line of credit or insurance policy executed and delivered to the Paying Agent as a Reserve Fund Guaranty, to be issued by an entity experienced in insuring municipal bonds or extending lines of credit with respect to municipal bonds whose insurance policies, surety bonds, letters or lines of credit will not adversely affect the Bonds' then-current rating if then rated by Moody's Investors Service or by Standard & Poor's Corporation.

"Reserve Fund Guaranty" shall mean any surety bond, letter of credit or line of credit or insurance policy executed and delivered by a Reserve Fund Guarantor to the County or the Paying Agent for the County as a reserve fund guaranty for purposes of this resolution.

"Reserve Fund Value" shall mean the value of moneys and investments credited to the Reserve Fund determined in accordance with Section 18 hereof plus the aggregate penal sums of all Reserve Fund Guaranties.

"Reserve Requirement" shall mean, initially, an amount equal to Average Annual Debt Service on the Series 1991 Bonds, which amount shall be adjusted upon the issuance of Parity Bonds to equal Average Annual Debt Service immediately after such issuance or the maximum amount the Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code of 1986, as amended, or any comparable statutory provision limiting the amount of a reasonably required reserve and replacement fund.

"Revenue Fund" shall mean the Revenue Fund created pursuant to Section 10 hereof.

"Revenues" shall mean and include all income, moneys and receipts derived by the County from the ownership, use and operation including, without limitation, interest received on, and profits realized from the sale of, investments made with System moneys (excluding from such determination interest and profits retained in either the Construction Fund or the System Development Fund pursuant to Section 10B(8)) however, the term Revenues shall not include Bond proceeds or the interest received on any Bond proceeds placed irrevocably in trust to pay, or provide for the payment of, any Bond or Bonds Being Refunded or any amounts received which the County is contractually required to pay out as reimbursement for acquisition, construction or installation of System facilities.

"Series 1991 Bonds" shall mean the series of Bonds authorized to be issued pursuant to Section 3 hereof.

"State" shall mean the State of Arizona.

"System" shall mean the County's entire sewer system, all sewer properties of every nature hereafter owned by the County and all acquisitions, improvements and extensions added thereto by the County while any Bonds remain Outstanding, including all real and personal property of every nature comprising part of, or used or useful in connection with, the County's sewer system, and including all appurtenances, contracts, leases, franchises, and other intangibles.

"System Development Fund" shall mean the system development fund created pursuant to Section 10 hereof.

"Variable Rate Obligations" shall mean any Parity Bonds which may, in the future, bear interest at rates which cannot be determined with specificity on their original issue date.

B. Interpretation.

1. Any reference herein to the County, its Board or any officer thereof shall include those succeeding to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

2. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender.

3. Section headings and the table of contents hereof are solely for convenience and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

4. The words "hereof" or "herein" shall refer to this resolution.

5. All accounting reports or statements required by this resolution shall be presented in accordance with generally accepted governmental accounting principles at the date of the report or statement.

Section 3. Authorization of Bonds.

A. To advance refund the Bonds Being Refunded, there are hereby authorized to be issued not to exceed $60,000,000 principal amount of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991. The Bonds shall never be construed to be general obligations of the County within the meaning of Title 35, Chapter 3, Article 3, Arizona Revised Statutes, as amended, or to create a debt of the County within the Constitution and laws of the State.

B. The Bonds are special obligations of the County payable solely from and secured as to the payment of the principal and redemption price thereof, and interest thereon, in accordance with their terms and the provisions hereof. Subject to Section 10(B) hereof, Net Revenues are pledged as security for the payment of the principal and redemption price of, and interest on the Bonds in accordance with their terms and the provisions hereof. All Net Revenues shall be immediately subject to the pledge of this resolution without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the County, irrespective of whether such persons have notice thereof. Nothing contained in this section shall be construed as limiting any authority granted elsewhere herein to issue Parity Bonds nor be deemed a limitation upon the issuance of bonds, notes or other obligations under any law pertaining to the County secured by moneys, income and funds other than the Net Revenues and other moneys and investments pledged hereunder.

Section 4. Terms of Bonds. The Series 1991 Bonds shall be dated either the first or the 15th day of the month in which the Series 1991 Bond Purchase Agreement is executed, at the option of the Chairman, shall be numbered from 1 consecutively upwards, shall be fully registered Bonds without coupons, shall be in the denomination of $5,000 or any integral multiple thereof, shall bear interest at a rate or rates not exceeding eight and one-half percent (8-1/2%) per

annum from the most recent January 1 or July 1 to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from their date, which interest shall be payable on January 1, 1992, and semiannually thereafter on July 1 and January 1 of each year during the term of each Bond. The principal of the Bonds shall be payable at the principal corporate trust office of The Valley National Bank of Arizona in Phoenix, Arizona, as Paying Agent. Interest on the Bonds shall be payable by check mailed to the Owner thereof, as shown on the Bond Register at the address appearing therein at the close of business on the Record Date. Additionally, payment may also be made by wire transfer to DTC or upon two (2) days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States by any Owner of Bonds (other than DTC) owning an aggregate principal amount of at least $1,000,000. No document of any nature whatsoever need be surrendered as a condition to payment of principal of and interest on Book-Entry Bonds.

All Series 1991 Bonds will be registered so as to participate in a book-entry system with DTC (the "DTC Program"). Either the Chairman or the Finance Director is authorized to execute a Representation Letter or such other documents as may be necessary for the County to participate in the DTC Program. Upon initial issuance, the ownership of the Bonds held by DTC shall be registered in the Bond Register in the name of Cede & Co., or any successor thereto, as nominee for DTC. The County shall have no responsibility or obligation to Direct or Indirect Participants or Beneficial Owners for which DTC holds Bonds from time to time as a depository. Without limiting the immediately preceding sentence, the County shall have no responsibility or obligation with respect to (a) the accuracy of the records of DTC, Cede & Co., or any Direct or Indirect Participant with respect to any beneficial ownership interest in the Bonds, (b) the delivery to any Direct or Indirect Participant or any person, other than a registered Owner of a Bond as shown in the Bond Register, of any notice with respect to the Bonds, or (c) the payment to any Direct or Indirect Participant or any other person, other than a registered Owner as shown in the Bond Register, of any amount with respect to the Bonds. No person other than an Owner as shown in the Bond Register shall receive a certificate evidencing a Bond or confirming ownership of a Book-Entry Bond.

The Series 1991 Bonds shall mature on July 1 of each year. The Series 1991 Bonds shall mature in such amounts in any of the years 1992 to 2015 as shall be acceptable to the Purchasers and accepted by the Chairman. No Series 1991 Bonds may mature later than July 1, 2015. The Series 1991 Bonds may be sold at a price which is below par, but the difference between the price for which the Series 1991 Bonds are sold and

their par value (exclusive of accrued interest) shall not be greater than 2½ % of such par value.

The terms of Bonds included in any series of Parity Bonds shall be set forth in the resolution authorizing such Parity Bonds.

The Valley National Bank of Arizona is hereby appointed as the Bond Registrar and the Paying Agent. The Bond Registrar shall maintain the Bond Register for registration of ownership of each Bond. A Bond may be transferred on the Bond Register upon its delivery to the Bond Registrar, accompanied by a written instrument of transfer in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by such Bond's Owner or the Owner's attorney-in-fact or legal representative, containing written instructions as to the details of its transfer. Transfers shall not be effective until entered on the Bond Register.

In all cases upon the transfer of a Bond, the Bond Registrar will enter the transfer of ownership on the Bond Register and will authenticate and deliver in the transferee or transferee's name a new fully registered Bond or Bonds in denominations of $5,000 or any integral multiple thereof (no Bond shall be issued which relates to more than a single principal maturity) for the aggregate principal amount which the Owner is entitled to receive. The County or the Bond Registrar will charge the Owner for every such transfer an amount sufficient to reimburse them for any transfer fee, tax or other governmental charge required to be paid with respect to such transfer, and may require that such transfer fee, tax or governmental charge be paid before any such new Bond or Bonds shall be delivered.

The Bond Registrar shall keep the Bond Register showing the Bonds' Owners and all ownership transfers. Bonds presented to the Bond Registrar for transfer after the close of business on the Record Date and before the close of business on the next subsequent interest payment date will be registered in the transferee's name but the related interest payment will be made to the Owners shown on the Bond Register at the close of business on the Record Date.

The Bond Registrar may but need not register the transfer of a Bond which has been selected for redemption and need not register the transfer of any Bond for a period of fifteen (15) days before the selection of Bonds to be redeemed; if the transfer of any Bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the Bond or Bonds.

Section 5. Redemption Prior to Maturity. On behalf of the County, the Chairman is authorized to agree to such provisions for redemption of the Series 1991 Bonds prior to maturity as he deems in the best interests of the County, and is authorized to include such prior redemption terms in the form of Series 1991 Bonds and to cause the Series 1991 Bonds to include such terms. The prior redemption features may include both optional and mandatory redemptions.

The Series 1991 Bonds shall be redeemed only in integral multiples of $5,000. If less than all Outstanding Series 1991 Bonds of a single maturity are to be redeemed, the Bonds in that maturity to be redeemed shall be selected by lot in such manner as the Bond Registrar may determine.

Not more than sixty (60) nor less than thirty (30) days before any prior redemption date, the Bond Registrar shall cause a notice of any such redemption to be mailed by registered or certified mail to each Reserve Fund Guarantor and to the Owner of each Bond to be redeemed at the address shown on the Bond Register. Failure to mail notice to any Owner shall not affect the validity of the proceeding for the redemption with respect to other Owners.

On the date designated for redemption by notice given as herein provided, the Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds on such date, and, if moneys for payment of the redemption price and accrued interest are held in separate accounts by the Paying Agent, interest on such Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security hereunder and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest and such Bonds shall be deemed paid and no longer Outstanding.

The County may redeem an amount which is included in a Bond in the denomination in excess of, but divisible by, $5,000. In that event, the Owner shall submit the Bond for partial redemption and the Paying Agent shall make such partial payment and the Bond Registrar shall cause to be issued a new Bond in a principal amount which reflects the redemption so made to be authenticated and delivered to the Owner thereof.

Whenever Bonds which are subject to mandatory redemption are purchased, redeemed (other than pursuant to mandatory redemption) or are delivered by the County to the Paying Agent for cancellation, the principal amount of the Bonds so retired shall satisfy and be credited against any

mandatory redemption requirements for the respective series of Bonds so purchased, redeemed or cancelled of the same maturity for such years as the County may direct.

The prior redemption terms for any Parity Bond series shall be as set forth in the resolution authorizing the issuance of such series of Bonds.

Section 6. Bond Execution. The Bonds shall be executed for the County by the Chairman and shall be attested by the Clerk by their manual or facsimile signatures and by imprinting thereon the corporate seal of the County, and such officials are authorized and directed to execute the Bonds as aforesaid.

Section 7. Source of Payment and Pledge of Revenues. The Bonds shall be payable solely from the Net Revenues. The Bonds shall be equally and ratably secured by a pledge thereof and lien thereon without priority one over the other.

Section 8. Bond Forms.

A. The Bonds shall be in substantially the form attached hereto as Exhibit A allowing those executing the Bonds to make insertions and deletions necessary to conform the Bonds to this resolution and the Offer.

B. The form of Bonds pertaining to Parity Bonds shall be determined by the County. The County shall cause the Bond forms applicable to any series of Parity Bonds to conform as nearly as practicable to the Bond form set forth in Exhibit A. Parity Bonds may be in the form of fixed interest rate obligations, Capital Appreciation Bonds or Variable Rate Obligations or any combination thereof.

Section 9. Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain rates, fees and other charges for all services supplied by the System to provide Revenues fully sufficient, after making reasonable allowance for contingencies and errors in estimates, to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least one hundred twenty percent (120%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates).

Section 10. Creation of Funds; Application of Revenues.

A. Upon the Series 1991 Bonds' issuance, the County Treasurer shall create the following special funds and accounts to be held in trust for the Owners, Reserve Fund Guarantors or the County, as the case may be, and expended as herein provided:

1. The Pima County Sewer Revenue Bond Revenue Fund (the "Revenue Fund").

2. The Pima County Sewer Revenue Bond Operation and Maintenance Fund (the "Operation and Maintenance Fund").

3. The Pima County Sewer Revenue Bond Principal and Interest Fund (the "Bond Fund").

4. The Pima County Sewer Revenue Bond Reserve Fund Guarantor Reimbursement Fund (the "Reimbursement Fund").

5. The Pima County Sewer Revenue Bond Reserve Fund (the "Reserve Fund"), which fund also shall contain separate accounts to be known as the Capitalized Reserve Account and the Contributed Reserve Account.

6. The Pima County Sewer Revenue Bond Rebate Fund (the "Rebate Fund").

7. The Pima County Sewer Revenue Bonds System Development Fund (the "System Development Fund").

8. The Pima County Revenue Bond Sewer Construction Fund (the "Construction Fund").

B. While any Bonds are Outstanding and unpaid either as to principal or interest, the entire Revenues shall be held in the County Treasurer's custody in the Revenue Fund. The Revenue Fund shall be disbursed only for the purposes herein authorized and only in the following order of priority:

1. Operation and Maintenance Fund. First, to the Operation and Maintenance Fund, on or before the tenth (10th) day of each month, an amount which, together with any money already on deposit in said Fund, will be sufficient to pay Operating Expenses for said month. Money in the Operation and Maintenance Fund shall be used only to pay Operating Expenses. The County may accumulate in the Operation and Maintenance Fund equitable allowances for accruals and accumulations to cover periodic Operating Expenses, including such items as insurance premiums and expenditures for

renewals, replacements and repairs normally classified as Operating Expenses. Where items such as insurance, gasoline and electrical energy are purchased by the County at large, it may allocate to the System only its share of such expenditure, which allocation shall not be contestable except for fraud or willful misconduct by the County.

2. Bond Fund. Second, on or before the tenth (10th) day of each month, to the Bond Fund the following amounts in the following manner:

(a) Commencing August 10, 1991, through December 10, 1991, one-fifth (1/5), and commencing January 10, 1992, one-sixth (1/6) of the interest becoming due on the next interest payment date on all Series 1991 Bonds then Outstanding; and

(b) Commencing August 10, 1991, through June 10, 1992, one-eleventh (1/11), and commencing July 10, 1992, one-twelfth (1/12) of the principal becoming due on the next principal payment date on all Series 1991 Bonds then Outstanding.

The proceedings pertaining to the issuance of Parity Bonds shall provide for additional deposits to the Bond Fund sufficient to satisfy all additional or modified debt service requirements.

The Bond Fund shall be a trust fund used solely to pay principal of and interest on the Bonds. Moneys in the Bond Fund shall be transferred to the Paying Agent as needed to pay punctually all principal and interest as it matures or comes due.

3. Reimbursement Fund. Third, if a Drawdown shall have occurred, there shall be deposited to the Reimbursement Fund to pay Policy Costs commencing the tenth (10th) day of the first month following a Drawdown and each month thereafter for the next succeeding eleven (11) months, or until the Reimbursement Fund contains amounts sufficient to reimburse all Policy Costs or all Policy Costs with respect to such Drawdown have been paid, an amount equal to at least one-twelfth (1/12) of the aggregate Policy Costs related to the Drawdown. Moneys in the Reimbursement Fund shall be used only to pay Reserve Fund Guarantors for Policy Costs.

Policy Costs owing to a Reserve Fund Guarantor shall be paid from the Reimbursement Fund in twelve (12) equal monthly installments commencing the tenth day of the first month following a Drawdown; provided, however, that if moneys are available in the System Development Fund the Finance

Director may elect to transfer moneys to the Reimbursement Fund and then direct that any such Policy Costs be paid at an earlier date or dates. Policy Costs with respect to any Drawdown which occurs against more than one Reserve Fund Guaranty shall be reimbursed on a pro rata basis (calculated by reference to the maximum amounts available for such reimbursement).

If the County fails to repay any Policy Costs, the Reserve Fund Guarantor or Guarantors shall be entitled to exercise all remedies available to the Owners at law or under this resolution or to any Reserve Fund Guarantor under any Agreement other than (i) acceleration of the maturity of the Bonds or (ii) any other remedies which would adversely affect the Owners' rights.

All Reserve Fund Guaranties shall be held by the Paying Agent acting as fiduciary for the Owners. All Reserve Fund Guaranties shall by their terms expire no earlier than the final maturity date of the respective series for which said Reserve Fund Guaranty applies.

4. Reserve Fund. Fourth, on or before the tenth (10th) day of each month to the Reserve Fund any amounts required to be deposited to the Reserve Fund in accordance with Section 13(A)(4)(ii) if applicable, or one-twelfth (1/12) of the amount required to restore the Reserve Fund to the Reserve Requirement after a Reserve Fund withdrawal.

If, on any principal or interest payment date, a Deficiency exists, then:

(a) If there are investments or cash in the Reserve Fund, such investment shall be liquidated and the cash and investment proceeds transferred to the Bond Fund; and

(b) If the Deficiency is not cured after any transfers pursuant to subparagraph (a) above, then the Paying Agent shall deliver a Drawdown request to each Reserve Fund Guarantor. All Drawdowns and Reserve Fund proceeds shall be applied solely to pay the interest on, and principal of, the Bonds then due.

All money so taken from the Reserve Fund to pay such principal and interest shall be replaced therein from the first moneys in the Revenue Fund thereafter received which are not required for current transfers into the Operation and Maintenance, Bond or Reimbursement Funds pursuant to subparagraphs (1), (2) and (3) of this Subsection.

The Reserve Fund shall contain two accounts, the Contributed Reserve Account and the Capitalized Reserve Account. The two accounts are created to segregate Reserve Fund moneys and investments to provide a means of tracking such deposits and investment income thereon for arbitrage rebate purposes. All Reserve Fund deposits made from Net Revenues or other available moneys of the County shall be deposited to the Contributed Reserve Account. All Bond proceeds deposited to the Reserve Fund shall be deposited in the Capitalized Reserve Account. Any proceedings hereinafter taken with respect to Parity Bonds may specify the amount to be deposited to either Account, so long as the minimum amount required by this resolution to be deposited to the Reserve Fund shall be so deposited. All Reserve Fund Guaranties shall be deemed deposited to, and a part of, the Capitalized Reserve Account.

If, after a Reserve Fund withdrawal, the Reserve Requirement exceeds the Reserve Fund Value, unless otherwise provided herein, such deficiency shall be made up over a twelve (12) month period by deposit of twelve (12) substantially equal payments to the Contributed Account of the Reserve Fund.

5. Rebate Fund. Fifth, to the Rebate Fund the balance remaining in the Revenue Fund until the amount in the Rebate Fund equals the amount to be deposited in the Rebate Fund for arbitrage rebate purposes during such Bond Year as determined by the Finance Director.

6. System Development Fund. Sixth, any moneys in the Revenue Fund exceeding the amounts necessary to be placed in the Operation and Maintenance Fund, the Bond Fund, the Reimbursement Fund, the Reserve Fund and the Rebate Fund shall be deposited in the System Development Fund. After all payments have been made in any month, moneys in the System Development Fund may be used (without priority): (1) for System extensions and betterments; (2) for unbudgeted maintenance and operation expenses; (3) for the redemption of Bonds then subject to optional redemption prior to maturity or to purchase from time to time in the open market any Outstanding Bonds as the Finance Director deems proper; (4) to pay general obligation bonds issued by the County for acquisition of the System or for construction of additions or improvements to the System; (5) to make loans to the County to be used for any lawful County purpose under equitable terms prescribed by the Board; or (6) used for any lawful System purpose.

7. The money in the Revenue Fund shall be allotted and paid into the various Funds hereinbefore established in the order in which said Funds are listed and if in any month the money in the Revenue Fund is insufficient to

make the required deposits to any Fund, the insufficiency shall be made up in the following month or months after payment into all Funds enjoying a prior claim to the Revenues has been met in full.

8. Money on deposit in the Revenue Fund, the Operation and Maintenance Fund, the Bond Fund, the Reserve Fund, the Reimbursement Fund and the Rebate Fund may be invested and reinvested by the County in Permitted Investments. All income derived from such investments shall be regarded as System Revenues and shall be deposited in the Revenue Fund. Such investments shall be liquidated as needed and the proceeds applied to the purpose for which the respective fund or account was created. Moneys in the Construction and System Development Funds may be invested in any investment which the County is permitted by law from time to time to make. At the option of the Finance Director, income derived from investments of moneys in either the Construction or System Development Funds shall be deposited to either the Revenue Fund or retained in the respective Fund.

Section 11. Covenants Regarding the System. The County covenants and agrees with each Owner that it will:

A. Permit no free sewer services to be furnished to any consumer or user;

B. Maintain the System in good condition and operate the same in an efficient manner and at reasonable cost;

C. Maintain insurance on all System properties (which may be in the form of or include an adequately-funded program of self-insurance) of the type and with the coverage normally carried by municipalities or private companies engaged in a similar business. System self-insurance may be maintained either separately or in connection with any County-wide self-insurance program; provided, that (i) any such program is in writing and has been adopted by the Board and (ii) an independent insurance or actuarial consultant appointed by the County annually reviews and certifies to the County in writing that any such program is adequate and actuarially sound. The proceeds of any such insurance, except public liability insurance, received by the County shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund in addition to all other moneys required to be deposited therein;

D. Cause to be kept proper books and accounts adapted to the System, and cause the books and accounts to be audited after each Fiscal Year by a recognized independent

certified public accountant firm in accordance with generally accepted governmental accounting practices;

The County will furnish copies of such audits to any Reserve Fund Guarantor and to any Owner at their request, no later than one hundred eighty (180) days after the end of each Fiscal Year;

E. Faithfully and punctually perform all its duties concerning the System required by the Constitution and laws of the State of Arizona;

F. Not sell, lease, mortgage or in any manner dispose of the System or any part thereof, including any extensions and additions that may be added thereto, until all Bonds and any County obligations under any Agreement have been paid or provided for in full. This covenant shall not be construed to prevent the disposition of property which the County determines to be inexpedient for use in connection with the System. All proceeds from such disposition shall be deposited in the Revenue Fund;

G. Prior to each Fiscal Year, prepare and adopt a budget showing the estimated Revenues and Operating Expenses for System operation and maintenance for the ensuing Fiscal Year, and will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any Owner upon request;

H. To the extent allowed by law, discontinue the service to any premises for which the owner or occupant shall be delinquent in the payment of System charges for a period beyond the period allowed by County policy from time to time, not resume the service until all delinquent charges, with interest and penalties, shall have been paid, and do all things and exercise all remedies legally available to assure the prompt payment of System charges;

I. Duly pay and discharge, from time to time, or cause to be paid and discharged, all taxes, assessments or other governmental charges, if any, lawfully imposed upon the System, or upon any Revenues when the same shall become due, as well as any lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the System, or upon any Revenues, or which might impair the security of the Bonds and subject to the provisions hereof, will duly observe and conform to all valid governmental requirements pertaining to the System and to all covenants, terms and conditions hereof;

J. Deposit the net proceeds realized by the County from any eminent domain proceeding concerning the System in the Revenue Fund;

K. To the extent allowed by law, refuse to grant any franchise or permits for any competing sewer system operation in the County. This covenant shall not prohibit the County from entering into "privatization" contracts, agreements or other similar arrangements with private parties.

L. Not cause or permit the moneys in the Bond Fund, the Reimbursement Fund, the Reserve Fund or the Construction Fund to be invested in any investments except Permitted Investments.

M. Not violate the terms of any Agreement and will give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Section 12. Remedies of Owners. Any Owner may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce and compel performance of all duties imposed upon the County by the provisions hereof or seek the appointment of a receiver as herein provided.

If any default occurs in the payment of principal of or interest on any Bonds, then upon the filing of suit by an Owner, any court having jurisdiction of the action may appoint a receiver to administer the System for the County with power to charge and collect fees sufficient to pay all Operating Expenses and to make all required payments to the Bond, Reimbursement and Reserve Funds.

Section 13. Equality of Lien; Parity Bonds. The Bonds shall each enjoy complete parity of lien on the Net Revenues despite the fact that any Bond may have been delivered before any other Bonds. The County will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the Net Revenues having priority over or parity with the Bonds herein authorized; provided, however, that additional Parity Bonds may be issued on a parity with the Bonds herein authorized under the following conditions, but not otherwise:

A. Parity Bonds may be issued on a parity with the Bonds herein authorized only if all the following conditions are met:

1. The Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Parity Bonds must have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt

Service on all Bonds to be Outstanding immediately after issuance of such Parity Bonds as shown by a certificate signed by the Finance Director. For the purposes of the computation required by this subsection, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) If all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing sewer properties, the net revenues which would have been derived from the operation of such acquired sewer properties during the entire immediately preceding Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, and (iii) if during such preceding Fiscal Year the County shall have increased its System rates, fees and charges, the increased amount which would have been received during such Fiscal Year had such increase been in effect throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues;

2. The payments required to be made into the various Funds provided in Section 10 hereof must be current at the time of issuance of the Parity Bonds;

3. The additional Parity Bond proceeds must be used solely to make extensions, renewals, improvements, or replacements to the System or to refund any Bonds; and

4. The Reserve Fund Value shall be increased with respect to such Parity Bonds, at the Board's option, by: (i) the immediate deposit of Parity Bond proceeds or available moneys of the County to the Reserve Fund or the immediate delivery of a Reserve Fund Guaranty to the Paying Agent, or any combination thereof in order for the Reserve Fund Value to equal or exceed the Reserve Requirement immediately after issuance of such Parity Bonds; or (ii) deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th

day of each month such that the Reserve Fund Value will equal or exceed the increased Reserve Requirement not later than the expiration of five years following the initial delivery of such Parity Bonds; or (iii) any combination of the methods described in clauses (i) and (ii) above in an aggregate amount equal to the increase in the Reserve Requirement resulting from the issuance of such Bonds.

B. Any provision of this Section 13 to the contrary notwithstanding, one series of Parity Bonds having an aggregate principal amount of not to exceed $7,000,000 may be issued prior to January 1, 1992, subject only to the conditions set forth in subparagraphs 2 through 4 of subsection A of this Section 13 but without regard to any requirements set forth in subparagraph 1 of subsection A.

Section 14. Bond Proceeds.

A. From the Series 1991 Bond proceeds, all accrued interest shall be deposited in the Bond Fund. All Series 1991 Bond proceeds not retained in the Bond Fund shall be delivered to the Trustee and shall be invested or expended by the Trustee as directed in the Depository Trust Agreement. The proceeds so invested or cash held by the Trustee, shall be held in trust by The Valley National Bank of Arizona, as the trustee (the "Trustee"), under the Depository Trust Agreement. After all the Bonds Being Refunded shall have become due and payable through maturity or redemption prior to maturity, any moneys or investments remaining under the Depository Trust Agreement over and above the amount necessary to be retained to pay any Bonds Being Refunded not yet presented shall be returned to the County and deposited in the Bond Fund.

B. Upon delivery of the Series 1991 Bonds, the Treasurer is ordered and directed to transfer from the reserve funds pertaining to the Bonds Being Refunded to the Construction Fund herein created all moneys and investments in such reserve funds, except amounts required by the Depository Trust Agreement to be transferred to the Trustee. All moneys so deposited to the Construction Fund shall be expended for the purposes for which the Bonds Being Refunded were originally issued.

C. All moneys deposited to the Construction Fund from the proceeds of Parity Bonds shall be held and expended solely for the purposes for which such Parity Bonds were issued.

Section 15. Resolution Incorporated Into the Bonds. The provisions of this resolution are deemed incorporated into the Bonds themselves and no change, variation or alteration of any kind in the provisions hereof shall be made in any manner, except as provided in the following Section and Section 17 hereof, until all Outstanding Bonds and interest due thereon have been paid in full or fully provided for.

Section 16. Resolution Modification.

A. Without the consent of or notice to any of the Owners, the County may modify this resolution for one or more of the following purposes:

(1) To cure any ambiguity or formal defect or omissions herein or to correct or supplement any provision herein which may be inconsistent with any other provision herein.

(2) To grant or confer upon the Owners any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(3) To secure additional Revenues for the System or provide additional security or reserves for the payment of the Bonds;

(4) To comply with the requirements of any federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;

(5) To permit, preserve or continue (in the event of a change in federal income tax laws (the "Code") which requires a Supplement hereto in order to continue such exclusion) the exclusion of the interest income borne on the Bonds from gross income as defined by the Code or the exemption from State income taxes and to preserve the power of the County to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest income on which is likewise excluded from gross income as defined by the Code for federal income tax purposes and exempt from State income taxes;

(6) To conform the definition of Permitted Investments to the definition set forth in the initial Agreement;

(7) To vest in any Reserve Fund Guarantor the rights same rights afforded herein to any Owner or to any other Reserve Fund Guarantor;

(8) To provide such remedies and assurances as may be necessary to induce Reserve Fund Guarantors to issue Reserve Fund Guaranties or to induce Bond Insurers to issue Municipal Bond Insurance Policies with respect to the Bonds, and to conform this Resolution to the Initial Agreement.

B. Except as provided in Subsection A of this Section 16, the Owners of fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds then Outstanding (not including in any case any Bonds that may then be held or owned by or for the County) shall have the right from time to time to consent to and approve the adoption by the Board of a resolution or resolutions modifying or amending any terms or provisions contained herein; provided, however, that this resolution may not be so modified or amended in any manner which:

1. Changes the maturity of any Outstanding Bond.

2. Changes the interest rate on any Outstanding Bond.

3. Reduces the principal or redemption premium payable on any Bond.

4. Modifies the principal, interest or redemption premium payment terms on any Bond or imposes any adverse conditions on such payments.

5. Adversely affects the rights of the Owners of less than all Bonds then Outstanding.

Whenever the County shall propose to amend or modify this resolution, it shall cause notice of the proposed amendment to be mailed by first class mail, postage prepaid to each Owner. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file with the Clerk for public inspection.

If, within one (1) year from said mailing, there shall be filed with the Clerk an instrument or instruments executed by the Owners of at least fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds then Outstanding referring to the proposed amendatory resolution described in said notice and specifically consenting to and approving its adoption, the Board may adopt such amendatory resolution and such resolution shall become effective.

If the Owners of at least fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds Outstanding at the time of the adoption of such amendment, or the predecessors in title of such Owners, shall have consented to the adoption thereof as herein provided, no Owner shall have any right or interest to object to such amendment's adoption or to object to any terms or provisions therein contained or to the operation thereof or to enjoin or restrain the County or the Board from taking any action pursuant thereto.

Any consent given by the Owner shall be irrevocable for six (6) months from the mailing date above provided for and shall be conclusive and binding upon all future Owners of the same Bond during such period. Such consent may be revoked after such six (6) months' period by the Owners who gave such consent or by a successor in title by filing a notice of revocation with the Clerk but such revocation shall not be effective if the Owners of fifty-one percent (51%) in aggregate principal amount (treating the Accreted Value of a Capital Appreciation Bond at the time of calculation as its principal amount) of the Bonds Outstanding have, prior to the attempted revocation, consented to and approved such amendment.

The fact and date of any consent or revocation's execution may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to acknowledge deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount and numbers of the Bonds held by any person executing such instrument and the date of such person's holding the same may be proved by a certificate executed by the Bond Registrar showing that on the date therein mentioned such person was shown as the Owner of the Bonds on the Bond Register.

Section 17. Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

A. If any Bond's principal or interest shall be paid by a Reserve Fund Guarantor, (i) the pledge of the Net Revenues and all of the County's covenants, agreements and other obligations to the Owner hereunder shall continue to exist and such Reserve Fund Guarantor shall be fully subrogated to all of such Owner's rights in accordance with the respective Agreement.

B. For all purposes hereunder, the County may treat the consent of any Bond Insurer as the consent of the Owners of any Bonds then insured by such Insurer, if such Bond Insurer's insurance is then in effect and if the credit of said Insurer is then such that Bonds insured by it are rated, because of such insurance, in one of the two highest grades of municipal securities by one of the two most widely recognized rating agencies then rating municipal bond credits.

Section 18. Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value. With respect to all Funds and Accounts, valuation shall occur annually and immediately upon a withdrawal from the Reserve Fund.

Section 19. Prior Redemption of Bonds Being Refunded. The Treasurer is ordered and directed to retain an amount of Series 1991 Bond proceeds and moneys in the redemption funds for the Bonds Being Refunded sufficient to pay on the prior redemption date all principal, interest and redemption premiums on all the Pima County, Arizona, Sewer Revenue Bonds, Series of 1980; which Bonds are called for redemption on September 1, 1991 if the Series 1991 Bonds are issued prior to July 25, 1991. If the Series 1991 Bonds are initially issued after July 25, 1991, the Series 1980 Bonds are called for redemption on a date occurring not more than 60 days after such issuance. The Clerk of this Board is directed to publish and mail a notice of redemption of the Series 1980 Bonds in the manner directed by this Board's Resolution No. 1979-185. The Treasurer is ordered and directed to pay the premium, accrued interest to the redemption date only and principal on the Series 1980 Bonds upon presentation and surrender on or after the redemption date.

If the Series 1991 Bonds are issued and the Depository Trust Agreement is fully funded, the remaining Bonds Being Refunded shall be called for redemption in accordance with the following schedule:

Name of Series	Prior Redemption Date
Series 1984	July 1, 1994
Refunding Series 1985	July 1, 1993
Project of 1985	July 1, 1995
Project of 1986	July 1, 1995
Series of 1988	July 1, 1997

Bonds of any of the above-mentioned series maturing on or before the prior redemption date will be paid in the normal manner.

Section 20. Defeasance. Payment of all or any part of the Bonds may be provided for by the irrevocable deposit with a trustee of moneys or Government Obligations, or both. The moneys and the maturing principal and interest income on such Government Obligations, if any, shall be sufficient, as evidenced by a certificate of an independent certified public accountant, a firm of such accountants or an actuary, or firm of actuaries, or other experts in the field who shall calculate the sufficiency of the subject moneys and Government Obligations to pay when due the principal or redemption price of and interest on such Bonds. The moneys and Government Obligations shall be held by a trustee irrevocably in trust for the Owners of such Bonds solely for the purpose of paying the principal or redemption price of and interest on such Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the trustee as to the dates upon which any such Bonds are to be redeemed prior to their respective maturities, if applicable.

If payment of Bonds is so provided for, the Trustee shall mail a notice so stating to each Owner of a Bond so provided for.

Bonds the payment of which has been provided for in accordance with this Section shall no longer be deemed Outstanding hereunder or secured hereby. The obligation of the County in respect of such Bonds shall nevertheless continue but the Owners thereof shall thereafter be entitled to payment only from the moneys or Government Obligations deposited with the trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with the provision for payment of such Bond, the interest payable on any Bond is thereby made subject to federal income taxes. The trustee and the County may rely upon an opinion of a nationally recognized bond counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that the provisions of this Section will not be breached by so providing for the payment of any Bonds.

Section 21. Bond Purchase Agreement Form; Authorization to Execute. A Bond Purchase Agreement substantially in the form attached hereto and marked Exhibit E is approved and the Chairman is authorized to execute such Bond Purchase Agreement, and Clerk to attest, and to cause such Bond Purchase Agreement to be delivered to the Purchasers upon receiving and approving the Offer. The Bond Purchase Agreement, when so executed and delivered, shall evidence the County's agreement to sell the Series 1991 Bonds to the Purchasers in accordance therewith.

The County Treasurer is authorized and directed to cause the Series 1991 Bonds to be authenticated by the Bond Registrar and to be delivered to or upon the Purchaser's order upon payment therefor and satisfaction of all conditions for delivery thereof in accordance with the terms hereof and of the Bond Purchase Agreement.

Section 22. Authorization of Certain Agreements.

A. For and on behalf of the County, the Chairman, the Treasurer and the Clerk (as applicable) are authorized and directed to execute, attest and deliver the following agreements:

1. The Depository Trust Agreement (see Exhibit B hereto) and
2. The Bond Registrar and Paying Agent Agreement (see Exhibit C hereto),

each in substantially the form attached hereto with such changes as may be approved by such officials whose signatures thereon shall be conclusive evidence of such approval.

B. The Chairman is authorized to execute and deliver an Agreement pertaining to the Series 1991 Bonds between the County and the initial Reserve Fund Guarantor.

Section 23. Approval of Official Statement. The use and distribution of the Preliminary Official Statement pertaining to the original issuance of the Series 1991 Bonds in the form now on file with the Clerk is approved and is "deemed final" (except for permitted omissions) by the County as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1). Either the Chairman or the Finance Director is authorized on behalf of the County and in such person's official capacity, to complete the Official Statement relating to the Series 1991 Bonds with such modifications, changes and supplements as may be necessary to conform the Official Statement to the terms set forth in the Series 1991 Bond Purchase Agreement. Such officers shall approve or authorize and certify, or otherwise represent, that such official statement is the final official statement for the Series 1991 Bonds for the purposes of the Securities and Exchange Commission Rule 15c2-12(b)(3) and (4).

The Chairman is further authorized to use and distribute, or authorize the use and distribution of, the final official statement and supplements thereto in connection with the original issuance and sale of the Series 1991 Bonds as may in the Chairman's judgment be necessary or appropriate.

The Chairman and the Clerk are also authorized to sign and deliver, on behalf of the County, and in their official capacities, such certificates in connection with the accuracy of the final official statement and any amendment thereto as may, in their judgment, be necessary or appropriate.

Section 24. Federal Tax Law Covenants. In consideration of the purchase and acceptance of the Bonds by the Owners and, as authorized by Arizona Revised Statutes, Title 35, Chapter 3, Article 7, and in consideration of retaining the exclusion of interest income on the Bonds from gross income for federal income tax purposes, the County covenants with the Owners neither to take nor fail to take any action which action or failure to act is within its power and authority and which would result in the interest income on the Bonds becoming includable in gross income for federal income tax purposes under either laws existing on the date of issuance of the Bonds or such laws as they may be modified or amended.

The County agrees that it will comply with such requirement(s) and will take any such action(s) as in the opinion of a nationally recognized bond counsel ("Bond Counsel") are necessary to prevent interest income on the Bonds becoming includable in gross income for federal income tax purposes. Such requirements may include but are not limited to making further specific covenants; making truthful certifications and representations and giving necessary assurances; complying with all representations, covenants and assurances contained herein; to pay to the United States of America any required amounts representing rebates of investment income relating to the Bonds; filing forms, statements and supporting documents as may be required under the federal tax laws; limiting the term of and yield on investments made with proceeds of the Bonds; and limiting the use of Bond proceeds.

To determine which Series 1991 Bonds are issued for advance refunding purposes and which are issued for prior redemption of the Series 1980 Bonds, the Finance Director is authorized and directed to allocate the various maturities of the Series 1991 Bonds to the Bonds Being Refunded. Such allocation shall be deemed binding upon the County and this Board. Such allocation shall be set forth in the County's no arbitrage statement executed and delivered with respect to the Series 1991 Bonds.

Section 25. Ratification of Actions. All actions of the officers and agents of the County that conform to the purposes and intent of this resolution and which further the issuance and sale of the Bonds as contemplated by this resolution, whether heretofore or hereafter taken, shall be

and are ratified, confirmed and approved. The proper officers and agents of the County are authorized and directed to do all such acts and things and to execute and deliver all such documents for the County as may be necessary to carry out the terms and intent hereof.

Section 26. Separability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this resolution.

Adopted and approved this 18th day of June, 1991.

Reg Morrison
Chairman, Board of Supervisors

ATTEST:

Jane S. Williams
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Fred Ronquillo
Bond Counsel

CERTIFICATION

I hereby certify that the foregoing Resolution No. 1991-138 was duly passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on June 18, 1991, and the vote was 4 aye's and 1 nay's and that the Supervisors were present thereat.

Jane S. Williams
Clerk, Board of Supervisors of
Pima County, Arizona

EXHIBIT A TO BOND RESOLUTION

(Face of Bond)

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 1991

Number: Denomination:

Interest Rate:	Maturity Date:	Original Issue Date:	CUSIP:

Registered Owner:

Principal Amount:

PIMA COUNTY, ARIZONA, for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain bonds of the series of which this bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth on the reverse of this bond.

Interest is payable on January 1 and July 1 of each year commencing January 1, 1992 and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a year comprised of 360 days consisting of twelve (12) months having thirty (30) days each.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest will be paid by check payable in such money payable to the order of and mailed to the registered owner at the address shown on the registration books maintained by the registrar at the close of business on the record date as explained on the reverse hereof. Additionally, payment may also be made by wire transfer to DTC or to any Owner of Bonds (other than DTC) in an aggregate principal amount of at least $1,000,000 upon two (2) days' prior written request delivered to the Paying Agent by such Owner specifying a wire transfer address in the continental United States. The principal and any premium will be paid when due to the registered owner upon surrender of

this bond for payment at the designated office of the paying agent, which on the original issue date is the principal corporate trust office of The Valley National Bank of Arizona, Phoenix, Arizona; provided, however, that no such surrender shall be required if this bond is participating in the book-entry system pursuant to the resolution mentioned in the reverse hereof.

See the reverse side of this bond for additional provisions.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and laws of the State of Arizona to exist, to occur and to be performed precedent to and in the issuance of this bond exist, have occurred and have been performed.

The County has caused this bond to be executed by the Chairman of its Board of Supervisors and attested by its Clerk, which signatures may be facsimile signatures. This bond is not valid or binding upon the County without the manually affixed signature of an authorized representative of the registrar.

PIMA COUNTY, ARIZONA

(Facsimile)
Chairman

ATTEST:

(Facsimile)
Clerk

(SEAL)

DATE OF AUTHENTICATION AND REGISTRATION: _____

AUTHENTICATION CERTIFICATE

This bond is one of the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 1991, described in Resolution No. 1991-___ mentioned on the reverse hereof.

THE VALLEY NATIONAL BANK OF ARIZONA,
as Registrar

By_____
Authorized Representative

(Form of Reverse Side of Bond)

This bond is one of a series of bonds in the aggregate principal amount of $_____ of like date, tenor and effect except as to amount, rate of interest, number and maturity date, issued pursuant to the Constitution and laws of the State of Arizona and Resolution No. 1991-____ adopted by the Board of Supervisors of Pima County on _____, 1991 (the "Bond Resolution"), for the purpose of providing funds with which to advance refund all of the County's outstanding sewer revenue bonds and to pay all legal, financial consultant, engineering and other necessary costs in connection therewith.

This bond and the series of which it is a part are payable as to both principal and interest from and secured by a prior and paramount lien and pledge of the revenues, proceeds and receipts to be derived by the County from the operation of the County's sewer system (the "System"), subject only to the payment of the reasonable and necessary cost of operating and maintaining the System and any payments with respect to prior lien bonds. For purposes of this bond the term "prior lien bond" shall refer to: (i) Pima County, Arizona, Sewer Revenue Bonds, Series 1980, dated February 1, 1980, (ii) Pima County, Arizona, Sewer Revenue Bonds, Series 1984, dated April 1, 1984, (iii) Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 1985, dated December 1, 1985, (iv) Pima County, Arizona, Sewer Revenue Bonds, Project of 1985, dated April 1, 1986, (v) Pima County, Arizona, Sewer Revenue Bonds, Project of 1986, Series A (1986), dated October 1, 1986, and (vi) Pima County, Arizona, Sewer Revenue Bonds, Series of 1988, dated March 1, 1988; which were refunded by the series of which this bond is a part. Reference is made to the Bond Resolution for a more complete statement of the provisions made to secure payment hereof, the revenues from which and conditions under which this bond is payable, statements of the terms under which the Bond Resolution may be modified, and the general covenants and provisions pursuant to which this bond is issued. Said income and revenues are required by the Bond Resolution to be fully sufficient to pay the cost of operating and maintaining the System and to pay the principal of and interest on this Bond promptly as each becomes due and payable. The County has covenanted and does hereby covenant that it will fix and impose such rates and charges for the System's services and will collect and account for sufficient revenues to pay promptly the principal of and interest on this bond and all bonds on a parity with this bond. This bond and the interest hereon are enforceable exclusively from the revenues pledged thereto in the Bond Resolution and no holder hereof shall have the right to compel any exercise of the taxing power of the County to pay this bond or the interest hereon. This bond does not constitute an indebtedness or pledge of the County's general credit within

the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness.

Bonds maturing on or before July 1, 19__, are not subject to call for redemption prior to maturity. Bonds maturing on or after July 1, 19__, are subject to call for redemption prior to maturity, in whole at any time or in part, on July 1, 19__, or on any interest payment date thereafter, at the option of the County, by the payment of a redemption price equal to the principal amount of each bond called for redemption plus accrued interest to the date fixed for redemption plus a premium payable from any source lawfully available therefor, the premium (calculated as a percentage of the principal amount of the bonds to be redeemed) to be computed as follows:

Redemption Dates	Premium
July 1, 19__ through and including January 1, 19__	
July 1, 19__ through and including January 1, 19__	
July 1, 19__ through and including January 1, 19__	
and thereafter without premium.	

The bonds may be redeemed in any order of maturity designated by the County and only in integral multiples of $5,000. If less than all of the bonds outstanding of a single maturity are to be redeemed, the bonds in that maturity to be redeemed shall be selected by lot in such manner as the registrar may determine.

Bonds of the series of which this bond is one maturing on July 1, _____ are subject to mandatory redemption, by lot to be selected by the Paying Agent at a redemption price of par and accrued interest to the date fixed for redemption, without premium on July 1 of the years and in the amounts as follows:

Year	Amount to be Redeemed

Notice of redemption of any bond will be mailed to the registered owner of the bond or bonds being redeemed at the address shown on the bond register maintained by the bond registrar, such mailing to be not more than sixty (60) nor less than thirty (30) days prior to the redemption date. Failure to properly give notice of redemption shall not affect the redemption of any bond for which notice was properly given.

The registrar or paying agent may be changed by the County without notice.

This bond is transferable by the registered owner in person or by attorney duly authorized in writing at the designated office of the registrar, which on the original issue date is the principal corporate trust office of The Valley National Bank of Arizona, Phoenix, Arizona, upon surrender and cancellation of this bond, but only in the manner and subject to the limitation and upon payment of the charges provided in the Bond Resolution. Upon such transfer a new bond or bonds of the same aggregate principal amount, maturity and interest rate will be issued to the transferee in exchange. The registrar may require an owner, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes required by law. The County has chosen the fifteenth day of the month preceding an interest payment date (or if such day is a Saturday, Sunday or holiday, on the next preceding business day) as the record date for this series of bonds. Should this bond be submitted to the registrar for transfer during the period commencing after the close of business on the record date and continuing to and including the next subsequent interest payment date, ownership will be transferred in the normal manner but the interest payment will be made payable to and mailed to the registered owner as shown on the registrar's books at the close of business on the record date.

The registrar may but need not register the transfer of a bond which has been selected for redemption and need not register the transfer of any bond for a period of fifteen (15) days before a selection of bonds to be redeemed; if the transfer of any bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the bond or bonds.

Bonds of this issue are issuable only in fully registered form in the denomination of $5,000 each or integral multiples of $5,000.

The County, the registrar and the paying agent may treat the registered owner of this bond as the absolute owner for the purpose of receiving principal, interest and any premium and for all other purposes and none of them shall be affected by any notice to the contrary.

The following abbreviations, when used in the inscription on the face of this bond, shall be construed as

though they were written out in full according to applicable laws or regulations:

TEN COM-as tenants in common	UNIF GIFT/TRANS MIN ACT-
TEN ENT-as tenants by the entireties	_____Custodian_____
	(Cust) (Minor)
JT TEN-as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts/Transfers to Minors Act_____
	(State)

Additional abbreviations may also be used though not in list above

FORM OF ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____

_____

(Name and Address of Transferee)

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated _____

_____

Note: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within registered bond in every particular without alteration or enlargement or any change whatsoever

Signature Guaranteed:

_____

Commercial bank, trust company or member of a national securities exchange

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona }
County of Pima } ss

I, Jane S. Williams, do hereby certify that I am the duly appointed, qualified, and acting Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 1991-182

RESOLUTION AMENDING RESOLUTION NO. 1991-138 AND RATIFYING THE ADOPTION OF RESOLUTION NO. 1991-138 AS HEREIN AMENDED.

(See attached copy)

is a true and correct copy of a resolution passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on the 6th *day of* August, *19* 91, *at which a quorum was present, and that the original resolution is officially of record in my possession.*

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the Board of Supervisors of Pima County, Arizona, this* 23rd *day of* August, *19* 91.

Jane S. Williams
Clerk

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RESOLUTION NO. 1991-132

RESOLUTION AMENDING RESOLUTION NO. 1991-138 AND RATIFYING THE ADOPTION OF RESOLUTION NO. 1991-138 AS HEREIN AMENDED.

WHEREAS, the Board of Supervisors of Pima County, Arizona, has heretofore adopted its Resolution No. 1991-138 authorizing issuance of Pima County Sewer Revenue Refunding Bonds, Series 1991; and

WHEREAS, the County has now been presented with a commitment to purchase a reserve fund guaranty from Financial Guaranty Insurance Company ("FGIC"); and

WHEREAS, in order to purchase the reserve fund guaranty from FGIC, Resolution No. 1991-138 must be amended to conform as a condition to the issuance of a reserve fund guaranty by FGIC;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA, AS FOLLOWS:

Resolution No. 1991-138 be amended to read as follows (fully capitalized words indicate new matter; strike throughs indicate deleted matter):

A. That Section 9 of Resolution No. 1991-138 be amended to read as follows:

> Section 9. Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain rates, fees and other charges for all services supplied by the System to provide Revenues fully sufficient, after making reasonable allowance for contingencies and errors in estimates, to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least one hundred twenty percent (120%) of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) AND SAID RATES, FEES AND OTHER CHARGES SHALL ALSO BE ESTABLISHED AND MAINTAINED AT RATES SUFFICIENT TO PROVIDE AN AMOUNT OF NET REVENUES FOR THE THEN CURRENT FISCAL YEAR WHICH, NET OF THE AGGREGATE AMOUNTS REQUIRED TO BE DEPOSITED TO THE BOND FUND DURING SUCH FISCAL YEAR, WILL BE SUFFICIENT TO PROVIDE AT LEAST ONE HUNDRED PERCENT (100%) OF THE CITY'S POLICY COSTS DUE AND OWING IN SUCH FISCAL YEAR.

B. That Section 10B(2) be amended to read as follows:

2. Bond Fund. Second, on or before the tenth (10th) day of each month, to the Bond Fund the following amounts in the following manner:

(a) Commencing ~~August~~ SEPTEMBER 10, 1991, through December 10, 1991, ~~one-fifth (1/5)~~ ONE-FOURTH (1/4), and commencing January 10, 1992, one-sixth (1/6) of the interest becoming due on the next interest payment date on all Series 1991 Bonds then Outstanding; and

(b) Commencing ~~August~~ SEPTEMBER 10, 1991, through June 10, 1992, ~~one-eleventh (1/11)~~ ONE-TENTH (1/10), and commencing July 10, 1992, one-twelfth (1/12) of the principal becoming due on the next principal payment date on all Series 1991 Bonds then Outstanding.

The proceedings pertaining to the issuance of Parity Bonds shall provide for additional deposits to the Bond Fund sufficient to satisfy all additional or modified debt service requirements.

The Bond Fund shall be a trust fund used solely to pay principal of and interest on the Bonds. Moneys in the Bond Fund shall be transferred to the Paying Agent as needed to pay punctually all principal and interest as it matures or comes due.

C. That Section 12 be amended to read as follows:

Section 12. Remedies of Owners. Any Owner may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce and compel performance of all duties imposed upon the County by the provisions hereof or seek the appointment of a receiver as herein provided.

If any default occurs in the payment of principal of or interest on any Bonds, then upon the filing of suit by an Owner, any court having jurisdiction of the action may appoint a receiver to administer the System for the County with power to charge and collect fees sufficient to pay all Operating Expenses and to make all required payments to the Bond, Reimbursement and Reserve Funds.

FOR ALL PURPOSES OF SECTION 12, EXCEPT THE GIVING OF NOTICE OF DEFAULT TO BONDHOLDERS, THE BOND INSURER SHALL BE DEEMED TO BE THE SOLE HOLDER OF THE BONDS IT HAS INSURED FOR

SO LONG AS IT HAS NOT FAILED TO COMPLY WITH ITS PAYMENT OBLIGATIONS UNDER THE BOND INSURANCE POLICY.

D. That Section 13A(1) be amended to read as follows:

> 1. The Net Revenues for the completed Fiscal Year immediately preceding the issuance of the Parity Bonds must have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all Bonds to be Outstanding immediately after issuance of such Parity Bonds AND SAID NET REVENUES MUST ALSO HAVE BEEN SUFFICIENT TO PROVIDE AN AMOUNT OF NET REVENUES FOR THE THEN CURRENT FISCAL YEAR WHICH, NET OF THE AGGREGATE AMOUNTS REQUIRED TO BE DEPOSITED TO THE BOND FUND DURING SUCH FISCAL YEAR, WILL BE SUFFICIENT TO PROVIDE AT LEAST ONE HUNDRED PERCENT (100%) OF THE CITY'S POLICY COSTS DUE AND OWING IN SUCH FISCAL YEAR as shown by a certificate signed by the Finance Director. For the purposes of the computation required by this subsection, additional amounts may be added to the Net Revenues of the preceding Fiscal Year, as follows: (i) If all or part of the proceeds of the Parity Bonds are to be expended for the acquisition of existing sewer properties, the net revenues which would have been derived from the operation of such acquired sewer properties during the entire immediately preceding Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues, and (iii) if during such preceding Fiscal Year the County shall have increased its System rates, fees and charges, the increased amount which would have been received during such Fiscal Year had such increase been in effect throughout such Fiscal Year, as estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters, may be added to the Net Revenues;

E. That Section 16 of said Resolution No. 1991-138 be amended by adding a new Section C to read as follows:

C. ANY OTHER PROVISION OF THIS SECTION 16 TO THE CONTRARY NOTWITHSTANDING, NO AMENDMENT TO RESOLUTION NO. 1991-138 SHALL BECOME EFFECTIVE UNLESS AND UNTIL IT IS APPROVED BY ALL BOND INSURERS AND RESERVE FUND GUARANTORS APPLICABLE TO THE BONDS.

F. Section 18 of said Resolution No. 1991-138 is amended to read as follows:

Section 18. Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value EXCLUSIVE OF ACCRUED INTEREST. With respect to all Funds and Accounts, valuation shall occur annually ON THE FIRST BUSINESS DAY OF EACH BOND YEAR and immediately upon a withdrawal from the Reserve Fund.

F. Section 19 of said Resolution No. 1991-138 is amended to read as follows:

Section 19. Prior Redemption of Bonds Being Refunded. The Treasurer is ordered and directed to retain an amount of Series 1991 Bond proceeds and moneys in the redemption funds for the Bonds Being Refunded sufficient to pay on the prior redemption date all principal, interest and redemption premiums on all the Pima County, Arizona, Sewer Revenue Bonds, Series of 1980; which Bonds are called for redemption on September 1, 1991 if the Series 1991 Bonds are issued prior to July 25, 1991. If the Series 1991 Bonds are initially issued after July 25, 1991, the Series 1980 Bonds are called for redemption on a date occurring not more than ~~60~~ 89 days after such issuance. The Clerk of this Board is directed to publish and mail a notice of redemption of the Series 1980 Bonds in the manner directed by this Board's Resolution No. 1979-185. The Treasurer is ordered and directed to pay the premium, accrued interest to the redemption date only and principal on the Series 1980 Bonds upon presentation and surrender on or after the redemption date.

If the Series 1991 Bonds are issued and the Depository Trust Agreement is fully funded, the remaining Bonds Being Refunded shall be called for redemption in accordance with the following schedule:

Name of Series	Prior Redemption Date
Series 1984	July 1, 1994
Refunding Series 1985	July 1, 1993
Project of 1985	July 1, 1995
Project of 1986	July 1, 1995
Series of 1988	July 1, 1997

Bonds of any of the above-mentioned series maturing on or before the prior redemption date will be paid in the normal manner.

H. In all other respects Resolution No. 1991-138, as laid before this Board on June 18, 1991, shall remain the same. As so amended by this resolution, Resolution No. 1991-138 is hereby ratified. Further, this Board hereby incorporates all unamended provisions of said Resolution No. 1991-138 into this resolution as if set forth and as if adopted as a part hereof.

PASSED, ADOPTED AND APPROVED this 6th day of August, 1991.

Reg McCarison
Chairman, Board of Supervisors
AUG 6 1991

ATTEST:

Jane S. Williams
Clerk, Board of Supervisors

APPROVED AS TO FORM:

for: Fred H. Rosenfeld
Bond Counsel

CERTIFICATE

I hereby certify that the foregoing Resolution No. 1991-182 was duly passed and adopted by the Board of Supervisors of Pima County, Arizona, at a meeting held on August 6, 1991, and the vote was 3 aye's and 0 nay's and that the Supervisors were present thereat.

Jane S. Williams
Clerk, Board of Supervisors of
Pima County, Arizona

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona
County of Pima

I, Lori Godoshian, the duly appointed, and qualified, Clerk of the Board of Supervisors of Pima County, Arizona, hereby certify that the following is a true, correct, and compared extract of the minutes of a meeting of the Board of Supervisors held on the 9TH *day of* MARCH, 2004, *and that a quorum was present thereat.*

30. **COUNTY ADMINISTRATOR: SEWER REVENUE REFUNDING BONDS**

RESOLUTION NO. 2004 - 58, providing for the issuance and sale of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004; providing for the payment of the Bonds; providing terms, covenants and conditions concerning the bonds; confirming the sale of the bonds to the purchaser thereof; authorizing and directing the execution and delivery of documents and the redemption of certain outstanding bonds; appointing an initial bond registrar and paying agent and a depository trustee for the bonds; and declaring an emergency.

Supervisor Carroll requested an estimate from Mr. Huckelberry regarding user fees, administrative and increased sewer connection fees and their relationship to these bonds.

On consideration, it was moved by Supervisor Valadez, seconded by Supervisor Elías, and unanimously carried by a five to zero vote, to close the public hearing and to pass and adopt Resolution No. 2004 - 58.

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the Board of Supervisors of Pima County, Arizona, this* 5TH *day of* MAY, 2004.

Lori Godoshian
Clerk

RESOLUTION NO. 2004- 58

RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF PIMA COUNTY, ARIZONA SEWER REVENUE REFUNDING BONDS, SERIES 2004; PROVIDING FOR THE PAYMENT OF THE BONDS; PROVIDING TERMS, COVENANTS AND CONDITIONS CONCERNING THE BONDS; CONFIRMING THE SALE OF THE BONDS TO THE PURCHASER THEREOF; AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF DOCUMENTS AND THE REDEMPTION OF CERTAIN OUTSTANDING BONDS; APPOINTING AN INITIAL BOND REGISTRAR AND PAYING AGENT AND A DEPOSITORY TRUSTEE FOR THE BONDS; AND DECLARING AN EMERGENCY.

BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA, AS FOLLOWS:

Section 1. Recitals, Findings and Conclusions.

(a) Pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes, as amended (the "Act"), Pima County, Arizona (the "County"), is authorized to issue sewer revenue bonds.

(b) Pursuant to Resolution No. 1993-220 passed and adopted on December 14, 1993, the County has issued and presently has outstanding its Sewer Revenue Refunding Bonds, Series 1994A (the "1994A Bonds") in the original principal amount of $28,670,000. The best interests of the County will be served by the refunding of the outstanding 1994A Bonds described on "Exhibit 1" to the hereinafter described Depository Trust Agreement (the "Bonds to be Refunded") upon or in advance of their maturity.

(c) By Resolution No. 1991-138 passed and adopted on June 18, 1991 as amended by Resolution No. 1991-182 adopted August 6, 1991 (together "Resolution No. 1991-138") the Board of Supervisors of the County (the "Board") authorized the issuance of its Sewer Revenue Refunding Bonds, Series 1991 and prescribed the terms and conditions upon which additional obligations payable from sewer revenues may be issued on a parity basis. The conditions prescribed in Resolution No. 1991-138, for issuing such parity obligations will be met in connection with the issuance of the Series 2004 Bonds herein authorized. The Series 2004 Bonds to be issued pursuant to this Resolution shall be designated as Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds").

(d) All acts, conditions and things required by the Constitution and laws of the State of Arizona and requirements of the County to happen, exist and be performed precedent to and in the adoption of this Resolution have happened, exist and have been performed as so required in order to make this Resolution a valid and binding instrument for the security of the Series 2004 Bonds authorized herein.

(e) The Series 2004 Bonds will be offered for sale by a Preliminary Official Statement (the "Preliminary Official Statement") which with conforming and other changes will be the Official Statement (the "Official Statement") and sold pursuant to a Bond Purchase

Agreement (the "Bond Purchase Agreement"), between the County and the original purchaser named therein (the "Original Purchaser").

Section 2. Resolution Supplements Resolution No. 1991-138. This Resolution shall be supplemental to Resolution No. 1991-138, and shall be construed in conjunction therewith. All words and phrases used herein which were defined in Resolution No. 1991-138 shall have the meanings given them in said Resolution, except that the term "Finance Director" for purposes of this Resolution shall mean the County Administrator or his designee.

Section 3. Authorization and Terms of Series 2004 Bonds. Pursuant to the Act and for the purpose of refunding and redeeming the Bonds to be Refunded and paying the costs of issuance therefor and necessary premiums and commissions in connection therewith, the County hereby authorizes the issuance of the Series 2004 Bonds in the total principal amount not exceeding $30,000,000. Interest will be paid on each interest payment date by check mailed by the Paying Agent to each registered owner of the Series 2004 Bonds at the address shown on the registration book of the Bond Registrar on the Record Date (as described in Section 13 below), or by wire transfer to any securities depository or, upon two days prior written request delivered to the Paying Agent specifying a wire transfer address in the continental United States, to any registered owner of at least $1,000,000 aggregate principal amount of Series 2004 Bonds. Principal of the Series 2004 Bonds, at maturity or upon redemption prior to maturity, will be payable upon presentation and surrender at the designated office of the Paying Agent. The Series 2004 Bonds will be dated April 1, 2004 or such other date provided in the Bond Purchase Agreement and will mature (or be subject to mandatory redemption) in such amounts on July 1 in any or all of the years 2004 to 2025, inclusive, all as provided in the hereinafter-described Bond Purchase Agreement.

The Series 2004 Bonds shall be payable as to interest on January 1 and July 1 of each year during the life of the Series 2004 Bonds, commencing on the date and at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months) established in the Bond Purchase Agreement (which rates shall not result in an average interest cost in excess of 6.50%). The Series 2004 Bonds will be issuable in the denomination of $5,000 each or integral multiples thereof, in fully registered form.

Section 4. Security. The Series 2004 Bonds are payable as to both principal and interest solely from the net revenues derived by the County from the operation of its sewer system after provision has been made for the payment for the operation and maintenance of the sewer system. The Series 2004 Bonds shall not constitute a debt or general obligation of the County within the meaning of any constitutional or statutory debt limitation, nor shall payment of the Series 2004 Bonds or interest or redemption premiums thereon be enforceable out of any funds other than the net revenues pledged to such payment nor shall any bond owner have the right to compel any exercise of the taxing power of the County to make such payment.

On or before the tenth (10th) day of each month, sufficient Net Revenues shall be deposited to the Bond Fund in the following amounts and manner:

(a) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 or December 10, as applicable, such amount necessary to allocate equally among such months, the interest due (net of accrued interest on the Series 2004 Bonds), if any, on the next July 1 or January 1, as applicable, and

thereafter on the tenth day of each month one-sixth (1/6) of the interest becoming due on the next interest payment date on the Series 2004 Bonds and all Bonds Outstanding; and

(b) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 such amount necessary to allocate equally among such months the principal due, if any, on the next July 1, and thereafter on the tenth day of each month one-twelfth (1/12) of the principal amount becoming due on the next principal payment date on the Series 2004 Bonds and all Bonds Outstanding.

Section 5. Series 2004 Bonds on a Parity. The Series 2004 Bonds are issued on a parity with the outstanding Pima County, Arizona, Sewer Revenue Bonds, Series 1993; Pima County, Arizona, Sewer Revenue Bonds, Series 1994B, Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and those certain Loan Agreements between the County, as Borrower, and the Water Infrastructure Finance Authority of Arizona, dated February 1, 1996, June 1, 1997, October 27, 2000, and December 28, 2001, respectively, and any other bonds hereafter issued on a parity with such bonds (together, the "Parity Obligations"), and holders of the Series 2004 Bonds shall enjoy the same parity of lien and rights of enforcement.

The County reaffirms all covenants and conditions contained in Resolution No. 1991-138 and agrees that all such covenants and conditions shall also apply to all Series 2004 Bonds herein authorized and all funds created or continued by Resolution No. 1991-138 are hereby ordered expanded so as to service the increased requirements caused by the issuance of the Series 2004 Bonds.

If necessary, the Reserve Fund Value shall be increased by the amount of the Reserve Requirement for the Series 2004 Bonds and all other outstanding Parity Obligations. If, upon issuance of the Series 2004 Bonds, the Reserve Fund Value is less than the Reserve Requirement, the County shall (i) immediately upon execution and delivery of the Series 2004 Bonds, deposit Series 2004 Bond proceeds or other available moneys of the County into the Reserve Fund or cause to be delivered a Reserve Fund Guaranty to the Paying Agent, in an amount sufficient for the Reserve Fund Value to equal the Reserve Fund Requirement for the Series 2004 Bonds and all other outstanding Parity Obligations or (ii) deposit Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th day of each month such that the Reserve Fund Value will equal or exceed the increased Reserve Requirement, if any, not later than the expiration of five (5) years following the initial delivery of the Series 2004 Bonds or (iii) any combination of (i) and (ii).

Section 6. Prior Redemption.

(a) Optional Redemption. The Series 2004 Bonds will be subject to call for redemption at the election of the County, in whole or in part at the times and at the redemption prices provided in the Bond Purchase Agreement.

(b) Mandatory Redemption. If and to the extent specified in the Bond Purchase Agreement, the Series 2004 Bonds scheduled to mature on any July 1 shall be combined into a term Series 2004 Bond, subject to mandatory redemption, by lot, selected by the Bond Registrar annually until payment at maturity, in the principal amounts shown in the Bond Purchase Agreement by the payment of the principal amount of each Series 2004 Bond so called

for redemption plus accrued interest to the date fixed for redemption, and without premium. Each mandatory redemption date shall be deemed to be a maturity date for all purposes of this Resolution.

(c) Notice of Redemption. Notice of redemption will be given by mail to registered owners of the Series 2004 Bonds at the address shown on the bond register maintained by the Bond Registrar not less than 30 days nor more than 60 days prior to the specified redemption date. Neither failure to give such notice, nor any defect therein, with respect to any Series 2004 Bonds shall affect the regularity of the proceedings for redemption of any other Series 2004 Bonds.

(d) Redemption of Less Than All of a Series 2004 Bond. The County may redeem a portion of any Series 2004 Bond in $5,000 increments. In that event, the registered owner shall submit the Series 2004 Bond for partial redemption and the Paying Agent shall make such partial payment and the Bond Registrar shall cause to be issued a new Series 2004 Bond in a principal amount which reflects the redemption so made to be authenticated and delivered to the registered owner thereof.

(e) Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, the Series 2004 Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Series 2004 Bonds on such date, and, if moneys for payment of the redemption price and accrued interest are held in separate accounts by the Paying Agent, interest on such Series 2004 Bonds or portions of Series 2004 Bonds so called for redemption shall cease to accrue, such Series 2004 Bonds shall cease to be entitled to any benefit or security hereunder and the owners of such Series 2004 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest and such Series 2004 Bonds shall be deemed paid and no longer outstanding.

Section 7. Use of Proceeds. Upon delivery of the Series 2004 Bonds and payment therefor, the amount paid as accrued interest shall be deposited to the Bond Fund. The balance shall be deposited with the Depository Trustee and applied in the manner provided in the Depository Trust Agreement or otherwise applied as provided in the Bond Purchase Agreement.

Section 8. Form of Series 2004 Bonds. The Series 2004 Bonds shall be in substantially the form of Exhibit A, attached hereto and incorporated by reference herein, with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby and are approved by those officers executing the Series 2004 Bonds and execution thereof by such officers shall constitute conclusive evidence of such approval.

The Series 2004 Bonds may have notations, legends or endorsements required by law, securities exchange rule or usage. Each Series 2004 Bond shall show the date of its authentication and registration.

Section 9. Book Entry Only System. The Series 2004 Bonds will initially be issued to and registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"), an automated clearinghouse for securities transactions, which will act as securities depository for the Series 2004 Bonds. One fully registered Series 2004 Bond, in the aggregate

principal amount of each maturity, will initially be registered in the name of and held by Cede & Co., as nominee for DTC.

So long as the book entry only system is in effect, beneficial ownership interests in the Series 2004 Bonds will be available in book entry form only through direct or indirect participants in DTC, in the principal amount of $5,000 or any integral multiple thereof. Beneficial owners of the Series 2004 Bonds will not receive certificates representing their interests in the Series 2004 Bonds and will not be deemed to be registered owners of the Series 2004 Bonds.

So long as the book entry only system is in operation, principal of, premium, if any, and interest on the Series 2004 Bonds will be payable by the Paying Agent to Cede & Co., as nominee of DTC which organization consequently bears sole responsibility for remitting such principal, premium, if any, and interest to the DTC participants for subsequent credit or disbursement to the beneficial owners of the Series 2004 Bonds.

In the event the County determines not to continue the DTC book entry only system or DTC determines to discontinue providing its services with respect to the Series 2004 Bonds and the County does not select another qualified securities depository, the County shall cause the Bond Registrar to deliver to DTC for redistribution to beneficial owners of the Series 2004 Bonds one or more Series 2004 Bonds in such principal amount or amounts, in denominations of $5,000 and any integral multiple thereof, and registered in such name or names, as DTC shall designate.

Section 10. Execution of Series 2004 Bonds. The Series 2004 Bonds shall be executed for and on behalf of the County by the Chair of the Board and attested by the Clerk of the Board by their manual or facsimile signatures.

If an officer whose signature is on a Series 2004 Bond no longer holds that office at the time the Series 2004 Bond is authenticated and registered, the Series 2004 Bond shall nevertheless be valid.

A Series 2004 Bond shall not be valid or binding until authenticated by the manual signature of an authorized officer of the Bond Registrar. The signature shall be conclusive evidence that the Series 2004 Bond has been authenticated and issued under this resolution.

Section 11. Mutilated, Lost or Destroyed Series 2004 Bonds. In case any Series 2004 Bond becomes mutilated or destroyed or lost, the County shall cause to be executed and delivered a new Series 2004 Bond of like date and tenor in exchange and substitution for and upon the cancellation of such mutilated Series 2004 Bond or in lieu of and in substitution for such Series 2004 Bond destroyed or lost, upon the registered owner's paying the reasonable expenses and charges of the County in connection therewith and, in the case of the Series 2004 Bond destroyed or lost, filing with the Clerk of the Board by the registered owner evidence satisfactory to the County that such Series 2004 Bond was destroyed or lost, and furnishing the County with a sufficient indemnity bond pursuant to § 47-8405, Arizona Revised Statutes.

Section 12. Official Statement. The distribution of a Preliminary Official Statement by the Original Purchaser, in substantially the form on file with the Clerk of the Board, is hereby authorized, ratified and approved and the Official Statement in substantially the form of the

Preliminary Official Statement shall be approved by the officer executing the same in such form or with such changes or revisions therein from the form of such Preliminary Official Statement as may be approved by such officer. The Chair or any other officer of this Board or the County is hereby authorized, empowered and directed, in the name and on behalf of the County, to execute and deliver the same to the Original Purchaser. The Preliminary Official Statement is hereby "deemed final" in accordance with Securities and Exchange Rule 15(c)2-12.

Section 13. Sale and Award of Series 2004 Bonds. The Series 2004 Bonds are hereby awarded, sold and confirmed to the Original Purchaser at a price of not less than 98.5% of the principal amount thereof, bearing interest at the rate or rates per annum (which rates do not result in an average interest cost in excess of 6.50% per annum) and having such other terms consistent with the provisions of this Resolution, all as provided in the Bond Purchase Agreement. The Bond Purchase Agreement in substantially the form on file with the Clerk of the Board is hereby approved in all respects, and the Chair of the Board is hereby authorized, empowered and directed, for and on behalf of the County, to execute and deliver the Bond Purchase Agreement with such changes therein as shall be approved by such official, his or her execution and delivery thereof to serve as conclusive evidence of such approval.

The County Administrator or his designee is hereby authorized and directed to cause the Series 2004 Bonds to be delivered to the Original Purchaser upon receipt of payment therefor and satisfaction of the other conditions for delivery thereof in accordance with the terms of the sale.

Section 14. Bond Registrar and Paying Agent. The County will maintain an office or agency where Series 2004 Bonds may be presented for registration of transfer (the "Bond Registrar") and an office or agency where Series 2004 Bonds may be presented for payment (the "Paying Agent"). The County may appoint one or more co-Bond Registrars or one or more additional Paying Agents. The Bond Registrar and Paying Agent may make reasonable rules and set reasonable requirements for their respective functions with respect to the owners of the Series 2004 Bonds.

As provided in Resolution No. 1991-138, J.P. Morgan Trust Company, National Association (as successor in interest to The Valley National Bank of Arizona and its successors), or successors thereto, is hereby appointed and shall act as the Bond Registrar and Paying Agent for the Series 2004 Bonds.

The Bond Registrar may appoint an authenticating agent acceptable to the County to authenticate Series 2004 Bonds. An authenticating agent may authenticate Series 2004 Bonds whenever the Bond Registrar may do so. Each reference in this Resolution to authentication by the Bond Registrar includes authentication by an authenticating agent acting on behalf and in the name of the Bond Registrar and subject to the Bond Registrar's direction.

The Bond Registrar shall keep a register of the Series 2004 Bonds, the registered owners of the Series 2004 Bonds and of transfer of the Series 2004 Bonds. When Series 2004 Bonds are presented to the Bond Registrar or a co-Bond Registrar with a request to register a transfer, the Bond Registrar will register the transfer on the registration books if its requirements for transfer are met and will authenticate and deliver one or more Series 2004 Bonds registered in the name of the transferee of the same principal amount, maturity and rate of interest as the surrendered Series 2004 Bonds. Any Series 2004 Bond may be exchanged at the designated office of the

Bond Registrar for a Series 2004 Bond of the same maturity date and aggregate principal amount as the surrendered Series 2004 Bond. The "Record Date" for the Series 2004 Bonds will be the close of business of the Bond Registrar on the 15th day of the month preceding an interest payment date. Series 2004 Bonds presented to the Bond Registrar for transfer after the close of business on the Record Date and before the close of business on the next subsequent interest payment date will be registered in the name of the transferee but the interest payment will be made to the registered owners shown on the books of the Bond Registrar as of the close of business on the Record Date.

The Bond Registrar shall authenticate Series 2004 Bonds upon the written request of the County Administrator or his designee.

Section 15. Depository Trustee; Depository Trust Agreement. J.P. Morgan Trust Company, National Association is hereby appointed as the depository trustee (the "Depository Trustee") for the Bonds to be Refunded. The Depository Trust Agreement between the County and the Depository Trustee (the "Depository Trust Agreement"), in substantially the form on file with the Clerk of the Board is hereby approved, and the Chair of the Board of Supervisors is hereby authorized, empowered and directed, for and on behalf of the County, to execute and deliver the Depository Trust Agreement with such changes therein as he shall approve, his execution and delivery thereof to serve as conclusive evidence of such approval.

Section 16. Reserve Fund Guaranty and Bond Insurance. If the County is advised by the Original Purchaser that the purchase of a Municipal Bond Insurance Policy securing payment of the Series 2004 Bonds and/or a surety bond or other Reserve Fund Guaranty would be advantageous to the County or the terms of the financing represented by the Series 2004 Bonds, the County Administrator or his designee is hereby authorized to negotiate with and secure, with proceeds of the Series 2004 Bonds or otherwise, such a Municipal Bond Insurance Policy or a Reserve Fund Guaranty, in amounts required by Resolution No. 1991-138, or both. The Chair of the Board or the County Administrator or the designee of either is hereby further authorized to execute and deliver any instruments or documents necessary in connection with the purchase of any such Municipal Bond Insurance Policy and/or Reserve Fund Guaranty, including those making provision for the repayment of amounts advanced by the institutions issuing such Municipal Bond Insurance Policy and/or Reserve Fund Guaranty.

Section 17. Call for Redemption of Bonds to be Refunded. In accordance with the redemption provisions of Resolution No. 1993-220, the County does hereby exercise its right to redeem and does hereby call for redemption (subject to the delivery of the Series 2004 Bonds) on July 1, 2004, the first available redemption date, the Bonds to be Refunded maturing after that date.

Section 18. Resolution a Contract. This Resolution shall constitute a contract between the County and the owners of the Series 2004 Bonds issued hereunder and shall not be repealed or amended except as provided in Resolution No. 1991-138 for repeal or amendment thereof.

Section 19. Compliance with Federal Law. The County recognizes that the purchasers and owners of the Series 2004 Bonds will have accepted them on, and paid therefor a price which reflects, the understanding that interest thereon is excludable from gross income of the owners thereof for federal income tax purposes under laws in force at the time the Series 2004 Bonds shall have been delivered. In this connection the County agrees that it shall take no action

which may render the interest on any of the Series 2004 Bonds to be includable in gross income for federal income tax purposes. The County agrees that, to the extent possible under state law, it will comply with whatever federal law is now in effect or which shall be adopted in the future which applies to the Series 2004 Bonds and affects the exempt status of the interest income on the Series 2004 Bonds.

The County, therefore, authorizes the creation by such officer as is named by the County Administrator or his designee of a fund which is hereinafter referred to as the "Rebate Fund". Moneys will be deposited and invested in the Rebate Fund and disbursed pursuant to the terms of the Tax Certificate and Agreement, delivered in connection with the delivery of the Series 2004 Bonds (the "Tax Agreement").

The County Administrator or his designee is hereby authorized to execute on behalf of the County the Tax Agreement to assure the owners of the Series 2004 Bonds that the proceeds of the Series 2004 Bonds will not be used in a manner which would or might result in the Series 2004 Bonds being "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986 (the "Code"), as amended, or the regulations of the United States Treasury Department currently in effect or proposed. Such Tax Agreement shall constitute a certification, representation and agreement of the County and no investment shall be made of the proceeds of the Series 2004 Bonds herein authorized nor of the money in the account established hereunder in violation of the expectations and covenants prescribed by said Tax Agreement. Such Tax Agreement shall constitute an agreement of the County to follow certain covenants which may require the County to take certain actions (including the payment of certain amounts to the United States Treasury) or which may prohibit certain actions (including the establishment of certain funds) under certain conditions as specified in such Tax Agreement.

The County further recognizes that Section 149(a) of the Code requires the Series 2004 Bonds to be issued and to remain in fully registered form in order for interest thereon to be excludable from gross income for purpose of federal income taxation under laws in force at the time the Series 2004 Bonds are delivered. In this connection, the County agrees that it will not take any action to permit the Series 2004 Bonds to be issued in, or converted into, bearer or coupon form if and to the extent such action would adversely affect the exclusion of interest on the Series 2004 Bonds from gross income for federal income tax purposes.

The County also recognizes that the Original Purchaser of the Series 2004 Bonds may be required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule") in connection with purchasing or selling the Series 2004 Bonds as an underwriter. In order to assist the Original Purchaser in complying with the Rule the County will enter into a Continuing Disclosure Undertaking with respect to the Series 2004 Bonds, and a Continuing Disclosure Undertaking in substantially the form on file with the Clerk of the Board is hereby approved, and the County Administrator or his designee is hereby authorized, empowered and directed, on behalf of the County, to execute and deliver the Continuing Disclosure Undertaking with such changes therein as such officer shall approve, the execution and delivery thereof to serve as conclusive evidence of such approval, and to do all such acts and things necessary to carry out the terms and intent of the Continuing Disclosure Undertaking.

Section 20. Authorization to Purchase Government Obligations. The Depository Trustee is hereby authorized to purchase Government Obligations described or to be described

in the Depository Trust Agreement. The maturing principal of and interest income earned on said Government Obligations will be calculated to be sufficient to pay when due all principal, interest and premium where applicable on the Bonds to be Refunded. If and to the extent required in the Bond Purchase Agreement, an opinion will be rendered by a qualified certified public accountant or firm of certified public accountants, as to the arithmetical accuracy of such calculations.

Section 21. Severability. It is the intention hereof to confer upon the County the whole of the powers provided for in the Act and if any one or more sections, clauses, sentences and parts hereof shall for any reason be questioned in any court of competent jurisdiction and shall be adjudged unconstitutional or invalid, such judgment shall not affect, impair or invalidate the remaining provisions hereof, or the Series 2004 Bonds issued pursuant hereto but shall be confined to the specific sections, clauses, sentences and parts so determined. All prior resolutions or parts thereof in conflict herewith be and the same are hereby repealed.

Section 22. Ratification of Actions. All actions of the officers, employees, and agents of the County which conform to the purposes and intent of this Resolution and which further the issuance and sale of the Series 2004 Bonds as contemplated by this Resolution whether heretofore or hereafter taken shall be and are hereby ratified, confirmed and approved. The proper officers and agents of the County are hereby authorized and directed to do all such acts and things and to execute and deliver all such documents on behalf of the County as may be necessary to carry out the terms and intent of this Resolution.

Section 23. Emergency. It is necessary to utilize an emergency clause with this Resolution to provide for the terms of the Series 2004 Bonds to allow the County to enter into a contract for the sale thereof at the earliest practicable date, thereby committing the Original Purchaser to the interest rates the Series 2004 Bonds will bear, transferring the market risk of changes in interest rate levels from the County to the purchaser and permitting delivery of and payment for the Series 2004 Bonds to occur as soon as is possible.

WHEREAS, the immediate operation of the provisions of this Resolution is necessary for the preservation of the public peace, health and safety of the County, an emergency is hereby declared to exist, and this Resolution is enacted as an emergency measure and will be in full force and effect after its passage, adoption and approval by the Board of Supervisors and it is hereby exempt from the referendum provisions of the Constitution and laws of the State of Arizona.

[Remainder of page left blank intentionally]

PASSED, ADOPTED AND APPROVED by the Board of Supervisors of Pima County, Arizona, on March 9, 2004.

PIMA COUNTY

By: _____
Chair, Board of Supervisors
MAR 0 9 2004

ATTEST:

By: Robin Brigode, Deputy
Clerk, Board of Supervisors
MAR 0 9 2004

APPROVED AS TO FORM:

SNELL & WILMER L.L.P.,
Bond Counsel

By: Timothy E. Pickrell
Timothy E. Pickrell

297904

EXHIBIT A

FORM OF BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-_____

Denomination:
$_____

Interest Rate	Maturity Date	Original Issue Date	CUSIP
%	July 1, 20___	April 1, 2004	

Registered Owner: CEDE & CO.

Principal Amount: _____ AND NO/100 DOLLARS

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing _____ 1, 200_, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for

payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

This Bond is one of an issue of $_____ principal amount of Bonds of like date, tenor and effect except as to rate of interest, number and maturity date, issued pursuant to the Constitution and laws of the State of Arizona including particularly Title 11, Chapter 2, Article 4, Arizona Revised Statutes, as amended, and Resolutions No. 1991-138, 1991-182 and No. 2004-___ adopted by the Board of Supervisors of Pima County on June 18, 1991, August 6, 1991 and March __, 2004, respectively (collectively, the "Bond Resolution"), for the purpose of refunding and redeeming certain outstanding Sewer Revenue Refunding Bonds, Series 1994A, and to paying the costs of issuance therefor and necessary premiums and commissions in connection therewith.

This Bond and the issue of which it is a part are payable as to both principal and interest solely from the net revenues to be derived by the County from the sewer system of the County. For a more complete statement of the provisions made to secure payment of the Bonds, the revenues from which and conditions under which this Bond is payable, statements of the terms under which the Bond Resolution may be modified, and the general covenants and provisions pursuant to which this Bond is issued, reference is made to the Bond Resolution.

This Bond and the interest hereon are enforceable exclusively from the revenues pledged thereto in the Bond Resolution and no owner hereof shall have the right to compel any exercise of the taxing power of the County to pay this Bond or the interest hereon. This Bond does not constitute an indebtedness or pledge of the general credit of the County within the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness.

Interest on the Bonds will be paid on each interest payment date by check mailed by the Paying Agent to each registered owner of the Bonds at the address shown on the registration book of the Bond Registrar on the record date (as described below), or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States by any registered owner of at least $1,000,000 aggregate principal amount of Bonds.

The Bonds maturing on or before July 1, _____ are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, _____ are subject to call for redemption on and after July 1, _____ at the election of the County, in whole or in part on any date, by the payment of a redemption price equal to the principal amount of each Bond called for redemption plus accrued interest to the date fixed for redemption plus a premium payable from any source lawfully available therefor, the premium (calculated as a percentage of the principal amount of the Bonds to be redeemed) to be computed as follows:

Period During Which Redeemed (both dates inclusive)	Redemption Premium
July 1, _____ through June 30, _____	1%
July 1, _____ and thereafter without premium.	

[The Bonds scheduled to mature on July 1, _____, are subject to mandatory redemption, by lot, selected by the Bond Registrar annually on the redemption dates and in the principal

amounts shown below by payment of the principal amount of each Bond so called for redemption plus accrued interest to the date fixed for redemption, and without premium.

Redemption Date (July 1)	Principal Amount]

Notice of redemption of any Bond will be mailed to the registered holder of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the Bond Registrar not less than 30 days nor more than 60 days prior to the specified redemption date.

The Bond Registrar and Paying Agent is J.P. Morgan Trust Company, National Association. The Bond Registrar or Paying Agent may be changed without notice.

This Bond is transferable by the registered owner in person or by attorney duly authorized in writing at the designated office of the Bond Registrar upon surrender and cancellation of this Bond, but only in the manner and subject to the limitation and upon payment of the charges provided in the Bond Resolution. Upon such transfer a new bond or bonds of the same aggregate principal amount, maturity and interest rate will be issued to the transferee in exchange. The Bond Registrar may require an owner, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Bond Resolution. The County has chosen the 15th day of the month preceding an interest payment date as the record date for this series of Bonds, unless such date is a Saturday, Sunday or holiday, in which case the record date will be deemed to be the previous business day. Should this Bond be submitted to the Bond Registrar for transfer during the period commencing after the close of business on the record date and continuing to and including the next subsequent interest payment date, ownership will be transferred in the normal manner but the interest payment will be made payable to and mailed to the registered owner as shown on the Bond Registrar's books at the close of business on the record date.

The Bond Registrar may but need not register the transfer of a Bond which has been selected for redemption and need not register the transfer of any Bond for a period of 15 days before a selection of Bonds to be redeemed. If the transfer of any Bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the Bond or Bonds.

Bonds of this issue are issuable only in fully registered form in the denomination of $5,000 each or integral multiples of $5,000. This Bond may be exchanged at the designated office of the Bond Registrar for a like aggregate principal amount of Bonds of the same maturity in authorized denominations upon the terms set forth in the Bond Resolution.

The County, the Bond Registrar and the Paying Agent may treat the registered owner of this Bond as the absolute owner for the purpose of receiving principal, interest and any premium and for all other purposes and none of them shall be affected by any notice to the contrary.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and laws of the State of Arizona to exist, to occur and to be performed precedent to and in the issuance of this Bond exist, have occurred and have been performed and that the series

of Bonds of which this is one, together with all other indebtedness of the County, is within every debt and other limit prescribed by the Constitution and laws of the State of Arizona.

The County has caused this Bond to be executed by the Chair of its Board of Supervisors and attested by its Clerk of the Board of Supervisors, which signatures may be facsimile signatures. This Bond is not valid or binding upon the County without the manually affixed signature of an authorized representative of the Bond Registrar.

PIMA COUNTY, ARIZONA

_____
Chair, Board of Supervisors

ATTEST:

_____
Clerk, Board of Supervisors

AUTHENTICATION CERTIFICATE

This Bond is one of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004, described in the Bond Resolution mentioned herein.

Date of Authentication: _____, 2004

J.P. Morgan Trust Company, National Association, as Registrar

By: _____
Authorized Representative

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT --
_____ Custodian _____
(Cust) (Minor)
Under Uniform Gifts to Minor Act

_____
(State)

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

_____

(Name and Address of Transferee)

_____

(Social Security or other Federal Tax Identification Number of Transferee)

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

_____

Note: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within registered bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

_____

Note: Signature(s) must be guaranteed by an eligible guarantor institution pursuant to Securities and Exchange Commission Rule 17Ad-15 that is a participant in a signature guarantor program recognized by the Trustee.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 22, 2004

NEW ISSUE - BOOK ENTRY ONLY **RATINGS: (See "Ratings" herein)**

In the opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, Bond Counsel, under existing laws and assuming compliance with certain covenants by the County as described under "TAX EXEMPTION" herein, interest on the Series 2004 Bonds is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes and is not an item of preference to be included in the alternative minimum tax of individuals or corporations. Interest on the Series 2004 Bonds is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. See "TAX EXEMPTION" "ORIGINAL ISSUE DISCOUNT" and "BOND PREMIUM" herein.

$27,160,000*
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Dated: May 1, 2004* **Due: July 1, as shown on next page**

The Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds") are being issued by Pima County, Arizona (the "County") in accordance with applicable State law. The Series 2004 Bonds are issued in the form of fully-registered bonds in denominations of $5,000 and integral multiples thereof. Interest on the Series 2004 Bonds is payable semiannually on July 1 and January 1 (each an "Interest Payment Date"). The first interest payment on the Series 2004 Bonds will be July 1, 2004*. Interest will be paid on each Interest Payment Date by check mailed by the paying agent to each registered owner of the Series 2004 Bonds at the address shown on the registration books (the "Bond Register") at the close of business on the fifteenth day of the month preceding each Interest Payment Date or if such day is a Saturday, Sunday or holiday on the next preceding business day; or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States, to any registered owner owning an aggregate principal amount of Series 2004 Bonds of at least $1,000,000. Principal of and any premium on the Series 2004 Bonds will be payable at the designated corporate trust office of J.P. Morgan Trust Company, National Association, or successor, as registrar and paying agent.

The Series 2004 Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2004 Bonds. Purchases of beneficial interests in such Series 2004 Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership of interest in the Series 2004 Bonds purchased by them. So long as the Series 2004 Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 2004 Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2004 BONDS – Book-Entry-Only System" herein.

The Series 2004 Bonds are subject to redemption prior to their stated maturities, as described herein.

The Series 2004 Bonds are being issued for the purpose of providing funds to (i) refund in advance of maturity certain maturities of outstanding sewer revenue bonds of the County, and (ii) pay costs relating to the issuance of the Series 2004 Bonds.

Principal of, premium, if any, and interest on the Series 2004 Bonds are payable solely from and secured by a pledge of the Net Revenues of the System on parity of lien with certain outstanding sewer revenue debt and additional parity debt that may be issued in the future under the herein-described Sewer Bond Resolution. THE SERIES 2004 BONDS ARE NOT GENERAL OBLIGATIONS OF THE COUNTY OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE COUNTY. THE COUNTY IS NOT LIABLE FOR THE PAYMENT OF THE SERIES 2004 BONDS FROM ANY SOURCES OF FUNDS EXCEPT THE SOURCES AND FUNDS DESCRIBED HEREIN. See "THE SERIES 2004 BONDS - Security and Source of Payment" herein.

The scheduled payment of principal of and interest on the Series 2004 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2004 Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA

This cover page contains only a brief description of the Series 2004 Bonds and the security therefor. It is not intended to be a summary of material information with respect to the Series 2004 Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2004 Bonds are offered when, as and if issued by the County and received by the Underwriter, subject to the approving opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, as to validity and tax exemption. Certain matters will be passed upon for the Underwriter by its counsel, Greenberg Traurig, LLP, Phoenix, Arizona. It is expected that the Series 2004 Bonds will be available for delivery through the facilities of DTC, on or about May 11, 2004.*

RBC DAIN RAUSCHER

April ___, 2004

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other changes without any notice. The securities described herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

MATURITY SCHEDULE*

$27,160,000*
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Maturity July 1	Principal Amount	Interest Rate	Yield	Maturity July 1	Principal Amount	Interest Rate	Yield
2004	$ 115,000			2010	$1,840,000		
2005	1,800,000			2011	1,890,000		
2006	1,820,000			2012	2,275,000		
2007	2,695,000			2013	2,630,000		
2008	2,750,000			2014	3,020,000		
2009	2,805,000			2015	3,520,000		

(Accrued Interest to be Added)

*Preliminary, subject to change.

PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS

Sharon Bronson, *Chair*

Ray Carroll

Ann Day

Richard Elias

Ramon Valadez

COUNTY ADMINISTRATIVE OFFICIALS

ELECTED OFFICIALS

Rick Lyons
County Assessor

Beth Ford
County Treasurer

Barbara La Wall
County Attorney

APPOINTED OFFICIALS

C.H. Huckelberry
County Administrator

Carol Bonchalk
Director of Finance

BOND COUNSEL

Snell & Wilmer L.L.P.
Tucson, Arizona

BOND REGISTRAR AND PAYING AGENT

J.P. Morgan Trust Company, National Association
Tempe, Arizona

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offering of any security other than the original offering of the Series 2004 Bonds identified on the inside front cover hereof. No person has been authorized by the County to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the County.

The issuance and sale of the Series 2004 Bonds have not been registered under the Federal Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities; nor has the issue been qualified under the Securities Act of Arizona, in reliance upon various exemptions in such Act. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the County since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004 BONDS OFFERED HEREIN AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix I "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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Appendix A - Pima County, Arizona
Wastewater Management Department

Appendix B - Pima County, Arizona
General Economic and Demographic Information

Appendix C - Pima County, Arizona
Financial Information

Appendix D - Form of Opinion of Bond Counsel

Appendix E - Audited Financial Statements of the Pima County Department of Wastewater Management for Fiscal Year Ended June 30, 2003

Appendix F - Audited Financial Statements of Pima County, Arizona for Fiscal Year Ended June 30, 2003

Appendix G - Summary of Resolution No. 1991-138 (as Amended and Supplemented) Authorizing the Issuance of Sewer Revenue Bonds

Appendix H - Form of Continuing Disclosure Undertaking

Appendix I - Specimen Municipal Bond Insurance Policy

$27,160,000*
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices hereto, has been prepared by Pima County, Arizona (the "County") in connection with the original issuance and sale by the County of its Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"), identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the County from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show certain historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

References to provisions of Arizona law, whether codified in the Arizona Revised Statutes or uncodified, or of the Arizona Constitution, are references to those current provisions. Those provisions may be amended, repealed or supplemented.

THE SERIES 2004 BONDS

Authorization and Use of Funds

The Series 2004 Bonds are issued pursuant to the Constitution and laws of the State of Arizona, including specifically Title 11, Chapter 2, Article 4, Arizona Revised Statutes and all amendments thereto, and more specifically under the provisions of (i) Resolution No. 1991-138 adopted by the County's Board of Supervisors (the "Board") on June 18, 1991, as amended by the Board on August 6, 1991, and (ii) a supplemental authorizing resolution, which supplemental resolution provides for the issuance of the Series 2004 Bonds, adopted by the Board on March 9, 2004 (collectively, the "Sewer Bond Resolution"). Excerpts of the Sewer Bond Resolution, including certain defined terms used herein, are presented in Appendix G.

Proceeds of the sale of the Series 2004 Bonds will be used to provide funds to (i) refund in advance of maturity certain maturities of outstanding sewer revenue bonds of the County, and (ii) pay costs relating to the issuance of the Series 2004 Bonds. See "PLAN OF REFUNDING" herein.

General Description

The Series 2004 Bonds will be dated May 1, 2004* and will be issued in the form of fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2004 Bonds will bear interest from May 1, 2004*, payable semiannually on January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2004*

As described herein under "THE SERIES 2004 BONDS – Book-Entry-Only System" the Series 2004 Bonds will be issued in book-entry-only form and will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is the registered Owner of all of the Series 2004 Bonds, all payments on the Series 2004 Bonds will be

*Preliminary, subject to change.

directly to DTC. So long as Cede & Co. is the registered Owner of the Series 2004 Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 2004 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 2004 Bonds. When reference is made to any action which is required or permitted to be taken by the beneficial owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such beneficial owners for such purposes. When notices are given, they shall be sent by the hereinafter-described Paying Agent to DTC only, as registered Owner.

Interest will be paid on each Interest Payment Date by check mailed to each registered owner of the Series 2004 Bonds (initially, only DTC) at the address shown on the registration books (the "Bond Register") maintained by the hereafter-described Bond Registrar at the close of business on the fifteenth day of the month preceding each Interest Payment Date or if such day is a Saturday, Sunday or holiday on the next preceding business day (the "Record Date"), or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States, to any registered owner owning an aggregate principal amount of Series 2004 Bonds of at least $1,000,000 and the principal of the Series 2004 Bonds will be payable at maturity upon surrender of the Series 2004 Bonds to J.P. Morgan Trust Company, National Association, as the bond registrar and paying agent (the "Bond Registrar" and "Paying Agent" as applicable).

Security and Source of Payment

Principal, premium, if any, and interest on the Series 2004 Bonds are payable solely from the revenues derived by the County from the operation of its sewer system (the "System") after provision has been made for the payment of the reasonable and necessary expenses of the operation and maintenance of the System (the "Net Revenues"). The Series 2004 Bonds will be on a parity of lien on such Net Revenues with the County's outstanding Sewer Revenue Bonds, Series of 1993; Sewer Revenue Bonds, Series 1994B; Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001, and certain loan agreements between the Water Infrastructure Finance Authority of Arizona ("WIFA") and the County as borrower in February 1996, June 1997, October 2000 and December 28, 2001 (collectively, "Outstanding Parity Bonds"), and additional parity bonds that may be issued in the future as provided in the Sewer Bond Resolution (collectively with the Series 2004 Bonds and the Outstanding Parity Bonds, "Parity Bonds"). The aggregate principal amount of Parity Bonds that will be outstanding after the issuance of the Series 2004 Bonds is $140,929,383*. See "Parity Debt" and "SEWER REVENUE DEBT OUTSTANDING" herein. See also the discussion under the subheading "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT" for a discussion relating to the adverse impact on cash flow during fiscal year 2002-03 of the event described thereunder.

Redemption*

The Series 2004 Bonds maturing on or before July 1, 2014 are not subject to call for redemption prior to their respective maturity dates. The Series 2004 Bonds maturing on July 1, 2015 are subject to call for redemption prior to maturity on and after July 1, 2014 at the election of the County, in whole or in part in $5,000 increments on any date, by the payment of a redemption price equal to the principal amount of each Bond called for redemption, without premium, plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption of any Bond will be given by mail to the registered owner of the Series 2004 Bond or Series 2004 Bonds being redeemed at the address shown on the Bond Register maintained by the Bond Registrar not less than thirty (30) and not more than sixty (60) days prior to the date set for redemption. Neither failure to give such notice, nor any defect therein with respect to any Series 2004 Bonds shall affect the regularity of the proceedings for redemption of any other Series 2004 Bond.

*Preliminary, subject to change.

Reserve Fund

The Sewer Bond Resolution requires that the County maintain a Reserve Fund which secures the payment of all Outstanding Parity Bonds and subsequently issued Parity Bonds without preference or priority of debt of any series. The Sewer Bond Resolution requires that the Reserve Fund be maintained in an amount equal to the Reserve Requirement, which is equal to average annual debt service on all Outstanding Parity Bonds, or such lesser amount as may be required to preserve the sewer revenue debts' status as tax-exempt obligations under the Internal Revenue Code. The Sewer Bond Resolution provides that the Reserve Fund be further funded, if necessary, in connection with the issuance of the Series 2004 Bonds and adjusted upon the issuance of additional Parity Bonds by (i) the immediate deposit of bond proceeds or available moneys of the County into the Reserve Fund or the immediate delivery to the Paying Agent of a Reserve Fund Guaranty, or any combination thereof, in order for the Reserve Fund Value to equal or exceed the Reserve Requirement; or (ii) within five years following the delivery of the Series 2004 Bonds or any Parity Bonds, deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th day of each month such that the Reserve Fund Value will equal or exceed the Reserve Requirement not later than the expiration of such five-year period; or (iii) any combination of the methods described in clauses (i) and (ii) above in an aggregate amount equal to the Reserve Requirement.

If the Reserve Fund is funded with cash and investments and any amount thereof is subsequently withdrawn and transferred to the Bond Fund to pay debt service on the Series 2004 Bonds or Parity Bonds such that the Reserve Fund Value is less than the Reserve Requirement, the County is required to deposit to the Reserve Fund from Net Revenues the amount of any such deficiency in twelve (12) equal monthly installments.

The County has previously delivered for the benefit of the Reserve Fund surety bonds issued by Financial Guaranty Insurance Company, AMBAC Indemnity Corporation, and MBIA Insurance Corporation each of which satisfy the requirements of a Reserve Fund Guaranty under the Sewer Bond Resolution. The County does not expect to have to fund any additional Reserve Requirement at the time of delivery of the Series 2004 Bonds.

Rate Covenant

The County has covenanted under the Sewer Bond Resolution to establish and maintain rates, fees and charges for services supplied by the System sufficient to pay the maintenance and operation costs of the System and to produce an aggregate amount of Net Revenues in each fiscal year equal to at least 1.20 times the Annual Debt Service Requirement for the corresponding Bond Year on all outstanding Parity Bonds (treating any variable rate Parity Bonds hereafter issued as bearing interest at the Assumed Interest Rate and bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and sufficient to pay any Policy Costs (as defined in the Reserve Fund Guaranties) during such Bond Year.

Parity Bonds

Under the provisions of the Sewer Bond Resolution, the County may issue additional Parity Bonds secured by the Net Revenues, if Net Revenues for the immediately preceding Fiscal Year (as shown by a certificate of the County's Director of Finance) are at least equal to 1.20 times Maximum Annual Debt Service coming due in any Bond Year on all Parity Bonds then outstanding and the proposed Parity Bonds to be issued, and are sufficient to pay any Policy Costs during such Bond Years. Under certain conditions set forth in the Sewer Bond Resolution, additional amounts may be added to Net Revenues for the purpose of calculating the Parity Bonds test. See Appendix G - "Summary of Resolution No. 1991-138 (as Amended and Supplemented) Authorizing the Issuance of the Series 2004 Bonds."

The County will have $23,910,000 of voter-authorized but unissued Parity Bond authorization available after the issuance of the Series 2004 Bonds. The County expects to utilize approximately $18,015,000 of this remaining authorization during the second calendar quarter of 2004 for purposes of an additional loan agreement from WIFA, the proceeds of which will be used to finance the design and improvement of certain projects some of which are described under the subheading "Capital Improvements" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT." Principal amounts drawn under the loan agreement will be treated as if they constituted additional Parity Bonds. See also the discussion under the subheading "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT

DEPARTMENT" for a discussion relating to the adverse impact on cash flow during fiscal year 2002-03 of the event described thereunder. In addition, a special bond election will be held in the County on May 18, 2004 to seek, among other propositions, authorization to issue an additional $150,000,000 principal amount of sewer revenue bonds and additional amounts might be authorized at future elections, all of which could be issued as additional Parity Bonds.

Book-Entry-Only System

The following information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, the County takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm this information with DTC or the DTC participants.

DTC will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully-registered securities, initially registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2004 Bond certificate will be issued for each maturity of the Series 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial

Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2004 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Sewer Bond Resolution. Beneficial Owners of the Series 2004 Bonds may wish to ascertain that the nominee holding the Series 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2004 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the County on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the paying agent for the Series 2004 Bonds or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the paying agent for the Series 2004 Bonds, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2004 Bonds at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2004 Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2004 Bond certificates will be printed and delivered.

THE COUNTY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP IN THE SERIES 2004 BONDS UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR FOR THE SERIES 2004 BONDS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2004 BONDS UNDER THE SEWER BOND RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2004 BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERES 2004 BONDS; OR (V) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2004 Bonds, as nominee for DTC, reference herein to "Owner" or registered owners of the Series 2004 Bonds (other than under the caption "TAX

EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2004 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the County or the Paying Agent to DTC only.

PLAN OF REFUNDING

A portion of the net proceeds of the Series 2004 Bonds will be placed in an irrevocable trust fund (the "Trust Account") with J.P. Morgan Trust Company, National Association (the "Depository Trustee"), pursuant to a Depository Trust Agreement dated the date of the Series 2004 Bonds, and will be used to acquire United States Treasury Obligations ("the Government Obligations"), the maturing principal of and interest income with respect to which, together with an initial cash balance, are calculated to be sufficient to pay, when due, the principal of, premium on, and interest on the following outstanding sewer revenue bonds of the County (the "Bonds Being Refunded"):

Issue (Dated Date)	Sewer Revenue Bonds	Original Principal Amount	Maturity Date(s) to be Refunded*	Principal Amount Being Refunded*	Redemption Dates	Redemption Premium on Bonds Being Refunded
1-1-94	Series 1994A	$28,670,000	7-1-04/15	$25,520,000	7-1-04	2.0%

If the moneys and the Government Obligations held in the Trust Account are not sufficient to pay the principal of, premium on and accrued interest thereon, when due, of the Bonds Being Refunded, the County will remain liable for payment of the Bonds Being Refunded. See "THE SERIES 2004 BONDS – Security and Source of Payment" and "MATHEMATICAL VERTIFICATION."

MATHEMATICAL VERIFICATION

The arithmetical accuracy of certain computations included in the schedules provided by RBC Dain Rauscher (the "Underwriter") relating to (a) computation of anticipated receipts of principal and interest on the Government Obligations and the anticipated payments of principal, premium, if any, and interest to redeem the Bonds Being Refunded, and (b) computation of the yields on the Bonds and the Government Obligations was examined by The Arbitrage Group, Inc., certified public accountants. Such computations were completed using certain assumptions and information supplied by the Underwriter on behalf of the County. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion of the data used, the reasonableness of the assumptions, or the achievability of future events.

*Preliminary, subject to change.

SOURCES AND USES OF FUNDS*

Sources:

Principal Amount of Series 2004 Bonds

Net Premium

Accrued Interest

Total

Uses:

Purchase of Government Obligations and Beginning Cash Balance

Issuance Expenses (including Bond Insurance and Underwriters Discount)

Deposit to County's Interest Account for the Series 2004 Bonds

Total

BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Series 2004 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series 2004 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2004 Bonds when due as set forth in the specimen of the Policy included as an exhibit to this Official Statement. See Appendix I for such specimen.

The Policy is not covered by any insurance security or guaranty fund established under New York, California Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2003, Financial Security's total policyholders surplus and contingency reserves ere approximately $2,104,257,000 and its total unearned premium reserve was approximately $1,356,385,000 in accordance with statutory accounting practices. At December 31, 2003, Financial Security's total shareholders' equity was approximately $2,307,646,000 and its total net unearned premium reserve was approximately $1,166,562,000 in accordance with generally accepted accounting principals.

*Preliminary, subject to change.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Security and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of the Official Statement until the termination by the offering of the Series 2004 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2004 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

SEWER REVENUE DEBT OUTSTANDING

The following chart lists the sewer revenue debt of the County that will be outstanding after the issuance of the Series 2004 Bonds. For matters relating to the issuance of additional Parity Bonds, see "THE SERIES 2004 BONDS -- Parity Bonds."

Date of Issue	Original Amount	Purpose	Remaining Maturity Dates	Balance Outstanding
01-01-93	$ 6,000,000	Sewer Improvements	7-1-01/05	$ 615,000
01-01-94	28,670,000	Refunding	7-1-01/15	25,520,000
04-01-94	8,000,000	Sewer Improvements	7-1-01/04	580,000
02-01-96	11,313,350	Refunding (a)(b)	7-1-04/12	11,313,350
06-01-97	7,500,000	Sewer Improvements (b)	7-1-01/11	4,757,898
05-01-98	29,185,000	Sewer Improvements	7-1-01-15	23,395,000
10-27-00	61,180,286	Sewer Improvements (b)(c)	7-1-02-16	54,978,135
04-01-01	19,440,000	Refunding	7-1-04/15	18,130,000
Total Direct Sewer Revenue Bonded Debt Outstanding				$139,289,383
Less: The Bonds Being Refunded				(25,520,000)*
Plus: The Series 2004 Bonds offered herein				27,160,000*
Net Direct Sewer Revenue Bonds Outstanding (d)				$140,929,383*

(a) Proceeds of the loan were used to refund in advance of maturity $5,025,000 of the Sewer Revenue Bonds, Series 1992, $2,845,000 of the Sewer Revenue Bonds, Series 1993 and $2,650,000 of the Sewer Revenue Bonds, Series 1994B. The debt service requirements on the refunded bonds are secured for payment by U.S. Government Securities which are held in an irrevocable trust.

(b) Represents funds borrowed under separate loan agreements with WIFA.

(c) On October 27, 2000, the County entered into certain loan agreements with WIFA totaling $40,000,000. In December 2001, the County amended those loan agreements and added an additional $21,180,286.

(d) The County intends to execute and deliver another loan agreement with WIFA during the second calendar quarter of 2004 in the principal amount of approximately $18,015,000 which will be treated as if it constitutes additional Parity Bonds. See discussion under the subheading "THE SERIES 2004 BONDS – Parity Bonds" for a discussion relating to the use of proceeds of the loan agreement.

*Preliminary, subject to change.

PIMA COUNTY, ARIZONA
STATEMENT OF SEWER NET REVENUES, ESTIMATED DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE*

Fiscal Year	Net Revenues Available for Debt Service(a)	Outstanding Debt Service Requirements(b)	Less: Bonds Being Refunded	Plus: The Series 2004 Bonds* Dated: May 1, 2004* Principal*	Interest (c)	Total Debt Service Requirements	Debt Service Coverage (d)
2002-03	$21,437,337						
2003-04		$15,086,144	$1,882,019	$ 115,000	$178,154	$13,497,279	1.59
2004-05		15,728,256	2,512,563	1,800,000	711,464	15,727,157	1.36
2005-06		15,758,887	2,512,073	1,820,000	690,224	15,757,039	1.36
2006-07		15,794,696	3,361,760	2,695,000	664,016	15,791,952	1.36
2007-08		16,577,798	3,371,840	2,750,000	617,123	16,573,081	1.29
2008-09		16,716,270	3,368,750	2,805,000	559,648	16,712,168	1.28
2009-10		16,760,175	2,337,500	1,840,000	492,609	16,755,284	1.28
2010-11		16,789,273	2,336,500	1,890,000	444,217	16,786,989	1.28
2011-12		16,288,577	2,666,500	2,275,000	389,974	16,287,050	1.32
2012-13		13,701,707	2,950,750	2,630,000	319,221	13,700,178	1.56
2013-14		14,359,573	3,255,500	3,020,000	232,168	14,356,241	1.49
2014-15		14,359,573	3,648,750	3,520,000	127,072	15,228,726	1.41
2015-16		7,331,602				7,331,602	2.92
2016-17		1,484,595				1,484,595	14.44
2017-18		1,485,855				1,485,855	14.43
2018-19		1,485,293				1,485,293	14.43
2019-20		1,487,908				1,487,908	14.41
2020-21		1,488,498				1,488,498	14.40
2021-22		1,487,063				1,487,063	14.42
2022-23		1,488,603				1,488,603	14.40
2023-24		1,487,915				1,487,915	14.41

(a) The amount shown is for fiscal year 2002-03. See table on page A-8.

(b) Includes estimated amounts due under an anticipated loan agreement with WIFA in the principal amount of approximately $18,015,000 which will be treated as additional Parity Bonds. The County expects to close the loan agreement with WIFA in the second calendar quarter of 2004.

(c) The first Interest Payment Date is January 1, 2005* and is shown net of accrued interest. Interest is estimated at 3.30% per annum.

(d) Under the provisions of the Sewer Bond Resolution, the County may issue additional Parity Bonds secured by the Net Revenues, if Net Revenues for the immediately preceding Fiscal Year are at least equal to 1.20 times Maximum Annual Debt Service coming due in any Bond Year on all Parity Bonds then outstanding. See "THE SEWER REVENUE BONDS - Parity Bonds" herein.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2004 Bonds by the County are subject to the approving opinion of Snell & Wilmer L.L.P., Tucson, Arizona, Bond Counsel to the County. Copies of such opinion will be available at the time of delivery of the Series 2004 Bonds. The form of opinion is included as Appendix D to this Official Statement. Fees of Bond Counsel will be paid from proceeds of the sale of the Series 2004 Bonds.

Certain legal matters will be passed upon for the Underwriter by its Counsel, Greenberg Traurig, LLP, Phoenix, Arizona.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code") contains a number of requirements and restrictions that apply to the Series 2004 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The County has covenanted to comply with all requirements of the Code that must be satisfied in order for the interest on the Series 2004 Bonds not to be included in the gross income of the owners of the Series 2004 Bonds for Federal income tax purposes (the "Tax Covenants").

*Preliminary, subject to change.

Subject to the condition that the County comply with the Tax Covenants, under present law, in the opinion of Snell & Wilmer L.L.P., Bond Counsel, the interest received by the owners of the Series 2004 Bonds (i) is not includable in the gross income of the owners thereof for Federal income tax purposes in accordance with Section 103(a) of the Code, and is not an item of tax preference for purposes of the alternative minimum tax imposed on certain individuals and corporations, and (ii) is excluded from taxable income for Arizona State income tax purposes.

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the County. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the County. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the County's compliance with the Tax Covenants or to inform any person as to whether the Tax Covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the Series 2004 Bonds may affect the federal tax-exempt status of interest on the Series 2004 Bonds.

Failure to comply with certain of the Tax Covenants could cause interest on the Series 2004 Bonds to become subject to Federal income taxation retroactive to the date of issuance of the Series 2004 Bonds.

Ownership of the Series 2004 Bonds may result in collateral Federal income tax consequences to certain taxpayers. Prospective purchasers of the Series 2004 Bonds should consult their tax advisors as to applicability of any such collateral consequences, which will or may result from an investment in the Series 2004 Bonds, the receipt of interest on the Series 2004 Bonds, or the sale, transfer or other disposition of the Series 2004 Bonds.

Certain of the documents executed in connection with the execution and delivery of the Series 2004 Bonds permit certain actions to be taken in the future if a legal opinion is given at the time to the effect that such action will not cause interest on the Series 2004 Bonds to be includable in the gross income of the owners for Federal income tax purposes. The opinion of Bond Counsel with respect to the Series 2004 Bonds will not address any such actions.

Legislative proposals are introduced into the United States Congress from time to time which, if enacted, would amend one or more provisions of the Code in a manner that would alter the Federal tax consequences referred to above or would adversely affect the market value or marketability of the Series 2004 Bonds. It cannot be predicted whether, when or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to obligations (such as the Series 2004 Bonds) delivered prior to such enactment.

ORIGINAL ISSUE DISCOUNT

Certain of the Series 2004 Bonds as indicated on the inside cover page of this Official Statement are being offered and sold to the public at an original issue discount ("OID Bonds"). Original issue discount ("OID") is the excess of the stated amount payable on the maturity date (generally, the face amount) over the lower "issue price" of such OID Bonds. The issue price of the Series 2004 Bonds is the initial offering price to the public (other than to bondhouses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Series 2004 Bonds of the same maturity date are sold pursuant to that offering. For Federal income tax purposes, OID accrues to the owner of the OID Bond over the period to the maturity date based on the constant interest rate method, compounded semiannually. With respect to an initial purchaser of an OID Bond, the portion of OID that accrues during the period such purchaser owns the OID Bond (i) is interest excludable from that purchaser's gross income for Federal income tax purposes to the same extent and subject to the same consideration discussed above as to other interest on the Series 2004 Bonds (see "TAX EXEMPTION" herein), and (ii) is added to that purchaser's tax basis for purposes of determining gain or loss upon the payment, redemption, prior sale or other disposition of that OID Bond.

Purchasers of OID Bonds should consult their own tax advisors as to the determination for Federal income tax purposes of the amount of the OID accruable in any period with respect to the OID Bonds and regarding Federal tax consequences and any state and local tax effects of owning OID Bonds.

BOND PREMIUM

Certain of the Series 2004 Bonds as indicated on the inside front cover page of this Official Statement are being offered and sold to the public with amortizable bond premium (the "Premium Bonds"). The amortizable bond premium is the excess of the "issue price" of such Premium Bonds over the lower stated amount payable at the maturity date (generally, the face amount). The issue price of the Series 2004 Bonds is the initial offering price to the public (other than to bondhouses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Series 2004 Bonds of the same maturity date are sold pursuant to that offering. For Federal income tax purposes, bond premium is amortized over the period to the maturity (or, in the case of a redeemable Premium Bond, the amortization period and yield may be required to be determined on the basis of the earliest redemption date that results in the lowest yield on the Premium Bond), based on the yield to maturity, compounded semiannually. No portion of amortizable bond premium is deductible by an owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption, or other disposition of a Premium Bond, the owner's tax basis is reduced by the amount of amortizable bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for Federal income tax purposes upon the sale of a Premium Bond for an amount equal to or less than the amount paid by that owner for the Premium Bond. A purchaser of a Premium Bond at its issue price in the initial public offering who holds the Premium Bond to the maturity date (or in the case of a redeemable Premium Bond, to its earliest redemption date that results in the lowest yield) will realize no gain or loss upon the payment of that Premium Bond.

Purchasers of Premium Bonds should consult their own tax advisors as to the determination for Federal income tax purposes of the amount of the bond premium properly amortizable in any period with respect to the Premium Bonds and regarding Federal tax consequences and any state and local tax effects of owning Premium Bonds.

LITIGATION

To the knowledge of appropriate representatives of the County, no litigation or administrative action or proceeding is pending or threatened to restrain or enjoin, or seeking to restrain or enjoin, the issuance or delivery of the Series 2004 Bonds, the collection or receipt of revenues to pay the principal of, and interest on, the Series 2004 Bonds, contesting or questioning the proceedings and authority under which the Series 2004 Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Series 2004 Bonds. See, however the discussion under the subheading "Litigation or Administrative Action" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT". Appropriate representatives of the County will deliver a certificate to that effect at the time of the original delivery of the Series 2004 Bonds.

RATINGS

The Series 2004 Bonds have been rated "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies ("S&P") with the understanding that upon delivery of the Series 2004 Bonds the Policy will be issued by Financial Security.

Such ratings reflect only the view of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agencies. The County furnished to the rating agencies certain information and materials, some of which may not have been included in this Official Statement relating to the Series 2004 Bonds or the County.

Generally, rating agencies base their ratings on such information and materials and on their own investigations, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2004 Bonds.

UNDERWRITING

The Underwriter has agreed to purchase the Series 2004 Bonds at a price of $_____ plus accrued interest to the date of delivery. Based upon the initial offering prices as shown on the cover hereof, the Underwriter will receive compensation of $_____. The Underwriter will be obligated to accept delivery and pay for all of the Series 2004 Bonds if any are delivered. The Underwriter may offer and sell the Series 2004 Bonds to certain dealers (including dealers depositing Series 2004 Bonds into unit investment trusts) and others at prices lower than the public offering prices reflected on the inside front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

CONTINUING SECONDARY MARKET DISCLOSURE

The County has covenanted for the benefit of holders of the Series 2004 Bonds to provide certain financial information and operating data relating to the County by not later than February 1 in each year commencing February 1, 2005 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events, if material (the "Notice of Material Events"). The Annual Reports will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with any state information depository established by the State. (At present no such state information depository has been designated.) The Notices of Material Events will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with any state information depository established by the State. The specific nature of the information to be contained in the Annual Report and the Notices of Material Events is set forth in Appendix H – "Form of Continuing Disclosure Undertaking."

These covenants have been made in order to assist the underwriters of the Series 2004 Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to Arizona law, the ability of the County to provide information pursuant to such covenants is subject to annual appropriation to, among other things, cover the costs of preparing and mailing the Annual Report and the Notices of Material Events to each Nationally Recognized Municipal Securities Information Repository and to any state information depository established by the State. A failure by the County to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2004 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2004 Bonds and their market price.

Continuing disclosure undertakings previously entered into by the County called for the County to file by February 1, 2000 an Annual Report containing certain financial information and operating data relating to the County and financial statements for the County with respect to the fiscal year ended June 30, 1999. The County filed the required Annual Report with unaudited financial statements on March 7, 2000. The County subsequently filed the audited financial statements for the County for the fiscal year ended June 30, 1999 in June 2000. Additionally, the County failed to file certain schedules as part of its continuing disclosure requirements related to its 1998 Sewer Revenue Bonds by February 1, 2002. The disclosures were, however, subsequently filed with all Nationally Recognized Municipal Securities Information Repositories by July 1, 2002. The County has otherwise complied with all existing continuing disclosure undertakings relating to the County in all material respects.

FINANCIAL STATEMENTS

Included as Appendix E of this Official Statement is the Pima County Department of Wastewater Management (the "Department") financial statements for the fiscal year ended June 30, 2003. The Department's financial statements have been audited by the Office of the Auditor General, State of Arizona, as stated in their opinion which appears in Appendix E.

Included as Appendix F of this Official Statement is the County's general purpose financial statements for the fiscal year ended June 30, 2003. The County's general purpose financial statements have been audited by the Office of the Auditor General, State of Arizona, as stated in their opinion which appears in Appendix F. Also included in Appendix F are certain selected combining statements from the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003.

The County neither requested nor obtained the consent of the Office of the Auditor General to include any of such statements in the Official Statement and the Office of the Auditor General has performed no procedures subsequent to rendering their opinions on any of such statements of the County.

ADDITIONAL INFORMATION

Additional information and copies of the Official Statement and the Sewer Resolution may be obtained from the Underwriter, RBC Dain Rauscher Inc., 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016 (telephone 602-381-5368).

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these opinions or estimates have been or will be realized. Information in this Official Statement has been derived by the County from official and other sources and is believed by the County to be accurate and reliable. Information other than that obtained from official records of the County has not been independently confirmed or verified by the County and its accuracy is not guaranteed.

Neither this Official Statement nor any statement that may have been or that may be made orally or in writing is to be construed as a part of a contract with the original purchasers or subsequent owners of the Series 2004 Bonds.

By: _____
Chair, Board of Supervisors

By: _____
County Administrator

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PIMA COUNTY, ARIZONA
WASTEWATER MANAGEMENT DEPARTMENT

Organization and Administration

The Department operates as a separate enterprise of the County. The County is authorized to operate and maintain the System under Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes. The wastewater treatment facilities of the System, discharging into waters of the United States, operate under the National Pollutant Discharge Elimination System which was delegated to the Arizona Department of Environmental Quality (ADEQ) in 2003. The Department provides wastewater collection and treatment service to the Tucson metropolitan area and to eight separate outlying service areas located in the eastern portion of the County. The Tucson metropolitan area consists of the cities of Tucson and South Tucson, the Town of Oro Valley, portions of the Towns of Marana and Sahuarita, and the unincorporated areas in proximity to these communities. The Roger Road Wastewater Treatment Facility, the Green Valley Water Reclamation Facility and the Ina Road Water Pollution Control Facility serve these areas. Together, these facilities have a combined, current treatment capacity of 66 million gallons per day (mgd). The Department has just completed the construction of a new Water Reclamation Facility with a capacity of 3.0 mgd at Randolph Park that increases the Tucson metropolitan area capacity to 69 mgd. Additionally, the Ina Road Water Pollution Control Facility is being expanded to 37.5 mgd (metropolitan capacity will increase to 81.5 mgd). Wastewater flows to the metropolitan facilities are approximately 62.1 million gallons per day.

The County Administrator appoints the Wastewater Management Director. The Board of Supervisors (the "Board") adopts the Department's annual operating budget, establishes wastewater rates and fee structures and provides overall policy direction to the Department through the County Administrator and Deputy County Administrator of Public Works. The Board, in 1986, also established a nine member citizens advisory committee to review, evaluate and make recommendations on short and long-range capital improvement needs, development policies and revenue and rate structure formulation of the Department.

The Department is under the direction of Kathleen M Chavez, P.E., who was appointed Director in August 2000. Ms. Chavez has been with the Department since 1982, most recently as Deputy Director - Administration. During her tenure with the department, Ms. Chavez has supervised the preparation of sewer user fee rate studies, development of Capital Improvement Programs and has implemented regulatory water quality programs for the wastewater treatment facilities. She developed the high-strength user fee program, the Mt. Lemmon conservation fee rate structure and directed the preparation of the septage receiving station fee proposal, which was implemented in 1999. She was previously employed in construction as a field engineer. Ms. Chavez is a civil engineering graduate from the University of Arizona and a registered professional engineer in the State of Arizona. She is also active in several professional organizations.

Extraordinary, Uninsured Event

As of June 30, 2003, $10,800,000 had been transferred to the County's Wastewater Management Enterprise Fund from the County's General Fund to cover a short-term cash deficit due to expenses related to the failure of a main sewer trunk line in September 2002, as described below.

In September 2002, a portion of a main sewer trunk line which is part of the System collapsed. The line was scheduled for replacement starting in fiscal year 2003-04. The Department contends that the line failed due to erosion that was caused by a broken City of Tucson water main in the same area and is seeking reimbursement from the City of Tucson Water Department. The County's insurance does not include coverage of an event such as this.

The total fiscal impact of the collapse was approximately $17.1 million. In accordance with Generally Accepted Accounting Principals, $2.4 million was recorded as an Operating Expense for fiscal year 2002-03; the remaining $14.7 million was treated as a capital project of the System and charged against the System Development Fund described in Appendix C. The expenses related to the failure paid as Operating Expenses reduced the amount of Net Revenues available for payment of debt service with respect to Parity Bonds for fiscal year 2002-03. See

table on page A-8 for actual results for fiscal year 2002-03. See also the information under the subheading "Management Review of the County's Financial Position" in Appendix G for a discussion about plans to repay such inter-fund loan.

Litigation or Administrative Actions

On October 10, 2002, the County received a Notice of Violation from the Arizona Department of Environment Quality (ADEQ) for the spill resulting from the failure of the sewer line described under the preceding subheading. Since that time, the County and ADEQ have been in discussions concerning the County's liability, the nature and amount of any penalties, remedial environmental measures, required system upgrades or a combination thereof. On December 19, 2003, the County received a confidential settlement proposal from ADEQ but it is too early to speculate on what a final settlement agreement or the resulting financial impact of any such agreement might be. Previous Notice of Violations received by the County have not resulted in financial penalties, however the violations associated with those notices were not of the same magnitude. While an enforcement action by ADEQ is probable, it is not possible to reasonably estimate the amount or nature of the County's liability at this time.

The wastewater treatment facilities of the System operate under discharge permits issued by the U.S. Environmental Protection Agency and ADEQ. None of these facilities are under consent orders or decrees.

Wastewater Fees and Revenues

The Department's structure of rates, fees and other charges for the System are reviewed annually by the Board and may be revised by a resolution adopted by the Board, which has the ultimate responsibility for setting System rates, fees and charges. The principal sources of revenue for the Department are derived from user fees charged for services provided and one-time connection fees charged to new users for connecting to the System. The Department also receives System revenues from turn-on fees, engineering review and inspection fees, interest earnings and other miscellaneous income.

User Fees

The present schedule of user fees includes a monthly service charge and a monthly commodity usage charge. The service charge is a flat fee assessed monthly to each user to offset administrative expenses and other fixed costs of the Department. In March 2003, the service charge was set at $2.61 per month for each user. On April 13, 2004, the Board increased the sewer user fee rates by four percent (4%), effective July 1, 2004. The commodity usage charge is based on each user's monthly sewage flow contribution to the System. The monthly sewage flow contribution is equal to a user's monthly-metered water consumption, provided that the monthly consumption figure used in calculating a user's commodity usage charge does not exceed the user's average monthly-metered water consumption for the months of December through February. A user fee rate is then multiplied by the monthly sewage flow contribution to calculate the user's commodity usage charge. The user fee rates charged for what is considered to be normal, domestic strength sewage for a residential user is currently $1.05 per hundred cubic feet (Ccf), based on water consumption. Higher user fee rates are charged to various commercial and industrial users whose sewage flow contributions are determined by the Department to be in excess of normal, domestic strength sewage.

The following table summarizes the monthly service charge and the user fee rates for the last ten fiscal years.

PIMA COUNTY, ARIZONA
SUMMARY OF WASTEWATER USER FEES(a)

Fiscal Year	Date User Fee Charges Adopted(b)	Monthly Service Charge	User Fee Rates ($ per Ccf) Residential	Commercial/Industrial (c)
1993-94	July 6, 1993	$2.02	$0.79	$0.79-2.88
1994-95		2.02	0.79	0.79-2.88
1995-96	February 20, 1996	2.09	0.82	0.82-2.98
1996-97		2.09	0.82	0.82-2.98
1997-98	December 9, 1997	2.18	0.86	0.86-3.11
1998-99		2.18	0.86	0.86-3.11
1999-00	January 18, 2000	2.29	0.91	0.91-3.27
2000-01	February 13, 2001	2.40	0.96	0.96-3.43
2001-02	March 19, 2002	2.49	1.00	1.00-3.63
2002-03	March 11, 2003	2.61	1.05	1.05-3.81
2003-04		2.61	1.05	1.05-3.81
2004-05	April 13, 2004	2.71	1.09	1.09-3.96

(a) On April 13, 2004, the Board increased the sewer user fee rates by four percent (4%), effective July 1, 2004.

(b) The dates shown reflect the date the User Fee Increases were adopted by the Board and does not directly correspond to the effective date of the various rate increases.

(c) Indicates the range of user fee rates applied to various commercial/industrial users whose sewage flow contributions are in excess of normal, domestic strength sewage.

Source: Pima County Wastewater Management Department.

PIMA COUNTY, ARIZONA
SUMMARY OF PERCENTAGE INCREASES IN USER FEE RATES

Fiscal Year	User Fee Percentage Rate Increases
1993-94	6.1%
1994-95	0.0
1995-96	3.5
1996-97	0.0
1997-98	4.3
1998-99	0.0
1999-00	5.3
2000-01	5.0
2001-02	3.8
2002-03	5.0
2003-04	0.0
2004-05	4.0

Source: Pima County Wastewater Management Department

The following table shows the revenues derived by the Department from user fees for the past ten fiscal years, broken down between residential users and commercial/industrial users.

PIMA COUNTY, ARIZONA
SUMMARY OF USER FEE REVENUES

Fiscal Year	Billed User Fee Revenue			Percent of User Fee Revenue		Percent User Fee Revenue Increase
	Residential	Comm./Ind.	Total	Res.	Comm./Ind.	
1994-95	$23,030,010	$ 6,480,571	$29,510,581	78.0%	22.0%	5.4%
1995-96	22,357,166	7,773,785	30,130,951	74.2	25.8	2.1
1996-97	21,062,013	11,950,541	33,012,554	63.8 (a)	36.2 (a)	9.6
1997-98	20,345,099	12,522,589	32,867,688	61.9	38.1	(0.4)
1998-99	20,766,974	13,635,035	34,402,009	60.4	39.6	4.7
1999-00	23,854,489	14,620,493	38,474,982	62.0	38.0	11.8
2000-01	24,624,900	16,212,414	40,837,314	60.3	39.7	6.1
2001-02	24,561,202	16,374,134	40,935,336	60.0	40.0	0.2
2002-03	26,570,168	18,748,573	45,318,741	58.6	41.4	10.7
2003-04(b)	29,420,128	18,339,820	47,759,948	61.6	38.4	5.4

(a) Beginning in fiscal year 1996-97, amounts reflect Tucson Water's reclassification of multi-family from residential to commercial/industrial.

(b) Amounts are as projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department

Connection Fees

Connection fees are charged for each new connection made to the System as a condition of service to the property. Three classes are delineated for connection fee purposes: single family residential, multifamily residential and commercial/industrial. These fees are further segregated between participating and non-participating. Participating rates are charged when builders contribute additional infrastructure to the public sewer system, while non-participating rates are charged when no additional infrastructure construction is made.

The connection fee charged to a user is based on the number of fixture units in the building or structure connecting to the System. Participating connection fee rates are currently $101.72 per fixture unit for single-family and multifamily residential users and $144.74 per fixture unit for commercial/industrial users. Non-participating connection fee rates are currently $144.74 per fixture unit for single-family, $115.81 for multifamily residential users and $289.54 per fixture unit for commercial/industrial users.

The following table summarizes connection fee revenues received by the Department for the past ten fiscal years.

PIMA COUNTY, ARIZONA
CONNECTION FEE REVENUES

Fiscal Year	Revenues
1993-94	$ 8,753,422
1994-95	9,859,814
1995-96	8,934,006
1996-97	8,629,678
1997-98	12,034,620
1998-99	14,533,434
1999-00	16,669,833
2000-01	16,768,587
2001-02	17,479,915
2002-03	20,279,607
2003-04 (a)	25,236,998

(a) Amount is as projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. This amount is a "forward looking" statement and should be considered carefully. Such amount is subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department.

Other Fees And Charges

The Department receives additional revenue from various other fees and charges. These fees and charges include turn-on fees, engineering review and inspection fees, interest earnings and miscellaneous other income. A summary of the revenues received by the Department from these sources in recent fiscal years follows:

PIMA COUNTY, ARIZONA
REVENUES FROM OTHER FEES AND CHARGES

Fiscal Year	Engineering Review & Inspection Fees	Interest Earnings (a)	Other Revenue (b)	Total
1993-94	$345,873	$1,343,525	$ 264,188	$1,953,586
1994-95	545,189	2,394,835	625,066	3,565,090
1995-96	282,325	2,829,480	119,312	3,231,117
1996-97	318,361	2,485,261	317,455	3,121,077
1997-98	238,794	2,317,296	218,968	2,775,058
1998-99	370,992	3,645,214	672,833	4,689,039
1999-00	414,618	3,888,599	1,029,165	5,332,382
2000-01	15,064	4,493,386	1,025,713	5,534,163
2001-02	61,564	1,631,580	543,727	2,236,871
2002-03	245,820	977,985	911,057	2,134,862
2003-04 (c)	16,695	182,106	1,193,761	1,392,562

(a) Under the terms of the Sewer Resolution, interest earnings on deposits to the System Development Fund will be included in the definition of Net Revenues only if and to the extent they are transferred to and deposited in the Revenue Fund.

(b) Other revenues include licenses, permits and fines, sanitation fees, and other miscellaneous income.

(c) Amounts are projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department.

Accounting and Billing

The Department's financial statements are audited annually by the State of Arizona Office of the Auditor General. The Department performs accounting for System revenues and expenditures.

Billing and collection services for user fees and turn-on fees are currently provided by the City of Tucson, through its agency Tucson Water, and by the Metropolitan Domestic Water Improvement District (MDWID) and, Oro Valley Water. The County has had a long-standing, annually renewable contract with Tucson Water to provide this service. The billing services provided by MDWID began in September 1995. Billing through Tucson Water comprises most of the Department's accounts, approximately 214,000. MDWID bills approximately 15,000 customers and Oro Valley bills approximately 14,000 customers. The County directly bills those sewer customers served by the numerous smaller water companies in the eastern part of the County.

Delinquent user accounts are managed by either Tucson Water, MDWID, Oro Valley or by the County, depending on the source of water for the user. For users receiving water utility service through the Tucson Water system, delinquencies are handled by Tucson Water. Approximately 85% of the users of the System fall into this category. An account becomes delinquent when payment has not been received by the second month's billing. At that time, a notice is mailed advising that water service will be terminated (Tucson Water - 20 days, MDWID - 14 days) unless payment is received. If the user does not respond during this period, the service is discontinued, the account remains in a delinquent status. The account is then held as a delinquent account until it is collected or written off. Tucson Water writes off their accounts after 120 days and MDWID writes their accounts off after 1 year.

For users receiving water utility service from either a private water company or a private well, the Department handles delinquencies. Delinquency billing notices are sent at 30, 60 and 90 days. Between the 60 and 90-day notices, a request that the user calls and discusses the billing is also mailed. If the user then fails to respond, a certified letter is mailed advising that the account is being referred to the County Office of Revenue and Collections for further processing. Collectively for the System, the percentage of delinquent accounts is estimated to be 0.5 percent of annually billed user fee revenue for Tucson Water customers and less for MDWID customers.

Wastewater records show that the number of customers to the sanitary sewer system has been increasing every year. Since fiscal year 1993-94, the average number of customers being served by the System has been:

Fiscal Year	Customers	% Increase
1993-94	171,245	3.2%
1994-95	176,747	3.2
1995-96	181,161	2.5
1996-97	183,790	1.5
1997-98	187,032	1.8
1998-99	191,140	2.2
1999-00	199,090	4.2
2000-01	207,840	4.4
2001-02	222,594	7.1
2002-03	231,572	4.0
2003-04*	235,467	1.7

* Information as of February 2004

Capital Improvements

Wastewater maintains a Capital Improvement Program ("CIP"), originally based on a 20-year Metropolitan Area Facility Plan Update ("Facility Plan") which was adopted by the Board in 1990. The Facility Plan forecasts when capital expenditures would be required for treatment plant expansions and interceptor construction. The Facility Plan is under revision with a projected release date to the Board of Supervisors for adoption by December 2004. The CIP has been revised each year to reflect changes in anticipated needs and project priority. CIP projects include system expansions that are necessary to meet the sewerage needs of the increasing population and planned future development, as well as needed rehabilitations.

At the beginning of FY 2003-2004, the CIP was projected at $26 million for the current fiscal year and $203.4 million for the five-year period (ending FY '07-08). In response to the cash deficit situation described under the subheading "Extraordinary, Uninsured Event", the FY 2003-2004 CIP has been revised to $24.8 million, and $120 million, for the five-year period ending FY '07-08. The CIP included completion of several major projects including:

- Ina Road Water Pollution Control Facility – major expansion and process changes began in 1998, will increase capacity by 12.5 mgd and provide a higher quality of effluent by using a Biological Nutrient Removal process. Approximately $3.8 million will be spent on the Ina Road construction in FY 2003-2004.

- The Green Valley Water Reclamation Facility – upgrade and expansion of capacity from 2.1 mgd to 4.1 mgd. This project, which was substantially completed in November 2003, also includes a Biological Nutrient Removal process upgrade.

- Randolph Park Water Reclamation Facility – Construction is substantially complete. This facility will be equipped with advance membrane technology to produce a high quality filtered and disinfected effluent, financed in part with proceeds of the loan described under the subheading "THE SERIES 2004 BONDS – Parity Bonds". The effluent will be used on the Randolph Park golf course and dispersed through the City of Tucson's reclaimed system to County facilities throughout the community.

Pima County Wastewater Management Department
Comparative Statements of System Gross Revenues, Operation and Maintenance Expenditures and Net Revenues Available for Debt Service

	Actual					Estimated
	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004(a)
REVENUES:						
Sewer Utility Service	$34,402,009	$38,474,982	$40,837,314	$40,935,336	$45,318,741	$47,759,948
Sewer Connection Revenue	14,533,434	16,669,833	16,768,587	17,479,915	20,279,607	25,236,998
Engineering Review & Inspection Fees	370,992	414,618	15,064	61,564	245,820	16,695
Other Income (b)	4,534,479	4,617,236	4,513,271	2,367,825	2,530,600	1,067,965
Gross Revenues	53,840,914	60,176,669	62,134,236	60,844,640	68,374,768	74,081,606
MAINTENANCE AND OPERATIONS COSTS:						
Employee Compensation	15,551,597	16,991,952	17,962,678	20,350,669	23,290,692	25,700,972
Consultants and Outside Services	2,983,582	3,274,974	2,929,587	2,918,701	2,523,079	2,115,528
Treatment Supplies and Chemicals	5,710,301	6,397,461	6,671,822	6,069,710	7,276,779	5,453,324
Repair & Maintenance	1,876,847	2,022,258	1,726,453	3,204,525	4,699,452	3,138,203
General Administration	4,635,127	5,342,858	6,081,183	6,102,213	8,320,189	6,799,906
Capital Expenses	1,946,509	1,304,103	4,270,845	3,925,136	827,240	922,184
Maintenance and Operation Cost	37,703,963	35,333,606	39,642,568	42,580,954	46,937,431	44,130,117
Net Revenues	21,136,951	24,843,063	22,491,668	18,263,686	21,437,337	29,951,489
REVENUE BONDED DEBT SERVICE:						
Principal	3,348,565	4,727,232	5,006,080	7,661,855	8,886,774	9,234,721
Interest	5,395,978	5,157,212	4,531,118	5,782,368	5,912,681	5,934,304
Total Debt Service Payments	8,744,543	9,884,444	9,537,198	13,444,223	14,799,455	15,169,025
Debt Service Coverage	2.42X	2.51X	2.36X	1.36X	1.45X	1.97X
Net Revenues Remaining After Debt Service	$12,392,408	$14,958,619	$12,954,470	$ 4,819,463	$ 6,637,882	$14,782,464

(a) Estimated projections by the Department from its February 2004 Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to changed based on actual results and could be materially different.

(b) Other income includes revenues generated from licenses, permits and fines, sanitation fees, net interest income, and other miscellaneous income.

Source: For fiscal years 1998-99 through 2002-03, prepared by the Department from its audited financial statements, excluding all grant activity. For fiscal year 2003-04, prepared by the Department based on actual revenues and expenses through February 2004.

PIMA COUNTY, ARIZONA
DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County is located in the southern portion of the State of Arizona ("Arizona" or the "State"), with a section of its southern boundary bordering Mexico. The boundaries of the County encompass an area of approximately 9,184 square miles. Organized in 1864 by the Arizona Territorial Legislature as one of the State's four original counties, the County is today the second most populous county in Arizona with an estimated 2003 population of 910,950. Nearly 57% of the County's population resides in the City of Tucson, Arizona ("Tucson"), the County seat of government and southern Arizona's largest city.

Population Statistics For Pima County, the City of Tucson and the State of Arizona

	Pima County	City of Tucson	State of Arizona
2003 Estimate	910,950	514,725	5,629,870
2000 Census	843,746	486,699	5,130,632
1990 Census	666,880	405,390	3,665,228
1980 Census	531,443	330,537	2,716,546
1970 Census	351,667	262,933	1,775,399
1960 Census	265,660	212,892	1,302,161

Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics.

Organization

The County is governed by a five-member Board, each of whom is elected for a four year term to represent one of the designated districts within the County. The chair is selected by the Board from among its members. The Board is responsible for establishing the policies of the various County departments and approving the annual budgets of these departments. The Board appoints a County Administrator who is responsible for the general administration and overall operations of the various departments of the County.

Mr. Charles H. Huckelberry was appointed County Administrator in December, 1993. From 1987 to 1993, Mr. Huckelberry served as an Assistant County Manager with responsibility for the administration of public works. He served as the Director of Pima County's Department of Transportation and Flood Control District from 1979 to 1987; as Deputy Director of the Department from 1976 to 1979; and as the Department's Manager of Field Engineering from 1974 to 1976. He was self employed as a civil engineering and land surveying consultant for one year. From 1972 to 1973, Mr. Huckelberry was employed as a Research and Development Engineer for the Shell Oil Company and during 1969 to 1972, he was a Civil Engineer and Land Surveyor for Jones and Associates. He holds both a Bachelor of Science Degree in Mining Engineering and a Master of Science Degree in Civil Engineering from the University of Arizona and is a registered professional engineer and land surveyor as well as a member of numerous professional organizations.

Ms. Carol Bonchalk was appointed Director of Financial and Information Services in 1993 after having served as Manager of Financial Services for Pima County since 1990 and Budget Supervisor and Budget Analyst from 1989 to 1990. Prior to her employment with Pima County, Ms. Bonchalk was Vice President of Management and Marketing for a private firm specializing in the development and operation of retirement communities and nursing homes; Director of Human Services and Executive Director of an Area Agency on Aging in Pennsylvania, and served as a probation officer for the City of Philadelphia. Ms. Bonchalk received her Bachelor of Science Degree from Pennsylvania State University, and has also completed various graduate level courses and participated

in numerous management and financial programs throughout her career. The County is currently recruiting for a Chief Information Officer to assume responsibilities for the Information Department.

Transportation

Tucson is the economic and transportation center of the County, as well as southern Arizona. Tucson is traversed by Interstates 10 and 19, as well as U.S. Highways 80, 89 and 93. Interstate 10 passes through Tucson and connects Tucson with the City of Phoenix, Arizona to the north and Los Angeles, California, to the west and New Mexico and Texas to the east. Interstate 19 provides access to the City of Nogales, Arizona ("Nogales") and Mexico to the south, while U.S. Highway 86 connects with a direct route to the Gulf of California vacation areas. The main line of the Union Pacific Railroad extends across Tucson to the eastern portion of the County while the western portion of the County is served by a branch line of the Union Pacific that runs through Ajo which is an unincorporated community in the County. Tucson International Airport, located approximately 20 minutes from Tucson's downtown business area, provides local, regional, national and international air service through several airlines. The airport has an 11,000-ft. lighted, paved primary runway, a 9,100-ft. paved secondary runway and a 7,000-ft paved runway, all of which can accommodate all major types of carriers. The County is also served by Greyhound bus lines and Amtrak.

Economy

The economy of the County is based largely on a variety of service industries, trade, and government employment; these three industries represented over 70% of total employment in 2003. Figures from the Arizona Department of Economic Security indicate that 346,800 persons were employed, on average (including the agricultural industry), in the County in 2003. The following table presents the County's average annual total employment by industry for the years indicated:

Pima County
Average Annual Employment
Number of Persons Employed 2001-2003

Industry	2001	2002	2003
Natural Resources and Mining	1,800	1,500	1,200
Construction	22,700	22,500	22,900
Manufacturing	33,000	30,500	28,700
Trade, Transportation and Utilities	55,300	54,500	54,400
Information	7,700	7,900	7,600
Financial Activities	14,400	14,400	15,100
Professional and Business Services	41,300	41,500	41,300
Education and Health Services	41,800	43,600	45,600
Leisure and Hospitality	38,200	37,300	36,500
Other Services	14,300	14,500	14,500
Government	76,800	77,900	78,200
Total Wage & Salary Employment	347,300	346,000	346,000

Source: Arizona Department of Economic Security.

The average unemployment rate for the County in 2003 was 4.3%. The average annual unemployment rate for 2002 and 2001 was 4.5% and 3.5%, respectively. The table below shows comparative unemployment rates for the County, the State of Arizona and the United States.

Pima County
Comparative Employment Statistics

Calendar Year	Pima County Average Employment	Pima County Average Unemployment	Unemployment Rate Pima County	Unemployment Rate Arizona	Unemployment Rate U.S.
2003	426,000	18,400	4.3%	5.6%	6.0%
2002	385,738	18,272	4.5	5.8	5.8
2001	379,032	13,561	3.5	4.7	4.8
2000	373,703	10,954	2.8	3.9	4.0
1999	372,649	12,079	3.1	4.4	4.2

Source: Arizona Department of Economic Security

Pima County
Major Employers

Company	Type of Business	Approximate Number of Full-Time Equivalents
University of Arizona	Education	11,335
Raytheon Missile Systems	Missile Manufacturing	10,100
Davis-Monthan Air Force Base	Military	9,947
State of Arizona	Government	9,732
Tucson Unified School District	Education	8,234
Pima County	Government	7,135
City of Tucson	Government	6,168
Wal-Mart Stores, Inc.	Retail	4,000
Tohono O'odham Nation	Tribal Government	3,375
Phelps Dodge Mining Company	Mining	3,348
Carondelet Health Network	Health Care	2,905
University Medical Center	Health Care	2,566
TMC Health Care	Health Care	2,436
Pima Community College	Education	2,274
Bashas' Inc.	Retail	2,250
Sunnyside Unified School District	Education	2,070

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2004).

Services

From 2001 to 2003, the service industry in the County expanded by 2,500 jobs or 2%. The average annual employment in the service industry in 2003 was 107,700. It is anticipated that as the County continues to grow in population and economic activity, the service industry (the largest employment component in the County comprising 30% of the total wage and salary employment base in 2003) will continue to be a significant contributor. According to the *Star 200 Directory*, which was published by the *Arizona Daily Star* in March 2003, Health Care and Education have been a dominating force in the service industry.

Government

Government employment plays an important role in the County with Federal, State and local government employees numbering approximately 77,100 in 2003. This sector expanded by 300 jobs from 2001 to 2003. The University of Arizona, the State of Arizona and the Davis-Monthan Air Force Base are significant contributors to government employment in the County (see "Pima County - Major Employers" listed in the above table). The Davis-Monthan Air Force Base is a major training ground for active duty members on the A-10 "Warthog" aircraft. The facility is also responsible for the education of tactical missile crews. Its storage capacity of 2,500 aircraft is the largest in the world. In the past, Davis-Monthan Air Force Base has been included reportedly on lists of installations considered for closure or realignment by the Defense Base Closure and Realignment Commission. There can be no assurances that Davis-Monthan Air Force Base will not be included on similar lists in the future. Any such closure or realignment would most likely be subject to review and approval by, among others, the Department of Defense and the President of the United States and would have a negative but unquantifiable effect on the County.

Manufacturing

The manufacturing sector continues to be dominated by the high technology industries of aerospace, electronics, computers, communications and instruments. Learjet Corporation, which is owned by Bombardier Aerospace, maintains an aircraft maintenance modification and customer service facility in Pima County. Bombardier Aerospace recently announced a corporate reorganization that may result in a net loss of approximately 500 jobs in the Tucson area. The company plans to move its Tucson based aircraft finishing work to Wichita, Kansas (resulting in a loss of approximately 800 jobs) to reduce production cycle times and inventory levels. As part of the same reorganization, Bombardier has selected Tucson as the location for its new Regional Aircraft Center and will employ approximately 300 people. The reorganization is expected to be complete by 2005.

Average annual employment in the manufacturing sector within the County in 2003 was 29,200, representing 8.4% of the County's total wage and salary employment base. Manufacturing employment during 2002 and 2001 averaged 30,500 and 33,000, respectively.

The following table presents the major manufacturers in the County and Tucson metropolitan area:

Metropolitan Pima County
Major Manufacturers

Company	Type of Business	Approximate 2003 Employment
Raytheon Missile Systems	Missile Manufacturing	10,100
IBM Storage System Division	Computer Systems	1,700
Bombardier Aerospace.	Aircraft Maintenance	1,350
Texas Instruments Tucson	Semiconductor Products	950
Honeywell	Aircraft Electronic Systems	815
Air System Components	Air Registers	450
Ventura Medical Systems	Computer Systems	395
Kalil Bottling Co.	Soft Drinks	320
Imation	Computer Systems	301
Precision Shooting Equipment	Firearms	300

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2004).

The County's proximity to Mexico makes twin plant "maquiladora" operations practical. Components are manufactured in Tucson and transported duty-free to Nogales, Sonora, Mexico, 65 miles south of Tucson, for assembly. Among the companies operating "twin plants" in Tucson and Nogales are General Electric, Samsonite, Motorola, Acco, Moen Faucets and Masterlock. These manufacturers contribute to the County's economy in many ways including the support of numerous suppliers and peripheral industries. The proximity of the Mexican border is more significant to manufacturing concerns given the existence of the North American Free Trade Agreement

between Canada, the United States and Mexico. However, the uncertainty of the Mexican economy may negatively impact the growth of the previously described manufacturing concerns.

The County has encouraged the location of industry within the community by the development of 33 industrial parks and funding, in conjunction with the City, the Greater Tucson Economic Council, a private, non-profit organization.

Tourism

Tourism is an important economic mainstay in the County and the Tucson area. The County's climate, historical sites, location and proximity to vacation areas in California and other destinations attract vacationers, conventioneers and other visitors. The Metropolitan Tucson Convention and Visitors Bureau estimates that 240,475 convention delegates visited the Tucson area in fiscal year 2000-01. In the Tucson area, there are 232 hotels and resorts with over 15,165 rooms. According to the Arizona Hospitality Research & Resource Center, over $1 billion was spent in the County in 2000 and over $900 million as of September 2001. These figures include the estimated tourist portion of amusement, bar and restaurant, hotel and motel, and retail gross sales. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Pima Air Museum, Saguaro National Monument, Mission San Xavier del Bac, Mount Lemmon, Sabino Canyon, Biosphere 2, and numerous resorts and golf courses. In addition, the Tucson metropolitan area is the home of spring training for Major League Baseball's Arizona Diamondbacks, Chicago White Sox and Colorado Rockies.

Education

The University of Arizona provides 11,335 jobs to the area and is an important link to the economic growth of the County. Its presence as a research university has assisted in attracting new business enterprises. The academic organization of the University is comprised of ten undergraduate colleges, five graduate colleges and a number of interdisciplinary programs. Enrollment figures for the fall semester of 2003 were estimated at 37,308 undergraduate and graduate full-time students. This enrollment includes students in continuing education programs, interns and residents, post-doctoral programs and on-campus non-credit students.

The University of Arizona also operates the Science and Technology Research Park which was voted as the nation's Outstanding Research/Science Park for 2001 by the Association of University Related Research Parks (AURRP).

Pima County Community College offers two-year programs in vocational and technical education. Total student enrollment for Pima County Community College for 2002-03 was estimated at 68,300 students.

Wholesale and Retail Trade

Wholesale and retail trade includes restaurants, hotels, taverns, service stations, automobile repair shops, shopping malls and wholesale dealers. In 2003, this sector employed an average of 93,200 persons. The largest individual employers in the retail sector (companies with more than 1,000 employees) are Wal-Mart Stores, Bashas' Inc., Safeway Stores Inc., Fry's Food and Drug Stores, Walgreen Co. and Conoco Phillips (Circle K).

The retail sales figures set forth on the following page are based on the sales tax collections within the County excluding penalties, late charges and nontaxable items. The sales tax rate levied by the State on retail sales within the County is 5.6%. In addition, cities and towns within Pima County generally levy a 2% to 2.5% sales tax.

The following table sets forth retail sales figures in the County for the past five full years.

Pima County Retail Sales (a)

Year	Amount	% Change
2003	$6,216,097,166	3.39%
2002	6,012,022,946	1.13
2001	5,944,792,196	2.20
2000	5,816,299,178	8.63
1999	5,354,226,543	8.37

(a) Excludes Food Sales and Gas Tax.

Source: Arizona Department of Revenue.

Financial Institutions

The following table illustrates the total dollars on deposit with participating banks of the Arizona Bankers Association for the County on December 31 of each year.

Pima County
Bank Deposits

As of December 31	Amount
2003(a)	$6,518,371,000 (b)
2002	6,062,996,000
2001	6,157,765,000 (c)
2000	5,540,428,000 (d)
1999	4,811,823,000 (e)

(a) Through September, 2003.
(b) Nordstrom FSB did not participate.
(c) Banks not participating are BNC National Bank, Bank of the Southwest, First Interstate Bank & Trust, Frontier State Bank, Johnson Bank, United Arizona Bank and Washington Mutual.
(d) First Interstate Bank & Trust was not a participating bank.
(e) Banks not participating are Stearns Bank, Bank of the Southwest, Pacific Century Bank and Norwest.

Source: Arizona Banker's Association.

Agriculture

Agriculture plays a less significant role in the economy of the County as a whole, but a small portion of the County relies on agriculture as its leading economic source. Principal crops harvested are cotton, wheat and hay, as well as vegetables. The following table sets forth the total cash receipts for all crops and livestock products in the County for the most recent five years for which reports are available.

Cash Receipts From Agricultural Marketing
(Total Crops and Livestock)
Pima County

Year	Receipts
2002	$51,983,000
2001	48,013,000
2000	45,502,000
1999	53,573,000
1998	54,582,000

Source: *2002 Arizona Agricultural Statistics*, July 2003.

Building Permits

The following tables were compiled from *Arizona Construction Report*, a publication of Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University. The Center obtains its data from county and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost of a project, not on market price or the value of construction at the time the permit is issued. The date at which the permit is issued should not be construed as the date of construction.

Pima County
Value of Building Permits

Year	Residential	Commercial	Industrial	Other	Total
2003	$1,386,884,000	$312,257,000	$8,717,000	$ 82,909,000	$1,790,767,000
2002	1,089,239,000	277,762,000	10,766,000	131,771,000	1,509,538,000
2001	989,210,000	234,454,000	23,526,000	98,008,000	1,345,198,000
2000	859,751,000	182,831,000	16,748,000	216,626,000	1,275,956,000
1999	841,455,000	172,765,000	14,035,000	196,959,000	1,225,214,000

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

Pima County
New Housing Starts

Year	Total Housing Units Permitted
2003	9,635
2002	8,915
2001	8,735
2000	8,337
1999	8,547

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

During 1998, the Arizona Legislature promulgated the Growing Smarter Act of 1998 ("Growing Smarter") which created new planning requirements throughout the State and provided stronger tools for local governments in their efforts to manage rapid development. Growing Smarter also created the "Growing Smarter Commission" which conducted hearings throughout the State on ways to enhance the law and to address certain other issues. During 2000, the Arizona Legislature adopted additional legislation known as "Growing Smarter Plus" which significantly expanded the requirements of Growing Smarter, and particularly the planning requirements passed in 1998. Fast growing communities are now required to plan for growth areas and identify the means to provide necessary public services in the future. In addition to environmental and infrastructure elements, an analysis of

available water is also required. To pay for growth, communities are permitted to establish service area limits, beyond which new growth pays the full cost for services. Growing Smarter allowed citizens to refer general plans passed by local government to the ballot for voter approval. Growing Smarter Plus goes a step farther by requiring fast growing and large cities and Pima and Maricopa Counties to submit their general plans to the voters for ratification. The general plan of such jurisdiction will be subject to future ratification by its voters every 10 years. It is not possible to determine the effect the foregoing will have on continuing development in the County.

APPENDIX C

PIMA COUNTY, ARIZONA

FINANCIAL INFORMATION

Introduction

The fiscal year for the County is from July 1 through June 30. The County's budget process is an ongoing function. Each fiscal year's process starts with the issuance in January of guidelines to all departments within which budgets must be developed. Department budget requests are submitted in March. A review process then takes place culminating with the County Administrator's submission of a proposed budget to the Board in time for budget hearings in mid-June. State statutes require that a tentative budget be adopted by the Board no later than the third Monday in July. At the time the final budget is adopted, which can be no later than the first Monday in August of each year, the Board of Supervisors holds a public hearing and meeting to determine the tax levy needed to support the budget. Taxes are then assessed and levied no later than the third Monday in August.

Expenditure Limitation

Beginning in fiscal year 1981-82, the County became subject to an annual expenditure limitation which is set by the Arizona Economic Estimates Commission. This limitation is based on the County's annual expenditures for fiscal year 1978-80, with this base adjusted to reflect interim population, cost of living and boundary changes. Certain expenditures are specifically exempt from the limit, including expenditures made from federal funds and bond sale proceeds, as well as debt service payments. The limitations can be exceeded for certain emergency expenditures or if approved by the voters. The Constitution provisions which relate to the expenditure limitation provide three processes to exceed the spending limit: a permanent base adjustment, a one-time override, and a capital project accumulation.

In the 2001-02 fiscal year, the expenditure limitation for the County was $358,429,223. Actual County expenditures subject to the limitation were under the limit. The County's expenditure limitation for the 2002-03 fiscal year was $368,508,021. Based on the County's budgeted expenditures for the 2002-03 fiscal year, the County's expenditure level will be under the limitation for the 2002-03 fiscal year. The County's 2003-04 fiscal year expenditure limitation is $381,461,790. The County's 2004-05 fiscal year expenditure limitation is $392,677,927.

Ad Valorem Taxes

General

Arizona (the "State" or "Arizona") property taxes are divided into two systems, primary and secondary. Secondary property taxes are those taxes imposed for payment of bonded indebtedness, for exceeding a budget, expenditure or tax limitation pursuant to voter approval and for operating and maintaining certain special districts. Primary property taxes are all ad valorem taxes other than secondary property taxes.

Under the primary system, the full cash value of locally-assessed real property (consisting primarily of residential, commercial, industrial, agricultural and unimproved property) cannot increase by more than 10% per year, except under certain circumstances. This limitation does not apply to mines, utilities and railroads which are assessed by the State. Annual tax levies under the primary system are based on the nature of the property taxed and the taxing authority. Primary taxes levied on residential property only are limited to 1% of the limited full cash value of such property. In addition, primary taxes levied on all types of property by counties, cities, towns and community college districts are limited to a maximum increase of 2% over the prior year's levy plus any amount directly attributable to new construction and annexation. The 2% limitation does not apply to primary taxes levied for local school districts. The County does not currently levy its primary tax levy to the maximum allowed under the law.

Secondary assessed valuation represents the value used in determining property tax levies for the payment of principal and interest on bonds, school district voter-approved budget overrides and special district taxes and the calculation of maximum bonded indebtedness allowed under the State's Constitutional debt limit. See "Debt Limitation" herein. Under the secondary system, there is no limitation on annual increases in full cash value of any property. In addition, annual tax levies for voter-approved bonded indebtedness, overrides and special district taxes are, except as they are described herein under the subheading "The Bonds – Security and Sources of Payment", unlimited.

Arizona law provides for a property valuation "freeze" for certain residential property owners sixty-five years of age and older. Owners of residential property may obtain such freeze against valuation increases (the "Property Valuation Projection Option") if the owner's total income from all sources does not exceed 400% (500% for two or more owners of the same property) of the "Social Security Income Benefit Rate." The Property Valuation Protection Option must be renewed every three years. If the property is sold to a person who does not qualify, the valuation reverts to its current full cash value. Any freeze on increases in full cash value will translate to the secondary assessed value of the affected property as hereinafter described.

Additionally, all property, both real and personal, is assigned a classification to determine its assessed valuation for tax purposes. Each legal classification is defined by property use and has an assessment ratio (a percentage factor) which is multiplied by the limited or full cash values of the property to obtain the assessed valuations.

Tax Procedures

The tax year in Arizona is defined as the calendar year, although tax procedures begin prior to January 1 of each tax year and continue through May of the succeeding calendar year. The first step in the tax process, for taxing entities other than certain special districts, is the determination of the full cash value of each individually-owned parcel of land within the State. Property valuations are established on most property by the individual county assessors, with the State Department of Revenue determining the valuation of centrally assessed properties such as gas, water and electrical utilities, railroads, mines and pipelines. The appropriate property classification assessment ratio is then applied to the full cash value to determine the assessed valuation for such parcel. The assessment ratios utilized over the five-year period 1999-00 through 2003-04 for each class of property are set forth below.

Property Tax Assessment Ratios
1999-00 through 2003-04

Classification (a)	1999-00	2000-01	2001-02	2002-03	2003-04
Mining (b)	25%	-	-	-	-
Utility (b)	25%	-	-	-	-
Commercial and Industrial (b)(c)	25%	25%	25%	25%	25%
Agriculture and Vacant Land (c)	16%	16%	16%	16%	16%
Owner Occupied Residential	10%	10%	10%	10%	10%
Leased or Rented Residential	10%	10%	10%	10%	10%
Railroad, Private Car Company And Airline Flight Property (d)	21%	21%	21%	20%	20%

(a) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation. These classes consist of non-commercial historic property; aerospace manufacturing property in a military reuse zone; certain manufacturing property in an enterprise zone; property in a foreign trade zone; environmental technology property for the first 20 years from the date placed in service; commercial historic property; historic residential property; producing oil, gas and geothermal resource interests; and leasehold or other possessory interests in certain public property.

(b) For tax year 2000 and thereafter, mining and utility properties have been included in the same legal property class as commercial and industrial properties.

(c) The first $55,546 of full cash value of commercial, industrial and agricultural personal property is exempt from tax. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of those amounts will be assessed at 25% or 16% as applicable.

(d) This percentage is determined annually to be equal to the ratio of (i) the total assessed valuation of all mining, utility, commercial, industrial, and military reuse zone properties and agricultural personal property to (ii) the total full cash (market) value of such properties.

Delinquent Tax Procedures

The property taxes due to the County are billed, along with State and other taxes, ordinarily in September of the calendar tax year and are due and payable in two installments on October 1 and March 1 and become delinquent on November 1 and May 1. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month unless the full year's taxes are paid by December 31. After the close of the tax collection period, the County Treasurer prepares a delinquent property tax list and the property so listed is subject to a tax lien sale in February of the succeeding year. In the event that there is no purchaser for the tax lien at the sale, the tax lien is assigned to the State, and the tax lien is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent and current taxes.

It should be noted that in the event of bankruptcy of a taxpayer pursuant to the United States Bankruptcy Code (the "Bankruptcy Code"), the law is currently unsettled as to whether a lien can be attached against the taxpayer's property for property taxes levied during the pendency of bankruptcy. Such taxes might constitute an unsecured and possibly noninterest bearing administrative expense payable only to the extent that the secured creditors of a taxpayer are oversecured, and then possibly only on the prorated basis with other allowed administrative claims. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on a property of a taxpayer within the County. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on the property.

When a debtor files or is forced into bankruptcy, any act to obtain possession of the debtor's estate, any act to create or perfect any lien against the property of the debtor or any act to collect, assess or recover a claim against the debtor that arose before the commencement of the bankruptcy would be stayed pursuant to the Bankruptcy Code. While the stay of a bankruptcy court may not prevent the sale of tax liens against the real property of a bankrupt taxpayer, the judicial or administrative foreclosure of a tax lien against the real property of a debtor would be subject to the stay of a bankruptcy court. It is reasonable to conclude that "tax sale investors" may be reluctant to purchase tax liens under such circumstances, and, therefore, the timeliness of post bankruptcy petition tax collections becomes uncertain.

It cannot be determined what impact any deterioration of the financial condition of any taxpayer, whether or not protection under the Bankruptcy Code is sought, may have on payment of or the secondary market for the Bonds. Neither the County nor their respective agents or consultants have undertaken any independent investigation of the operations and financial condition of any taxpayer, nor have they assumed responsibility for the same.

Property Valuations

The following table lists the various property valuations for the County for the current year.

	Valuations for Fiscal Year 2003-04
Estimated Actual Valuation*	$43,733,555,507
Net Secondary Assessed Valuation	$5,221,270,997
Net Primary Assessed Valuation	$5,022,474,184

*Actual full cash value net of estimated value of property exempt from taxation.

Source: Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

Net Secondary Assessed Valuation Comparisons and Trends

The information set forth below is shown to indicate the ratio between assessed values and estimated actual values for the County, as well as changes in the secondary assessed valuations of the County and overlapping municipal units on a comparative basis. The basis of property assessment for these years is shown under "Ad Valorem Taxes - Tax Procedures".

Net Secondary Assessed Value and Estimated Actual Cash Value Comparison

Fiscal Year	Net Secondary Assessed Valuation	Estimated Actual Valuation*	Net Secondary Assessed Valuation as a Percentage of the Estimated Actual Valuation
2003-04	$5,221,270,997	$43,733,555,507	11.90%
2002-03	4,835,561,219	36,999,609,652	13.07
2001-02	4,491,395,307	34,150,201,378	13.15
2000-01	4,236,070,095	32,488,178,944	13.03
1999-00	4,000,624,012	30,972,409,693	12.92

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance Department and Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

*Actual full cash value net of estimated value of property exempt from taxation.

Net Secondary Assessed Valuation Comparisons

Fiscal Year	City of Tucson	Percent Change	Pima County	Percent Change	State of Arizona	Percent Change
2003-04	$2,427,120,926	5.90%	$5,221,270,997	7.30%	$40,861,415,479	11.02%
2002-03	2,268,733,334	6.09	4,835,561,219	7.66	36,805,206,912	6.76
2001-02	2,138,461,318	4.40	4,491,395,307	6.03	34,473,431,135	8.28
2000-01	2,048,620,866	5.31	4,236,070,095	5.88	31,837,391,782	9.41
1999-00	1,945,160,492	3.69	4,000,624,012	3.84	29,098,557,633	8.61

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance Department and Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

2003-04 Net Secondary Assessed Valuations of Major Taxpayers

Shown below are the major property taxpayers located within the County, an estimate of their current assessed value and their relative proportion of the County's net secondary assessed value.

Taxpayer (a)	Estimated 2003-04 Net Secondary Assessed Valuation	As Percent of County's 2003-04 Net Secondary Assessed Valuation
Tucson Electric Power	$122,499,051	2.35%
Qwest	108,828,645	2.08
Southwest Gas Corporation	55,710,080	1.07
Arizona Portland Cement	19,989,949	0.38
Tucson Mall	18,703,342	0.36
Westin La Paloma	16,056,671	0.31
El Conquistador Hotel	14,460,625	0.28
Phelps Dodge	14,375,000	0.28
Raytheon Company	13,290,286	0.25
TRICO	11,467,176	0.22
Total	$395,380,825	7.57%

(a) Some of such taxpayers or their parent corporations are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the Filings can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Filings may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR data base at http://www.sec.gov. Neither the County nor its Bond Counsel has examined the information set forth in the Filings for accuracy or completeness, nor do they assume responsibility for the same.

Source: Pima County Assessor's office.

Record of Real and Secured Personal Property Taxes Levied and Collected

Property taxes are levied and collected on all taxable property within the County and are certified to by the County Treasurer. The following table sets forth the real and secured personal property tax collection of the County for the current and past five fiscal years.

Fiscal Year	Real and Secured Personal Property Tax Levy	Fiscal Year Collections (a)		Total Collections (b)	
		Amount	Percent of Tax Levy	Amount	Percent of Tax Levy
2003-04	$260,569,501	(c)	(c)	$143,904,562	55.23%
2002-03	241,415,870	$231,618,472	95.94%	240,012,540	99.42
2001-02	228,476,979	218,191,563	95.50	227,891,867	99.74
2000-01	214,642,135	204,963,396	95.49	213,986,863	99.69
1999-00	201,924,932	192,408,605	95.29	201,170,097	99.63
1998-99	180,549,713	172,329,841	95.45	180,067,895	99.73

(a) Reflects collections made through June 30th, the end of the fiscal year, on such year's levy. Property taxes are payable in two installments. The first installment is due the first day of October and becomes delinquent on November 1, but is waived if the full tax year's taxes are paid in full by December 31. The second installment becomes due the first day of March and is delinquent on May 1. Interest at the rate of 16% per annum

attaches on first and second installments following their delinquent dates. Penalties for delinquent payments are not included in the above collection figures.

(b) Reflects collections made through February 29, 2004 against prior levies.

(c) In the process of collection.

Source: Pima County Treasurer's Office

Tax Rate Data

The tax rates provided below reflect the total property tax rate levied by the County. As such, the rates are the sum of the primary tax rate, which is levied against the primary assessed value within the County, and the secondary tax rate for debt service payments, the County Library District, the County Fire District Assistance Tax and the County Flood Control District, all of which are levied against the County's secondary assessed value (except in the case of the Flood Control District, which is levied against the District's secondary assessed value which excludes the value of personal property).

Fiscal Year	Primary Tax Rate	Secondary Tax Rate	Total Tax Rate
2003-04	$4.0720	$1.4261	$5.4981
2002-03	4.0720	1.4278	5.4998
2001-02	4.0720	1.5108	5.5828
2000-01	4.0720	1.4915	5.5635
1999-00	4.0720	1.4931	5.5651

Source: *Property Tax Rates and Assessed Values,* The Arizona Tax Research Foundation and Pima County Finance Department.

Debt Limitation

Pursuant to the Arizona Constitution, outstanding general obligation debt for County purposes may not exceed 15% of a County's net secondary assessed valuation. The following indicates the County's current bonding capacity.

Net Secondary Assessed Valuation (FY 2003-04)	**$5,221,270,997**
15% Constitutional Limitation	783,190,650
Net Direct General Obligation Bonds	(201,370,000)
Unused 15% Limitation	$581,820,650

General Obligation Bonded Debt Outstanding(b)

The following chart indicates the outstanding general obligation bonded debt of the County.

Date of Issue	Original Amount	Original Purpose	Maturity Dates	Average Int. Rates	Remaining Balance Outstanding
04-15-93	$64,535,000	Refunding (a)	7-1-94/04	5.02%	$ 11,710,000
05-01-98	42,420,000	Various Improvements	7-1-99/13	4.62%	27,625,000
10-01-99	50,000,000	Various Improvements	7-1-00/14	5.04%	33,965,000
08-01-00	50,000,000	Various Improvements	7-1-01/14	4.76%	41,000,000
07-01-01	17,835,000	Refunding (a)	7-1-03/09	4.41%	16,340,000
01-01-02	20,000,000	Various Improvements	7-1-02/16	4.00%	14,500,000
01-05-03	50,000,000	Various Improvements	7-1-03/17	3.90%	49,350,000
01-01-04	6,880,000	Refunding (a)	7-1-04	3.375%	6,880,000
Total General Obligation Bonded Debt Outstanding					$201,370,000

(a) These refunding bonds were issued to refund in advance of maturity certain outstanding general obligation bonds of the County. Debt service requirements on the refunded bonds are secured for payment by government securities which are held in irrevocable trusts and are not reflected in the balance outstanding.

(b) On January 20, 2004, the County's Board of Supervisors called for a special election to be held on May,18 2004 with respect to the authorization of $582,250,000 of general obligation bonds and $150,000,000 of sewer revenue bonds.

Annual Debt Service Requirements of
General Obligation Bonded Debt Outstanding

The following chart indicates the general obligation debt service requirements of the County.

Fiscal Year 30-Jun	Existing General Obligation Bonded Debt Outstanding Principal	Interest	Total Debt Service Service Requirement
2004	$34,265,000	$8,961,410	$43,226,410
2005	24,610,000	7,443,485	32,053,485
2006	23,625,000	6,314,585	29,939,585
2007	22,640,000	5,233,635	27,873,635
2008	18,670,000	4,196,980	22,866,980
2009	13,670,000	3,361,080	17,031,080
2010	12,920,000	2,744,680	15,664,680
2011	10,020,000	2,167,900	12,187,900
2012	10,040,000	1,722,000	11,762,000
2013	10,060,000	1,278,200	11,338,200
2014	7,750,000	859,250	8,609,250
2015	4,700,000	544,250	5,244,250
2016	4,300,000	352,750	4,652,750
2017	4,100,000	174,250	4,274,250

Net Direct and Overlapping General Obligation Bonded Debt

Overlapping bonded debt figures were compiled from information obtained from the County Treasurer's Office and individual jurisdictions. A breakdown of each overlapping jurisdiction's applicable general obligation bonded debt, net secondary assessed valuation and combined tax rate per $100 assessed valuation follows.

Jurisdiction	2003-04 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Portion Applicable to the County Percent	Net Debt Amount	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$40,861,415,479	None	100%	None	$0.0000
Pima County	**5,221,270,997**	**$201,370,000**	**100**	**$ 201,370,000**	**5.1435 (b)**
Pima County Flood Control District (c)	4,511,099,509	4,585,000	100	4,585,000	0.3546
Elementary School Districts	211,995,542	3,700,000	100	3,700,000	2.8773 (d)
Unified School Districts	4,999,662,635	645,730,000	100	645,730,000	7.9164 (d)
Cities and Towns	2,999,764,193	259,495,000	100	259,495,000	0.9376 (d)
Pima County Community College District	5,221,270,997	94,215,000	100	94,215,000	1.4884
Total				$1,209,095,000	

Jurisdiction	2003-04 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$40,861,415,479	None	$0.0000
Pima County	5,221,270,997	$201,370,000	5.1435 (b)
Pima County Flood Control District (c)	4,511,099,509	4,585,000	0.3546
Pima County Community College District	5,221,270,997	94,215,000	1.4884
Elementary School Districts:			
San Fernando ESD #35	685,634	None	0.0000
Empire ESD #37	4,229,622	None	6.4699
Continental ESD #39	181,629,157	3,700,000	2.3198
Redington ESD #44	950,565	None	5.6853
Altar Valley ESD #51	24,500,564	None	6.3615
Unified School Districts:			
Tucson USD #1	2,352,797,558	290,770,000	8.7610
Marana USD #6	398,731,172	79,805,000	6.7979
Flowing Wells USD #8	161,591,356	13,810,000	6.6568
Amphitheater USD #10	962,109,272	113,660,000	6.7601
Sunnyside USD #12	292,460,963	55,865,000	9.1041
Tanque Verde USD #13	123,997,672	7,010,000	7.1785
Ajo USD #15	13,577,947	None	5.3016
Catalina Foothills USD #16	406,627,507	45,415,000	7.0256
Vail USD #20	199,318,912	18,960,000	7.1748
Sahuarita USD #30	84,837,119	20,435,000	9.0113
Indian Oasis USD #40	3,613,154	None	0.0000
Cities and Towns:			
City of Tucson	2,427,120,926	259,495,000	1.1569
City of South Tucson	17,955,803	None	0.2513
Town of Marana	182,878,398	None	0.0000
Town of Oro Valley	326,787,649	None	0.0000
Town of Sahuarita	45,021,417	None	0.0000

(a) Includes general obligation bonds outstanding. Does not include outstanding principal amount of various cities and towns improvement districts' bonded debt as of June 30, 2003, and outstanding principal amount of various County improvement districts' bonded debt, as the indebtedness of these districts is presently being paid from special assessments levied against property owners residing within the various improvement districts. Also does not include various fire districts.

Also does not include the obligation of the Central Arizona Water Conservation District ("CAWCD") to the United States of America, Department of the Interior, for repayment of certain capital costs for construction of the Central Arizona Project ("CAP"), a major reclamation project that has been substantially completed by the Department of the Interior. The obligation is evidenced by a master contract between CAWCD and the Department of the Interior. In April of 2003, the United States and CAWCD agreed to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payment of the operation, maintenance and replacement costs and the application of certain revenues and credits against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.646 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 667,724 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of CAP at no additional cost to CAWCD. Of the $1.646 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be

fixed for the entire 50-year repayment period, which commenced October 1, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and other water claims and will require certain State of Arizona and Federal legislation. If the conditions are not met by May 9, 2012, and the parties do not amend the agreement, the agreement will terminate and litigation will resume. If it appears prior to May 9, 2012, that the conditions will not be met by the deadline, the parties can amend the agreement or either party may petition the U.S. District Court to terminate the agreement and resume litigation. It is not possible to predict whether the agreement will become finally effective, be amended, or terminate, or whether litigation will resume. If litigation resumes, it is not possible to predict the outcome of such litigation. CAWCD is a water conservation district having boundaries coterminous with the exterior boundaries of Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of the CAP and to assist in the repayment to the United States of the CAP capital costs. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of CAP water) and a tax levy against all taxable property within CAWCD's boundaries. At the date of this Official Statement, the tax levy is limited to fourteen cents per $100 of secondary assessed valuation, of which twelve cents is being currently levied. (See Arizona Revised Statutes, Sections 48-3715 and 48-3715.02.) There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract.

(b) The County's total tax rate shown includes the County's primary and secondary debt service tax rates, the $0.2124 tax rate of the Free Library District, and the $0.0441 tax rate of the Fire District Assistance Tax.

(c) The boundaries of the Pima County Flood Control District are coterminous with those of Pima County; however, the Flood Control District only levies taxes on real property.

(d) The tax rate shown is a weighted average based on each jurisdiction's proportionate amount of secondary assessed valuation.

(e) The combined tax rate includes the tax rate for debt service payments, which is based on the secondary assessed valuation of the entity, and the tax rate for all other purposes such as maintenance and operation and capital outlay, which is based on the primary assessed valuation of the municipality or school district.

(f) The following table lists general obligation bonds authorized but unissued for the County and jurisdictions within the County.

Jurisdiction*	Authorized But Unissued General Obligation Bonds
Pima County	$67,460,000
City of Tucson	83,980,000
Marana Unified School District No. 6	4,845,000
Indian Oasis Unified School District No. 40	500,000

* Additional general obligation bonds may be authorized by these and other jurisdictions within the County at future elections.

Net Direct and Overlapping General Obligation Bonded Debt Ratios

The County's direct and overlapping general obligation bonded debt is shown below on a per capita basis and as a percent of the County's net secondary assessed valuation and estimated actual valuation.

	Per Capita Net Debt (Pop. @ 890,545)(a)	As Percent of County's 2003-04 Secondary Assessed Valuation ($5,221,270,997)	Est. Actual Valuation ($43,733,555,507)
Net Direct General Obligation Bonded Debt ($201,370,000)	$226.12	3.86%	0.46%
Net Direct and Overlapping General Obligation Bonded Debt ($1,209,095,000)	$1,357.70	23.16%	2.76%

(a) Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics, July, 2002.

Street and Highway Revenue Bonded Debt Outstanding (a)

The following chart lists the outstanding street and highway revenue bonds of the County.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Remaining Balance Outstanding
5-01-98	$40,000,000	Street & Highway Improvements	7-1-99/08	$ 20,000,000
1-01-02	55,000,000	Street & Highway Improvements	7-1-03/12	50,465,000
1-15-03	35,000,000	Street & Highway Improvements	7-1-04/18	35,000,000
Total Street and Highway Revenue Bonds Outstanding				$105,465,000

(a) In 2002, the County received two loans totaling $5.1 million from the Highway Expansion and Extension Loan Program (HELP) of the Arizona Department of Transportation. The loans from the HELP program will allow the County to accelerate by several years the completion of two projects that are scheduled to be funded from Federal aid highway revenues in future years. Final payments on each loan are due in January 2007 and each loan is payable solely from the County's Highway User Tax Revenues, on a basis junior and subordinate to amounts due on the Bonds and all parity bonds.

Lease, Lease-Purchase and Purchase Agreements

The County has various lease purchase agreements outstanding. A list of the County departments benefited by these agreements and the scheduled payments on these agreements over the past three fiscal years appears below.

	Fiscal Year		
County Department	2000-01	2001-02	2002-03
Elections	$ 459,635	$ 459,635	$459,635
Clerk of Superior Court	13,369	58,251	144,062
Juvenile Court	100,000	115,935	73,986
Legal Services Building	926,550	52,550	-
Public Works Building	1,638,810	1,641,810	1,644,900
Sheriff	235,547	138,910	42,274
Superior Court	435,328	269,315	-
Fiscal Year Total	$3,809,239	$2,736,406	$2,364,857

Source: Pima County Finance Department.

Certificates of Participation

The following chart lists the certificates of participation obligations outstanding for the County.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Remaining Balance Outstanding
4-01-95	$18,515,000	Refunding	7-1-95/04	$ 1,560,000
9-01-99	4,875,000	Refunding	1-1-13/14	4,000,000
10-01-03	27,525,000	Refunding	1-1-05/18	27,525,000
Total Certificates of Participation Obligations Outstanding				$33,085,000

Management's Review of the County's Financial Position

Historically, the County had reported significant year-end deficits in certain of its funds that were offset for financial reporting purposes at year-end with cash from other sources, such as the County General Fund. These deficits did not result in any default or failure by the County to make any payments for any of its debt or to creditors or payees of the County. During the mid to late 1990's, the County's General Fund balances decreased, limiting the County's ability to internally loan General Fund cash to other County departments, while cash deficits within the County's Health Care System and other smaller enterprise and special revenue funds increased. In addition, several accounting changes were imposed upon or enacted by the County that further limited the County's ability to address year-end cash deficits. As a result of these issues, the County instituted a series of short-term measures during fiscal year 1998-99 to address the cash deficits, including drawing upon the County's line of credit with its servicing bank and instituting formal internal borrowings from other County funds while developing a long term plan.

Since 1998-99 Pima County's General Fund financial performance has improved from an actual $8.5 million ending fund balance on June 30, 1999 to a June 30, 2003 fund balance of $33.5 million. During the same period the County also eliminated several long-term cash deficits in certain enterprise and special revenue funds, implemented significant changes in the County's Health Care System, increased its budgeted ending fund balance, absorbed approximately $12 million of cost shifts from the State, increased operating and maintenance costs associated with an aggressive voter authorized capital bond program, increased the County's Contingency Fund and funded several General Fund supported capital projects. All of the above issues, as well as the rest of the County's budget, were funded by maintaining the County's primary property tax rate at the current level of $4.0720 per $100 of assessed value, continued growth in County tax revenues due to the strong local economy and an equity transfer from the County's managed care fund.

The one remaining long-term cash deficit, in the County's Stadium District Fund, is anticipated to be eliminated over the next two fiscal years. The fiscal year 2003-04 General Fund budget provides for approximately one-half of the Stadium District's $6.0 million cash deficit and directs County staff to fund the remaining $3.0 million from the General Fund in the fiscal year 2004-05 budget. Of the $6.0 million deficit approximately $3.9 million relates to initial construction costs associated with the County's stadium and the remaining $2.1 million is the result of accumulated operating losses from the first few years of operation. Declines in tourism revenues have impacted the Stadium's ability to reduce its cash deficit without General Fund support. By eliminating the cash deficit, refinancing the debt incurred to fund construction of the stadium and maintaining the existing contracts with major and minor league baseball teams, the Stadium District revenues are projected to be sufficient to maintain a positive financial position by fiscal year 2004-05.

As of June 30, 2003, the County's Wastewater Management Enterprise Fund had borrowed $10.8 million from the General Fund to cover a short-term cash deficit due to expenses related to the failure of a main sewer trunk line. The line was scheduled for replacement starting in fiscal year 2003-04. The County contends that the sewer line failed due to erosion caused by a broken City of Tucson water main in the same area and is seeking partial reimbursement from the City of Tucson Water Department. See "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT."

The Wastewater Management Department plans to eliminate the cash deficit during the current fiscal year and is not anticipated to require a subsidy from the General Fund. In order to meet this goal, the Department has

revised its Five Year Capital Improvement Program, reduced operating expenses and received approval from the Board to raise the sewer user fee rates by four percent (4%) and sewer connection fees by six percent (6%) effective July 1, 2004.

On December 9, 003, the County received a confidential settlement proposal from ADEQ but it is too early to speculate on what a final settlement agreement or the resulting financial impact of any such agreement might be. Previous Notice of Violations received by the County have not resulted in financial penalties, however, the violations associated with those notices were not of the same magnitude.

Following a series of public meetings in fiscal year 2002-03, the County made several major operational changes in its Health Care system that were intended to limit the County's financial liability while continuing to provide much needed health care services to an underserved section of the County and provide critical psychiatric care services for County residents. As a part of these efforts, the County planned to transition the County hospital, Kino Community Hospital (the "Hospital"), to a psychiatric hospital by the end of the current fiscal year. Some initial steps were taken to do that, such as relinquishing day-to-day operation of the out-patient clinics to not-for–profit organizations, and hiring private firms to manage the Emergency Room, Urgent Care and the in-patient psychiatric services, and reducing the number of medical surgical beds.

In November 2003, University Physicians Inc., a non-profit organization affiliated with the University of Arizona School of Medicine expressed an interest in operating the Hospital as an integral part of their teaching mission. To meet the critical healthcare needs of the community in a fiscally responsible manner, the Board of Supervisors is expected to approve a 25-year lease (the "Lease") with University Physicians, Inc., a nonprofit corporation ("UPI"), for the land and buildings currently known as "Kino Community Hospital". Under the terms of the Lease, beginning on or before July 1, 2004 UPI would assume full responsibility for operation of the facility and over the next few years expand and increase services as set forth in the lease. As consideration for UPI's provision of the services to be offered at the Hospital, the County will pay UPI a Service Fee in the amount, if any, by which the cost of providing these services exceeds the revenue generated by the Hospital, up to the following annual amounts:

Year 1:	$25,000,000
Year 2:	$20,000,000
Year 3:	$15,000,000
Years 4 through 8:	$10,000,000
Year 9:	$9,000,000
Year 10:	$8,000,00
Year 11 through 25:	$0

In addition to the Service Fee, the Lease as currently proposed requires the County to complete a number of capital projects, including but not limited to the mold abatement and chiller replacement. General Fund support of $526,300 will be required in fiscal year 2004/05 to complete the projects that are not covered by the 1997 General Obligation bond funds. Several other projects, which will require, approximately $550,000 would not be complete until Fiscal Year 2005/06. As part of the Lease, UPI assumes responsibility for all other maintenance and capital expenditures related to the existing facilities covered by the Lease.

The Lease agreement provides the County with a cap on the funding needed to support the Hospital in future years. However, it was decided to retain the general hospital license this year so it could be transferred to UPI and the additional expenses related to the transition, are expected to increase the current fiscal year loss to $32 million or $12 million over the $20 million budgeted subsidy. As a result of a larger than anticipated June 30, 2003, General Fund ending balance and an enhanced Contingency Fund, sufficient resources are anticipated to be available to cover such losses without impacting the County's budgeted General Fund balance for the fiscal year 2003-04.

The Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County, a decision to pursue a lease for the Hospital and limit the County's liability is the most recent. In addition, the Board has steadily increased the amount budgeted as the General Fund Ending Balance. From a low of zero in fiscal year 1996-97, the budgeted Ending Balance has been steadily increasing to $13.4

million this fiscal year. In addition, for fiscal year 2003-04, the Board increased its Contingency Fund from $1,500,000 to $3,500,000. Despite investment losses incurred by the County from investments in the State Treasurer's Local Government Investment Pool last fiscal year and a sluggish economy, the June 30, 2003 fund balance was $33.5 million or $20 million over budget.

The Board of Supervisors acting on the recommendation of a County Bond Advisory Committee has scheduled a bond election on May 18, 2004 for the purpose of authorizing $582,250,000 of General Obligation Bonds and $150 million in Sewer Revenue Bonds. The recommended bond program is anticipated to be accomplished by the County at a secondary property tax rate equal to, or less than, the current rate of $0.8150 per $100 of assessed valuation.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
Revenues by Source:						
Taxes	$194,948	$214,332	$227,542	$244,807	$258,375	$278,895
Special Assessments	874	703	845	598	1,023	564
Licenses and Permits	4,306	4,541	4,882	6,077	6,087	6,681
Intergovernmental	211,006	241,225	253,863	260,218	245,378	269,651
Charges for Services	24,404	27,308	26,613	31,112	35,721	33,315
Fines and Forfeits	3,930	4,245	4,365	4,882	5,047	4,431
Interest Income	9,009	11,384	15,468	6,952	4,152	8,530
Miscellaneous	10,208	9,452	8,131	8,143	10,356	10,896
Total Revenues	$458,685	$513,190	$541,709	$562,789	$566,139	$612,963
Expenditures by Fund:						
General	244,912	253,563	270,028	285,486	308,917	332,094
Special Revenues	128,240	141,860	147,367	153,888	149,633	183,739
Debt Service	51,988	46,992	50,219	48,102	57,563	62,378
Capital Projects	66,671	89,215	87,673	109,670	97,147	106,177
Total Expenditures	$491,811	$531,630	$555,287	$597,146	$613,260	$684,388
Excess of Revenues Over (Under) Expenditures	(33,126)	(18,440)	(13,578)	(34,357)	(47,121)	(71,425)
Proceeds of Long-Term Debt	307	54,129	50,358	82,717	85,247	0
Proceeds of Refunding Bonds	0	0	0	22,420	0	0
Payment to Refunded Bond Escrow Agent	0	0	0	(22,551)	0	0
Operating Transfers In (Out)	(48)	(13,134)	(37,941)	(12,905)	(15,140)	(15,324)
Capital Leases	0	0	0	0	177	0
Sale of General Fixed Assets	332	0	0	590	37	0
Beginning Fund Balance, as restated	111,530	80,675	105,554	110,664	147,803	160,976
Restatement Adjustment/LGIP Loss	0	1,816	2,063	1,175	(6,237)	0
Changes in Reserve for Inventory	92	166	(117)	64	629	0
Charges in Reserve for Prepaid	0	(6)	10	(14)	0	0
Residual Equity Transfer In (Out)	1,588	348	4,315	0	0	0
Ending Fund Balance	$ 80,675	$105,554	$110,664	$147,803	$165,395	$74,227

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject to any separate audit procedures.

PIMA COUNTY, ARIZONA
STATEMENT OF FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
General						
Reserved	$2,479	$1,846	$2,233	$2,486	$2,549	$1,367
Unreserved	6,030	24,721	19,653	28,656	30,999	12,033
	8,509	26,567	21,886	31,142	33,548	13,400
Special Revenue						
Reserved	2,317	2,785	3,639	2,570	3,623	680
Unreserved	27,114	40,785	48,616	61,134	42,312	16,185
	29,431	43,570	52,255	63,704	45,935	16,865
Debt Service						
Reserved	8,155	7,627	5,537	5,964	3,078	4,184
	8,155	7,627	5,537	5,964	3,078	4,184
Capital Projects						
Reserved	0	0	0	8	41	0
Unreserved	34,580	27,790	30,986	46,985	82,793	39,778
	34,580	27,790	30,986	46,993	82,834	39,778
Total Fund Balance	$80,675	$105,554	$110,664	$147,803	$165,395	$74,227

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject of any separate audit procedures.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN GENERAL FUND BALANCE
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
Revenues by Source:						
Taxes	$138,986	$158,750	$169,129	$181,840	$194,552	$210,153
Licenses and Permits	1,698	1,449	1,186	2,071	2,010	2,010
Intergovernmental	94,468	103,828	110,408	111,922	112,530	111,235
Charges for Services	13,375	15,927	15,663	19,974	23,750	22,144
Fines and Forfeits	3,307	3,466	3,483	3,898	4,111	3,624
Interest	269	4,197	4,361	2,086	1,015	1,035
Miscellaneous	3,205	3,227	2,007	1,995	2,884	2,361
Total Revenues	255,308	290,844	306,237	323,786	340,852	352,562
Expenditures:						
Current						
General Government	86,337	92,397	98,689	101,397	110,813	125,679
Public Safety	69,170	72,399	78,785	86,039	90,375	97,311
Sanitation	0	0	0	0	0	0
Health	282	554	532	2,567	2,762	2,642
Welfare	69,687	69,368	71,243	73,060	84,130	83,930
Culture & Recreation	9,382	10,159	11,128	13,453	12,858	14,408
Education & Econ. Opport.	4,649	4,217	4,987	5,299	4,812	5,562
Debt Service:						
Principal	3,418	2,618	2,834	1,913	1,550	1,042
Interest	1,981	1,844	1,826	1,754	1,613	1,514
Miscellaneous	6	7	4	4	4	6
Total Expenditures	244,912	253,563	270,028	285,486	308,917	332,094
Excess of Revenues Over (Under) Expenditures	10,396	37,281	36,209	38,300	31,935	20,468
Other Financing Sources (uses):						
Proceeds of Long-Term Debt	280	369	345	0	0	0
Sale of General Fixed Assets	0	0	0	0	0	0
Proceeds of Refunding Bonds	0	0	0	0	0	0
Payment to Refunded Bond Escrow	0	0	0	0	0	0
Operating Transfers In (Out)	(5,626)	(19,112)	(45,550)	(29,624)	(27,799)	(32,571)
Total Other Financing Sources (Uses):	(5,346)	(18,743)	(45,205)	(29,624)	(27,799)	(32,571)
Excess of Revenues and Other Sources						
Extraordinary item:						
Loss from State Treasurer's Local Government Investment Pool	0	0	0	0	(1,730)	0
Over (Under) Expenditure and Other Uses	5,050	18,538	(8,996)	8,676	2,406	(12,103)
Beginning Fund Balance, as restated	3,934	8,509	26,567	22,466	31,142	25,503
Restatement Adjustment	0	0	0	0	0	0
Changes in Reserve for Inventory	0	0	0	0	0	0
Residual Equity Transfer: In (Out)	(475)	(480)	4,315	0	0	0
Ending Fund Balance	$ 8,509	$ 26,567	$21,886	$31,142	$33,548	$13,400

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject of any separate audit procedures.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

May 11, 2004*

Board of Supervisors
Pima County, Arizona

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale, and the initial delivery on the date hereof by Pima County, Arizona (the "County"), of $27,160,000* in aggregate principal amount of its Sewer Revenue Refunding Bonds, Series 2004, dated May 1, 2004* (the "Series 2004 Bonds"), issued pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes (the "Act"), and all amendments thereto.

In connection with our engagement as bond counsel, we have examined the law and such documents and matters as we have deemed necessary to render the opinions expressed herein, including, without limitation, the resolution authorizing the issuance of the Series 2004 Bonds (the "Resolution") passed and adopted by the Pima County Board of Supervisors of the County on March 9, 2004. As to questions of fact material to our opinions, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, it is our opinion, and we herewith advise you, as follows:

1. The County is duly created and validly existing as a political subdivision of the State of Arizona with power to pass and adopt the Resolution, perform the agreements on its part contained therein and issue the Series 2004 Bonds.

2. The Resolution has been duly passed and adopted by the Board of Supervisors of the county and is valid and binding upon and enforceable against the County.

3. The Series 2004 Bonds have been duly authorized and delivered by the County and are valid and binding limited obligations of the County payable, as to both principal and interest, from the revenues derived by the County from the operation of its sewer system, after provision has been made for the expenses of operation and maintenance of the sewer system, subject to no prior lien granted under the Act. The Series 2004 Bonds are issued on a parity with the County's Sewer Revenue Bonds, Series 1993; Sewer Revenue Bonds, Series 1994B; Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001; and those certain Loan Agreements between the County as Borrower and the Water Infrastructure Finance Authority of Arizona dated February 1, 1996, June 1, 1997, October 27, 2000, and December 28, 2001, respectively. Neither the general credit nor any property of the County other than as provided in the Resolution has been pledged or committed to the payment of the Series 2004 Bonds. The Series 2004 Bonds are not secured by an obligation or pledge of any taxing power or monies raised thereby and are not a debt of and do not constitute a pledge of the faith and credit of the County.

*Preliminary, subject to change.

4. Interest on the Series 2004 Bonds (a) is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax; and (b) is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. No opinion is expressed regarding any other federal or State of Arizona income tax consequences arising with respect to ownership of the Series 2004 Bonds. The opinion set forth in clause (a) above is subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2004 Bonds in order for the interest thereon not to be included in gross income of the owners for federal income tax purposes. Failure by the County to comply with certain of these requirements could result in the interest on the Series 2004 Bonds being included in gross income for federal income tax purposes retroactive to the date of issuance. The County has covenanted and agreed to comply with all such requirements and our opinion assumes such compliance.

The rights of the owners of the Series 2004 Bonds and the enforceability thereof may be subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws and equitable principles generally affecting the enforcement of creditors' rights.

The opinions expressed in this letter are based upon the law in effect on the date hereof and may be affected by actions taken or omitted or events occurring after the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or otherwise, or to determine or to inform any person whether any such actions are taken or omitted or any such events occur.

Respectfully submitted,

SNELL & WILMER L.L.P.

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE PIMA COUNTY DEPARTMENT OF WASTEWATER MANAGEMENT FOR FISCAL YEAR ENDED JUNE 30, 2003

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A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Pima County

Department of Wastewater Management

June 30, 2003

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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Office of the Auditor General
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www.auditorgen.state.az.us

Pima County
Department of Wastewater Management
Report on Audit of Financial Statements
June 30, 2003

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of the Pima County Department of Wastewater Management as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Pima County Department of Wastewater Management's financial statements are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and major funds of Pima County that is attributable to the Pima County Department of Wastewater Management Fund. They do not purport to, and do not, present fairly the financial position of Pima County as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima County Department of Wastewater Management as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pima County Department of Wastewater Management. The accompanying financial information listed as supplementary schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Debbie Davenport
Auditor General

November 7, 2003

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Pima County
Department of Wastewater Management
Statement of Net Assets—Enterprise Fund
June 30, 2003

Assets

Current assets:	
Cash and cash equivalents	$ 966,267
Interest receivable	7,021
Accounts receivable, net	6,859,763
Due from other Pima County funds	1,675
Due from other governments	287,517
Inventory of materials and supplies	2,610,951
Prepaid expenses	128,877
Total current assets	10,862,071
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents:	
Restricted for debt service	1,245,429
Restricted for operation and maintenance	3,669,003
Held in escrow as construction contract retentions	2,987,679
Interest receivable	19,952
Total restricted assets	7,922,063
Capital assets, net of accumulated depreciation where applicable:	
Land and other improvements	11,958,225
Solid waste transfer stations, net	1,595,764
Conveyance systems, net	264,664,983
Treatment facilities, net	130,640,733
Equipment, net	6,952,999
Construction in progress	136,170,979
Total capital assets, net	551,983,683
Deferred financing costs	848,259
Total noncurrent assets	560,754,005
Total assets	$571,616,076

(Continued)

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Net Assets—Enterprise Fund
June 30, 2003
(Continued)

Liabilities

Current liabilities:	
Accounts payable	$ 8,371,812
Accrued payroll and employee benefits	3,146,908
Due to other Pima County funds	10,967,672
Interest payable	11,714
Current portion of sewer revenue bonds payable	4,965,000
Current portion of wastewater loans payable	4,269,721
Deferred sewer connection revenue	1,346,678
Deferred sludge hauling revenue	500
Total current liabilities	33,080,005
Noncurrent liabilities:	
Construction contract retentions payable	6,848,853
Landfill closure and postclosure care costs payable	15,644,952
Sewer revenue bonds payable, less current portion	63,275,000
Wastewater loans payable, less current portion	59,609,308
Deferred interest expense and bond discount	(5,469,829)
Total noncurrent liabilities	139,908,284
Total liabilities	172,988,289

Net Assets

Invested in capital assets, net of related debt	426,182,741
Restricted for:	
Debt service	1,245,429
Capital projects	3,007,631
Wastewater management	3,669,003
Unrestricted deficit	(35,477,017)
Total net assets	$398,627,787

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Enterprise Fund
Year Ended June 30, 2003

Operating revenues:	
Sewer utility service	$ 45,318,741
Solid waste fees	5,690,740
Engineering review and inspection fees	245,820
Permits and fines	91,024
Other income	870,785
Total operating revenues	52,217,110
Operating expenses:	
Employee compensation	25,377,959
Operating supplies	5,227,812
Utilities	1,976,584
Sludge and refuse disposal	2,241,854
Repairs and maintenance	5,105,339
Landfill closure and postclosure care costs	1,078,282
General and administrative	8,025,785
Consultants and professional services	3,646,323
Depreciation	16,670,498
Total operating expenses	69,350,436
Operating loss	(17,133,326)
Nonoperating revenues (expenses):	
Grant revenue	303,934
Interest income	1,014,349
Sewer connection revenue	20,279,607
State-shared tax revenue	958,603
Loss on disposal of equipment	(213,135)
Interest expense	(5,271,134)
Amortization of deferred charges	(88,645)
Total nonoperating revenues (expenses)	16,983,579
Loss before capital contributions and extraordinary item	(149,747)
Capital contributions	13,702,141
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,263,168)
Increase in net assets	12,289,226
Net assets—July 1, 2002	386,338,561
Net assets—June 30, 2003	$ 398,627,787

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2003

Cash flows from operating activities:	
Receipts from customers	$ 51,598,819
Miscellaneous receipts	2,449,039
Payments to suppliers for goods and services	(19,752,290)
Payments to other Pima County funds	(8,814,623)
Payments to employees	(24,872,770)
Net cash provided by operating activities	608,175
Cash flows from noncapital financing activities:	
Noncapital grant receipts	303,934
State-shared tax receipts	958,603
Net interfund borrowings	10,982,193
Net cash provided by noncapital financing activities	12,244,730
Cash flows from capital and related financing activities:	
Proceeds from loans	9,745,533
Sewer connection receipts from customers	19,701,257
Purchase and construction of capital assets	(59,227,759)
Principal payments on revenue bonds and loans	(8,886,774)
Interest payments on revenue bonds and loans	(4,742,206)
Net cash used for capital and related financing activities	(43,409,949)
Cash flows from investing activities:	
Loss from State Treasurer's Local Government Investment Pool	(1,263,168)
Interest received on investments	1,124,948
Net cash used for investing activities	(138,220)
Net decrease in cash and cash equivalents	(30,695,264)
Cash and cash equivalents, July 1, 2002	39,563,642
Cash and cash equivalents, June 30, 2003	$ 8,868,378

(Continued)

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2003
(Continued)

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$(17,133,326)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	16,670,498
Landfill closure and postclosure care costs	1,078,282
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	1,497,046
Due from other governments	333,702
Inventory of materials and supplies	(54,092)
Prepaid expenses	(47,448)
Increase (decrease) in liabilities:	
Accounts payable	(2,236,910)
Accrued payroll and employee benefits	505,189
Due to other Pima County funds	(4,766)
Net cash provided by operating activities	$ 608,175

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2003, Pima County transferred capital assets with a net book value of $1,228,477 to the Department. This transaction was recorded as a capital contribution.

During the year ended June 30, 2003, the Department retired capital assets with a net book value of $213,135, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, developers conveyed capital assets with an estimated fair value of $12,473,664 to the Department. This transaction was recorded as a capital contribution.

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Wastewater Management conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Department's more significant accounting policies follows.

A. Reporting Entity

The Department is accounted for as an enterprise fund of Pima County, Arizona, and is responsible for managing and operating all liquid and solid waste programs in Pima County. The Department's management is directed by an administrator appointed by the Pima County Board of Supervisors. However, ultimate financial accountability for the Department remains with Pima County.

B. Fund Accounting

The Department's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Department's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. A fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Department's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred, regardless of when the related cash flows take place. When both restricted and unrestricted net assets are available to finance departmental expenses, restricted resources are used before unrestricted resources. Interfund transactions

that would be treated as revenues or expenses if they involved parties external to Pima County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the Department are eliminated for the consolidated financial statement presentation.

The Department follows those Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the Department at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Department's obligations. Invested in capital assets net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about the Department's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and extraordinary items. Generally, operating revenues, such as sewer utility service and solid waste fees, result from transactions associated with the Department's principal activities. Other revenues, such as sewer connection revenues and interest earnings, are not generated from operations and are considered to be nonoperating revenues.

A statement of cash flows provides information about the Department's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, and deposits held in escrow accounts. All investments are stated at fair value.

F. Deferred Charges

Deferred charges (primarily bond and loan issuance costs) are being amortized over the life of the related debt using the straight-line method.

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. The Department capitalizes all land and buildings regardless of cost and all other property, plant and equipment valued at $5,000 and above. Costs for internally constructed capital assets include material, direct labor, engineering, interest, and allocated portions of other indirect costs related to the construction projects. Depreciation of such assets is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	3 to 50 years
Conveyance systems	50 years
Solid waste transfer stations	50 years

H. Compensated Absences

Compensated absences consist of annual leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of annual leave, but must forfeit any annual leave hours in excess of the maximum that are unused at the end of the payroll period in which the employee's anniversary date falls. Upon termination, all unused and unforfeited annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the financial statements. Employees may accumulate an unlimited number of sick leave hours.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but do not vest with employees and therefore, are not accrued in the financial statements. However, for employees who retire with 20 years or more of continuous service or who have a combined total of age and years of service equal to 80 points, and who retire from service into the Arizona State Retirement System, sick leave benefits do vest and, therefore, are accrued.

I. Construction Contract Retentions

The Department has numerous construction projects in process. The Department retains a percentage of each progress payment until the project's successful completion. In some instances, contract retentions are deposited in escrow accounts so contractors may earn interest during the construction period.

J. Deferred Interest Expense

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the refunded debt or the refunding debt, whichever is shorter. This deferred amount is reported as a deduction from the new debt liability on the statement of net assets.

K. Revenues

Sewer utility billings are based on the content and volume of wastewater discharged and a minimum charge for service. Solid waste fees are based on landfill location, weight of disposed material, and material type.

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as an increase in net assets at their estimated fair value. In those instances where a developer makes enhancements that exceed the requirements for the conveyance systems, the Department establishes reduced fees and credits that can be used to offset future fees charged to developers for each new connection to the conveyance systems. These credits are recorded as deferred sewer connection revenue and recognized as income when connection permits are issued.

Sewer connection fees are assessed to land developers based on the type and number of fixtures attached to the conveyance systems. Fees are established at a level to provide for the recovery of the Department's operating expenses that are not recovered by the sewer utility service fees. Accordingly, fees collected are classified as nonoperating revenues.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following amounts:

Current assets:	
Cash on hand	$ 3,850
Cash and investments held by the Pima County Treasurer	864,313
Investments with State Treasurer	98,104
Total current cash and cash equivalents	966,267
Restricted assets:	
Cash and investments held by the Pima County Treasurer	4,914,432
Deposits held in escrow accounts	2,987,679
Total restricted cash and cash equivalents	7,902,111
Total cash and cash equivalents	$8,868,378

The Department's cash and investments held by the Pima County Treasurer represent a proportionate interest in the County Treasurer's investment pool portfolios. This portion is not identified with specific investments and is not subject to custodial credit risk.

In addition, the investments with the State Treasurer represent investments in the State Treasurer's Local Government Investment Pool. The State Board of Investment 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. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Of the deposits held in escrow by financial institutions, $100,000 was covered by federal depository insurance and $2,887,679 was uninsured and uncollateralized.

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2003, is presented in the following schedule:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets not being depreciated:				
Land and other improvements	$ 11,858,947	$ 99,278		$ 11,958,225
Construction in progress	73,886,991	62,685,801	$(401,813)	136,170,979
Total capital assets not being depreciated	85,745,938	62,785,079	(401,813)	148,129,204
Capital assets being depreciated:				
Transfer stations	2,168,380			2,168,380
Conveyance systems	386,816,567	12,929,925		399,746,492
Treatment facilities	214,237,033	18,923		214,255,956
Equipment	14,835,405	2,792,193	(645,017)	16,982,581
Total capital assets being depreciated	618,057,385	15,741,041	(645,017)	633,153,409
Less accumulated depreciation for:				
Transfer stations	(530,141)	(42,475)		(572,616)
Conveyance systems	(126,621,930)	(8,459,579)		(135,081,509)
Treatment facilities	(76,509,958)	(7,105,265)		(83,615,223)
Equipment	(9,117,814)	(1,343,650)	431,882	(10,029,582)
Total accumulated depreciation	(212,779,843)	(16,950,969)	431,882	(229,298,930)
Total capital assets being depreciated, net	405,277,542	(1,209,928)	(213,135)	403,854,479
Total capital assets, net	$ 491,023,480	$ 61,575,151	$(614,948)	$ 551,983,683

Note 4 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2003:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Due Within 1 year
Sewer revenue bonds	$ 73,440,000		$5,200,000	$ 68,240,000	$4,965,000
Less unamortized deferred amounts	5,628,968		487,030	5,141,938	
Total revenue bonds payable	67,811,032		4,712,970	63,098,062	4,965,000
Wastewater loans payable	57,820,270	$ 9,745,533	3,686,774	63,879,029	4,269,721
Less unamortized deferred amounts	364,323		36,432	327,891	
Total loans payable	57,455,947	9,745,533	3,650,342	63,551,138	4,269,721
Landfill closure and postclosure care costs	14,566,670	1,078,282		15,644,952	
Construction contract retentions payable	3,684,792	4,156,410	992,349	6,848,853	
Total long-term liabilities	$143,518,441	$14,980,225	$9,355,661	$149,143,005	$9,234,721

Sewer Revenue Bonds—The Department has issued several series of sewer revenue bonds (Series 1993, Refunding 1994A, Series 1994B, Series 1998, and Series 2001) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and improvements to the sewer system. The bonds are callable at various prices depending on the date of call. Interest on the bonds is payable semiannually. Of the total amount originally authorized, $23,910,000 from the May 20, 1997, bond election remains unissued.

Loans Payable—The Department has entered into three loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, and 2000 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period.

At June 30, 2003, the Department has drawn down only $54,009,932 of the $61,180,286 authorized loan amount for the 2000 Water Infrastructure Financing Authority of Arizona loan. Payments of principal, which are subject to change, are based upon the total amounts drawn.

Debt Covenants—All revenue bonds were issued and the loan agreements were executed with a first lien on the first pledge of the Department's net revenues and have restrictive covenants, primarily related to minimum utility rates and limitations on future bond issues. The bond covenants also require the Department to either maintain a surety bond guaranteeing the payment of annual debt service or to maintain in the Bond Reserve Account monies equal to the average annual debt service payment. At June 30, 2003, the Department had a surety bond in place to meet the requirements of the debt covenants. The Department is also authorized to issue additional parity bonds if certain conditions are met (primarily that net revenues for the fiscal year immediately preceding issuance of the parity bonds exceed 120 percent of the maximum annual debt service requirements immediately after such issuance).

Bonds and loans outstanding at June 30, 2003, were as follows:

Description	Interest Rates	Maturity Dates	Outstanding Principal June 30, 2003
Series 1993	5.6-6.5%	2004 -2005	$ 615,000
Refunding 1994A	4.5-5.0%	2004 -2015	25,520,000
Series 1994B	5.5%	2004	580,000
Series 1998	4.0-5.5%	2004 -2015	23,395,000
Refunding 2001	4.0-5.4%	2004 -2015	18,130,000
Total bonds payable			$68,240,000
1996 loan payable	3.19%	2004 -2012	11,313,350
1997 loan payable	2.95%	2004 -2011	4,757,899
2000 loan payable	2.02%	2004 -2016	47,807,780
Total loans payable			$63,879,029

Revenue bond, debt service and loan payment requirements to maturity, are as follows:

	Revenue Bond Debt Service		Revenue Loan Debt Service	
	Principal	Interest	Principal	Interest
Year ending June 30,				
2004	$ 4,965,000	$ 3,315,426	$ 4,269,721	$ 2,350,906
2005	4,595,000	3,067,341	4,950,734	2,194,315
2006	4,470,000	2,841,886	5,502,957	2,012,687
2007	5,525,000	2,622,699	4,892,394	1,810,721
2008	5,800,000	2,340,529	5,098,403	1,631,275
2009-2013	28,990,000	7,580,549	30,053,570	4,955,200
2014-2016	13,895,000	1,064,456	9,111,250	480,949
Total	$68,240,000	$22,832,886	$63,879,029	$15,436,053

Refunded Sewer Revenue Bonds Outstanding—The Department used the proceeds of the 1996 loan payable to refund certain sewer revenue bonds. The proceeds were used to purchase U.S. government securities, which were placed in irrevocable trusts with the escrow agents to provide for future debt service payments on the refunded bonds. Accordingly, the trust account assets of $2,952,256 and the liability for the defeased bonds listed below are not included in the Department's financial statements:

Description	Interest Rates	Maturity Dates	Outstanding Principal June 30, 2003
Series 1993	5.0-5.9%	2006-2012	$2,845,000

Landfill Closure and Postclosure Care Costs—State and federal laws and regulations require the Department to place a final cover on its solid waste landfill sites when these sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the Department reports a portion of these closure and postclosure care costs in each operating period even though actual payouts will not occur until the landfill is closed. The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The $15,644,952 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of 90, 99, and 78 percent of the estimated capacity of the Ajo, Sahuarita, and Tangerine landfills, respectively. The Department will recognize the remaining estimated cost of closure and postclosure care of $3,309,607 as the remaining estimated capacity of each landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2003. The Department expects to close the Ajo, Sahuarita, and Tangerine, landfills in the years 2007, 2003, and 2008, respectively, and actual costs may be higher due to inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure and corrective action when needed. The County is in compliance with these requirements.

El Camino del Cerro Landfill stopped accepting waste during 1978 and is not subject to the state and federal regulations referred to above. However, the Arizona Department of Environmental Quality (ADEQ) has filed a complaint pursuant to other state and federal laws alleging that hazardous substances have been released at the landfill. The County has entered into settlement negotiations with the ADEQ to resolve the cleanup litigation. The County has also voluntarily incurred cleanup expenses for a soil vapor extraction system, a series of drainage improvements, a re-grade of the landfill cap, and groundwater remediation. No liability has been recognized in the financial statements because the outcome of the litigation is uncertain. The County's cleanup costs could total $3.6 million, and county management plans to finance any required cleanup costs through future bond issues.

Construction Contract Retentions Payable—State laws and regulations require the Department to withhold a portion of progress payments made on construction contracts until the successful completion of the construction project.

Note 5 - Due To Other Pima County Funds

Amounts due to other Pima County funds at June 30, 2003, include $10,843,386 due to the General Fund, $68,305 due to the Special Revenue Funds, and $55,981 due to the Capital Projects Fund. Of the amount due to the General Fund, $10,823,837 represented a short-term loan to eliminate a negative cash balance within the Department. This cash deficit can be eliminated in the future through normal operations or by operating transfers from the General Fund.

Note 6 - Related Party Transactions

Administrative and Fiscal Services—The Department incurred expenses from Pima County for a variety of administrative and fiscal services, including $1,676,352 for the allocation of overhead; $763,916 for self-insurance premiums; $2,735,128 for interdepartmental supplies and services charges; $1,834,037 for motor pool charges; $410,511 for professional charges; $400,357 for repair and maintenance charges; $94,867 for printing charges; and $445,082 for miscellaneous other charges.

Public Works Center—The Department occupies a portion of the Public Works Center and pays rent based on a pro rata share of the building expenses incurred by the Pima County Facilities Management department. The Department's rent expense totaled $449,607 for the year ended June 30, 2003.

Note 7 - Significant Commitments

Commitments under construction contracts at June 30, 2003, totaled $40,370,425.

Note 8 - Risk Management

The Department is a participant in Pima County's self-insurance program. The County's self-insurance program covers the Department for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In the opinion of the Department's management, any unfavorable outcomes from these types of risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for these unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report.*

Risks of loss arising from contractual breaches are not covered by the County's self-insurance program or commercial insurance. The Department's management does not believe that these types of losses would be material to the financial statements; therefore, no accrual of losses has been made within the financial statements. At June 30, 2003, there were no material lawsuits related to contractual breaches.

The Department has received a Notice of Violation from the ADEQ that could result in various penalties, fines or remediation requirements as a result of the Northwest Outfall sewer line failure, which ruptured on September 7, 2002, causing several sink holes and discharging raw sewage into the Santa Cruz River. The Department is currently in a 90-day negotiation period with ADEQ, and is unable to speculate on a possible settlement agreement or the resulting financial impact of any such agreement at this time. Previous Notice of Violations received by the Department have not resulted in financial penalties, however the violations were not of the same magnitude as the most recent sewer line failure. Any loss incurred by the Department for the sewer rupture will not be covered by the County's self insurance program since that program does not cover risks of loss related to maintenance issues.

Note 9 - Intergovernmental Agreement

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID) and Oro Valley Water provide sewer utility billing and collection services, certain computer services, accounting information, and statistical data to the Department. During the year ended June 30, 2003, the Department paid fees totaling $1,360,443, $107,111, and $97,917, respectively, for such services. As part of its agreement, the City of Tucson invests cash collected from utility customers and held for remittance to the Department. Interest earnings on such investments are remitted to the Department. The MDWID and Oro Valley Water submit cash receipts to the Department regularly. However, cash collections are not invested, and therefore, neither MDWID or Oro Valley Water remit interest to the Department.

Note 10 - Segment Information

Liquid Waste, a division of the Department, is reported within the Department's enterprise fund. Liquid Waste operates the sewer system which provides wastewater collection, treatment, and disposal throughout Pima County. All revenues generated by the ownership, use, and operation of Pima County's sewer system are pledged in support of sewer system debt. In addition, debt covenants require sewer system revenues, expenses, gains, losses, assets, and liabilities to be accounted for separately. As a result, condensed financial information for Liquid Waste is presented in the following tables:

Condensed Statement of Net Assets

	Liquid Waste
Assets	
Current assets	$ 7,286,464
Due from other Pima County funds	1,675
Restricted assets	7,922,063
Capital assets, net of accumulated depreciation	540,657,461
Other noncurrent assets	848,259
Total assets	556,715,922
Liabilities	
Current liabilities	21,594,026
Due to other Pima County funds	10,963,213
Noncurrent liabilities	124,263,332
Total liabilities	156,820,571
Net Assets	
Invested in capital assets, net of related debt	414,856,520
Restricted	7,922,063
Unrestricted deficit	(22,883,232)
Total net assets	$399,895,351

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

	Liquid Waste
Operating revenues (expenses)	
Sewer utility service	$ 45,318,741
Other operating revenues	1,157,352
Depreciation expense	(16,364,451)
Other operating expenses	(46,377,358)
Operating loss	(16,265,716)
Nonoperating revenues (expenses)	
Sewer connection revenue	20,279,607
Other nonoperating revenues	1,281,919
Interest expense	(5,271,123)
Other nonoperating expenses	(239,152)
Capital contributions	12,473,664
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,186,975)
Change in net assets	11,072,224
Net assets, July 1, 2002	388,823,127
Net assets, June 30, 2003	$399,895,351

Condensed Statement of Cash Flows

Net cash provided by (used for)	
Operating activities	$ (31,576)
Noncapital financing activities	13,240,942
Capital and related financing activities	(43,075,177)
Investment activities	(97,048)
Decrease in cash	(29,962,859)
Cash and cash equivalents, July 1, 2002	37,867,420
Cash and cash equivalents, June 30, 2003	$ 7,904,561

Note 11 - Retirement Plan

Plan Description—The Department contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System that covers general employees of the Department. 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 Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a publicly available annual financial report that includes its 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, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Department's contribution rates. For the year ended June 30, 2003, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Department's contributions to the system for the years ended June 30, 2003, 2002, and 2001, were $495,645, $449,580, and $427,785, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Pima County
Department of Wastewater Management
Combining Statement of Net Assets
June 30, 2003

Assets	Liquid Waste	Solid Waste	Total
Current assets:			
Cash and cash equivalents	$ 2,450	$ 963,817	$ 966,267
Interest receivable	3,946	3,075	7,021
Accounts receivable, net	6,413,912	445,851	6,859,763
Due from other Pima County funds	1,675		1,675
Intrafund due from (due to)	(1,955,798)	1,955,798	-
Due from other governments	87,517	200,000	287,517
Inventory of materials and supplies	2,610,951		2,610,951
Prepaid expenses	123,486	5,391	128,877
Total current assets	7,288,139	3,573,932	10,862,071
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents:			
Restricted for debt service	1,245,429		1,245,429
Restricted for operation and maintenance	3,669,003		3,669,003
Held in escrow as construction contract retentions	2,987,679		2,987,679
Interest receivable	19,952		19,952
Total restricted assets	7,922,063		7,922,063
Capital assets, net of accumulated depreciation where applicable:			
Land and other improvements	4,117,586	7,840,639	11,958,225
Solid waste transfer stations, net		1,595,764	1,595,764
Conveyance systems, net	264,664,983		264,664,983
Treatment facilities, net	130,640,733		130,640,733
Equipment, net	5,063,180	1,889,819	6,952,999
Construction in progress	136,170,979		136,170,979
Total capital assets, net	540,657,461	11,326,222	551,983,683
Deferred financing costs	848,259		848,259
Total noncurrent assets	549,427,783	11,326,222	560,754,005
Total assets	$556,715,922	$14,900,154	$571,616,076

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Net Assets
June 30, 2003
(Continued)

Liabilities	Liquid Waste	Solid Waste	Total
Current liabilities:			
Accounts payable	$ 8,066,815	$ 304,997	$ 8,371,812
Accrued payroll and employee benefits	2,933,598	213,310	3,146,908
Due to other Pima County funds	10,963,213	4,459	10,967,672
Interest payable	11,714		11,714
Current portion of sewer revenue bonds payable	4,965,000		4,965,000
Current portion of wastewater loans payable	4,269,721		4,269,721
Deferred sewer connection revenue	1,346,678		1,346,678
Deferred sludge hauling revenue	500		500
Total current liabilities	32,557,239	522,766	33,080,005
Noncurrent liabilities:			
Construction contract retentions payable	6,848,853		6,848,853
Landfill closure and postclosure care costs payable		15,644,952	15,644,952
Sewer revenue bonds payable, less current portion	63,275,000		63,275,000
Wastewater loans payable, less current portion	59,609,308		59,609,308
Deferred interest expense and bond discount	(5,469,829)		(5,469,829)
Total noncurrent liabilities	124,263,332	15,644,952	139,908,284
Total liabilities	156,820,571	16,167,718	172,988,289
Net Assets			
Invested in capital assets, net of related debt	414,856,520	11,326,221	426,182,741
Restricted for:			
Debt service	1,245,429		1,245,429
Capital projects	3,007,631		3,007,631
Wastewater management	3,669,003		3,669,003
Unrestricted deficit	(22,883,232)	(12,593,785)	(35,477,017)
Total net assets	$399,895,351	$ (1,267,564)	$398,627,787

Pima County
Department of Wastewater Management
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2003

	Liquid Waste	Solid Waste	Total
Operating revenues:			
Sewer utility service	$ 45,318,741		$ 45,318,741
Solid waste fees		$ 5,690,740	5,690,740
Engineering review and inspection fees	245,820		245,820
Permits and fines	91,024		91,024
Other income	820,508	50,277	870,785
Total operating revenues	46,476,093	5,741,017	52,217,110
Operating expenses:			
Employee compensation	23,369,572	2,008,387	25,377,959
Operating supplies	5,226,695	1,117	5,227,812
Utilities	1,921,413	55,171	1,976,584
Sludge and refuse disposal	2,052,083	189,771	2,241,854
Repairs and maintenance	4,700,639	404,700	5,105,339
Landfill closure and postclosure care costs		1,078,282	1,078,282
General and administrative	6,409,429	1,616,356	8,025,785
Consultants and professional services	2,697,527	948,796	3,646,323
Depreciation	16,364,451	306,047	16,670,498
Total operating expenses	62,741,809	6,608,627	69,350,436
Operating loss	(16,265,716)	(867,610)	(17,133,326)
Nonoperating revenues (expenses):			
Grant revenue	303,934		303,934
Interest income	977,985	36,364	1,014,349
Sewer connection revenue	20,279,607		20,279,607
State-shared tax revenue		958,603	958,603
Loss on disposal of equipment	(150,507)	(62,628)	(213,135)
Interest expense	(5,271,123)	(11)	(5,271,134)
Amortization of deferred charges	(88,645)		(88,645)
Total nonoperating revenues (expenses)	16,051,251	932,328	16,983,579
Income (loss) before capital contributions and extraordinary item	(214,465)	64,718	(149,747)
Capital contributions	12,473,664	1,228,477	13,702,141
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,186,975)	(76,193)	(1,263,168)
Increase in net assets	11,072,224	1,217,002	12,289,226
Net assets—July 1, 2002	388,823,127	(2,484,566)	386,338,561
Net assets—June 30, 2003	$399,895,351	$(1,267,564)	$398,627,787

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2003

	Liquid Waste	Solid Waste	Total
Cash flows from operating activities:			
Receipts from customers	$ 45,982,447	$ 5,616,372	$ 51,598,819
Miscellaneous receipts	2,398,762	50,277	2,449,039
Payments to suppliers for goods and services	(18,288,106)	(1,464,184)	(19,752,290)
Payments to other Pima County funds	(7,241,725)	(1,572,898)	(8,814,623)
Payments to employees	(22,882,954)	(1,989,816)	(24,872,770)
Net cash provided by (used for) operating activities	(31,576)	639,751	608,175
Cash flows from noncapital financing activities:			
Noncapital grant receipts	303,934		303,934
State-shared tax receipts		958,603	958,603
Net intrafund borrowings	1,955,798	(1,955,798)	-
Net interfund borrowings	10,981,210	983	10,982,193
Net cash provided by (used for) noncapital financing activities	13,240,942	(996,212)	12,244,730
Cash flows from capital and related financing activities:			
Proceeds from issuing sewer bonds and loans	9,745,533		9,745,533
Sewer connection receipts from customers	19,701,257		19,701,257
Purchase and construction of capital assets	(58,892,987)	(334,772)	(59,227,759)
Principal payments on revenue bonds and loans	(8,886,774)		(8,886,774)
Interest payments on revenue bonds and loans	(4,742,206)		(4,742,206)
Net cash used for capital and related financing activities	(43,075,177)	(334,772)	(43,409,949)
Cash flows from investing activities:			
Loss on investments	(1,186,975)	(76,193)	(1,263,168)
Interest received on investments	1,089,927	35,021	1,124,948
Net cash used for investing activities	(97,048)	(41,172)	(138,220)
Net decrease in cash and cash equivalents	(29,962,859)	(732,405)	(30,695,264)
Cash and cash equivalents, July 1, 2002	37,867,420	1,696,222	39,563,642
Cash and cash equivalents, June 30, 2003	$ 7,904,561	$ 963,817	$ 8,868,378

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2003
(Continued)

	Liquid Waste	Solid Waste	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$(16,265,716)	$ (867,610)	$(17,133,326)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	16,364,451	306,047	16,670,498
Landfill closure and postclosure care costs		1,078,282	1,078,282
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	1,578,255	(81,209)	1,497,046
Due from other governments	326,862	6,840	333,702
Inventory of materials and supplies	(54,092)		(54,092)
Prepaid expenses	(44,508)	(2,940)	(47,448)
Increase (decrease) in liabilities:			
Accounts payable	(2,423,446)	186,536	(2,236,910)
Accrued payroll and employee benefits	486,618	18,571	505,189
Due to other Pima County funds		(4,766)	(4,766)
Net cash provided by (used for) operating activities	$ (31,576)	$ 639,751	$ 608,175

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2003, Pima County transferred capital assets with a net book value of $1,228,477 to the Solid Waste Division. This transaction was recorded as a capital contribution.

During the year ended June 30, 2003, the Solid Waste Division retired capital assets with a net book value of $62,628, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, the Liquid Waste Division retired capital assets with a net book value of $150,507, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, developers conveyed capital assets with an estimated fair value of $12,473,664 to the Liquid Waste Division. This transaction was recorded as a capital contribution.

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APPENDIX F

AUDITED FINANCIAL STATEMENTS
OF PIMA COUNTY, ARIZONA
FOR FISCAL YEAR ENDED JUNE 30, 2003

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COUNTY ADMINISTRATOR'S OFFICE

PIMA COUNTY GOVERNMENTAL CENTER
130 W. CONGRESS, TUCSON, AZ 85701-1317
(520) 740-8661 FAX (520) 740-8171

C. H. HUCKELBERRY
County Administrator

December 1, 2003

The Honorable Board of Supervisors
Pima County, Arizona

We are pleased to submit, in accordance with state statutes, the Comprehensive Annual Financial Report (CAFR) of Pima County, prepared by the Finance Department, for the fiscal year ended June 30, 2003. This report presents comprehensive financial and operating information about the County's activities for the fiscal year that is useful to its property owners, businesses and other resource providers. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County.

This report has been prepared following the standards adopted and promulgated by the Governmental Accounting Standards Board (GASB). This is the second year the County has implemented GASB Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. As such, the CAFR has been organized to comply with new reporting requirements as well as conceptual changes. The Management's Discussion and Analysis (MD&A) section, which begins on page 13, was introduced last year. The MD&A provides additional information to assist readers in understanding the financial position of the County as of June 30, 2003. It provides a narrative introduction and overview to assist in the interpretation of the basic financial statements while also providing an analysis of key data presented within the basic financial statements.

We believe that the financial information, as presented, is accurate in all material aspects; that it is presented in a manner designed to openly disclose the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The CAFR consists of three sections:

- The ***INTRODUCTORY*** section, which familiarizes the reader with the organizational structure of the County, the nature and scope of the services it provides, and the specifics of its legal operating environment.

- The ***FINANCIAL*** section, which includes the independent auditor's report, MD&A, audited basic financial statements and notes to the statements, required supplementary information, and supporting statements and schedules necessary to fairly present the financial position and results of operations of the County in conformity with generally accepted accounting principles.

- The ***STATISTICAL*** section, which contains comprehensive statistical data on the County's financial, physical, economic and demographic characteristics.

Pima County and its Services

Pima County is situated in the southern part of Arizona with a portion of its southern boundary bordering Mexico. The County was organized in 1864 under the Arizona Territorial Legislature as one of the State's four original counties.

A five-member Board of Supervisors is responsible for implementing the County's governmental and administrative affairs. Each member of the Board is elected from a designated district to serve a four-year term. The Chair is selected by the Board from among its members. The Board is also responsible for establishing the policies of the County, which provide guidance to the various County constitutional officers and departments. The Board appoints a County Administrator who is responsible for the general administrative and overall operations of the various departments of the County.

Pima County includes in its financial statements all funds, agencies, boards, commissions and authorities for which the Pima County Board of Supervisors is financially accountable. As the primary government, Pima County is financially accountable if it appoints a voting majority of an organization's governing body and either: 1) it is able to impose its will on that organization, or 2) a potential exists for that organization to provide specific benefits to, or impose specific financial burdens on, the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government.

Pima County offers a wide variety of governmental services, including:

- *Justice and Law Enforcement*: Clerk of the Superior Court, Constables, County Attorney, Superior Court, Juvenile Court, Justice Court system, Sheriff's Department, Indigent Defense and Public Fiduciary

- *Medical Services*: Pima Health Care System, including Pima Health System and Kino Community Hospital, Department of Institutional Health, Public Health Department (including Health & Animal Control) and Forensic Science Center

- *Community Resources*: Superintendent of Schools, Community Services, Community Resources, County Free Library District, Southwestern Fair Commission and Stadium District

- *Public Works*: Flood Control District, Development Services (including Planning & Zoning), Transportation, Wastewater Management (including Solid Waste Management), Environmental Quality, Capital Projects, Automotive Services, Natural Resources, Parks & Recreation, and Graphics

- *County Administration*: Board of Supervisors, County Administrator, Assessor's Office, Clerk of the Board, Elections, Finance, Human Resources, Information Technology, Non-Departmental (including Contingency), Procurement, Recorder, Risk Management Treasurer, Facilities Management, Communications and Parking Garages

Pima County is also responsible for reporting the financial activities of its component units. These units are either discretely presented or blended. Although they are separate legal entities, blended component units are substantially a part of the County's financial activities and are combined with data for the County. Blended and discrete component units include:

- *Metropolitan Domestic Water Improvement District and Marana Domestic Water Improvement District.* Activities of the Districts are reported as discrete components of the County in the accompanying financial statements.

- *Southwestern Fair Commission.* Activities of the Commission are reported as a discrete component of the County in the accompanying financial statements.

- *Municipal Property Corporation.* Activities of the Corporation are reported in a special revenue fund as a blended component unit in the accompanying financial statements.

- *Pima County Stadium District, Flood Control District, and Library District.* Activities are reported in a special revenue fund as a blended component unit in the accompanying financial statements.

- *Special districts.* Pima County includes the financial activities of various improvement districts in its financial statements. Improvement districts are established to pay for the construction of specific public works projects that benefit citizens of a limited geographical area. The County's currently active improvement districts include La Cholla Boulevard, Country Club Estates and Cimarron Improvement Districts.

The County also has various independently governed school, irrigation, fire, and street lighting districts, and a health district. In addition, there are other entities for which the County is not financially accountable. These entities include the Industrial Development Authority, various lighting districts, Pima Association of Governments, Pima Council on Aging and the Private Industry Council. The financial statements of such districts and entities are not included in the accompanying financial statements except to reflect amounts held in a fiduciary capacity by the County Treasurer.

Economic Outlook

According to *Arizona's Economy*, a publication of the University of Arizona's Economic & Business Research Program, Pima County's population increased 2.0% to 904,600 persons for the year ended June 30, 2003. Over the same period, per capita income rose 1.7% to $25,395.

For the Tucson metropolitan area, the research center expects non-farm payrolls to increase 1.5% to 353,100 jobs during 2003. For all of 2003, per-capita wage income is forecast to rise 2.6% to $31,326 and aggregate retail sales are forecast to rise 3.4% to $9.0 billion. The number of residential permits is forecast to decline 0.6% to 7,954, signaling a modest slowdown in the housing sector.

Expenditure Limitation

Arizona voters approved a proposition amending the state constitution in 1980 that established revenue and expenditure limitations for local governments, including Pima County.

Major Program Initiatives and Developments

Some of the major developments that occurred in Pima County during the fiscal year ended June 30, 2003 include:

Wastewater Management

The Wastewater Management Department utilized significant resources this year as a result of the Northwest Outfall Rupture and Randolph Park Restoration Projects. The Northwest Outfall Rupture, which

occurred in September of 2002, led to approximately $16 million of significant repairs and upgrades of major sewer lines on West Speedway Boulevard. The Randolph Park Restoration Project used approximately $29 million of Wastewater Management resources as of June 30, 2003, and is expected to be complete during fiscal year 2003/2004 at an estimated total cost of $35 million.

Capital Improvement Projects

The County's progress in improvements of infrastructure, land, and buildings based on the 1997 voter authorized program is continuing at an aggressive pace. During the fiscal year, the County issued $50 million of general obligation bonds and $35 million of transportation revenue bonds.

For the fiscal year ended June 30, 2003, major completed transportation projects included: 1) Sunrise Drive between Swan and Craycroft Roads; 2) Thornydale Road between Ina and Cortaro Farms Roads; 3) Shannon Road between Ina and Magee Roads; 4) Santa Cruz River flood control enhancements between Grant and Fort Lowell Roads; 5) River Road between First and Campbell Avenues, and 6) Ajo Way between Country Club and Alvernon Roads. In addition, La Cholla Boulevard between Omar and Magee Roads was significantly complete.

Of the $50 million general obligation bond proceeds, $14.4 million was allocated to law enforcement and Superior Court improvements; $16.7 million to parks and land acquisition for the County's Sonoran Desert Conservation Plan; $9 million for public health, safety, recreational and cultural affairs; and $9.6 million for road, solid waste and flood control projects. The single largest project, the Sheriff's maximum security Adult Detention Center, is expected to cost $20.3 million and is approximately 57% complete.

During the year, the County completed rehabilitation of the Robles Ranch House. Other completed projects that were financed by general obligation bonds include the Drexel Heights Community Center, Northwest Community Center and Pool complex and the Fairview-Limberlost Drainage Improvements.

Sonoran Desert Conservation Plan

Background and Purpose: The Pima County Board of Supervisors continues to support the Sonoran Desert Conservation Plan (SDCP). This comprehensive plan aims to: (1) prevent urban sprawl through the protection of natural and cultural resources; (2) provide a basis for natural resource protection; (3) lead to the recovery of the pygmy owl and other species protected under the Endangered Species Act (ESA); (4) stabilize the ecosystem and plant communities supporting indigenous plants and animals and mitigate a need for future endangered species listings; and (5) lead to the issuance of a regional conservation plan that balances environmental and economic considerations. In 2001 and 2002, parts of the Plan were adopted into Pima County's Comprehensive Land Use Plan and updated in accordance with state law.

Scope: The SDCP is a countywide planning effort aimed at resolving compliance issues with the ESA and balancing the economic needs of the community. The 9,184-square-mile project area covers all of Pima County and encompasses federal, state and tribal reservation lands. The Plan's scope is roughly 10 times the area of San Diego County's multi-species effort. The Plan has received numerous state, regional and national awards, including the American Planning Association's Outstanding Planning Award for 2002, the Arizona Planning Association Award for Multi-Agency Coordination in 2001 and a number of awards for technical merit.

Recent Developments: During 2003, the SDCP's steering committee, comprised of over 70 community members, voted to support the Plan and asked the Board of Supervisors to pursue an open space bond initiative to fund the plan's efforts. Separately, aspects of the Plan's implementation that pertain to Section 10 of the ESA are scheduled for completion in 2003 and 2004, and an Environmental Impact Statement is scheduled for completion in 2005.

Financial Information

Accounting System and Budgetary Control

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal control procedures. Internal controls for accounting purposes are designed to provide reasonable, but not absolute, assurance regarding: (1) safeguarding of assets against loss from unauthorized use or disposition, and (2) reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) costs of implementing controls should not exceed their likely derived benefits, and (2) evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the County's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the elected official or department level and is aided during the fiscal year by the use of encumbrances of estimated purchases. Open encumbrances lapse at year-end and are budgeted again as needed in the next fiscal year.

Capital Assets System

The County has initiated the selection process for a comprehensive asset management system that will be used to interface with its existing financial management system. An important desired feature of the asset management system is that it will facilitate the County's compliance with the reporting requirements of Governmental Accounting Standards Board Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. GASB 34 requires disclosure and capitalization of infrastructure, such assets as roads, parks and bridges, which had previously not been required for governmental reporting.

Cash Management

Most cash, other than imprest accounts, is on deposit with the County Treasurer or the State Treasurer. Amounts temporarily available during the course of the fiscal year are invested on a short-term basis. To address cash flow needs in the short term, the County instituted internal borrowings among funds that were recorded formally in its accounting records.

Risk Management

Pima County has established a Self Insurance Trust Fund to account for the risk management function of the County. The Fund is administered by an appointed Board of Trustees and provides self-insured coverage to the County for medical malpractice, workers' compensation, unemployment, general liability, property damage, environmental damage and employee dental benefits, as well as obtaining coverage for other risks. The Fund is financed by charges to other County funds.

OTHER INFORMATION

Independent Audit

Arizona Revised Statutes require an annual audit of the financial statements. The County is fully compliant with this legal requirement. An independent auditors' report is included in this CAFR.

Single Audit

As a recipient of federal and state financial assistance, the County is required to ensure adequate internal controls are in place to comply with applicable laws and regulations related to administration of these programs. This internal control structure is subject to periodic evaluation by management of Pima County.

As a part of the County's single audit, tests are made to determine 1) the adequacy of the internal control structure, including that portion related to federal financial assistance programs and 2) whether the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2002 included a reportable condition that cited inadequate policies and procedures for ensuring allocation of costs based on the relative benefits received, as required by OMB Circular A-87. Specifically, the reportable condition pertained to a County Sheriff's Office purchase of a telephone switch upgrade. A portion of the cost of the upgrade was charged to the County's High Intensity Drug Trafficking Areas (HIDTA) program without adequate documentation for how the relative benefits to the HIDTA program were estimated. The auditors determined that this reportable condition was not a material event and the County has since submitted a corrective action plan.

The Single Audit for Pima County for the fiscal year ended June 30, 2003 was not complete at the time of publication of this Comprehensive Annual Financial Report.

As demonstrated by the statements and schedules included in the financial section of this report, Pima County continues to meet its responsibility for sound financial management.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pima County, Arizona for its comprehensive annual financial report for all fiscal years ended June 30, 1984 through 2002, except for fiscal years ended June 30, 1990 and June 30, 1999, due to missing the filing deadline.

In order to receive a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents that conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Acknowledgements

Preparation of this report could not be accomplished without the efficient and dedicated service of the staff of the County's Finance Department. We also wish to thank the Board of Supervisors for its continued support in planning and conducting the County's financial operations in a responsible fiduciary manner.

Respectfully submitted,

C. H. Huckelberry
County Administrator

Carol Bonchalk
Director, Finance Department

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2003, as listed in the table of contents, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of Pima County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units of Pima County, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Govemment Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 13 through 28, the Budgetary Comparison Schedule on pages 83 and 85, and the Schedule of Agent Retirement Plans' Funding Progress on page 84 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

December 1, 2003

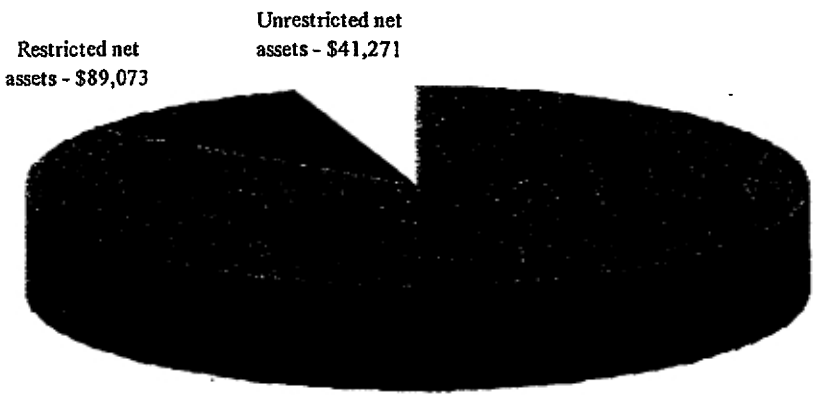
Management's Discussion & Analysis

This section of Pima County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the year ended June 30, 2003 and should be read in conjunction with the County's basic financial statements in the following sections. All dollar amounts are expressed in thousands (000's) unless otherwise noted.

FINANCIAL HIGHLIGHTS

- At June 30, 2003, the County's combined assets exceeded combined liabilities (*net* assets) by $847,064, an increase of 7.1% from the prior year. Of this amount, $41,271 is available for general government expenditures (*unrestricted net assets)*, $89,073 is restricted for specific purposes (*restricted net assets)*, and $716,720 is invested in capital assets, net of related debt and accumulated depreciation.

Composition of Net Assets



- Of the total fund balances of the County's governmental funds, the general fund has a total fund balance of $33,548, with $ 30,999 of this amount available for expenditure. Within the capital projects fund and the County's other governmental funds, $82,793 and $42,312 is available for future expenditures, respectively.

- As of the end of the fiscal year, the general fund unreserved fund balance increased $2,343 from the previous year to $30,999. This balance accounts for approximately 10% of the County's general fund expenditures and 5.1% of total governmental funds expenditures.

- As a result of the County's investment in the State of Arizona Treasurer's Local Government Investment Pool, the County recognized a loss of $10,120 from a bankruptcy within the investment pool. This loss was distributed to specific County departments according to their share in the investment pool. Due to the unusual and infrequent nature of the loss, the County has reported this as an extraordinary loss.

- On September 7, 2002, the department of Wastewater Management experienced a rupture in the Northwest outfall sewer on Speedway Boulevard. This event required a substantial amount of capital and resources to clean up and repair the rupture, greatly diminishing Wastewater's financial position.

- Pima Health Care System has experienced continued, significant increases in expenses over the past year. This is consistent with a general trend of higher costs within the health care field and increased enrollment in the AHCCCS program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of four components: (1) Government-wide financial statements; (2) Fund financial statements; (3) Component unit financial statements; and (4) Notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation or sick leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, health, welfare, culture and recreation, education and economic opportunity. The business-type activities of the County include Pima Health Care System (PHCS), which includes Kino Community Hospital, Wastewater Management, Development Services and the County's downtown parking garages.

Discretely presented component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. The County's discretely presented component units are the Metropolitan Domestic Water Improvement District, the Marana Domestic Water Improvement District, and the Southwestern Fair Commission, which operates the County Fairgrounds and the annual Pima County Fair.

The government-wide financial statements can be found on pages 29-30 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and

local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance with applicable State statutes and federal OMB budgeting guidelines. All of the funds of the County can be divided into three categories: (1) *governmental funds*; (2) *proprietary funds*; and (3) *fiduciary 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 funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on *balances of expendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains fourteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental fund financial statements can be found on pages 31-34 of this report.

Proprietary funds are maintained in two ways. *Enterprise funds* are used to report the same functions presented as *business-type* activities in the government-wide financial statements. The County uses enterprise funds to account for certain health care services, including medical and long-term health care, sewer systems maintenance and operation, real estate-related development services, and parking garage operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for risk management, automotive fleet maintenance and operations, printing and communications. Because these services predominantly benefit governmental rather than business-type functions, most of the assets and liabilities of these services have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Wastewater Management and Pima Health Care System operations are considered to be major funds of the County. Data from the other enterprise funds are combined into a single, aggregated presentation. Similarly, the County's internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the other enterprise and internal service funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 35-38 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs.

The fiduciary fund financial statements can be found on pages 39-40 of this report.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 43-81 of this report.

Required Supplementary Information (RSI) is presented concerning the County General Fund budgetary schedule and the schedule of retirement plans' funding progress. Required supplementary information can be found on pages 83-85 of this report.

The combining and individual fund statements and schedules referred to earlier provide information for non-major governmental and enterprise funds and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 88-118 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the County, assets exceeded liabilities by $847,064 at June 30, 2003. The following table shows condensed information for the Statement of Net Assets:

Table 1
Statement of Net Assets
At June 30, 2003

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2002-2003	2001-2002*	2002-2003	2001-2002*	2002-2003	2001-2002
Current and other assets	$ 276,801	$ 274,836	$ 58,814	$ 102,118	$ 335,615	$ 376,954
Capital assets:						
Land, buildings, equipment & other	574,133	505,746	570,391	508,931	1,144,524	1,014,677
Total assets	850,934	780,582	629,205	611,049	1,480,139	1,391,631
Current and other liabilities	68,936	78,695	39,077	38,624	108,013	117,319
Long-term liabilities	375,919	340,119	149,143	143,519	525,062	483,638
Total liabilities	444,855	418,814	188,220	182,143	633,075	600,957
Net assets :						
Invested in capital assets, net of related debt	272,130	215,646	444,590	380,916	716,720	596,562
Restricted net assets	67,934	82,541	21,139	55,630	89,073	138,171
Unrestricted net assets (deficit)	66,015	63,581	(24,744)	(7,640)	41,271	55,941
Total net assets	$ 406,079	$ 361,768	$ 440,985	$ 428,906	$ 847,064	$ 790,674

*As restated - See Note 2 of the financial statements

The largest portion of the County's net assets reflects its investment in capital assets (i.e. land, buildings, infrastructure, equipment), less any related outstanding debt used to acquire those assets. As of June 30, 2003, investment in capital assets totaled $716,720, comprising approximately 84.6% of total net assets. The County uses a portion of these capital assets to provide services to its citizens, with the other portion available to its citizens for use; consequently, these assets are *not* available for future spending. The $120,158 increase in capital assets, net of related debt, for fiscal year 2002-2003 is mostly due to the sig-

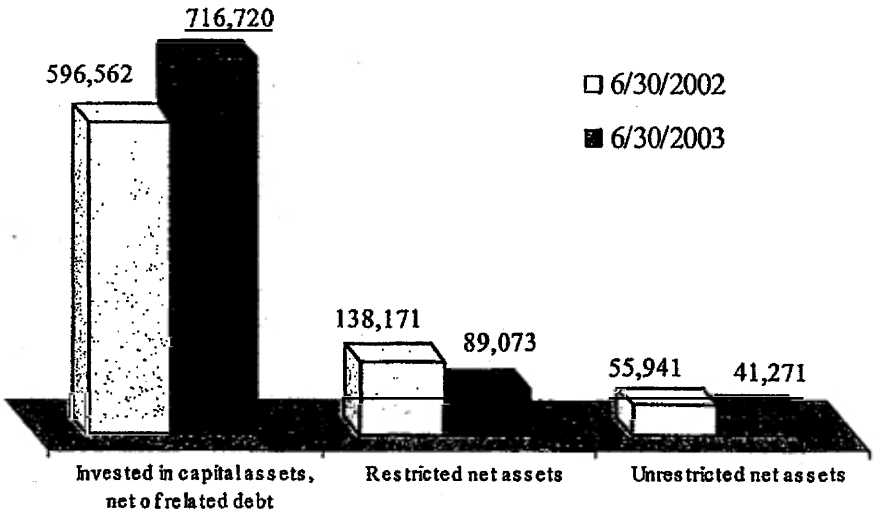
nificant amount of capital project activity that has been completed and capitalized over the past year. Although the County's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. As of June 30, 2003, restricted net assets totaled $89,073 and comprised approximately 10.5% of total net assets. This represents a $49,098 decline in restricted net assets from the $138,171 balance of fiscal year 2001-2002.

The remaining balance of the County's net assets represents *unrestricted net assets*, which may be used to meet the County's ongoing obligations to citizens and creditors. As of June 30, 2003, unrestricted net assets totaled $41,271 and comprised approximately 4.9% of total net assets.

The following chart shows the composition and changes in net assets for the fiscal years ended June 30, 2003 and June 30, 2002:

Comparative Composition of Net Assets



Governmental activities

Governmental activities contributed $44,311, or 78.6%, of the County's $56,390 increase in total net assets during fiscal year 2002-2003. The following table shows changes in net assets for governmental activities:

Table 2
Governmental Activities
Comparative Statements of Activities
For the Years Ended June 30, 2003 and 2002

	Fiscal Year		Variance	
	2002-2003	2001-2002*	Amount	Percent
Program revenues:				
Charges for services	$ 45,527	$ 45,307	$ 220	0.5%
Operating grants and contributions	121,587	121,934	(347)	-0.3%
Capital grants and contributions	5,665	18,207	(12,542)	-68.9%
Total program revenues	172,779	185,448	(12,669)	-6.8%
General revenues:				
Property taxes	251,844	237,049	14,795	6.2%
State-shared taxes	100,408	97,845	2,563	2.6%
Investment earnings	5,064	8,157	(3,093)	-37.9%
Other general revenues	35,985	29,464	6,521	22.1%
Total general revenues	393,301	372,515	20,786	5.6%
Total primary government revenues	566,080	557,963	8,117	1.5%
Expenses:				
General government	131,925	133,765	(1,840)	-1.4%
Public safety	132,939	123,513	9,426	7.6%
Highways and streets	39,492	42,515	(3,023)	-7.1%
Health	23,917	23,120	797	3.4%
Welfare	84,457	73,243	11,214	15.3%
Culture and recreation	31,326	27,081	4,245	15.7%
Education and economic opportunity	35,033	37,565	(2,532)	-6.7%
Unallocated depreciation and amortization	1,474	1,376	98	7.1%
Interest on long-term debt	15,779	14,391	1,388	9.6%
Total expenses	496,342	476,569	19,773	4.1%
Excess before transfers and extraordinary item	69,738	81,394	(11,656)	-14.3%
Extraordinary Item:				
Loss from State Treasurer's Local Government Investment Pool	(7,447)	-	(7,447)	n/a
Transfers out	(17,980)	(13,954)	(4,026)	28.9%
Change in net assets	$ 44,311	$ 67,440	$ (23,129)	-34.3%

*As restated - See Note 2 of the financial statements

Key elements of the change in net assets from governmental activities are as follows:

- Program revenues decreased $12,669, primarily due to a $12,542 decrease in capital grants and contributions for highways and streets, specifically Urban-area HURF monies from the Pima Association of Governments. The County received less of this revenue as a result of the completion of a number of transportation projects in fiscal year 2001-2002.

- General revenues increased by $20,786, primarily due to increases in property tax revenues and other general revenues. Increases in real property assessed valuations and residential construction activity were the primary reasons property tax revenues increased by $14,795.

- Investment earnings continued to decrease in fiscal year 2002-2003. The County invests a majority of its funds in the State Treasurer's Local Government Investment Pool. The interest rate for

this pool has declined for a third consecutive year, resulting in less investment earnings. As of June 30, 2003, the Treasurer's effective interest rate was 1.9%. This rate is down from 2.2% and 4.7% as of June 30, 2002 and June 30, 2001, respectively.

- Expenses from governmental activities experienced a cumulative increase of $19,773. Most of this increase occurred for public safety and welfare expenses, which increased by $9,426 and $11,214, respectively. Public safety expenses increased as a result of higher Sheriff salaries and the funding of adult probation officer salaries that had previously been covered by state funds. The County was also required to remit funds to support the State Aid Enhancement Program for Probation. Welfare expenses changed due to an approximated $10,500 increase in expenditures by the Department of Institutional Health (Medical Assistance), including expenditures for new contracted services relating to the medical treatment of incarcerated adults and juveniles.

Business-type activities

Business-type activities contributed $12,079, or 21.4%, of the County's increase of $56,390 in total net assets during the year ended June 30, 2003. The following table shows changes in revenues and expenses for business-type activities between the current and prior year:

Table 3
Business-type Activities
Comparative Statements of Activities
For the Years Ended June 30, 2003 and 2002

	Fiscal Year		Variance	
	2002-2003	2001-2002*	Amount	Percent
Program revenues:				
Charges for services	$ 277,375	$ 252,131	$ 25,244	10.0%
Operating grants and contributions	4,909	6,505	(1,596)	-24.5%
Total program revenues	282,284	258,636	23,648	9.1%
General revenues:				
Capital contributions	12,479	11,261	1,218	10.8%
Investment earnings	1,727	2,888	(1,161)	-40.2%
Other general revenues	6,787	4,214	2,573	61.1%
Total general revenues	20,993	18,363	2,630	14.3%
Total primary government revenues	303,277	276,999	26,278	9.5%
Expenses:				
Wastewater Management	74,816	66,350	8,466	12.8%
Pima Health Care System	221,970	198,000	23,970	12.1%
Development Services	8,373	8,021	352	4.4%
Parking Garages	1,346	1,270	76	6.0%
Total expenses	306,505	273,641	32,864	12.0%
Excess before transfers and extraordinary item	(3,228)	3,358	(6,586)	-196.1%
Extraordinary item: Loss from State Treasurer's Local Government Investment Pool	(2,673)	-	(2,673)	n/a
Transfers in	17,980	13,954	4,026	28.9%
Increase in net assets	$ 12,079	$ 17,312	$ (5,233)	-30.2%

*As restated - See Note 2 of the financial statements

In fiscal year 2002-2003, the total increase in expenses of $32,864 (12.0%) was greater than the total increase in revenues of $26,278 (9.5%). Overall, however, net assets still increased, primarily as a result of transfers from the general fund to Pima Health Care System. Key elements to the increase in net assets from business-type activities include:

- Charges for services increased by $25,244 during the year due to an increase in certain revenues for Wastewater Management and Pima Health Care System. Wastewater Management experienced an increase in charges for services of $8,025 primarily due to the 5% rate increase in user fees for the third quarter of fiscal year 2001-2002, as well as an additional 5% user fee increase in the fourth quarter of fiscal year 2002-2003. Pima Health Care System's increase of $16,550 is due to increased enrollment over the past year.

- Concurrently, expenses for Wastewater Management and Pima Health Care System increased by $8,466 and $23,970, respectively. For Wastewater Management, these expenses are mostly attributable to the repair and cleanup of the Northwest Outfall sewer rupture. For Pima Health Care System, the increase in expenditures is the result of continued increases in health care costs.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds

The County's general government functions are accounted for in the General, Special Revenue, Debt Service, and Capital Project funds. Included in these funds are special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the County's governmental funds reported combined fund balances of $165,395, an increase of $17,592 in comparison with the prior year. Approximately 94.4% of the combined fund balances, or $156,104 constitutes unreserved fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed to the following:

- $3,146 to pay debt service
- $5,165 to reflect inventories and prepaid amounts
- $200 for a loan receivable
- $705 committed to specific programs
- $75 reserved for capital repairs and refurbishments

The General Fund is the chief operating fund of the County. At June 30, 2003, unreserved fund balance of the general fund was $30,999 while total fund balance reached $33,548. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Revenues for governmental functions totaled approximately $566,139 in fiscal year 2002-2003, which represents an increase of $3,350 (0.6%) from the previous year.

The following table presents the amount of revenues from various sources and increases or (decreases) from the prior year.

Table 4
Revenues Classified by Source
All Government Funds

	Fiscal Year					
	2002-2003		2001-2002		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenues by source:						
Taxes	$ 258,375	45.6%	$ 244,807	43.5%	$ 13,568	5.5%
Special assessments	1,023	0.2%	598	0.1%	425	71.1%
Licenses and permits	6,087	1.1%	6,077	1.1%	10	0.2%
Intergovernmental	245,378	43.4%	260,218	46.3%	(14,840)	-5.7%
Charges for services	35,721	6.3%	31,112	5.5%	4,609	14.8%
Fines and forfeits	5,047	0.9%	4,882	0.9%	165	3.4%
Interest	4,152	0.7%	6,952	1.2%	(2,800)	-40.3%
Miscellaneous	10,356	1.8%	8,143	1.4%	2,213	27.2%
Total revenues	$ 566,139	100.0%	$ 562,789	100.0%	$ 3,350	0.6%

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Property taxes. Revenues from property taxes increased $13,568. This was a result of growth in construction activity within the County over the past year, as well as continued increases in assessed property valuations and greater real estate market values.

- Intergovernmental revenue. The $14,840 decrease in intergovernmental revenue is mostly due to a $12,542 reduction in the amount of 12.6% Urban-area HURF funds given to transportation and flood control capital projects from the Pima Association of Governments.

- Charges for services. An increase of $4,609 this year is due to an increase in charges for real estate transactions, an increased number of real estate transactions, increased allocation of administrative overhead expenses, and an increase in prisoner housing revenue from the City of Tucson.

- Interest revenue. As mentioned previously, the County invests a majority of its funds in the State Treasurer's Local Government Investment Pool. Interest rates are down again for fiscal year 2002-2003 due to a continued decline in the investment pool's interest rate, resulting in decreased interest revenue.

The following table presents expenditures by function compared to prior year amounts:

Table 5
Expenditures by Function
All Governmental Funds

Government Function	Fiscal Year 2002-2003 Amount	2002-2003 Percent	2001-2002 Amount	2001-2002 Percent	Increase (Decrease) Amount	Increase (Decrease) Percent
General government	$132,416	21.6%	$125,416	21.0%	$7,000	5.6%
Public safety	127,155	20.7%	123,021	20.5%	4,134	3.4%
Highways and streets	26,741	4.4%	27,835	4.7%	(1,094)	-3.9%
Health	24,029	3.9%	23,102	3.9%	927	4.0%
Welfare	84,238	13.7%	73,136	12.2%	11,102	15.2%
Culture and recreation	25,214	4.1%	25,581	4.3%	(367)	-1.4%
Education and economic opportunity	35,057	5.7%	37,524	6.3%	(2,467)	-6.6%
Capital outlay	97,147	15.9%	109,670	18.3%	(12,523)	-11.4%
Debt service:						
- Principal	45,544	7.4%	37,342	6.3%	8,202	22.0%
- Interest	15,695	2.6%	14,128	2.4%	1,567	11.1%
- Miscellaneous	24	0.0%	391	0.1%	(367)	-93.9%
Total expenditures	$613,260	100.0%	$597,146	100.0%	$16,114	2.7%

Total expenditures in governmental funds increased during fiscal year 2002-2003 by $16,114. As mentioned previously, an $11,102 increase in welfare expenditures was due to a $10,500 increase in expenditures for the Department of Institutional Health (Medical Assistance). (See related discussion on page 19)

Capital outlay decreased by $12,523 this year. However, last fiscal year, capital outlay of $109,670 was at a record high for the County. Both fiscal years indicate the County's substantial capital project activity is due to the following factors

- More capital projects planned and budgeted for several departments, including Transportation and Flood Control.
- More bond proceeds available to fund projects. These include the 2000 and 2002 General Obligation Bonds and the 2002 Highway User Revenue Bonds for fiscal year 2001-2002. For fiscal year 2002-2003, only the 2003 General Obligation and Highway User Revenue Bonds were available for capital project expenditures. With less funding available in fiscal year 2002-2003, fewer projects were planned and implemented.

Debt service principal payments increased as the result of a number of changes in outstanding debt. Over $3,000 in principal payments were made to retire debt before it was due, including the 1992 General Obligation Refunding Bonds, the 1993 General Obligation Bonds, and the Municipal Property Corporation Bonds. There were also $5,100 in 2002 Highway Expansion and Extension Loan Program (HELP) loans, $50,000 in 2003 General Obligation (GO) Bonds, and $35,000 in 2003 Highway User Revenue Bonds (HURF) that began principal repayment in fiscal year 2002-2003.

Budget to Actual Comparison for the General Fund

Overall, budgeted revenues and expenditures for General Fund were generally consistent with actual fund activity. Actual revenues exceeded budgeted revenues by $9,717 and actual expenditures were less than budgeted by $4,829. No variances between the budget to actual amounts were significant enough to affect the County's ability to provide future services.

Proprietary funds

The County's proprietary fund functions are contained in the Enterprise and Internal Service funds. The enterprise funds of the County are Pima Health Care System, Wastewater Management, Development Services, and Parking Garages. These business-type activities are accounted for in a similar fashion to private-sector businesses, and the costs for services provided are expected to be covered either fully or in part by current revenues generated, which include fees charged to external users.

The following table presents a comparison of this year's enterprise fund activities with the prior year:

Table 6
Summary Statement of Revenues, Expenses and Changes in Fund Net Assets
Total Enterprise Funds
For the Fiscal Years ended June 30, 2003 and 2002

	Fiscal Year		Variance	
	2002-2003	2001-2002	Amount	Percent
Operating revenues:				
Net patient services	$ 195,872	$ 176,324	$ 19,548	11.1%
Charges for services	61,223	58,327	2,896	5.0%
Other	29,346	16,563	12,783	77.2%
State reimbursement of disproportionate share	(23,518)	(13,254)	(10,264)	77.4%
Total net operating revenues	262,923	237,960	24,963	10.5%
Operating expenses:				
Employee compensation	90,824	83,357	7,467	9.0%
Medical claims	127,235	100,342	26,893	26.8%
Operating supplies & services	13,864	16,755	(2,891)	-17.3%
Utilities	3,575	3,881	(306)	-7.9%
Sludge and refuse disposal	2,242	1,501	741	49.4%
Repair and maintenance	6,801	5,143	1,658	32.2%
Landfill closure and post-closure care costs	1,078	1,030	48	4.7%
General and administrative	19,098	19,384	(286)	-1.5%
Consultants and professional services	17,551	17,235	316	1.8%
Depreciation and amortization	18,497	18,570	(73)	-0.4%
Total operating expenses	300,765	267,198	33,567	12.6%
Operating loss	(37,842)	(29,238)	(8,604)	29.4%
Nonoperating revenues (expenses):				
Grants	4,909	6,505	(1,596)	-24.5%
Shared State tax revenue	959	905	54	6.0%
Interest income	1,727	2,888	(1,161)	-40.2%
Sewer connection fees	20,280	17,480	2,800	16.0%
Interest expense	(5,434)	(6,041)	607	-10.0%
Loss on disposal of capital assets	(338)	(162)	(176)	108.6%
Amortization of deferred charges	(89)	(89)	0	0.0%
Total nonoperating revenues (expenses)	22,014	21,486	528	2.5%
Loss before extraordinary item, contributions and transfers	(15,828)	(7,752)	(8,076)	104.2%
Extraordinary Item: Loss on State Treasurer's Local Government Investment Pool	(2,673)	-	(2,673)	n/a
Capital contributions	15,521	12,462	3,059	24.5%
Transfers in	23,065	20,471	2,594	12.7%
Transfers (out)	(8,127)	(7,718)	(409)	5.3%
Change in net assets	$ 11,958	$ 17,463	$ (5,505)	-31.5%

Key activity within the enterprise funds for fiscal year 2002-2003 include the following:

- While net operating revenues for the County's enterprise funds increased $24,963 (10.5%), operating expenses also increased $33,567 (12.6%), resulting in an operating loss of $37,842, an increase of $8,604 or 29.4%. The increase in operating losses resulted mostly because of the increased health care service costs for PHCS. Wastewater Management also contributed to this increase in operating loss as a result of the Northwest Outfall sewer reparations.

- Net Patient Services revenues increased by $19,548 from fiscal year 2001-2002. This is attributable to increased membership enrollment for Pima Health System services, which generated increases in capitation revenues and reinsurance claim revenues.

- State laws required Pima Health Care System and its subfund, Kino Community Hospital, to return some disproportionate share revenue to the State's general fund. The $10,264 increase in state reimbursement for fiscal year 2002-2003 is simply a result of greater allocation of funds by the state, which were in turn paid back, based on a specific formulation.

- Employee compensation increased as the result of a motion passed by the Board of Supervisors in December of 2002, increasing compensation for all Pima County employees by $0.8134 per hour.

- Sewer connection fees charged by Wastewater Management increased by $2,800. This is a continued effect from a 12% rate increase in March of 2002, plus an additional 12% increase in April of 2003, which increased sewer connection revenues even further in the fourth quarter of fiscal year 2002-2003.

- Medical claims continued to increase this year as a result of the passage of Proposition 204 in the prior fiscal year, which expanded the eligibility for medical care within the Arizona Health Care Cost Containment System (AHCCCS), resulting in higher enrollment for Pima Health Care System. An increase in doctor fees is also responsible for a portion of the rise in medical claims expenditures.

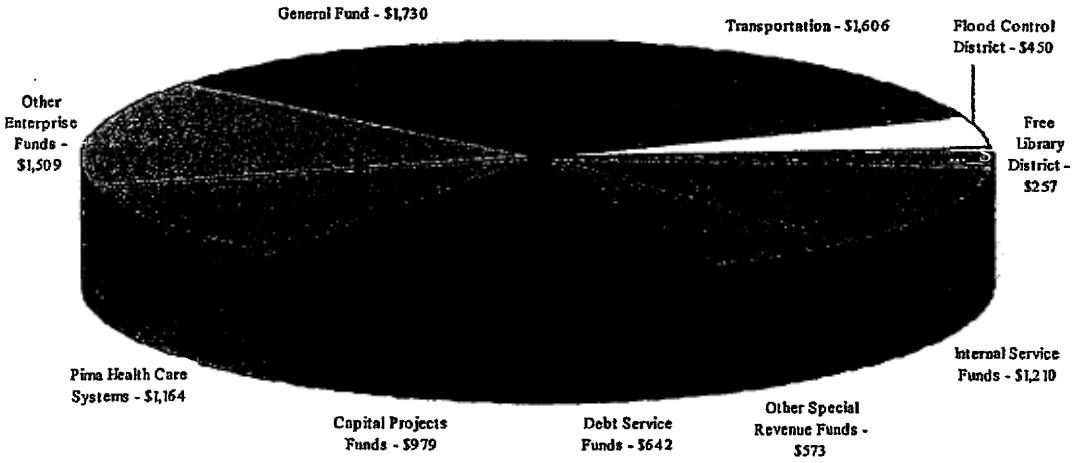
- The significant increase in capital contributions is primarily attributable to a $1,700 increase in contractor sewer connection contributions for Wastewater Management and the $1,300 purchase and reconstruction of a parking lot at Kino Hospital.

- There was a $2,673 extraordinary loss from the Local Government Investment Pool as a result of the bankruptcy described below.

Loss on Investment

In November of 2002, the State Treasurer of Arizona, who through statutory authority holds a significant portion of the County's monies in the State Treasurer's Local Government Investment Pool (LGIP), declared that a portion of the LGIP had been lost as a result of the bankruptcy of one of its investment components, National Century Financial Enterprises. Of the approximately $131,000 lost from the bankruptcy state-wide, Pima County held ownership to $10,120 and was required to designate the loss to specific departments and/or funds based on their proportionate participation in the investment pool. The distribution on a fund basis was as follows:

Allocation of Loss from the State Treasurer's Local Government Investment Pool



Pima County has reported the bankruptcy loss as an extraordinary loss. Although a nominal recovery of principal may occur in the future, it is believed that any recovery will be minimal, and will not occur for several years.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital for its governmental and business-type activities as of June 30, 2003 amounted to $1,144,524 (net of accumulated depreciation), an increase of 12.8%. The County's investment in capital assets consists of land, buildings, sewage conveyance systems, infrastructure, equipment and construction in progress.

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

- Land increased by $14,778. This was mostly due to acquisitions required for transportation and flood control projects.

- A number of roads and flood control projects were completed in fiscal year 2002-2003, increasing infrastructure by $72,181. These completed road projects include River Road from First Avenue to Campbell Avenue, Sunrise Drive from Swan Road to Craycroft Road, Ajo Way from Country Club Road to Alvernon Way, Thornydale Road from Ina Road to Cortaro Farms Road, La Cholla Boulevard from Omar Drive to Magee Road, and South 12th Avenue from Los Reales Road to Lerdo Road.

- Construction in Progress increased by $30,958. This is mostly due to a number of projects in progress for Wastewater Management, including the Randolph restoration projects, the Northwest outfall rehabilitation, and the Ina Road Water Pollution Control Facility.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Table 7
Capital Assets
Governmental and Business-type Activities

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2002-2003	2001-2002	2002-2003	2001-2002	2002-2003	2001-2002
Land	$ 127,854	$ 113,175	$ 12,865	$ 12,766	$ 140,719	$ 125,941
Buildings and improvements	200,966	193,251	147,183	153,061	348,149	346,312
Sewage conveyance systems	-	-	264,665	260,195	264,665	260,195
Machinery and equipment	32,875	27,737	9,507	9,022	42,382	36,759
Infrastructure	79,253	7,072	-	-	79,253	7,072
Construction in progress	133,185	164,511	136,171	73,887	269,356	238,398
Total	$ 574,133	$ 505,746	$ 570,391	$ 508,931	$1,144,524	$1,014,677

The County's infrastructure assets are recorded at historical cost in the government-wide financial statements. Additional information regarding the County's capital assets can be found in Note 5 of the financial statements on pages 53 – 56 of this report.

Long-term Debt

Significant, comparative long-term debt data is presented below:

Table 8
Long-Term Debt
Governmental Funds

	Fiscal Year	
	2002-2003	2001-2002
Bonds issued (at face value):		
General obligation refunding		$ 17,835
General obligation	50,000	20,000
Transportation revenue	35,000	55,000
Flood control district refunding		4,585
Special assessment with government commitment		1,821
Sewer revenue refunding		
Capital leases	177	590
Loan proceeds		5,100
Total	$ 85,177	$ 104,931

General obligation bonds issued in FY 2002-2003 amounted to $50,000; the proceeds of this issue were allocated as follows:

- $642 to Sahuarita expansion,
- $4,230 to improvement and expansion of the County's roads,
- $14,460 to public safety, law enforcement, and superior courts,
- $13,767 to improvements in the County's parks system,
- $3,072 to Sonoran Desert open space preservation programs,
- $9,037 to public health, safety, recreation, and cultural facilities projects,
- $4,039 to flood control projects,
- $753 to improve solid waste disposal facilities.

The $35,000 in Transportation Revenue bonds proceeds were allocated to major street and road improvements, principally in the Tucson metropolitan area, outside of city limits. These include projects such as:

- La Cañada Drive from Lambert Lane to Ina Road.
- Skyline Drive from Orange Grove Road to Campbell Avenue.
- Wetmore Road/Ruthrauff Road from La Cholla Boulevard to Fairview Road.
- Kolb Road from Sabino Canyon to Sunrise Drive.
- Catalina Highway from Tanque Verde Road to Houghton Road.
- La Cholla Boulevard from Omar Road to River Road.
- South 12th Avenue from 38th Street to Los Reales Road.

Pima County maintains an "A+" rating from Standard & Poor's and an "A1" rating from Moody's for general obligation bonds, street and highway revenue bonds, sewer revenue bonds, and flood control general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total asset valuation. The current debt limitation for Pima County is $725,334, which is significantly in excess of Pima County's outstanding general obligation debt.

Additional information regarding the County's debt can be found in Note 7 of the financial statements on pages 58-71 of this report.

Economic Factors and Next Year's Budget

The economic outlook for the County continues to show a number of hurdles for the County to work through over the next year. With the State Legislature and the Governor of Arizona reducing state-provided revenues by over $4,000, the County has allocated funds to absorb the costs associated with this lost revenue. Overall, the County budget has increased for fiscal year 2003-2004 by $42,000 as follows:

- Expenditures for the General Fund are expected to increase by $18,400 to fund higher employee health insurance premiums, increased costs for behavioral health services, an increase in required payment to the State's County Contribution Fund, increased probation costs, and a decrease in payment to the Arizona Long Term Care System.

- Special Revenue Funds are expected to have expenditures increase by $2,600, due mostly to an increase in the Transportation Fund's operating and maintenance budget and an increase in the County's mandated contribution to the Arizona State Retirement System. These increases are coupled with various minor decreases throughout the Special Revenue Funds.

- Expenditures within the Debt Service fund are expected to increase by $5,700 in order to cover payments for bond sales made in fiscal year 2002-2003 as well as costs associated with proposed restructuring of debt in fiscal year 2003-2004.

- Budgeted expenditures for the Capital Projects Fund increased by $23,400 in alignment with the budget detailed in the County's Capital Improvement Plan.

- The Enterprise Funds' budget increased $38,900 to cover the expansion of the Wastewater Management system as well as expected increases in costs for Pima Health System and Services related to the award of a five-year acute care contract, increased enrollment under AHCCCS and ALTCS, and rising medical care costs.

Other significant activity affecting the fiscal year 2003-2004 budget include the following:

- The County has budgeted a $20,000 transfer from the general fund to Kino Community Hospital to cover an estimated loss of $15,000, increased personnel costs of $3,000, and required facility improvements of $2,000.

- The total County tax rate was decreased by $0.0017.

- Across-the-board departmental reductions averaging 4.5% were adopted.

- Salary increases to County employees were not budgeted for the coming year, as funds were not available to do so while still meeting the requirements of the public.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Any questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 130 W. Congress, 7th Floor, Tucson, AZ, 85701.

PIMA COUNTY
STATEMENT OF NET ASSETS

Exhibit A-1

As of June 30, 2003
(in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 61,966	$ 34,077	$ 96,043	$ 10,914
Investments				1,327
Property taxes receivable (net)	10,700		10,700	
Interest receivable	711	63	774	
Internal balances	10,235	(10,235)		
Due from other governments	40,372	3,899	44,271	
Accounts receivable (net)	1,473	17,600	19,073	1,593
Inventories	2,617	3,431	6,048	417
Prepaids	3,866	1,209	5,075	212
Other assets	200	848	1,048	1,619
Restricted assets:				
Cash and cash equivalents	141,843	7,902	149,745	3,356
Interest receivable		20	20	
Investments	2,750		2,750	
Regulatory asset				7,812
Deposits with fiscal agents	68		68	
Capital assets (net):				
Land	127,854	12,865	140,719	958
Buildings and improvements	200,966	147,183	348,149	3,397
Sewage conveyance system		264,665	264,665	
Machinery and equipment	32,875	9,507	42,382	771
Infrastructure	79,253		79,253	35,674
Construction in progress	133,185	136,171	269,356	3,154
Total assets	850,934	629,205	1,480,139	71,204
LIABILITIES				
Accounts payable	30,032	22,802	52,834	1,596
Interest payable	23	19	42	534
Contract retentions	643		643	
Employee compensation	30,495	8,809	39,304	
Due to other governments	855	6,099	6,954	
Deposits and rebates	2,890		2,890	168
Deferred revenues	3,998	1,348	5,346	
Noncurrent liabilities:				
Due within one year	50,124	9,235	59,359	2,222
Due in more than one year	325,795	139,908	465,703	49,867
Total liabilities	444,855	188,220	633,075	54,387
NET ASSETS				
Invested in capital assets, net of related debt	272,130	444,590	716,720	2,720
Restricted for:				
Special revenue	29,322		29,322	
Debt service	2,926	1,245	4,171	2,397
Capital projects	35,686	3,008	38,694	455
Wastewater management		3,669	3,669	
Health care		13,217	13,217	
Unrestricted (deficit)	66,015	(24,744)	41,271	11,245
Total net assets	$ 406,079	$ 440,985	$ 847,064	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF ACTIVITIES

Exhibit A-2

For the Year Ended June 30, 2003
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 131,925	$ 18,667	$ 9,368		$ (103,890)		$ (103,890)	
Public safety	132,939	10,804	25,856	$ 1,042	(95,237)		(95,237)	
Highways and streets	39,492	5,339	48,258	4,235	18,340		18,340	
Health	23,917	7,822	8,434		(7,661)		(7,661)	
Welfare	84,457	1,037	250		(83,170)		(83,170)	
Culture and recreation	31,326	1,662	363	388	(28,913)		(28,913)	
Education and economic opportunity	35,033	196	29,058		(5,779)		(5,779)	
Depreciation - unallocated	820				(820)		(820)	
Amortization	654				(654)		(654)	
Interest on long-term debt	15,779				(15,779)		(15,779)	
Total governmental activities	496,342	45,527	121,587	5,665	(323,563)		(323,563)	
Business-type activities:								
Wastewater Management	74,816	71,626	304			$ (2,886)	(2,886)	
Pima Health Care System	221,970	195,872	4,605			(21,493)	(21,493)	
Development Services	8,373	8,464				91	91	
Parking Garages	1,346	1,413				67	67	
Total business-type activities	306,505	277,375	4,909			(24,221)	(24,221)	
Total primary government	$ 802,847	$ 322,902	$ 126,496	$ 5,665	(323,563)	(24,221)	(347,784)	
Component units:								
Metropolitan Domestic Water Imp. District	$ 9,817	$ 10,712						$ 895
Marana Water Improvement District	395	481	$ 45					131
Southwestern Fair Commission	4,642	4,513	88					(41)
Total component units	$ 14,854	$ 15,706	$ 133					$ 985
General revenues:								
Property taxes, levied for general purposes					187,923		187,923	
Property taxes, levied for flood control district					14,638		14,638	
Property taxes, levied for library district					10,150		10,150	
Property taxes, levied for debt service					39,133		39,133	
Hotel/motel taxes					2,557		2,557	
Other taxes levied for stadium district					1,597	959	2,556	
Unrestricted share of state sales tax					78,504		78,504	
Unrestricted share of state vehicle license tax					21,904		21,904	
Grants and contributions not restricted to specific programs					9,216		9,216	
Interest and penalties on delinquent taxes					7,052		7,052	
Investment earnings					5,064	1,727	6,791	369
Miscellaneous					12,774	5,828	18,602	387
Capital contributions					2,789	12,479	15,268	1,005
Extraordinary item: Loss from State Treasurer's Local Government Investment Pool					(7,447)	(2,673)	(10,120)	(432)
Transfers					(17,980)	17,980		
Total general revenues, extraordinary item and transfers					367,874	36,300	404,174	1,329
Change in net assets					44,311	12,079	56,390	2,314
Net assets at beginning of year, as restated					361,768	428,906	790,674	14,503
Net assets at end of year					$ 406,079	$ 440,985	$ 847,064	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-3

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003
(in thousands)

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 19,416	$ 86,292	$ 55,551	$ 161,259
Deposits with fiscal agents			68	68
Investments		6		6
Property taxes receivable (net of allowances for uncollectables)	7,971		2,729	10,700
Interest receivable	83	120	214	417
Due from other funds	21,149	1,653	1,491	24,293
Due from other governments	10,281	2,443	17,514	30,238
Accounts receivable	1,026	9	426	1,461
Inventory			2,298	2,298
Prepaid expenditures	2,349	41	477	2,867
Loan receivable	200			200
Restricted assets		2,744		2,744
Total assets	$ 62,475	$ 93,308	$ 80,768	$ 236,551
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 8,470	$ 7,024	$ 12,336	$ 27,830
Interest payable	1	15	7	23
Contract retentions		631	12	643
Employee compensation	8,816	39	3,228	12,083
Interfund payable	177		9	186
Due to other funds	2,601	21	11,165	13,787
Due to other governments	623		232	855
Deposits and rebates	132	2,744	14	2,890
General obligation bonds			5	5
Deferred revenues	8,107		4,747	12,854
Total liabilities	28,927	10,474	31,755	71,156
Fund balances:				
Reserved for:				
Inventory			2,298	2,298
Prepaid expenditures	2,349	41	477	2,867
Debt service			3,146	3,146
Capital repairs and refurbishments			75	75
Loan receivable	200			200
Specified programs			705	705
Unreserved, reported in:				
General fund	30,999			30,999
Special revenue funds			42,312	42,312
Capital projects fund		82,793		82,793
Total fund balances	33,548	82,834	49,013	165,395
Total liabilities and fund balances	$ 62,475	$ 93,308	$ 80,768	$ 236,551

See Notes to the Financial Statements

Exhibit A-4

PIMA COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(in thousands)

Fund balances - total governmental funds		$ 165,395
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	$ 654,808	
Less accumulated depreciation	(97,413)	557,395
Certain receivables are not available to pay for current period expenditures and therefore are not reported in the governmental funds		
Due from other governments	10,061	
Other	179	10,240
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds		
Bonds payable	(313,291)	
Loans and leases payable	(35,109)	
Certificates of participation payable	(1,560)	
Employee compensation	(17,746)	(367,706)
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements		8,856
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		31,899
Net assets of governmental activities		$ 406,079

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-5

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2003
(in thousands)

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 194,552		$ 63,823	$ 258,375
Special assessments			1,023	1,023
Licenses and permits	2,010		4,077	6,087
Intergovernmental	112,530	$ 4,642	128,206	245,378
Charges for services	23,750	3,683	8,288	35,721
Fines and forfeits	4,111		936	5,047
Interest	1,015	1,242	1,895	4,152
Miscellaneous	2,884	1,344	6,128	10,356
Total revenues	340,852	10,911	214,376	566,139
Expenditures:				
Current:				
General government	110,813		21,603	132,416
Public safety	90,375		36,780	127,155
Highways and streets			26,741	26,741
Health	2,762		21,267	24,029
Welfare	84,130		108	84,238
Culture and recreation	12,858		12,356	25,214
Education and economic opportunity	4,812		30,245	35,057
Capital outlay		97,147		97,147
Debt service - principal	1,550		43,994	45,544
- interest	1,613		14,082	15,695
- miscellaneous	4		20	24
Total expenditures	308,917	97,147	207,196	613,260
Excess (deficiency) of revenues over (under) expenditures	31,935	(86,236)	7,180	(47,121)
Other financing sources (uses):				
Issuance cost on bonds		(163)		(163)
Premium on bonds		410		410
Capital leases			177	177
Proceeds from sale of capital assets		1	36	37
Face amount of long-term debt		85,000		85,000
Transfers in	10,822	38,200	29,435	78,457
Transfers (out)	(38,621)	(392)	(54,584)	(93,597)
Total other financing sources (uses)	(27,799)	123,056	(24,936)	70,321
Extraordinary item:				
Loss from State Treasurer's Local Government Investment Pool	(1,730)	(979)	(3,528)	(6,237)
Net change in fund balances	2,406	35,841	(21,284)	16,963
Fund balance at beginning of year	31,142	46,993	69,668	147,803
Change in reserve for inventory			629	629
Fund balance at end of year	$ 33,548	$ 82,834	$ 49,013	$ 165,395

See Notes to the Financial Statements

Exhibit A-6

PIMA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

Net change in fund balances - total governmental funds		$ 16,963
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 depreciated over their estimated useful lives and reported as depreciation expense		
Expenditures for capital assets	$ 74,133	
Less current year depreciation	(10,995)	63,138
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items		
Face amount of long-term debt	(85,000)	
Debt service - principal payments	45,544	
Premium on bonds	(410)	
Capital leases	(177)	
Deferred bond issue costs	163	
Amortization expense	(361)	(40,241)
Some revenues reported in the statement of activities do not represent the collection of current financial resources and therefore are not reported as revenues in the governmental funds		
Tax revenues	462	
Other	5,187	5,649
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		
Change in compensated absences	(311)	
Loss on disposal of capital assets	(833)	
Change in reservation of fund balances	629	(515)
Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the net revenue of the internal service funds is reported with governmental activities		(683)
Change in net assets of governmental activities		$ 44,311

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-7

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities-Internal Service Funds
	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Assets					
Current assets:					
Cash and cash equivalents	$ 23,748	$ 966	$ 9,363	$ 34,077	$ 42,549
Interest receivable	36	7	20	63	115
Interfund receivables	299			299	
Due from other funds	2,002	2	197	2,201	
Due from other governments	3,612	287		3,899	73
Accounts receivable	10,706	6,860	34	17,600	12
Inventory	820	2,611		3,431	318
Prepaid expense	1,064	129	16	1,209	998
Total current assets	42,287	10,862	9,630	62,779	44,065
Noncurrent assets:					
Restricted:					
Cash and cash equivalents		7,902		7,902	
Interest receivable		20		20	
Total restricted assets		7,922		7,922	
Capital assets:					
Land and other improvements	250	11,958	657	12,865	592
Buildings and improvements	29,388	216,424	12,927	258,739	462
Sewage conveyance system		399,747		399,747	
Equipment	9,896	16,983	969	27,848	28,171
Less accumulated depreciation	(28,640)	(229,299)	(7,040)	(264,979)	(12,487)
Construction in progress		136,171		136,171	
Total capital assets (net of accumulated depreciation)	10,894	551,984	7,513	570,391	16,738
Deferred financing costs		848		848	
Total noncurrent assets	10,894	560,754	7,513	579,161	16,738
Total assets	53,181	571,616	17,143	641,940	60,803
Liabilities					
Current liabilities:					
Accounts payable	14,163	8,372	267	22,802	2,202
Employee compensation	4,846	3,147	816	8,809	663
Interest payable	7	12		19	
Interfund payable					113
Due to other funds	1,736	10,967	2	12,705	2
Due to other governments	5,947		152	6,099	
Deferred revenues	1	1,347		1,348	
Current portion of sewer revenue bonds		4,965		4,965	
Current portion of wastewater loans payable		4,270		4,270	
Current portion reported but unpaid losses					2,996
Current portion incurred but not reported losses					2,973
Total current liabilities	26,700	33,080	1,237	61,017	8,949
Noncurrent liabilities:					
Contracts and notes		6,849		6,849	
Landfill closure payable		15,645		15,645	
Sewer revenue bonds		58,133		58,133	
Wastewater loans payable		59,281		59,281	
Reported but unpaid losses					10,031
Incurred but not reported losses					9,954
Total noncurrent liabilities		139,908		139,908	19,985
Total liabilities	26,700	172,988	1,237	200,925	28,934
Net assets					
Invested in capital assets, net of related debt	10,894	426,183	7,513	444,590	16,738
Restricted for					
Debt service		1,245		1,245	
Capital projects		3,008		3,008	
Wastewater management		3,669		3,669	
Health care	13,217			13,217	
Unrestricted	2,370	(35,477)	8,393	(24,714)	15,131
Total net assets	$ 26,481	$ 398,628	$ 15,906	441,015	$ 31,869

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.	(30)
Net assets of business-type activities	$ 440,985

See Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2003 (in thousands)	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Operating revenues:					
Net patient services	$ 195,872			$ 195,872	
Charges for services		$ 51,346	$ 9,877	61,223	$ 28,751
Other (including $23,799 in disproportionate share settlement)	28,307	871	168	29,346	750
Reimbursement of disproportionate share settlement	(23,518)			(23,518)	
Total net operating revenues	200,661	52,217	10,045	262,923	29,501
Operating expenses:					
Employee compensation	59,040	25,378	6,406	90,824	5,885
Medical claims	127,235			127,235	
Operating supplies and services	7,889	5,228	747	13,864	4,293
Utilities	1,328	1,977	270	3,575	
Sludge and refuse disposal		2,242		2,242	
Repair and maintenance	1,446	5,105	250	6,801	78
Landfill closure and postclosure care costs		1,078		1,078	
Incurred losses					7,036
Insurance premiums					4,822
General and administrative	9,931	8,026	1,141	19,098	4,183
Consultants and professional services	13,434	3,646	471	17,551	635
Depreciation and amortization	1,385	16,670	442	18,497	1,942
Total operating expenses	221,688	69,350	9,727	300,765	28,874
Operating income (loss)	(21,027)	(17,133)	318	(37,842)	627
Nonoperating revenues (expenses):					
Grants	4,605	304		4,909	
Shared State tax revenue		959		959	
Interest income	575	1,014	138	1,727	729
Sewer connection fees		20,280		20,280	
Interest expense	(163)	(5,271)		(5,434)	
Loss on disposal of capital assets	(119)	(213)	(6)	(338)	(910)
Amortization of deferred charges		(89)		(89)	
Total nonoperating revenues (expenses):	4,898	16,984	132	22,014	(181)
Income (loss) before contributions, transfers and extraordinary item:	(16,129)	(149)	450	(15,828)	446
Capital contributions	1,819	13,702		15,521	
Extraordinary item:					
Loss from State Treasurer's Local Government Investment Pool	(1,164)	(1,263)	(246)	(2,673)	(1,210)
Transfers in	23,065			23,065	202
Transfers (out)	(7,993)		(134)	(8,127)	
Change in net assets	(402)	12,290	70	11,958	(562)
Net assets at beginning of year	26,883	386,338	15,836	429,057	32,431
Net assets at end of year	$ 26,481	$ 398,628	$ 15,906	441,015	$ 31,869

Some amounts reported for *business-type activities* in the statement of activities are different because a portion of the net revenue of certain internal service funds is reported with business-type activities.	121
Change in net assets of business-type activities	$ 12,079

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2003
(in thousands)

	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Cash flows from operating activities:					
Cash received from other funds for goods and services provided	$ 6,472		$ 627	$ 7,099	$ 28,755
Cash received from customers for goods and services provided	193,411	$ 51,599	9,880	254,890	
Cash received from miscellaneous operations	2,938	2,449	148	5,535	693
Cash payments to suppliers for goods and services	(156,235)	(19,752)	(1,650)	(177,637)	(11,317)
Cash payments to other funds for goods and services	(3,489)	(8,815)	(2,383)	(14,687)	(2,232)
Cash payments for incurred losses					(9,194)
Cash payments to employees for services	(58,494)	(24,873)	(5,958)	(89,325)	(5,819)
Net cash provided by (used) for operating activities	(15,397)	608	664	(14,125)	886
Cash flows from noncapital financing activities:					
Interest paid on short-term credit	(176)			(176)	
Transfers in	21,065			21,065	202
Transfers out	(7,993)		(134)	(8,127)	
Loan payments from other funds		75	2,238	2,313	2,211
Proceeds of loans from other funds	1,736	10,907		12,643	
Loan payments to other funds	(12,574)		(10)	(12,584)	(2)
Shared State tax revenues		958		958	
Grant revenues	4,211	304		4,515	
Net cash provided for noncapital financing activities	6,269	12,244	2,094	20,607	2,411
Cash flows from capital and related financing activities:					
Proceeds of loans		9,746		9,746	
Principal paid on bonds and loans		(8,887)		(8,887)	
Interest paid on bonds and loans		(4,742)		(4,742)	
Sewer connection fees		19,701		19,701	
Proceeds from sale of capital assets					440
Purchase of capital assets	(561)	(59,228)	(71)	(59,860)	(5,618)
Net cash used for capital and related financing activities	(561)	(43,410)	(71)	(44,042)	(5,178)
Cash flows from investing activities:					
Interest received on cash and investments	568	1,125	142	1,835	749
Loss from State Treasurer's Local Government Investment Pool	(1,164)	(1,263)	(246)	(2,673)	(1,210)
Net cash used for investing activities	(596)	(138)	(104)	(838)	(461)
Net increase (decrease) in cash and cash equivalents	(10,285)	(30,696)	2,583	(38,398)	(2,342)
Cash and cash equivalents at beginning of year	34,033	39,564	6,780	80,377	44,891
Cash and cash equivalents at end of year	$ 23,748	$ 8,868	$ 9,363	$ 41,979	$ 42,549

(Continued)

See Notes to the Financial Statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003
(in thousands)
(Continued)

Reconciliation of operating income (loss) to net cash provided (used) by operating activities	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating income (loss)	$ (21,027)	$ (17,133)	$ 318	$ (37,842)	$ 627
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,385	16,670	442	18,497	1,942
Provision for doubtful accounts	6,203			6,203	
Landfill closure and postclosure care costs		1,078		1,078	
Decrease (increase) in accounts receivable	(3,328)	1,497	(17)	(1,848)	(69)
Decrease in interfund receivables	500			500	
Decrease (increase) in inventory and other assets	(732)	233	(15)	(514)	(461)
Increase (decrease) in accounts payable	(3,025)	(2,237)	(84)	(5,346)	1,071
(Decrease) in interfund payables	(23)	(5)		(28)	
(Decrease) in reported but unpaid losses					(3,975)
Increase in incurred but not reported losses					1,817
Increase (decrease) in other current liabilities	4,650	505	20	5,175	(66)
Net cash provided by (used) for operating activities	$ (15,397)	$ 608	$ 664	$ (14,125)	$ 886

Noncash investing, capital, and financing activities during the year ended June 30, 2003:

Wastewater Management Enterprise Fund retired capital assets with a net book value of $213.

Wastewater Management Enterprise Fund received capital assets with a net book value of $1,129 from the Other Internal Service Funds.

Wastewater Management Enterprise Fund was contributed developer built conveyance systems with estimated fair values totaling $12,473. These contributions were recorded as an increase in capital assets and capital contributions (a noncash transaction).

Wastewater Management Enterprise Fund received capital assets with a net book value of $99 from the Capital Projects Fund.

Pima Health Care System Enterprise Fund retired equipment with a net book value of $119.

Pima Health Care System Enterprise Fund received equipment from the Capital Projects Fund with a net book value of $1,813 and received donated equipment valued at $6.

Other Enterprise Funds disposed of capital assets with a net book value of $6.

Other Internal Service Funds retired equipment with a net book value of $221.

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2003
(in thousands)

Exhibit A-10

	Investment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 122,905	$ 33,584
Interest receivable	272	
Due from other governments		3,978
Total assets	123,177	37,562
LIABILITIES		
Employee compensation		2,522
Due to other governments		13,531
Deposits and rebates		21,509
Total liabilities		$ 37,562
NET ASSETS		
Held in trust for pool participants	$ 123,177	

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the Year Ended June 30, 2003
(in thousands)

Exhibit A-11

	Investment Trust Funds
ADDITIONS	
Contributions from participants	$ 1,832,528
Total contributions	1,832,528
Investment interest earnings	3,133
Total investment earnings	3,133
Total additions	1,835,661
DEDUCTIONS	
Distributions to participants	1,875,271
Total deductions	1,875,271
Change in net assets	(39,610)
Net assets held in trust July 1, 2002	162,787
Net assets held in trust June 30, 2003	$ 123,177

See Notes to the Financial Statements

PIMA COUNTY
COMBINING STATEMENT OF NET ASSETS
Component Units
June 30, 2003
(in thousands)

Exhibit A-12

	Metropolitan Domestic Water Improvement District	Marana Domestic Water Improvement District	Southwestern Fair Commission	Total
ASSETS				
Cash and cash equivalents	$ 9,938	$ 164	$ 812	$ 10,914
Investments	1,327			1,327
Accounts receivable (net)	1,504	61	28	1,593
Inventories	377	3	37	417
Prepaids	192		20	212
Other assets	1,596	14	9	1,619
Restricted assets:				
Cash and cash equivalents	3,345	11		3,356
Regulatory asset	7,812			7,812
Capital assets (net):				
Land	950	8		958
Buildings and improvements	1,749	2	1,646	3,397
Machinery and equipment	561	15	195	771
Water system	34,702	972		35,674
Construction in progress	2,785	369		3,154
Total assets	66,838	1,619	2,747	71,204
LIABILITIES				
Accounts payable	1,409	18	169	1,596
Deposits and rebates	139	17	12	168
Payable from restricted assets	534			534
Noncurrent liabilities:				
Due within one year:				
Contracts and notes	105	26	104	235
Revenue bonds	1,980	7		1,987
Due in more than one year:				
Contracts and notes	1,716	1,107	533	3,356
Revenue bonds	46,184	327		46,511
Total liabilities	52,067	1,502	818	54,387
NET ASSETS				
Invested in capital assets, net of related debt	1,603	(87)	1,204	2,720
Restricted for:				
Debt service	2,386	11		2,397
Capital projects	425		30	455
Unrestricted	10,357	193	695	11,245
Total net assets	$ 14,771	$ 117	$ 1,929	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY
COMBINING STATEMENT OF ACTIVITIES
Component Units
For the Year Ended June 30, 2003
(in thousands)

Exhibit A-13

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	MDWID	MARANA	SFC	Total
Metropolitan Domestic Water Improvement District (MDWID)							
Operations	$ 9,817	$ 10,712		$ 895			$ 895
Total MDWID	9,817	10,712		895			895
Marana Domestic Water Improvement District (MARANA)							
Operations	395	481	$ 45		$ 131		131
Total Marana	395	481	45		131		131
Southwestern Fair Commission (SFC)							
Operations	4,642	4,513	88			$ (41)	(41)
Total SFC	4,642	4,513	88			(41)	(41)
Total component units	$ 14,854	$ 15,706	$ 133	895	131	(41)	985
General revenues:							
Investment earnings				369			369
Miscellaneous				272		115	387
Capital Contributions				1,005			1,005
Extraordinary Item: Loss from State Treasurer's Local Government Investment Pool				(432)			(432)
Total general revenues and extraordinary item				1,214		115	1,329
Change in net assets				2,109	131	74	2,314
Net assets at beginning of year, as restated				12,661	(13)	1,855	14,503
Net assets at end of year				$ 14,770	$ 118	$ 1,929	$ 16,817

See Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pima County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The County is a general-purpose local government that is governed by a separately elected board of Pima County supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year-end.

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the Pima County Board of Supervisors to assist in the development of the County, among other things, by acquiring, constructing and improving any facilities, including real property and improvements and personal property, entirely for use by the County. The Corporation undertook its first bond issue in October, 1992. The Corporation is governed by a five-member board elected by the Pima County Board of Supervisors to one-year terms. The Corporation is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the MPC can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Pima County Stadium District, a legally separate entity, was formed to promote and establish major league baseball spring training in Pima County. The Board of Directors of the District comprises the same individuals who constitute the Pima County Board of Supervisors. Acting in the capacity of the Board of Directors, the Pima County Board of Supervisors is able to impose its will on the District. The Board of Directors levies the car rental surcharge rates and the recreation vehicle (RV) park tax for the District. The District is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the District can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Pima County Library District was established in 1986 when legislation allowed full taxing authority and the ability to enter into agreements with other jurisdictions for the provision of library services. The Board of Directors is the Pima County Board of Supervisors. The terms of the Board are determined by the actual time one is a Pima County Supervisor. The Library District and the City of Tucson have had intergovernmental agreements to provide library services since 1986. The Library District is reported as a special revenue fund (blended component unit) in these financial statements. Financial information for the District is presented in the Combining Statements and Other Schedules – Other (Non-major) Governmental Funds on pages 88-91 of this report.

The Pima County Flood Control District was established June 5, 1978, and became operational on July 1, 1978. To comply with federal law, the State of Arizona enacted the Floodplain Management Act of 1973. This act authorized the counties in Arizona to adopt rules and regulations concerning the management of floodplain areas. The State of Arizona subsequently authorized flood control districts to levy taxes on real property to finance district-operating expenses. The district is responsible for floodplain management activities for the unincorporated areas of Pima

County (excepting the national forests, parks, monuments and Indian Nations) and the City of South Tucson, and the Town of Sahuarita. The Pima County Board of Supervisors is the Board of Directors for the Flood Control District. The Flood Control District is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the District can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Metropolitan Domestic Water Improvement District (MDWID) of Pima County, a legally separate entity, was formed by the Pima County Board of Supervisors on July 7, 1992. The initial Board of Directors of the District was comprised of five members appointed by the Pima County Board of Supervisors to varying terms. In November 1994, three members were elected to four-year terms. The Board of Directors of the District has all the powers and duties of the Board of Supervisors of Pima County sitting as the board of directors of a county improvement district that are not in conflict with the provisions of the law. The Pima County Board of Supervisors may review all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may revoke at any time the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements of the District can be obtained from its administrative offices located at 6265 North La Canada Drive, Tucson, Arizona 85704.

The Southwestern Fair Commission, Inc. (SFC) is a nonprofit corporation, which manages and maintains the fairgrounds owned by the County and conducts an annual fair and other events at the fairgrounds. The Commission's members are appointed, and can be removed at any time, by the Pima County Board of Supervisors. Based on these factors, SFC is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements for SFC can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Marana Domestic Water Improvement District (MARANA) of Pima County is a municipal corporation organized in 1997 under the laws of Arizona. It is a public service corporation authorized to engage in the sale of water for commercial and domestic use. The Board of Directors of the District are appointed by the Pima County Board of Supervisors. The Board of Directors of the District has all the powers and duties of the Board of Supervisors of Pima County, as the board of directors of a County improvement district that are not in conflict with the provisions of the law. The Pima County Supervisors may review and shall have veto authorization over all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may revoke at any time the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements of the District can be obtained from its administrative offices located at 16560 W. El Tiro Road, P.O. Box 518, Marana, Arizona 85653-0518.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund-based financial statements. The government-wide statements focus on the County as a whole, while the fund-based financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements - provide information about the primary government (Pima County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

- Charges for services (fines and forfeitures, licenses and permits, and special assessments).
- Operating grants and contributions.
- Capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues. The net effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

Fund-based financial statements – provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund-based financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with each fund's principal activity in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as non-operating revenues.

The County reports the following major governmental funds:

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

The Capital Projects Fund – accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The County reports the following major enterprise funds:

Pima Health Care System – provides health care services through Kino Hospital, Pima Health System, and Home Health including inpatient hospital care and outpatient clinical care for medical and psychiatric problems, indigent health care under the Arizona Health Care Cost Containment System (AHCCCS), an alternative to Medicaid, home health services and long-term nursing care.

Wastewater Management Fund – accounts for the management and operation of wastewater treatment, water pollution control programs, and solid waste management throughout the County.

The County reports the following fund types:

Internal service funds – account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis. These funds account for automotive maintenance and operation, insurance, printing and graphics, and telecommunications services.

Investment trust funds – account for assets held by the County Treasurer in an external investment pool and individual investment accounts for the benefit of outside jurisdictions.

Agency funds – account for the assets held by the County as an agent for individuals, private organizations or other governmental units. The agency fund is custodial in nature and does not present results of operations or have a measurement focus.

C. Basis of Accounting

The government-wide and proprietary funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds in the fund-based financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

The County's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash and Investments

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

If an individual fund has a deficit balance in the amount on deposit with the County Treasurer at year-end, that balance is reclassified as an amount due to other funds.

E. Inventories

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method or average cost method. Inventories of:

- Pima Health Care System, an enterprise fund, are valued at the lower of cost or market, cost being determined on the first-in, first-out method.
- Wastewater Management, an enterprise fund, are valued at lower of cost or market, cost being determined using the moving average method.
- Automotive Services, an internal service fund, are valued at the lower of cost or market, cost being determined using the moving average method.

F. Property Tax Calendar

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Personal property taxes are also levied on or before the third Monday in August and become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

G. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Excluding component units, capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Buildings and building improvements	All	Straight Line	7 to 40 Years
Equipment	$ 5	Straight Line	3 to 25 Years
Automotive service vehicles	$ 5	Units of Production Based on number of hours or miles	5 to 15 Years
Infrastructure	$100	Straight Line	20 to 50 Years
Land improvements	$100	Straight Line	20 to 25 Years
Wastewater sewer conveyance	$ 20	Straight Line	20 to 50 Years
Wastewater treatment facilities, transfer stations and other property and equipment	$ 20	Straight Line	50 Years

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees, however an estimate is made for non-vested sick leave. For employees who have twenty or more years of continuous service with the County or who have a combined total of age and years of service equal to eighty points, and who retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan, sick leave benefits do vest and, therefore, are accrued.

NOTE 2: NET ASSET BEGINNING BALANCES RESTATED

The beginning governmental activities and business-type activities net asset balances are being restated due to an error in the calculation of the internal balances from the Internal Services Fund assets, liabilities and net revenues which were included in the business-type activities in the prior year.

	Governmental Activities	Business-type Activities
Net assets-June 30, 2002, as previously reported	$ 358,237	$ 432,437
Correction of error	3,531	(3,531)
Net assets, July 1, 2002, as restated	$ 361,768	$ 428,906

The beginning discretely presented component units' net asset balance was restated by $(13) to include the Marana Domestic Water Improvement District. Although this District should have been included in the prior year, its financial information was immaterial and unaudited, and therefore not included. The discretely presented component units were therefore restated this fiscal year to include this District.

NOTE 3: CASH AND INVESTMENTS

PRIMARY GOVERNMENT

The County's cash and investment policies are governed by State statutes and by bond covenants. The County Treasurer is authorized to invest public monies in the State Treasurer's Investment Pool; interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations issued or guaranteed by the United States government; and bonds of the State of Arizona or any of its counties, cities, towns, school districts as specified by statute. State statutes also require collateral for demand deposits, certificates of deposit and repurchase agreements at 101 percent of all deposits not covered by Federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, and obligations of the various states and their municipalities, school districts and special districts. At least monthly, the Treasurer's Office determines that the collateral is adequate to cover the deposits by calculating the lower amount of par or fair value of individual securities pledged as collateral.

Most cash, including amounts held in trust and agency capacity for other entities, is deposited with the County Treasurer who invests the pooled balances on a short-term basis. Interest received is allocated monthly, on the basis of average daily cash balances, to separate districts and to various County funds. The County Treasurer also maintains discrete deposit and investment accounts for various funds and other entities. Deposits and investments are displayed on the financial statements as cash and cash equivalents, deposits with fiscal agents, investments, and restricted assets.

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The County Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The County Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the County Treasurer determines the fair value of those pooled investments annually at June 30. The County Treasurer's Investment Pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The structure of the pool does not provide for shares and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

Deposits—At June 30, 2003, the investment pool had cash on hand of $4. The carrying amount of the pool's total cash in bank was $26,369 and the bank balance was $38,398. Of the bank balance, $100 was covered by federal depository insurance and $38,298 was covered by collateral held by the pledging financial institution's agent in the County's name.

Investments—At June 30, 2003, the County Treasurer's Investment Pool's investments consisted of $226,213 invested in the State Treasurer's Investment Pool. The State Board of Investment 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. Those shares are not identified with specific investments, are not subject to custodial credit risk, and have no stated interest rate or maturity date.

A condensed statement of the investment pool's net assets and changes in net assets follows:

Statement of Net Assets	
Net assets held in trust for:	
Internal participants	$ 149,303
External participants	103,469
Total Liabilities	$ 0
Total net assets held in trust	$ 252,772
Statement of Changes in Net Assets	
Total additions	$ 4,851,230
Total deductions	(4,880,720)
Net decrease	(29,490)
Net assets held in trust:	
July 1, 2002	282,262
June 30, 2003	$ 252,772

Other Cash and Investments—At June 30, 2003, the total nonpooled cash on hand was $53. The carrying amount of the total nonpooled cash in bank was $19,557, and the bank balance was $20,374. Of the bank balance, $16,408 was covered by federal depository insurance; $3,129 was covered by collateral held by the pledging financial institution's agent in the County's name; and $837 was uninsured and uncollateralized.

Deposits held in escrow total $5,731. They are not reflected in a risk category.

The County's nonpooled investments are categorized below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered in the County's name or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the County's name. The County's investment in the

State Treasurer's Investment Pool represents shares of the pool's portfolio. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Investment Type	Category 1	Category 2	Category 3	Reported Amount	Fair Value
U.S. Government Issues	$ 0	$ 0	$ 1,646	$ 1,646	$ 1,646
State Treasurer's Investment Pool				125,522	125,522
Total				$ 127,168	$ 127,168

A reconciliation of financial statement amounts to amounts disclosed within this footnote is as follows:

Basic Financial Statements:	
Government-Wide Statement of Net Assets:	
Cash and cash equivalents	$ 96,043
Restricted assets:	
Cash & cash equivalents	149,745
Investments	2,750
Deposits with fiscal agents	68
Statement of Fiduciary Net Assets:	
Investment Trust Funds	122,905
Agency Funds	33,584
Total	$ 405,095

Note 3	
Cash in bank and on hand	$ 45,983
Deposits held in escrow	5,731
County Treasurer's Investment Pool	226,213
Other Investments	127,168
Total	$ 405,095

DISCRETELY PRESENTED COMPONENT UNITS

Metropolitan Domestic Water Improvement District (MDWID)— At June 30, 2003, MDWID's cash deposits had a carrying balance of $1,213 and a corresponding bank balance of $1,234. Of the bank balance $440 was covered by federal depository insurance and the remaining amount, with the exception of operating cash accounts, was fully insured or collateralized with securities held by MDWID or its agents in MDWID's name.

The MDWID cash and cash equivalents also include $1,850 in operating funds held by the Pima County Treasurer, which represent a portion of the Pima County Treasurer investment pool portfolio for the year ended June 30, 2003; $9,091 deposited with the State of Arizona Treasurer; and $1,129 in money market funds. These deposits are not subject to custodial credit risk. At June 30, 2003, MDWID's investments had a fair value of $1,327. These investments were with federally insured agencies and were considered custodial credit risk category 1, indicating they were insured or registered in MDWID's name or the securities were held by MDWID or its agent in MDWID's name.

Marana Domestic Water Improvement District —At June 30, 2003, the district's cash and cash equivalents were $175 and included cash on hand and amounts held by the Pima County Treasurer.

Southwestern Fair Commission—At June 30, 2003, the commission's $812 of cash and cash equivalents consisted of deposits with financial institutions, of which $500 was uninsured and uncollateralized.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Governmental Activities:

	General	Capital Projects Fund	Other Government Funds	Internal Service Funds	Total Government Activities
Federal government:					
Grants and contributions	$ 250	$ 656	$ 11,034	$ 22	$ 11,962
State of Arizona:					
Taxes and shared revenues	15,594		1,162		16,756
Grants and contributions		690	8,177	38	8,905
Reimbursement for services			38		38
City of Tucson:					
Reimbursement for services	965	1,097	242		2,304
Due from other governments:					
Reimbursement for services	274		120	13	407
Due from other governments Statement of Net Assets					$ 40,372
Amount unavailable and therefore not accrued in government funds	(6,802)		(3,259)		
Total due from other governments-fund based statements	$ 10,281	$ 2,443	$ 17,514	$ 73	

Business-type Activities:

	Pima Health Care System	Wastewater Management	Business – type Activities Total
Federal Government:			
Grants and contributions	$ 382	$ 87	$ 469
State of Arizona:			
Grants and contributions	3,230	200	3,430
Total due from other Governments	$ 3,612	$ 287	$ 3,899

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 113,175	$ 14,679	$	$ 127,854
Construction in progress	164,511	59,694	(91,020)	133,185
Total capital assets not being depreciated	277,686	74,373	(91,020)	261,039
Capital assets being depreciated:				
Buildings and improvements	255,878	14,266	(1,079)	269,065
Infrastructure	7,072	72,549		79,621
Equipment	67,515	12,167	(5,374)	74,308
Total capital assets being depreciated	330,465	98,982	(6,453)	422,994
Less accumulated depreciation for:				
Buildings and improvements	(62,627)	(5,681)	209	(68,099)
Infrastructure		(368)		(368)
Equipment	(39,778)	(6,888)	5,233	(41,433)
Total accumulated depreciation	(102,405)	(12,937)	5,442	(109,900)
Total capital assets being depreciated, net	228,060	86,045	(1,011)	313,094
Governmental activities capital assets, net	$ 505,746	$ 160,418	$ (92,031)	$ 574,133

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 12,766	$ 99	$	$ 12,865
Construction in progress	73,887	62,686	(402)	136,171
Total capital assets not being depreciated	86,653	62,785	(402)	149,036
Capital assets being depreciated:				
Buildings and improvements	257,224	2,219	(704)	258,739
Sewer conveyance system	386,817	12,930		399,747
Equipment	26,432	3,043	(1,628)	27,847
Total capital assets being depreciated	670,473	18,192	(2,332)	686,333
Less accumulated depreciation for:				
Buildings and improvements	(104,163)	(8,035)	642	(111,556)
Sewer conveyance system	(126,622)	(8,460)		(135,082)
Equipment	(17,410)	(2,282)	1,352	(18,340)
Total accumulated depreciation	(248,195)	(18,777)	1,994	(264,978)
Total capital assets being depreciated, net	422,278	(585)	(338)	421,355
Business-type activities capital assets, net	$ 508,931	$ 62,200	$ (740)	$ 570,391

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 2,921
Public safety	3,046
Highway and streets	659
Health	307
Welfare	9
Culture and recreation	2,975
Education and economic opportunity	258
Unallocated	820
Internal service funds	1,942
Total governmental activities depreciation	$ 12,937
Business-type activities:	
Health plans	$ 1,385
Parking garages	340
Wastewater management	16,670
Development services	102
Total business-type activities depreciation	$ 18,497

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Discretely presented component units:				
Metropolitan Domestic Water Improvement District (MDWID):				
Capital assets not being depreciated:				
Land	$ 950			$ 950
Construction in progress	2,061	$ 3,362	$ (2,638)	2,785
Total capital assets not being depreciated	3,011	3,362	(2,638)	3,735
Capital assets being depreciated:				
Buildings and improvements	1,799	183		1,982
Water systems	37,412	3,523	(275)	40,660
Equipment	1,974	65	(30)	2,009
Total capital assets being depreciated	41,185	3,771	(305)	44,651
Less accumulated depreciation for:				
Buildings and improvements	(131)	(102)		(233)
Water systems	(5,058)	(985)	85	(5,958)
Equipment	(1,266)	(212)	30	(1,448)
Total accumulated depreciation	(6,455)	(1,299)	115	(7,639)
Total capital assets, being depreciated, net	34,730	2,472	(190)	37,012
MDWID capital assets, net	37,741	5,834	(2,828)	40,747
Southwestern Fair Commission (SFC):				
Capital assets being depreciated:				
Buildings and improvements	3,492	39		3,531
Equipment	1,325	85	(43)	1,367
Total capital assets being depreciated	4,817	124	(43)	4,898
Less accumulated depreciation for:				
Buildings and improvements	(1,676)	(209)		(1,885)
Equipment	(1,170)	(45)	43	(1,172)
Total accumulated depreciation	(2,846)	(254)	43	(3,057)
Total capital assets being depreciated, net	1,971	(130)		1,841
SFC capital assets, net	1,971	(130)		1,841

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Marana Domestic Water Improvement District (Marana):				
Capital assets not being depreciated:				
Land	3	5		8
Construction in progress		369		369
Total capital assets not being depreciated	3	374		377
Capital assets being depreciated:				
Capital assets being depreciated:				
Buildings and improvements	2			2
Water systems	1,150			1,150
Equipment	18	3		21
Total capital assets being depreciated	1,170	3		1,173
Less accumulated depreciation for:				
Buildings and improvements				
Water systems	(109)	(69)		(178)
Equipment	(3)	(3)		(6)
Total accumulated depreciation	(112)	(72)		(184)
Total capital assets, being depreciated, net	1,058	(69)		989
Marana capital assets, net	1,061	305		1,366
Discretely presented component units capital assets, net	$ 40,773	$ 6,009	$ (2,828)	$ 43,954

NOTE 6: CLAIMS, JUDGMENTS and RISK MANAGEMENT

Pima County is a defendant in a number of court actions. In the opinion of County management, the final disposition of these actions, if unfavorable, will not have a material effect upon the County's financial statements.

Wastewater Management

The County has entered into settlement negotiations with Arizona Department of Environmental Quality (ADEQ) to resolve litigation associated with the cleanup of the Camino del Cerro landfill. Cleanup expenses have been incurred and include a soil vapor extraction system, a series of drainage improvements, re-grade landfill cap and groundwater remediation. The liability is not presented within the financial statements because the outcome of the settlement negotiations is uncertain. However, cleanup costs could total $3,600 and county management plans to finance the cost of any such settlement through future bond issues.

As a result of a major sewer line failure, the County Wastewater Management Department has received a Notice of Violation from the ADEQ that could result in various penalties, fines or remediation requirements. The County is in negotiation with ADEQ and it is too early to speculate on a possible settlement agreement or the resulting financial impact of any such agreement.

Other

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; environmental claims; and natural disasters. Claims against the County are accounted for in the Self Insurance Trust Fund (the Fund), an internal service fund. Annually, an actuarial evaluation is performed to determine the County's anticipated losses except for environmental losses. Environmental losses are based on reported claims and the County risk manager's knowledge and experience. Losses accounted for include reported and paid, reported but unpaid, and incurred but not reported. All liabilities of the Fund except for environmental losses are reported at their present value using an expected future investment yield assumption of four percent. The County purchases commercial insurance for claims in excess of coverage provided by the Fund and for some other risks of loss. Settled claims have not exceeded insurance coverage in any of the last three fiscal years.

All funds of the County participate in the Fund. With the exception of environmental losses, payments to the Fund are based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish some reserve for catastrophic losses. That reserve was estimated to be $500 at June 30, 2003, and is included in the Fund net assets. Payments to the Fund for environmental losses are based on historical experience, since an actuarial basis is not available.

The claims liability of $25,954 reported in the Fund at June 30, 2003, is based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The ultimate cost of claims includes incremental claim adjustment expenses that have been allocated to specific claims, as well as salvage and subrogation. No other claim adjustment expenses have been included.

	2003	2002
Claims liability balance—beginning	$28,112	$ 26,250
Current year claims and changes in estimates	7,036	8,912
Claims payments	(9,194)	(7,050)
Claims liability balance—ending	$25,954	$ 28,112

NOTE 7: LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003.

	Balance July 1, 2002 As restated	Additions	Reductions	Balance July 1, 2003	Due within 1 year
Governmental activities:					
General obligation bonds	$183,085	$50,000	$32,805	$200,280	$27,390
Plus deferred premium	296	356	251	401	28
Less deferred bond issuance cost	(173)	(90)	(136)	(127)	(9)
Total general obligation bonds	183,208	50,266	32,920	200,554	27,409
Flood control bonds	5,330		745	4,585	780
Plus deferred premium	18		18		
Less deferred bond issuance cost	(49)		(49)		
Total flood control bonds	5,299		714	4,585	780
Transportation revenue bonds	79,000	35,000	8,535	105,465	10,215
Plus deferred premium	206	54	24	236	25
Less deferred bond issuance cost	(106)	(73)	(19)	(160)	(16)
Total transportation revenue bonds	79,100	34,981	8,540	105,541	10,224
Lease revenue bonds	825		330	495	155
Special assessment bonds with governmental commitment	2,506		385	2,121	385
Certificates of participation payable	3,045		1,485	1,560	1,560
Loans and Leases:					
Transportation loans payable	5,100		1,040	4,060	1,040
Capital leases payable:					
Jail capital lease	31,420		965	30,455	2,310
Other capital leases	1,176	177	759	594	292
Total capital leases	32,596	177	1,724	31,049	2,602
Total loans and leases	37,696	177	2,764	35,109	3,642
Reported but unpaid losses (Note 6)	17,002	5,219	9,194	13,027	2,996
Incurred but not reported losses (Note 6)	11,110	1,817		12,927	2,973
Total governmental activities long-term liabilities	$339,791	$92,460	$56,332	$375,919	$50,124

	Balance July 1, 2002	Additions	Reductions	Balance July 1, 2003	Due within 1 year
Business-type activities:					
Sewer revenue bonds	$73,440		$5,200	$68,240	$4,965
Less unamortized deferred amount	(5,629)		(487)	(5,142)	
Total revenue bonds payable	67,811		4,713	63,098	4,965
Wastewater loans payable	57,820	$9,746	3,687	63,879	4,270
Less unamortized deferred amount	(364)		(36)	(328)	
Total loans payable	57,456	9,746	3,651	63,551	4,270
Landfill closure and post-closure care costs	14,567	1,078		15,645	
Contracts and notes	3,685	4,156	992	6,849	
Total business-type activities long-term liabilities	$143,519	$14,980	$9,356	$149,143	$9,235
Discretely presented component units:					
MDWID Revenue Bonds	$50,055		$1,335	$48,720	$1,980
Less unamortized deferred amount	(540)	(102)	(85)	(557)	
Total revenue bonds	49,515	(102)	1,250	48,163	1,980
MDWID notes payable	$1,937		$116	$1,821	105
Marana Domestic WID bonds		$335		$335	$7
Marana Domestic WID loans payable	$1,156		$ 23	1,133	26
Total	1,156	335	23	1,468	33
Southwestern Fair Commission notes payable	$740		$103	$637	$104
Total discretely presented component units long-term liabilities	$53,348	$233	$1,492	$52,089	$2,222

The beginning balances of the governmental activities' General Obligation and Flood Control Bonds were restated to include deferred costs. The deferred costs were recorded as an Other Asset in the prior year. This had no effect on beginning net assets.

GENERAL OBLIGATION BONDS OUTSTANDING

Governmental Activities
(Payments made from property
tax revenues of the Debt Service Fund)

General obligation bonds payable at June 30, 2003, consisted of the outstanding general obligation bonds presented below. Of the total amounts originally authorized, $2,919 from the November 2, 1982 bond election and $64,541 from the May 20, 1997 bond election remains unissued. The table below presents amounts outstanding by issue.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
1993 Refunding	$64,535	5.00%	2003-04	$ 11,710
Series of 1998	42,420	4.40 – 5.00%	2003-13	27,625
Series of 1999	50,000	5.00 - 5.125%	2003-14	39,750
Series of 2000	50,000	4.00 – 5.00%	2003-14	41,000
2001 Refunding	17,835	4.00 – 5.00%	2003-09	16,340
Series of 2002	20,000	3.50 – 4.50%	2003-16	14,500
Series of 2003	50,000	3.25 – 4.25%	2003-17	49,350

G.O. bonds outstanding	200,275
Plus deferred premium	401
Less deferred bond issuance cost	127
Plus matured and unredeemed bonds: 1979 Series A	5
Total G.O. bonds outstanding	$200,554

The following schedule details general obligation bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 27,385	$ 8,990
2005	24,610	7,733
2006	23,625	6,604
2007	22,640	5,523
2008	18,670	4,486
2009-2013	61,495	12,380
2014-2017	21,850	1,980
Total	$200,275	$47,696

GENERAL OBLIGATION REFUNDING BONDS OUTSTANDING

In prior years, the County defeased certain General Obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. The cash and investments held in the irrevocable trust at June 30, 2003 were as follows:

Issue	Outstanding June 30, 2003
Series of 1993	$8,400

FLOOD CONTROL REFUNDING BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues
of the Debt Service Fund of the district)

The Pima County Flood Control District was created on April 3, 1978, by State law.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
2001 Refunding	$4,585	4.00 - 4.20%	2004-09	$4,585

The following schedule details flood control bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 780	$ 186
2005	795	154
2006	780	123
2007	760	91
2008	745	61
2009	725	30
Total	$4,585	$645

TRANSPORTATION BONDS
Governmental Activities
(Payments made from street and highway revenues)

Pima County transportation revenue bonds of 1998 were issued to provide monies to construct improvements to the County's streets and highways. Of the total amount originally authorized, $220,000 from the November 4, 1997, bond election remains unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Series of 1998	$40,000	4.50%	2004-08	$20,000
Series of 2002	55,000	4.00 – 4.50%	2004-12	50,465
Series of 2003	35,000	3.38 – 4.38%	2004-18	35,000
Transportation bonds outstanding				105,465
Plus deferred premium				236
Less deferred bond issuance cost				160
Total transportation bonds outstanding				$105,541

The following schedule details transportation bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 10,215	$ 4,394
2005	8,905	3,965
2006	10,710	3,589
2007	11,435	3,140
2008	11,745	2,636
2009-2013	37,185	7,391
2014-2018	15,270	2,005
Total	$105,465	$27,120

TRANSPORTATION LOANS PAYABLE
Governmental Activities

During the fiscal year ended June 30, 2002, Pima County Transportation Department entered into loan agreements to provide funds for the construction and improvement of certain highways and streets. Interest is payable semi-annually and is calculated based on the principal amount of the loan outstanding during such period.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
2002 HELP Loan – Ajo	$3,700	3.23%	2004-07	$2,960
2002 HELP Loan – Shannon	1,400	3.23%	2004-07	1,100
Total transportation loans payable				$4,060

The following schedule details transportation loans debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,040	$123
2005	1,040	89
2006	1,040	55
2007	940	23
Total	$4,060	$290

LEASE REVENUE BONDS
Governmental Activities
(Payments made from revenues received in the Governmental Funds)

The Pima County, Arizona, Municipal Property Corporation, a Special Revenue Fund, issued lease revenue bonds in 1992 to provide monies for financing the cost of acquiring, constructing, reconstructing or improving, building, and equipping other real and personal properties suitable for use by Pima County.

Issue	Interest Rates	Maturities	Outstanding June 30, 2003
1992 Lease Revenue Bonds	6.25 - 6.50%	2004-06	$495

The following schedule details lease revenue bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$155	31
2005	165	22
2006	175	11
Total	$495	$64

SPECIAL ASSESSMENT BONDS OUTSTANDING
Governmental Activities
(Payments made from assessments received in the Debt Service Fund)

Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the bond issues were used to finance construction in these districts. While there is no legal obligation for the County to further secure the special assessment bonds of the districts listed below, the County has made a moral commitment to take steps necessary to prevent default.

Improvement District	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Country Club Estates	$2,745	7.200%	2004-05	$ 474
C.C. Estates 2nd Issue	30	7.200%	2004-05	7
La Cholla Boulevard	1,821	6.500%	2004-12	1,640
Total special assessment bonds outstanding				$2,121

The following schedule details special assessment bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$385	$128
2005	460	99
2006	182	77
2007	182	65
2008	182	53
2009-2012	730	95
Total	$2,121	$517

REFUNDING CERTIFICATES OF PARTICIPATION OUTSTANDING
Governmental Activities
(Payments made from General Fund revenues
and from Special Revenue Fund revenues)

The Refunding Certificates of Participation (COPs) Series 7 were issued on April 1, 1995. The purpose of the original debt was to finance the purchase of the Legal Services and Public Works Buildings.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
COPS SERIES 7	$18,515	5.30%	2004	$1,560

The following schedule details refunding certificates of participation debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,560	$83

CAPITAL LEASES
Governmental Activities

On February 1, 1997, the County entered into an agreement to sell certain jail facilities and then lease them back for a 15-year term. The jail facilities were sold for $34,500, and the proceeds were used to finance the construction of the baseball stadium. On September 1, 1999, Pima County amended the capital lease agreement between U.S. Bank Trust National Association and Pima County. The amendments extended the lease term to 2014, increased the range of interest rates and increased the County's obligation under the lease agreement.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Jail Capital Lease	$35,660	4.75 – 5.25	2004-14	$30,455

The County has also entered into capital leases for election and other equipment. The outstanding balance as of June 30, 2003, for these leases totaled $594.

The net book value of assets acquired through capital leases consist of $24,787 of buildings and $612 of equipment.

The following schedule details capital lease debt service requirements to maturity at June 30, 2003.

Governmental Activities:

	Buildings		Equipment	
Year Ending June 30	Principal	Interest	Principal	Interest
2004	$2,310	$1,514	$292	$20
2005	2,420	1,400	195	9
2006	2,545	1,279	86	3
2007	2,675	1,150	21	
2008	2,810	1,011		
2009	2,960	863		
2010-2014	14,735	1,805		
Total	$30,455	$9,022	$594	$32

SEWER REVENUE BONDS
Business-type Activities
(Payments made from user charges received
in the Wastewater Management Enterprise Fund)

Pima County sewer revenue bonds, as presented below, were issued to provide monies to construct improvements to the County's wastewater management system. Of the total amount originally authorized, $23,910 from the May 20, 1997, bond election remains unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Series of 1993	$ 6,000	5.60 - 6.50%	2004-05	$ 615
1994A Refunding	28,670	4.50 - 5.00%	2004-15	25,520
Series of 1994B	8,000	5.5%	2004	580
Series of 1998	29,185	4.00 - 5.50%	2004-15	23,395
2001 Refunding	19,440	4.00 - 5.40%	2004-15	18,130
Sewer revenue bonds outstanding				68,240
Less unamortized deferred amount:				(5,142)
Total sewer revenue bonds outstanding				$63,098

The following schedule details sewer revenue bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$4,965	$3,315
2005	4,595	3,067
2006	4,470	2,842
2007	5,525	2,623
2008	5,800	2,341
2009-2013	28,990	7,581
2014-2015	13,895	1,064
Total	$68,240	$22,833

REFUNDED SEWER REVENUE BONDS OUTSTANDING

In prior years, the County defeased certain sewer revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. The cash and investments held in the irrevocable trust at June 30, 2003, amounted to $2,952. Refunded amounts outstanding as of June 30, 2003 were as follows:

Issue	Outstanding June 30, 2003
Series of 1993	$2,845

LOANS PAYABLE
Business-type Activities
(Payments made from user charges received
in the Wastewater Management Enterprise Fund)

Wastewater Management (WWM) entered into loan agreements (1996, 1997 and 2000 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period. For the 2000 loan payable, principal payments to maturity are subject to change based upon the total amounts drawn down. As of June 30, 2003, WWM has drawn down $54,010 of the available $61,180 from the 2000 loan amount.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
1996 Loan Payable	$11,313	3.19%	2004-12	$11,313
1997 Loan Payable	7,500	2.95%	2004-11	4,758
2000 Loan Payable	54,010	2.02%	2004-16	47,808
Loans payable				63,879
Less unamortized deferred interest expense				(328)
Total loans payable				$63,551

The following schedule details loans payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$4,270	$2,351
2005	4,951	2,194
2006	5,503	2,013
2007	4,892	1,811
2008	5,098	1,631
2009-2013	30,054	4,955
2014-2016	9,111	481
Total	$63,879	$15,436

CONTRACTS AND NOTES
Business-type Activities
(Payments made from restricted assets in the Wastewater
Management Fund)

Contracts and notes consist of contract retentions for several construction projects. Generally, interest is not accrued and the timing of payments is based on completion of the related construction projects.

WATER REVENUE AND REFUNDING BONDS OUTSTANDING
Component Unit- Metropolitan Domestic Water Improvement District (MDWID)
(Payments made from user charges and special assessments)

Description	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2002
Series of 1999	$27,985	3.7- 4.875%	2004-2019	$24,125
Series of 2002	24,855	2.9-5.25%	2004-2022	24,595
Water revenue and refunding bonds				48,720
Less unamortized amounts				(557)
Total water revenue and refunding bonds				$48,163

The following schedule details MDWID water revenue and refunding debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,980	$2,216
2005	2,065	2,135
2006	2,150	2,047
2007	2,240	1,958
2008	2,335	1,864
2009-2013	11,775	7,714
2014-2018	17,335	4,251
2019-2022	8,840	607
	$48,720	$22,792

ADVANCED REFUNDINGS OF WATER REVENUE BONDS

On February 1, 1999, the District (MDWID) issued $27,985 in Water Revenue and Refunding Bonds with an average interest rate of 4.35 percent to advance refund $14,105 of outstanding 1992 Series bonds with an average interest rate of 5.95 percent. The net proceeds of $27,823 (after payment of approximately $162 in underwriting fees, insurance and other issuance costs) plus an additional $1,921 of 1992 Series sinking fund monies were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series bonds. As a result, the 1992 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

On February 1, 2002, the District issued $24,855 in Water Revenue and Refunding Bonds with an average interest rate of 4.605 percent to advance refund $5,390 of outstanding 1998 Series bonds with an average interest rate of 5.775 percent, as well as the District's outstanding principal amount of its obligations under the City of Tucson settlement of $10,223 with an interest rate of 5.3 percent. The net proceeds of approximately $24,200 (after payment of approximately $655 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. Government Securities.

A portion of those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Series bonds. The entire principal amount was prepaid with another portion of the proceeds of the 2002 Subordinate Obligations. As a result, the 1998 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt, and the obligations under the City of Tucson settlement were completely satisfied.

The advance refunding of the 1998 Series bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $417. This difference, reported in the accompanying financial statements as a deduction from bonds payable (valuation account), is being charged to operations through year 2023 using the straight-line method.

NOTES PAYABLE

Component Unit- Metropolitan Domestic Water Improvement District (MDWID)
(Payments made from user charges)

MDWID's notes payable are due in monthly installments and are secured by equipment.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Credit company	6.25%	July 2003 - February 2004	$12
Hub Water Company Inc.	6.00%	July 2003 - June 2019	1,757
Credit company	6.60%	July 2003 - May 2005	8
Credit company	6.25%	July 2003 - July 2005	11
Credit company	6.25%	July 2003 - July 2005	15
Credit company	6.40%	July 2003 - July 2005	18
Total			$1,821

The following schedule details MDWID's notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$105	$106
2005	98	100
2006	78	95
2007	81	91
2008	86	86
2009-2013	518	342
2014-2018	698	162
2019	157	6
Total	$1,821	$988

BONDS PAYABLE
Component Unit- Marana Domestic Water Improvement District

On February 19, 2003, Rural Utility Services entered into a bond agreement with the Marana Domestic Water Improvement District, Inc., in the amount of $397. The bond is payable commencing January 1, 2004, in annual installments of $24, including interest at 4.625% through January 1, 2032. At June 30, 2003 the outstanding balance of the bonds payable was $334.

The following schedule details bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$7	$26
2005	7	18
2006	7	17
2007	8	17
2008	8	17
2009-2013	47	78
2014-2018	58	66
2019-2023	73	51
2024-2028	92	32
2029-2032	28	4
	$335	$326

LOANS PAYABLE
Component Unit-Marana Domestic Water Improvement District

On February 22, 2002, the Water Infrastructure Finance Authority of Arizona (WIFA), entered into a loan agreement under the Drinking Water Revolving Fund Loan program with the Marana Domestic Water Improvement District, Inc., in the amount of $1,156. The loan is payable in monthly installments, commencing September 1, 2002, in the amount of $6, including interest at 2.918% through February 2032. At June 30, 2003 the outstanding balance was $1,133.

The following schedule details notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$26	$33
2005	27	32
2006	27	31
2007	28	30
2008	29	31
2009-2013	157	142
2014-2018	184	120
2019-2023	217	92
2024-2028	258	54
2029-2030	180	10
	$1,133	$575

NOTES PAYABLE
Component Unit-Southwestern Fair Commission
(Payments made from user charges)

Southwestern Fair has a note payable to Pima County, due in annual installments of $50, unsecured, non-interest bearing.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Pima County	None	Annual installments until June 2007	$200

Southwestern Fair Commission's other notes payable are due in monthly installments and are secured by equipment.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	$324
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	113
Total			$437

The following schedule details Southwestern Fair Commission's notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$104	$19
2005	106	16
2006	108	12
2007	110	7
2008	63	3
2009-2014	146	0
Total	$637	$57

LEGAL DEBT MARGIN

COUNTY GENERAL OBLIGATION BONDS

General obligation debt may not exceed six percent of the value of the County's taxable property as of the latest assessment. However, Pima County received voter approval to increase the debt limit to 15 percent of the value of taxable property. The legal debt margin at June 30, 2003, is as follows:

Net assessed valuation:		$4,835,561
Debt Limit (15% of net assessed valuation):		725,334
Amount of debt applicable to debt limit:		
General obligation bonds outstanding	200,275	
Less net assets in debt service fund available for payment of general obligation bond principal	(2,226)	(198,049)
Legal debt margin available		$ 527,285

FLOOD CONTROL GENERAL OBLIGATION BONDS

Flood Control general obligation debt may not exceed five percent of the value of the Flood Control District's taxable property as of the latest assessment. Legal debt margin at June 30, 2003, is as follows:

Net assessed valuation:		$4,158,577
Debt Limit (5% of net assessed valuation):		207,929
Amount of debt applicable to debt limit:		
Flood Control general obligation bonds outstanding	4,585	
Less net assets in debt service fund available for payment of flood control bond principal	(26)	(4,559)
Legal debt margin available		$ 203,370

NOTE 8: SHORT-TERM DEBT

LINE OF CREDIT

The County maintains a revolving line of credit with Bank of America National Trust and Savings Association, with a maximum outstanding balance of $30,000, to meet its short-term cash needs. At June 30, 2003, the County had an outstanding balance of $0. Advances on the line of credit are payable on demand. The credit line is secured by the County's general taxing authority.

	Beginning Balance	Draws	Repayments	Ending Balance
Line of credit	$0	$22,300	$22,300	$0

NOTE 9: LANDFILL LIABILITIES

SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS:

State and Federal laws and regulations require the County to place a final cover on its solid waste landfill sites when these sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after their closure. Although closure and postclosure care costs will not be paid until near or after the date the landfills stop accepting waste, the County records a portion of these closure and postclosure care costs as a long-term liability in each period based on landfill capacity used as of each balance sheet date. The $15,645 reported as landfill closure and postclosure care liability in the Wastewater Management Enterprise Fund represents the cumulative amount reported to date based on the percentage used of each landfill's total estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of $3,310 as the remaining estimated capacities are used. These amounts are based on what it would cost to perform all closure and postclosure care in the fiscal year ended June 30, 2003; actual costs may change due to inflation, changes in technology, or changes in regulations.

Landfill Site	Capacity Used June 30, 2003	Estimated Year of Closure
Ajo	90%	2007
Sahuarita	99%	2003
Tangerine	78%	2008

The County plans to fund the estimated closure and postclosure care costs with proceeds of general obligation bonds and with solid waste tipping fees.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

NOTE 10: RETIREMENT PLANS

Plan Descriptions

The County contributes to the Arizona State Retirement System (ASRS), the Corrections Officer Retirement Plan (CORP), the Public Safety Personnel Retirement System (PSPRS), consisting of Pima County Sheriffs and Pima County - County Attorney Investigators, and the Elected Officials Retirement Plan (EORP). The EORP and the PSPRS - Pima County, County Attorney Investigators, are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

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

The PSPRS is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 195 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The CORP is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The CORP is governed by the Fund Manager of PSPRS and 16 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

ASRS	PSPRS and CORP
3300 N. Central Ave. P.O.Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778	1020 E. Missouri Ave. Phoenix, AZ 85014 (602) 255-5575

Funding Policy

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

Cost-sharing plans For the year ended June 30, 2003, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2003, 2002, and 2001 were $6,307, $6,351 and $6,233 respectively, which were equal to the required contributions for the year.

Agent plans For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65

percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.51 percent. As allowed by statute, the County contributed 3.65 percent of the members' required contribution, with the members contributing 4.00 percent. Active **CORP** members were required by statute to contribute 8.50 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.00 percent.

Annual Pension Cost: The County's pension cost for the two agent plans for the year ended June 30, 2003, and related information follow:

	PSPRS	CORP
Contribution rates:		
County	6.16%	2.00%
Plan members	4.00%	8.50%
Annual pension cost	$ 1,463	$ 296
Contributions made	$ 1,463	$ 296
Actuarial valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	9.00%	9.00%
Projected salary increases	6.5% - 9.5%	5.5% - 9.5%
includes inflation at	5.5%	5.5%
Amortization method	Level percent open	Level percent open
Remaining amortization period	20 years	20 years
Asset valuation method	smoothed market	smoothed market

Trend Information: Information for each of the three most recent actuarial valuations for each of the agent plans follows:

Contributions Required and Contributions Made

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2003	$ 1,463	100%	$ -
	2002	1,319	100%	-
	2001	1,044	100%	-
CORP	2003	$ 296	100%	$ -
	2002	274	100%	-
	2001	169	100%	-

NOTE 11: SEGMENT INFORMATION

Liquid Waste, a division of Pima County's Department of Wastewater Management, is reported within the Wastewater Management Enterprise Fund. Liquid Waste operates the sewer system which provides wastewater collection, treatment, and disposal throughout Pima County. All revenues generated by the ownership, use, and operation of Pima County's sewer system are pledged in support of sewer system debt. In addition, debt covenants require sewer system revenues, expenses, gains, losses, assets and liabilities to be accounted for separately. As a result, condensed financial information for Liquid Waste is presented in the following table.

Condensed Statement of Net Assets

	Wastewater Management Liquid Waste
Assets:	
Current assets	$ 7,286
Due from other funds	2
Restricted assets	7,922
Capital assets, net	540,658
Other non-current assets	848
Total Assets	556,716
Liabilities:	
Current liabilities	21,594
Due to other funds	10,963
Non-current liabilities	124,263
Total Liabilities	$ 156,820
Net Assets:	
Invested in capital assets (net of related debt)	414,856
Restricted	7,922
Unrestricted	(22,883)
Total Net Assets	$ 399,895

Condensed Statement of Revenues, Expenses and Change in Net Assets

Operating revenues/(expenses):

	Wastewater Management Liquid Waste
Charges for services	$ 46,476
Depreciation expense	(16,364)
Other operating expenses	(46,378)
Operating loss	(16,266)
Non-operating revenues/(expenses):	
Sewer connection revenue	20,280
Other non-operating revenue	1,282
Interest expense	(5,271)
Loss on disposal of fixed assets	(150)
Other non-operating expense	(89)
Extraordinary Loss from State Treasurer's Local Government Investment Pool	(1,187)
Capital contributions	12,473
Change in net assets	11,072
Beginning net assets	388,823
Ending net assets	$ 399,895

Condensed Statement of Cash Flows

Net cash provided by (used for):

Operating activities	$ (32)
Non-capital financing activities	13,241
Capital and related financing activities	(43,075)
Investing activities	(97)
Net decrease	(29,963)
Beginning cash and cash equivalents	$ 37,867
Ending cash and cash equivalents	$ 7,904

NOTE 12: INTERFUND TRANSACTIONS

A. Interfund Assets/Liabilities

Interfund Receivables/Payables are used to record transactions between individual funds for goods provided or services rendered:

Receivable fund	Payable fund	Amount
Pima Health Care System	General	$ 177
	Health and Animal Control	9
	Self- Insurance Trust	113
Total Pima Health Care System Fund interfund receivable		$ 299

Due From/Due To Other Funds are used to record loans or unpaid operating transfers between funds:

Due from fund	Due to fund	Amount
Major Fund:		
General	Transportation	$ 19
	Health and Animal Control	1
	Flood Control District	1
	Employment & Training	2,412
	Stadium District	6,103
	Other Special Revenue Grants	29
	Environmental Quality	1
	Debt Service	1
	Pima Health Care System	1,736
	Development Services	2
	Wastewater Management	10,843
	Other Internal Service	1
Total General Fund due from		$ 21,149
Capital Projects	Other Special Revenue	$ 1,597
	Wastewater Management	56
Total Capital Projects Fund due from		$ 1,653

Due from fund	Due to fund	Amount
Pima Health Care System	General	$ 2,000
	Health and Animal Control	2
Total Pima Health Care System Fund due from		$ 2,002
Wastewater Management	Transportation	$ 2
Total Wastewater Management Fund due from		$ 2
Nonmajor Governmental Funds:		
Transportation	General	$ 52
	Flood Control District	20
	Wastewater Management	24
	Other Internal Service	1
Health and Animal Control	General	1
	Wastewater Management	1
Employment & Training	General	12
Other Special Revenue	General	3
	Capital Projects	21
Stadium District	General	217
Other Special Revenue Grants	General	119
	Employment and Training	2
	Library District	975
Environmental Quality	Wastewater Management	43
Total Nonmajor Governmental Funds due from		$ 1,491
Nonmajor Enterprise Funds:		
Parking Garages	General	$ 197
Total Nonmajor Enterprise Funds due from		$ 197

The information in the table above includes the formal internal borrowings by the Stadium District Special Revenue Fund from the Capital Projects, Parking Garages and Other Internal Service Funds. These borrowings were instituted by the County to meet its short-term cash flow needs. Interest will be paid at a rate paid to investments of the County in the State Treasurer's Local Government Investment Pool.

B. Transfers

Transfers are used to record transactions between individual funds to subsidize their operations:

Transfers in fund	Transfers out fund	Amount
Major Funds:		
General	Transportation	$ 151
	Flood Control District	35
	Other Special Revenue	6
	Stadium District	2,527
	Debt Service	110
	Pima Health Care System	7,993
Total General Fund transfers in		$ 10,822
Capital Projects	General	$ 2,197
	Transportation	19,926
	Flood Control District	9,835
	Other Special Revenue	4,233
	Library District	1,875
	Parking Garages	134
Total Capital Projects Fund transfers in		$ 38,200
Pima Health Care System	General	$ 23,065
Total Pima Health Care System transfers in		$ 23,065
Nonmajor Governmental Funds:		
Health and Animal Control	General	$ 6,674
Flood Control	Capital Projects	309
Employment & Training	General	295
Other Special Revenue	General	3,701
	Other Special Revenue - Grants	216
	Capital Projects	21
Stadium District	General	1,324
Other Special Revenue - Grants	General	45
	Employment & Training	2
	Other Special Revenue	992
	Capital Projects	37
Environmental Quality	General	350

Transfers in fund	Transfers out fund	Amount
Debt Service	General	768
	Transportation	13,655
	Flood Control District	1,006
	Municipal Property Corporation	15
	Capital Projects	25
Total Nonmajor Governmental Funds transfers in		$ 29,435
Internal Service Funds:		
Other Internal Service	General	$ 202
Total Internal Service Funds transfers in		$ 202
Transfers of general capital assets reported on the fund-based statements as capital contributions and on the government-wide statements as transfers:		
Pima Health Care System		$ 1,813
Wastewater Management Fund		1,229
		$ 3,042

NOTE 13: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2003, Pima County had the following major contractual commitments related to various projects. Commitments have been grouped into four major categories: Transportation Projects, Flood Control Projects, General Government Projects and Wastewater Management Projects.

Transportation Projects

At June 30, 2003, the Pima County Transportation Department had contractual commitments of $78,813. Funding for these expenditures will be primarily provided from Transportation Revenue Bonds and Highway User Tax Revenue, the primary source of revenue for the Transportation Department.

Flood Control Projects

At June 30, 2003, the Pima County Flood Control District had contractual commitments of $13,394. Funding for these expenditures will be primarily provided from general obligation bonds and the Flood Control District's tax levy of property within Pima County, the primary source of revenue for the Flood Control District.

General Government Projects

At June 30, 2003, Pima County had contractual commitments related to various Facilities Management Projects of $18,444 and Parks and Recreation Projects of $52,950. Funding for these expenditures will be primarily provided from general obligation bonds.

Wastewater Management Projects

At June 30, 2003, the Wastewater Management Enterprise fund had commitments under construction contracts that totaled $40,370.

Operating Leases

The County enters into operating leases for various equipment and office space. These leases are entered into with the provision that they may be canceled at the end of each fiscal year if future funding is not provided. Accordingly, these leases totaled $3,377 for the year ended June 30, 2003.

NOTE 14: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (DEFICIT FUND BALANCES)

The Stadium District Special Revenue Fund (a non-major governmental fund) had a deficit fund balance at June 30, 2003, of $6,036. Management plans to eliminate the deficit by refinancing debt and operating the Baseball Complex profitably in the future.

The Other Special Revenue Grants Fund (a non-major governmental fund) had a deficit fund balance at June 30, 2003, of $257. Included in this amount is a deficit unreserved fund balance of $312, and a reserved fund balance for prepaid expenditures of $55. This deficit can be eliminated in the future through normal operations or by operating transfers from the General Fund.

Wastewater Management Fund (a major business-type activities fund) had a deficit unrestricted net asset balance at June 30, 2003, of $35,477. This deficit can be eliminated in the future through normal operations and increases in usage and connection fees.

NOTE 15: SUBSEQUENT EVENTS

On October 1, 2003, Pima County amended the lease-purchase agreement for the jail facilities. The amendment extended the lease term to 2018 and reduced the interest rates. Concurrent with this amendment, Refunding Certificates of Participation, Series 2003, in the amount of $27,525, were issued to third-party investors to refund portions of the principal and interest on Certificates of Participation, Series 1997, and on the Refunding Certificates of Participation, Series 1999. The outstanding Certificates of Participation and the outstanding Refunding Certificates of Participation, evidence participation interest in the lease-purchase agreement for the jail facilities.

SUMMARY OF RESOLUTION NO. 1991-138 (AS AMENDED AND SUPPLEMENTED) AUTHORIZING THE ISSUANCE OF SEWER REVENUE BONDS

The following is a summary of certain provisions of Resolution No. 1991-138, authorizing the issuance of the Sewer Bonds, which was adopted by the County Board of Supervisors on June 18, 1991 and amended on August 6, 1991 and as supplemented by the adoption of the authorizing resolution for the Sewer Revenue Refunding Bonds, Series 2004. The summary does not purport to be a full statement of the terms of the Authorizing Resolution and, accordingly, is qualified by reference hereto and is subject to the full text thereof.

Authority. The Bonds authorized herein are issued pursuant to A.R.S. Section 11-264.01. The Sewer Resolution will stay in full force and effect until all Bonds are fully paid or provided for and all Policy Costs have been paid.

Definitions; Interpretation.

A. Definitions.

"Accreted Value" - with respect to Parity Bonds which are Capital Appreciation Bonds, as of the calculation date, the initial principal amount plus interest then accrued thereon compounded at the interest rate thereof on the stated dates set forth in the resolution authorizing such Capital Appreciation Bonds.

"Agreement" - any Reserve Fund Guaranty Agreement.

"Assumed Interest Rate" - with respect to Variable Rate Obligations only, an interest rate at the computation date computed to be the lesser of (i) the maximum rate which Bonds of such series may bear under their terms or (ii) the rate of interest then established for long-term bonds by the 30-year revenue bond index published by The Bond Buyer immediately prior to the computation date.

"Average Annual Debt Service" - at computation, the average of each Bond Year's aggregate scheduled Bond principal (including mandatory redemptions) and interest requirements (with Variable Rate Obligations bearing interest at the Assumed Interest Rate).

"Board" - the County's Board of Supervisors.

"Bond Insurer" - an issuer of a Municipal Bond Insurance Policy pertaining to any of the Bonds.

"Bonds" - the Series 1991 Bonds and all Parity Bonds (including the Series 2004 Bonds).

"Bond Year" - the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Capital Appreciation Bond" - a Parity Bond the interest component of which is compounded semiannually on stated dates until maturity or until such Capital Appreciation Bond is converted to a Bond paying interest semiannually, if so permitted or required.

"Deficiency" - the difference between (i) the total amount due on any of the Bonds' principal or interest payment dates and (ii) the amount then in the Bond Fund (which amount shall not include payments made pursuant to a Municipal Bond Insurance Policy or a Reserve Fund Guaranty but shall include all moneys transferred from the Reserve Fund to the Bond Fund or available in the Reserve Fund for such transfer).

"Drawdown" - any amount drawn by the Paying Agent under any Reserve Fund Guaranty.

"Drawdown Date" - the date of any Drawdown.

"DTC" - the Depository Trust Company, the depository for the Book-Entry Bonds.

"Finance Director" - the person or persons employed by the County who is responsible for the management or supervision of the County's financial matters, including bond transactions.

"Fiscal Year" - the twelve month period beginning each July 1 and ending on the next June 30.

"Maximum Annual Debt Service" - at the time of computation, the greatest scheduled Bond principal (including mandatory redemptions) and interest requirements (with Variable Rate Obligations bearing interest at the Assumed Interest Rate) occurring in the then-current, or any subsequent, Bond Year.

"Municipal Bond Insurance Policy" - any insurance policy insuring the payment of principal of and interest on any Bonds.

"Net Revenues" - those Revenues remaining after deducting Operating Expenses.

"Operating Expenses" - the costs of System operation, maintenance, and repair but excluding depreciation and payments into the Bond, Reserve, Reimbursement and Rebate Funds.

"Owner" - any person registered as the owner of any Bond (for Book-Entry Bonds - DTC or any successor depository).

"Parity Bonds" - any additional Bonds (including the Series of 1992, the Series of 1993, the Series 1994A, the Series 1994B Bonds, the Series 1998 Bonds, the Loan Agreements with the Water Infrastructure Finance Authority of Arizona dated February 1, 1996, June 1, 1997, and October 27, 2000, the Series 2001 Bonds and the Series 2004 Bonds) issued on a parity with the Series 1991 Bonds.

"Policy Costs" - the amount necessary to reimburse a Reserve Fund Guarantor for any Drawdown pursuant to an Agreement including the Drawdown amount (and the Reserve Fund Guarantor's expenses) plus interest at the Reimbursement Rate until paid.

"Reimbursement Period" - for any Drawdown, the period from the Drawdown Date to the first anniversary of such Drawdown Date.

"Reimbursement Rate" - the rate of interest to be paid by the County pursuant to the respective Agreement to pay a Reserve Fund Guarantor after a Drawdown.

"Reserve Fund Guarantor" - with respect to any series of Bonds, the issuer of a surety bond, letter of credit, line of credit or insurance policy used as a Reserve Fund Guaranty, if issued by an entity whose Guaranty will not adversely affect the Bonds' then-current rating.

"Reserve Fund Guaranty" - any irrevocable surety bond, letter of credit or line of credit or insurance policy issued by a Reserve Fund Guarantor and used as a reserve fund guaranty hereunder.

"Reserve Fund Value" - the value of moneys and investments credited to the Reserve Fund plus the aggregate penal sum of all Reserve Fund Guaranties.

"Reserve Requirement" - initially, Average Annual Debt Service on all Outstanding Bonds, which amount shall be adjusted upon the issuance of Parity Bonds to equal Average Annual Debt Service immediately after such issuance or the maximum amount the Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code.

"Revenues" - all income, moneys and receipts derived from System ownership, use and operation; however, the term Revenues shall not include Bond proceeds or the interest received on any Bond proceeds placed in trust to pay any Bonds or Bonds Being Refunded or retained in either the Construction or System Development Funds, nor any amounts received by the County for which it is contractually obligated to pay out as reimbursement for acquisition, construction or installation of system facilities.

"System" - the County's entire sewer system and all acquisitions, improvements and extensions added thereto while any Bonds are Outstanding.

"Variable Rate Obligations" - any Parity Bonds which may, in the future, bear interest at rates which cannot be determined with specificity on their original issue date.

Source of Payment and Pledge of Revenues.

A. The Bonds shall be payable solely from the Net Revenues. The Bonds shall be equally and ratably secured by a pledge thereof and lien thereon without priority one over the other.

B. The Bonds are special obligations payable solely from the Net Revenues and secured in accordance with this resolution. The Net Revenues are pledged as security for the Bonds. All Net Revenues shall be immediately subject to the pledge of this resolution and the lien of this pledge shall be valid and binding. Nothing contained in this section shall limit the authority granted herein to issue Parity Bonds.

Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain System charges sufficient to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least 120% of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and said rates, fees and other charges shall also be established and maintained at rates sufficient to provide an amount of Net Revenues for the then current fiscal year which, net of the aggregate amounts required to be deposited to the Bond Fund during such fiscal year, will be sufficient to provide at least one hundred percent (100%) of the County's Policy Costs due and owing in such Fiscal Year.

Creation of Funds; Application of Revenues.

A. The County Treasurer shall create the following special funds and accounts:

1. The Revenue Fund.

2. The Operation and Maintenance Fund.

3. The Bond Fund.

4. The Reimbursement Fund.

5. The Reserve Fund containing separate accounts: the Capitalized Reserve Account and the Contributed Reserve Account.

6. The Rebate Fund.

7. The System Development Fund.

8. The Construction Fund.

B. All Revenues shall be deposited in the Revenue Fund and disbursed only as follows:

1. Operation and Maintenance Fund. First, to the Operation and Maintenance Fund, by the tenth day of each month, an amount sufficient to pay the month's Operating Expenses; such Fund shall be used only to pay Operating Expenses. The County may accumulate therein equitable allowances for accruals and accumulations to cover periodic Operating Expenses, including insurance premiums and expenditures for renewals, replacements and repairs normally classified as Operating Expenses. Where the County purchases items such as insurance, gasoline and electrical energy at large, it may allocate to the System only its share of such expenditure.

2. Bond Fund. Second, to the Bond Fund:

(a) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 or December 10, as applicable, such amount necessary to allocate equally among such months, the interest due (net of accrued interest on the Series 2004 Bonds) on the next July 1 or January 1, as applicable, and thereafter on the tenth day of each month one-sixth (1/6) of the interest becoming due on the next interest payment date on all Bonds Outstanding; and

(b) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 such amount necessary to allocate equally among such months the principal due on the next July 1, and thereafter on the tenth day of each month one-twelfth (1/12) of the principal amount becoming due on the next principal payment date on all Bonds Outstanding.

The Bond Fund shall be a trust fund used solely to pay Bond principal and interest.

When Parity Bonds are issued, Bond Fund deposits shall be expanded to satisfy all additional or modified debt service requirements.

3. Reimbursement Fund. Third, if a Drawdown occurs, deposit to the Reimbursement Fund commencing the tenth day of the first month following a Drawdown and each month thereafter for the next succeeding 11 months, or until the Reimbursement Fund contains amounts sufficient to reimburse all Policy Costs, an amount equal to at least one-twelfth (1/12) of such Policy Costs. The Reimbursement Fund shall be used only to pay Reserve Fund Guarantors' Policy Costs.

If the County fails to pay any Policy Costs, the Reserve Fund Guarantor(s) may exercise all remedies available to the Owners at law or under this resolution or to any Reserve Fund Guarantor under any Agreement other than (i) acceleration of the Bonds or (ii) remedies adversely affecting the Owners' rights.

All Reserve Fund Guaranties shall be held by the Paying Agent as the Owners' fiduciary. Reserve Fund Guaranties shall expire no earlier than the final maturity date of the series for which said Guaranty applies.

4. Reserve Fund. Fourth, by the tenth day of each month, to the Reserve Fund the amounts required by Section 13(A)(4)(ii) of Resolution No. 1991-138, if applicable, or one-twelfth (1/12) of the amount required to restore the Reserve Fund to the Reserve Requirement after a Reserve Fund withdrawal.

If, on any principal or interest payment date, a Deficiency exists, then:

(a) If there are investments or cash in the Reserve Fund, such investments shall be liquidated and the cash and investment proceeds transferred to the Bond Fund; and

(b) If the Deficiency is not then cured, the Paying Agent shall deliver a Drawdown request to each Reserve Fund Guarantor.

Drawdowns and Reserve Fund proceeds shall be used solely to pay Bond principal and interest then due.

Reserve Fund moneys used to pay such principal and interest shall be replaced from the first Revenue Fund moneys thereafter received which are not required to be transferred to the Operation and Maintenance, Bond or Reimbursement Funds.

The two Reserve Fund accounts are created to segregate Reserve Fund moneys and investments for arbitrage rebate purposes. All Reserve Fund deposits made from Net Revenues or other available moneys of the County shall be deposited in the Contributed Reserve Account. All Bond proceeds deposited to the Reserve Fund shall be deposited in the Capitalized Reserve Account.

If, after a Reserve Fund withdrawal, the Reserve Requirement exceeds the Reserve Fund Value such deficiency shall be made up over a twelve month period by deposit of twelve (12) substantially equal payments to the Contributed Reserve Account.

5. Rebate Fund. Fifth, to the Rebate Fund the balance remaining in the Revenue Fund until the amount in the Rebate Fund equals the amount to be deposited therein during such Bond Year as determined by the Finance Director.

6. System Development Fund. Sixth, any Revenue Fund moneys exceeding those necessary to meet the above requirements shall be deposited in the System Development Fund. The System Development Fund may be used (without priority): (1) for System extensions and betterments; (2) for unbudgeted maintenance and operation expenses; (3) to redeem Bonds subject to optional redemption or to purchase Bonds in the open market; (4) to pay general obligation bonds issued by the County for System purposes; (5) to make loans to the County under equitable terms prescribed by the Board; or (6) any lawful System purpose.

7. Deficiencies. If in any month the Revenue Fund is insufficient to make the required deposits to any Fund in any month, the insufficiency shall be made up in the following month or months after payment into all Funds enjoying a prior claim to the Revenues have been met in full.

8. Investment of Funds. Money on deposit in the Revenue, Operation and Maintenance, Bond, Reserve, Reimbursement and Rebate Funds may be invested in Permitted Investments. All income derived therefrom shall be Revenues and shall be deposited in the Revenue Fund. Such investments shall be liquidated as needed and applied to the purpose for which the respective Fund was created. Moneys in the Construction and System Development Funds may be invested in any lawful investment. At the option of the Finance Director, income derived from Construction Fund investments shall be either retained in the Construction Fund or deposited to the Revenue Fund.

Covenants Regarding the System. The County covenants and agrees with each Owner that it will:

A. Permit no free sewer services to be furnished to any consumer or user;

B. Maintain the System in good condition and operate the same in an efficient manner and at reasonable cost;

C. Maintain insurance on all System properties (which may include an adequately-funded self-insurance program) with the coverage normally carried by municipalities or private companies engaged in a similar business. Self-insurance may be maintained either separately or with a County-wide program if (i) such program is in writing and (ii) an independent consultant annually reviews the program and certifies that such program is adequate and actuarially sound. The proceeds of any insurance covering the System, except public liability insurance, received by the County shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund;

D. Keep proper books and accounts for the System, which shall be audited after each Fiscal Year in accordance with generally accepted governmental accounting practices; the County will furnish copies of such audits to any Owner upon request, no later than one hundred eighty (180) days after the end of each Fiscal Year;

E. Faithfully and punctually perform all its legal duties concerning the System;

F. Not sell, lease, mortgage or in any manner dispose of the System or any part thereof until all Bonds have been paid or provided for in full. This covenant shall not prevent the disposition of inexpedient property. All proceeds from such disposition shall be deposited in the Revenue Fund;

G. Prior to each Fiscal Year, prepare and adopt a budget showing the estimated System Revenues and Operating Expenses for the ensuing Fiscal Year, and will operate the System within such budget to the best of its ability. Copies of such budgets will be available to any Owner on request;

H. To the extent allowed by law, discontinue the service to any premises for which the owner or occupant thereof shall be delinquent in the payment of System charges beyond the period allowed by County policy and not resume service until all delinquent charges, with interest and penalties, shall have been paid;

I. Duly pay and discharge all taxes, assessments or other governmental charges lawfully imposed upon the System, or upon any Revenues when due, as well as any lawful claims for labor, materials and supplies which might by law become a lien on the System, or the Revenues, or impair the security of the Bonds;

J. Deposit the net proceeds realized from any eminent domain proceeding concerning the System in the Revenue Fund;

K. To the extent allowed by law, refuse to grant any franchise or permit for any competing sewer system operation in the County.

L. Not cause or permit the moneys in the Bond Fund, the Reimbursement Fund, the Reserve Fund or the Construction Fund to be invested in any investments except Permitted Investments.

M. Not violate the terms of any Agreement and will give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Remedies of Owners. Any Owner may by suit, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce performance of all duties imposed hereby or for the appointment of a receiver. Except the giving of notice of default to bondholders, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

If any default occurs in the payment of principal of or interest on any Bonds, a court may appoint a receiver to administer the System and charge and collect sufficient fees to pay Operating Expenses and make all payments to the Bond, Reimbursement and Reserve Funds required hereunder.

For all purposes in exercising remedies, except the giving of notice of default to Bondholders, the Bond Insurer of each series of Bonds shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

Equality of Lien; Parity Bonds.

The Bonds shall each enjoy complete parity of lien on the Net Revenues.

A. Parity Bonds may be issued on a parity with the Bonds herein authorized only if all the following conditions are met:

1. The Net Revenues for the completed Fiscal Year immediately preceding the Parity Bonds' issuance must have been at least equal to one hundred twenty percent (120%) of Maximum Annual

Debt Service immediately after such issuance and said Net Revenues must also have been sufficient to provide an amount of Net Revenues for the then current fiscal year which, net of the aggregate amounts required to be deposited to the Bond Fund during such fiscal year, will be sufficient to provide at least one hundred percent (100%) of the County's Policy Costs due and owing in such Fiscal Year as shown by a Finance Director's certificate. The computation of Net Revenues may additionally include: (i) if Parity Bond proceeds are to be expended to acquire existing sewer properties, the net revenues which would have been derived from such properties during the entire immediately preceding Fiscal Year; (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year; and (iii) if any System rate increase occurred during such preceding Fiscal Year, the increased Net Revenues which would have been received if such increase had been in effect throughout such Fiscal Year; in each case such additions to Net Revenues must be estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters;

2. The payments into the various Funds must be current at such Parity Bonds' issuance;

3. The Parity Bond proceeds must be used solely for System extensions, renewals, improvements, or replacements or to refund Outstanding Bonds; and

4. The Reserve Fund Value shall be increased at the Board's option, by: (i) the immediate deposit of Parity Bond proceeds or available moneys to the Reserve Fund or the immediate delivery of a Reserve Fund Guaranty, or any combination thereof in order for the Reserve Fund Value to equal or exceed the Reserve Requirement immediately after such Parity Bonds' issuance or (ii) deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments so that the Reserve Fund Value will equal or exceed the increased Reserve Requirement not later than five years following such Parity Bonds' issuance; or (iii) any combination of such methods.

Resolution Incorporated Into the Bonds. The provisions of this resolution are deemed incorporated into the Bonds themselves and no change, variation or alteration of any kind in the provisions hereof shall be made in any manner, except as provided hereafter.

Resolution Modification.

A. Without the consent of or notice to any Owner, this resolution may be modified for one or more of the following purposes:

(1) To cure any ambiguity, formal defect, omission or inconsistency;

(2) To grant to the Owners additional rights, remedies, powers or authority;

(3) To secure additional Revenues or provide additional security or reserves for Bond payment;

(4) To comply with any federal securities laws or the Trust Indenture Act of 1939, if and to the extent applicable to the Bonds;

(5) To permit, preserve or continue (in the event of a change in federal income tax laws (the "Code") which requires a Supplement in order to continue such exclusion) the exclusion of the interest income borne on the Bonds from gross income or the exemption from State income taxes and to preserve the power of the County to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized under the Sewer Resolution) the interest income on which is likewise excluded from gross income and exempt from State income taxes.

B. Except as provided in (A) above, the Owners of fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding (treating Capital Appreciation Bonds at their then Accreted Value) shall have the right to consent to and approve modifications to any terms or provisions herein but no such modification may:

1. Change the maturity of any Outstanding Bond.

2. Change the interest rate on any Outstanding Bond.

3. Reduce the principal or redemption premium payable on any Bond.

4. Modify the principal, interest or redemption premium payment terms on any Bond or impose any adverse conditions on such payments.

5. Adversely affect the rights of the Owners of less than all Bonds then Outstanding.

C. Any other provision to the contrary notwithstanding, no amendment to the Sewer Resolution shall become effective unless and until it is approved by all Bond Insurers and Reserve Fund Guarantors applicable to the Bonds.

Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

A. If any Bond's principal or interest shall be paid by a Reserve Fund Guarantor, (i) the pledge of the Net Revenues and all of the County's obligations hereunder shall continue and such Reserve Fund Guarantor shall be fully subrogated to all rights of the Owners of the Bonds so paid.

B. For all purposes hereunder, the County may treat a Bond Insurer's consent as the consent of the Owners of any Bonds then insured by such Insurer, if said Insurer's credit rating is then in one of the two highest grades announced by one of the two most widely recognized rating agencies then rating municipal bond credits.

Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value exclusive of accrued interest. A valuation shall occur annually on the first Business Day of each Bond Year and immediately after a Reserve Fund withdrawal.

Defeasance. Payment of all or any part of the Bonds may be provided for by the irrevocable deposit with a trustee of moneys or Government Obligations, or both. If the moneys and the maturing principal and interest income on such Government Obligations shall be sufficient, as evidenced by a certificate of an expert in the field, to pay when due the principal or redemption price of and interest on such Bonds, such Bonds shall no longer be deemed Outstanding. The Owners of Bonds so provided for shall thereafter be entitled to payment only from the moneys or Government Obligations deposited with such trustee.

FORM OF CONTINUING DISCLOSURE UNDERTAKING

$27,160,000*
Pima County, Arizona
Sewer Revenue Refunding Bonds
Series 2004

This Continuing Disclosure Undertaking (this "Disclosure Undertaking") is executed and delivered by Pima County, Arizona (the "Obligor"), in connection with the issuance by the Obligor of its $27,160,000* principal amount Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds are being issued pursuant to Resolution No.1991-138, as amended by Resolution No. 1991-183 and supplemented by Resolution 2004-____ (the "Resolution"). Certain terms used herein are defined in Section 10 below.

The Obligor undertakes and agrees as follows:

Section 1 Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Obligor for the benefit of the Bondholders and in order to assist each Participating Underwriter in complying with the Rule.

Section 2 Annual Information and Audited Financial Statements. The Obligor agrees to provide or cause to be provided to each Repository:

(a) Annual Information for the preceding Fiscal Year not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year not later than the later of the Filing Date for each Fiscal Year or promptly after becoming available to the Obligor.

Any or all of the items listed above may be included by specific reference to other documents; provided that if the document included by reference is not a final official statement, it must have been provided previously to each of the Repositories or the Securities and Exchange Commission, and if the document included by reference is a final official statement, it must be available from the MSRB.

Section 3 Notice of Listed Events and Failure to Provide Annual Information. The Obligor agrees to provide or cause to be provided to each National Repository or to the MSRB, and to any State Repository, in a timely manner:

(a) notice of the occurrence of any Listed Events with respect to the Series 2004 Bonds, if material (within the meaning of the Rule); and

(b) notice of its failure to provide or cause to be provided the Annual Information on or before the applicable Filing Date.

Notwithstanding the foregoing, notice of Listed Events consisting of bond calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of affected Series 2004 Bonds pursuant to the Resolution, and notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Series 2004 Bonds will be redeemed in the case of a partial redemption.

*Preliminary, subject to change.

Section 4 Termination of Reporting Obligation. The obligations of the Obligor under this Disclosure Undertaking shall terminate at such time as no Series 2004 Bonds remain Outstanding (within the meaning of the Resolution) or all of the Series 2004 Bonds have been legally defeased, redeemed or paid in full.

Section 5 Dissemination Agent. The Obligor may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any dissemination agent, with or without appointing a successor dissemination agent.

Section 6 Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Obligor may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived; provided, however, that no amendment or waiver may take effect unless the following conditions are satisfied:

(a) the amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "obligated person" (within the meaning of the Rule) with respect to the Series 2004 Bonds, or the type of business conducted;

(b) this Disclosure Undertaking, as amended or taking into account such waiver, in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor, would have complied with the requirements of the Rule at the time of the original issuance of the Series 2004 Bonds, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the registered owners of the Series 2004 Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of registered owners of the Series 2004 Bonds, or (ii) does not materially impair the interests of the Bondholders as determined by the opinion of counsel of national reputation experienced in bond or federal securities law unaffiliated with the Obligor but which may be selected by the Obligor, or as determined by another party unaffiliated with the Obligor but which may be selected by the Obligor.

Section 7 Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Obligor from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Obligor chooses to include any information in any Annual Information or notice of occurrence of any Listed Event or any other event, in addition to that which is specifically required by this Disclosure Undertaking, the Obligor shall have no obligation under this Disclosure Undertaking to update the information or include it in any future Annual Information or notice of occurrence of Listed Event.

Section 8 Failure to Perform. Any Bondholder may enforce the Obligor's obligation to provide or cause to be provided information or notice under this Disclosure Undertaking by commencing an action in a court of competent jurisdiction to seek specific performance by court order to compel the Obligor to provide or cause to be provided such information or notice; provided that any Bondholder must first as a condition precedent to commencing the action provide at least 30 day's prior written notice to the Obligor of its failure to perform, giving reasonable detail of such failure, following which notice the Obligor shall have 30 days to perform. Failure by the Obligor to perform under this Disclosure Undertaking shall not be deemed an event of default with respect to the Series 2004 Bonds or under the Resolution or any other document and the sole remedy under this Disclosure Undertaking in the event of any failure of the Obligor to comply with this Disclosure Undertaking shall be an action to compel performance.

Section 9 Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Obligor and the Bondholders from time to time, and shall create no rights in any other person or entity.

Section 10 Definitions. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

"Annual Information" means:

(a) quantitative financial information and operating data concerning the operations of the Obligor of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA, SUMMARY OF WASTEWATER USER FEES," "PIMA COUNTY, ARIZONA, SUMMARY OF USER FEE REVENUES," "PIMA COUNTY, ARIZONA, CONNECTION FEE REVENUES," "PIMA COUNTY, ARIZONA, REVENUES FROM OTHER FEES AND CHARGES" and "PIMA COUNTY WASTEWATER MANAGEMENT DEPARTMENT Comparative Statements of System Revenues, Expenditures and Net Revenues Available for Debt Service;" and

(b) unaudited annual Financial Statements of the Obligor unless Audited Financial Statements are provided at the same time.

In addition to the information described in (a) and (b), (i) if any part of the Annual Information described in (a) can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Obligor will include a statement to that effect as part of the Annual Information for the year in which the change or discontinuation occurs, and (ii) the Annual Information for the year in which any amendment or waiver of a provision of this Disclosure Undertaking occurs shall describe and explain the amendment or waiver, the reason for it and its impact on the type of information being provided, and if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Information for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

"Audited Financial Statements" means audited annual Financial Statements of the Obligor.

"Bondholder" means a beneficial owner of a Bond, with beneficial ownership determined on a basis consistent with the provisions of Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, or, if those provisions do not adequately address the situation in question (in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor) with beneficial ownership determined on the basis of ownership for federal income tax purposes. Any assertion of beneficial ownership must be established by evidence in writing with full documentary support filed with the Obligor.

"Filing Date" means the first business day in February of each Fiscal Year, commencing in February, 2005.

"Financial Statements" means annual financial statements of the Obligor prepared in conformity with generally accepted accounting principles as reflected in the governmental accounting standards promulgated from time to time by the Government Accounting Standards Board.

"Fiscal Year" means each fiscal year of the Obligor commencing with the fiscal year beginning July 1, 2003, and ending June 30, 2004.

"Listed Events" means any of the following events:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"MSRB" means the Municipal Securities Rulemaking Board.

"National Repository" means each Nationally Recognized Municipal Securities Information Repository which is recognized as such for purposes of the Rule at the time any information or notice is to be provided pursuant to this Disclosure Undertaking. The National Repositories at the time of execution and delivery of this Disclosure Undertaking are listed in Exhibit A.

"Official Statement" means the final Official Statement dated _____, 2004, with respect to the initial offering of the Series 2004 Bonds.

"Participating Underwriter" means each broker, dealer, or municipal securities dealer acting as an underwriter in the primary offering of the Series 2004 Bonds, including, without limitation, RBC Dain Rauscher Inc..

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as applicable to the Series 2004 Bonds.

"State" means the State of Arizona.

"State Repository" means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Undertaking, there is no State Repository.

Section 11 Governing Law; Forum. This Disclosure Undertaking shall be governed by the law of the State. Any action to enforce this Disclosure Undertaking against the Obligor may be brought only in a State court.

Section 12 Budget Requirement. Under the law of the State, no expenditures may be made by the Obligor in any Fiscal Year for a purpose not included in the budget, and no expenditure may be made or obligation or liability incurred or created by the Obligor in any Fiscal Year in excess of the amount specified for each purpose in the budget, for that Fiscal Year, except as otherwise provided by law, and the Obligor's undertaking in this Disclosure Undertaking is subject to this limitation of State law on expenditures by the Obligor for costs of performing its obligations under this Disclosure Undertaking.

Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: _____
Carol Bonchalk
Director of Finance

Exhibit A

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Disclosure Undertaking

The list may change from time to time. The Disclosure Undertaking requires that information and notices be provided to each Repository. The list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: nrmsir@ftid.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

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APPENDIX I

FORM OF MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

SPECIMEN

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

OFFICIAL STATEMENT

NEW ISSUE - BOOK ENTRY ONLY **RATINGS: (See "Ratings" herein)**

In the opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, Bond Counsel, under existing laws and assuming compliance with certain covenants by the County as described under "TAX EXEMPTION" herein, interest on the Series 2004 Bonds is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes and is not an item of preference to be included in the alternative minimum tax of individuals or corporations. Interest on the Series 2004 Bonds is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. See "TAX EXEMPTION" "ORIGINAL ISSUE DISCOUNT" and "BOND PREMIUM" herein.

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Dated: May 1, 2004 **Due: July 1, as shown on next page**

The Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds") are being issued by Pima County, Arizona (the "County") in accordance with applicable State law. The Series 2004 Bonds are issued in the form of fully-registered bonds in denominations of $5,000 and integral multiples thereof. Interest on the Series 2004 Bonds is payable semiannually on July 1 and January 1 (each an "Interest Payment Date"). The first interest payment on the Series 2004 Bonds will be July 1, 2004. Interest will be paid on each Interest Payment Date by check mailed by the paying agent to each registered owner of the Series 2004 Bonds at the address shown on the registration books (the "Bond Register") at the close of business on the fifteenth day of the month preceding each Interest Payment Date or if such day is a Saturday, Sunday or holiday on the next preceding business day; or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States, to any registered owner owning an aggregate principal amount of Series 2004 Bonds of at least $1,000,000. Principal of and any premium on the Series 2004 Bonds will be payable at the designated corporate trust office of J.P. Morgan Trust Company, National Association, or successor, as registrar and paying agent.

The Series 2004 Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2004 Bonds. Purchases of beneficial interests in such Series 2004 Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership of interest in the Series 2004 Bonds purchased by them. So long as the Series 2004 Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 2004 Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2004 BONDS – Book-Entry-Only System" herein.

The Series 2004 Bonds are subject to redemption prior to their stated maturities, as described herein.

The Series 2004 Bonds are being issued for the purpose of providing funds to (i) refund in advance of maturity certain maturities of outstanding sewer revenue bonds of the County, and (ii) pay costs relating to the issuance of the Series 2004 Bonds.

Principal of, premium, if any, and interest on the Series 2004 Bonds are payable solely from and secured by a pledge of the Net Revenues of the System on parity of lien with certain outstanding sewer revenue debt and additional parity debt that may be issued in the future under the herein-described Sewer Bond Resolution. THE SERIES 2004 BONDS ARE NOT GENERAL OBLIGATIONS OF THE COUNTY OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE COUNTY. THE COUNTY IS NOT LIABLE FOR THE PAYMENT OF THE SERIES 2004 BONDS FROM ANY SOURCES OF FUNDS EXCEPT THE SOURCES AND FUNDS DESCRIBED HEREIN. See "THE SERIES 2004 BONDS - Security and Source of Payment" herein.

The scheduled payment of principal of and interest on the Series 2004 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2004 Bonds by FINANCIAL SECURITY ASSURANCE INC.

This cover page contains only a brief description of the Series 2004 Bonds and the security therefor. It is not intended to be a summary of material information with respect to the Series 2004 Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2004 Bonds are offered when, as and if issued by the County and received by the Underwriter, subject to the approving opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, as to validity and tax exemption. Certain matters will be passed upon for the Underwriter by its counsel, Greenberg Traurig, LLP, Phoenix, Arizona. It is expected that the Series 2004 Bonds will be available for delivery through the facilities of DTC, on or about May 11, 2004.

RBC DAIN RAUSCHER

May 4, 2004

MATURITY SCHEDULE

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Maturity July 1	Principal Amount	Interest Rate	Yield	Maturity July 1	Principal Amount	Interest Rate	Yield
2005	$1,425,000	2.000%	1.480%	2012	$2,050,000	5.500%	3.870%
2006	1,455,000	2.250	1.940	2013	2,975,000	5.000	4.030
2007	2,335,000	2.625	2.420	2014	3,430,000	5.000	4.150
2008	2,410,000	3.250	2.810				
2009	2,485,000	5.000	3.150	2015	2,000,000	4.125	4.260
2010	1,575,000	3.500	3.420	2015	2,000,000	5.000	4.260*
2011	1,630,000	5.375	3.650				

* Priced to July 1, 2014 par call.

(Accrued Interest to be Added)

PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS

Sharon Bronson, *Chair*

Ray Carroll

Ann Day

Richard Elias

Ramon Valadez

COUNTY ADMINISTRATIVE OFFICIALS

ELECTED OFFICIALS

Rick Lyons
County Assessor

Beth Ford
County Treasurer

Barbara La Wall
County Attorney

APPOINTED OFFICIALS

C.H. Huckelberry
County Administrator

Carol Bonchalk
Director of Finance

BOND COUNSEL

Snell & Wilmer L.L.P.
Tucson, Arizona

BOND REGISTRAR AND PAYING AGENT

J.P. Morgan Trust Company, National Association
Tempe, Arizona

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offering of any security other than the original offering of the Series 2004 Bonds identified on the inside front cover hereof. No person has been authorized by the County to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the County.

The issuance and sale of the Series 2004 Bonds have not been registered under the Federal Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities; nor has the issue been qualified under the Securities Act of Arizona, in reliance upon various exemptions in such Act. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the County since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004 BONDS OFFERED HEREIN AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix I "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2004 Bonds; or (iii) the tax exempt status of the interest on the Series 2004 Bonds.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices hereto, has been prepared by Pima County, Arizona (the "County") in connection with the original issuance and sale by the County of its Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"), identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the County from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show certain historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

References to provisions of Arizona law, whether codified in the Arizona Revised Statutes or uncodified, or of the Arizona Constitution, are references to those current provisions. Those provisions may be amended, repealed or supplemented.

THE SERIES 2004 BONDS

Authorization and Use of Funds

The Series 2004 Bonds are issued pursuant to the Constitution and laws of the State of Arizona, including specifically Title 11, Chapter 2, Article 4, Arizona Revised Statutes and all amendments thereto, and more specifically under the provisions of (i) Resolution No. 1991-138 adopted by the County's Board of Supervisors (the "Board") on June 18, 1991, as amended by the Board on August 6, 1991, and (ii) a supplemental authorizing resolution, which supplemental resolution provides for the issuance of the Series 2004 Bonds, adopted by the Board on March 9, 2004 (collectively, the "Sewer Bond Resolution"). Excerpts of the Sewer Bond Resolution, including certain defined terms used herein, are presented in Appendix G.

Proceeds of the sale of the Series 2004 Bonds will be used to provide funds to (i) refund in advance of maturity certain maturities of outstanding sewer revenue bonds of the County, and (ii) pay costs relating to the issuance of the Series 2004 Bonds. See "PLAN OF REFUNDING" herein.

General Description

The Series 2004 Bonds will be dated May 1, 2004 and will be issued in the form of fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2004 Bonds will bear interest from May 1, 2004, payable semiannually on January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2004.

As described herein under "THE SERIES 2004 BONDS – Book-Entry-Only System" the Series 2004 Bonds will be issued in book-entry-only form and will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is the registered Owner of all of the Series 2004 Bonds, all payments on the Series 2004 Bonds will be directly to DTC. So long as Cede & Co. is the registered Owner of the Series 2004 Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 2004 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 2004 Bonds. When reference is made to any action which is required or permitted to be taken by the beneficial owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such

beneficial owners for such purposes. When notices are given, they shall be sent by the hereinafter-described Paying Agent to DTC only, as registered Owner.

Interest will be paid on each Interest Payment Date by check mailed to each registered owner of the Series 2004 Bonds (initially, only DTC) at the address shown on the registration books (the "Bond Register") maintained by the hereafter-described Bond Registrar at the close of business on the fifteenth day of the month preceding each Interest Payment Date or if such day is a Saturday, Sunday or holiday on the next preceding business day (the "Record Date"), or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States, to any registered owner owning an aggregate principal amount of Series 2004 Bonds of at least $1,000,000 and the principal of the Series 2004 Bonds will be payable at maturity upon surrender of the Series 2004 Bonds to J.P. Morgan Trust Company, National Association, as the bond registrar and paying agent (the "Bond Registrar" and "Paying Agent" as applicable).

Security and Source of Payment

Principal, premium, if any, and interest on the Series 2004 Bonds are payable solely from the revenues derived by the County from the operation of its sewer system (the "System") after provision has been made for the payment of the reasonable and necessary expenses of the operation and maintenance of the System (the "Net Revenues"). The Series 2004 Bonds will be on a parity of lien on such Net Revenues with the County's outstanding Sewer Revenue Bonds, Series of 1993; Sewer Revenue Bonds, Series 1994B; Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001, and certain loan agreements between the Water Infrastructure Finance Authority of Arizona ("WIFA") and the County as borrower in February 1996, June 1997, October 2000 and December 28, 2001 (collectively, "Outstanding Parity Bonds"), and additional parity bonds that may be issued in the future as provided in the Sewer Bond Resolution (collectively with the Series 2004 Bonds and the Outstanding Parity Bonds, "Parity Bonds"). The aggregate principal amount of Parity Bonds that will be outstanding after the issuance of the Series 2004 Bonds is $139,593,383. See "Parity Debt" and "SEWER REVENUE DEBT OUTSTANDING" herein. See also the discussion under the subheading "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT" for a discussion relating to the adverse impact on cash flow during fiscal year 2002-03 of the event described thereunder.

Redemption

The Series 2004 Bonds maturing on or before July 1, 2014 are not subject to call for redemption prior to their respective maturity dates. The Series 2004 Bonds maturing on July 1, 2015 are subject to call for redemption prior to maturity on and after July 1, 2014 at the election of the County, in whole or in part in $5,000 increments on any date, by the payment of a redemption price equal to the principal amount of each Bond called for redemption, without premium, plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption of any Bond will be given by mail to the registered owner of the Series 2004 Bond or Series 2004 Bonds being redeemed at the address shown on the Bond Register maintained by the Bond Registrar not less than thirty (30) and not more than sixty (60) days prior to the date set for redemption. Neither failure to give such notice, nor any defect therein with respect to any Series 2004 Bonds shall affect the regularity of the proceedings for redemption of any other Series 2004 Bond.

Reserve Fund

The Sewer Bond Resolution requires that the County maintain a Reserve Fund which secures the payment of all Outstanding Parity Bonds and subsequently issued Parity Bonds without preference or priority of debt of any series. The Sewer Bond Resolution requires that the Reserve Fund be maintained in an amount equal to the Reserve Requirement, which is equal to average annual debt service on all Outstanding Parity Bonds, or such lesser amount as may be required to preserve the sewer revenue debts' status as tax-exempt obligations under the Internal Revenue Code. The Sewer Bond Resolution provides that the Reserve Fund be further funded, if necessary, in connection with the issuance of the Series 2004 Bonds and adjusted upon the issuance of additional Parity Bonds by (i) the

immediate deposit of bond proceeds or available moneys of the County into the Reserve Fund or the immediate delivery to the Paying Agent of a Reserve Fund Guaranty, or any combination thereof, in order for the Reserve Fund Value to equal or exceed the Reserve Requirement; or (ii) within five years following the delivery of the Series 2004 Bonds or any Parity Bonds, deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments on the 10th day of each month such that the Reserve Fund Value will equal or exceed the Reserve Requirement not later than the expiration of such five-year period; or (iii) any combination of the methods described in clauses (i) and (ii) above in an aggregate amount equal to the Reserve Requirement.

If the Reserve Fund is funded with cash and investments and any amount thereof is subsequently withdrawn and transferred to the Bond Fund to pay debt service on the Series 2004 Bonds or Parity Bonds such that the Reserve Fund Value is less than the Reserve Requirement, the County is required to deposit to the Reserve Fund from Net Revenues the amount of any such deficiency in twelve (12) equal monthly installments.

The County has previously delivered for the benefit of the Reserve Fund surety bonds issued by Financial Guaranty Insurance Company, AMBAC Indemnity Corporation, and MBIA Insurance Corporation each of which satisfy the requirements of a Reserve Fund Guaranty under the Sewer Bond Resolution. The County does not expect to have to fund any additional Reserve Requirement at the time of delivery of the Series 2004 Bonds.

Rate Covenant

The County has covenanted under the Sewer Bond Resolution to establish and maintain rates, fees and charges for services supplied by the System sufficient to pay the maintenance and operation costs of the System and to produce an aggregate amount of Net Revenues in each fiscal year equal to at least 1.20 times the Annual Debt Service Requirement for the corresponding Bond Year on all outstanding Parity Bonds (treating any variable rate Parity Bonds hereafter issued as bearing interest at the Assumed Interest Rate and bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and sufficient to pay any Policy Costs (as defined in the Reserve Fund Guaranties) during such Bond Year.

Parity Bonds

Under the provisions of the Sewer Bond Resolution, the County may issue additional Parity Bonds secured by the Net Revenues, if Net Revenues for the immediately preceding Fiscal Year (as shown by a certificate of the County's Director of Finance) are at least equal to 1.20 times Maximum Annual Debt Service coming due in any Bond Year on all Parity Bonds then outstanding and the proposed Parity Bonds to be issued, and are sufficient to pay any Policy Costs during such Bond Years. Under certain conditions set forth in the Sewer Bond Resolution, additional amounts may be added to Net Revenues for the purpose of calculating the Parity Bonds test. See Appendix G - "Summary of Resolution No. 1991-138 (as Amended and Supplemented) Authorizing the Issuance of the Series 2004 Bonds."

The County will have $23,910,000 of voter-authorized but unissued Parity Bond authorization available after the issuance of the Series 2004 Bonds. The County expects to utilize approximately $18,015,000 of this remaining authorization during the second calendar quarter of 2004 for purposes of an additional loan agreement from WIFA, the proceeds of which will be used to finance the design and improvement of certain projects some of which are described under the subheading "Capital Improvements" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT." Principal amounts drawn under the loan agreement will be treated as if they constituted additional Parity Bonds. See also the discussion under the subheading "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT" for a discussion relating to the adverse impact on cash flow during fiscal year 2002-03 of the event described thereunder. In addition, a special bond election will be held in the County on May 18, 2004 to seek, among other propositions, authorization to issue an additional $150,000,000 principal amount of sewer revenue bonds and additional amounts might be authorized at future elections, all of which could be issued as additional Parity Bonds.

Book-Entry-Only System

The following information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, the County takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm this information with DTC or the DTC participants.

DTC will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully-registered securities, initially registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2004 Bond certificate will be issued for each maturity of the Series 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Series 2004 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Sewer Bond Resolution. Beneficial Owners of the Series 2004 Bonds may wish to ascertain that the nominee holding the Series 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2004 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the County on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the paying agent for the Series 2004 Bonds or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the paying agent for the Series 2004 Bonds, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2004 Bonds at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2004 Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2004 Bond certificates will be printed and delivered.

THE COUNTY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP IN THE SERIES 2004 BONDS UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR FOR THE SERIES 2004 BONDS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2004 BONDS UNDER THE SEWER BOND RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2004 BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERES 2004 BONDS; OR (V) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2004 Bonds, as nominee for DTC, reference herein to "Owner" or registered owners of the Series 2004 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2004 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the County or the Paying Agent to DTC only.

PLAN OF REFUNDING

A portion of the net proceeds of the Series 2004 Bonds will be placed in an irrevocable trust fund (the "Trust Account") with J.P. Morgan Trust Company, National Association (the "Depository Trustee"), pursuant to a Depository Trust Agreement dated the date of the Series 2004 Bonds, and will be used to acquire United States Treasury Obligations ("the Government Obligations"), the maturing principal of and interest income with respect to which, together with an initial cash balance, are calculated to be sufficient to pay, when due, the principal of, premium on, and interest on the following outstanding sewer revenue bonds of the County (the "Bonds Being Refunded"):

Issue (Dated Date)	Sewer Revenue Bonds	Original Principal Amount	Maturity Date(s) to be Refunded	Principal Amount Being Refunded	Redemption Dates	Redemption Premium on Bonds Being Refunded
1-1-94	Series 1994A	$28,670,000	7-1-04/15	$25,520,000	7-1-04	2.0%

If the moneys and the Government Obligations held in the Trust Account are not sufficient to pay the principal of, premium on and accrued interest thereon, when due, of the Bonds Being Refunded, the County will remain liable for payment of the Bonds Being Refunded. See "THE SERIES 2004 BONDS – Security and Source of Payment" and "MATHEMATICAL VERTIFICATION."

MATHEMATICAL VERIFICATION

The arithmetical accuracy of certain computations included in the schedules provided by RBC Dain Rauscher (the "Underwriter") relating to (a) computation of anticipated receipts of principal and interest on the Government Obligations and the anticipated payments of principal, premium, if any, and interest to redeem the Bonds Being Refunded, and (b) computation of the yields on the Bonds and the Government Obligations was examined by The Arbitrage Group, Inc., certified public accountants. Such computations were completed using certain assumptions and information supplied by the Underwriter on behalf of the County. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion of the data used, the reasonableness of the assumptions, or the achievability of future events.

SOURCES AND USES OF FUNDS

Sources:

Principal Amount of Series 2004 Bonds	$25,770,000.00
Net Premium	1,257,568.70
Accrued Interest	30,092.88
Total	$27,057,661.58

Uses:

Purchase of Government Obligations and Beginning Cash Balance	$26,603,324.78
Issuance Expenses (including Bond Insurance and Underwriters Discount)	424,243.92
Deposit to County's Interest Account for the Series 2004 Bonds	30,092.88
Total	$27,057,661.58

BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Series 2004 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series 2004 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2004 Bonds when due as set forth in the specimen of the Policy included as an exhibit to this Official Statement. See Appendix I for such specimen.

The Policy is not covered by any insurance security or guaranty fund established under New York, California Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2003, Financial Security's total policyholders surplus and contingency reserves were approximately $2,104,257,000 and its total unearned premium reserve was approximately $1,356,385,000 in accordance with statutory accounting practices. At December 31, 2003, Financial Security's total shareholders' equity was approximately $2,307,646,000 and its total net unearned premium reserve was approximately $1,166,562,000 in accordance with generally accepted accounting principals.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Security and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of the Official Statement until the termination by the offering of the Series 2004 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2004 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

SEWER REVENUE DEBT OUTSTANDING

The following chart lists the sewer revenue debt of the County that will be outstanding after the issuance of the Series 2004 Bonds. For matters relating to the issuance of additional Parity Bonds, see "THE SERIES 2004 BONDS -- Parity Bonds."

Date of Issue	Original Amount	Purpose	Remaining Maturity Dates	Balance Outstanding
01-01-93	$ 6,000,000	Sewer Improvements	7-1-01/05	$ 615,000
01-01-94	28,670,000	Refunding	7-1-01/15	25,520,000
04-01-94	8,000,000	Sewer Improvements	7-1-01/04	580,000
02-01-96	11,313,350	Refunding (a)(b)	7-1-04/12	11,313,350
06-01-97	7,500,000	Sewer Improvements (b)	7-1-01/11	4,757,898
05-01-98	29,185,000	Sewer Improvements	7-1-01-15	23,395,000
10-27-00	61,180,286	Sewer Improvements (b)(c)	7-1-02-16	54,978,135
04-01-01	19,440,000	Refunding	7-1-04/15	18,130,000
Total Direct Sewer Revenue Bonded Debt Outstanding				$139,289,383
Less: The Bonds Being Refunded				(25,520,000)
Plus: The Series 2004 Bonds offered herein				25,770,000
Net Direct Sewer Revenue Bonds Outstanding (d)				$139,593,383

(a) Proceeds of the loan were used to refund in advance of maturity $5,025,000 of the Sewer Revenue Bonds, Series 1992, $2,845,000 of the Sewer Revenue Bonds, Series 1993 and $2,650,000 of the Sewer Revenue Bonds, Series 1994B. The debt service requirements on the refunded bonds are secured for payment by U.S. Government Securities which are held in an irrevocable trust.

(b) Represents funds borrowed under separate loan agreements with WIFA.

(c) On October 27, 2000, the County entered into certain loan agreements with WIFA totaling $40,000,000. In December 2001, the County amended those loan agreements and added an additional $21,180,286.

(d) The County intends to execute and deliver another loan agreement with WIFA during the second calendar quarter of 2004 in the principal amount of approximately $18,015,000 which will be treated as if it constitutes additional Parity Bonds. See discussion under the subheading "THE SERIES 2004 BONDS – Parity Bonds" for a discussion relating to the use of proceeds of the loan agreement.

PIMA COUNTY, ARIZONA
STATEMENT OF SEWER NET REVENUES, ESTIMATED DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE

Fiscal Year	Net Revenues Available for Debt Service(a)	Outstanding Debt Service Requirements(b)	Less: Bonds Being Refunded	Plus: The Series 2004 Bonds Dated: May 1, 2004 Principal	Interest (c)	Total Debt Service Requirements	Debt Service Coverage (d)
2002-03	$21,437,337						
2003-04		$15,086,144	$1,882,019		$ 180,557	$13,384,683	1.60
2004-05		15,728,256	2,512,563	$1,425,000	1,083,344	15,724,037	1.36
2005-06		15,758,887	2,512,073	1,455,000	1,054,844	15,756,659	1.36
2006-07		15,794,696	3,361,760	2,335,000	1,022,106	15,790,042	1.36
2007-08		16,577,798	3,371,840	2,410,000	960,813	16,576,771	1.29
2008-09		16,716,270	3,368,750	2,485,000	882,488	16,715,008	1.28
2009-10		16,760,175	2,337,500	1,575,000	758,238	16,755,913	1.28
2010-11		16,789,273	2,336,500	1,630,000	703,113	16,785,885	1.28
2011-12		16,288,577	2,666,500	2,050,000	615,500	16,287,577	1.32
2012-13		13,701,707	2,950,750	2,975,000	502,750	14,228,707	1.51
2013-14		14,359,573	3,255,500	3,430,000	354,000	14,888,073	1.44
2014-15		14,359,573	3,648,750	4,000,000	182,500	15,764,154	1.36
2015-16		7,331,602				7,331,602	2.92
2016-17		1,484,595				1,484,595	14.44
2017-18		1,485,855				1,485,855	14.43
2018-19		1,485,293				1,485,293	14.43
2019-20		1,487,908				1,487,908	14.41
2020-21		1,488,498				1,488,498	14.40
2021-22		1,487,063				1,487,063	14.42
2022-23		1,488,603				1,488,603	14.40
2023-24		1,487,915				1,487,915	14.41

(a) The amount shown is for fiscal year 2002-03. See table on page A-8.

(b) Includes estimated amounts due under an anticipated loan agreement with WIFA in the principal amount of approximately $18,015,000 which will be treated as additional Parity Bonds. The County expects to close the loan agreement with WIFA in the second calendar quarter of 2004.

(c) The first Interest Payment Date is July 1, 2004 and is shown net of accrued interest.

(d) Under the provisions of the Sewer Bond Resolution, the County may issue additional Parity Bonds secured by the Net Revenues, if Net Revenues for the immediately preceding Fiscal Year are at least equal to 1.20 times Maximum Annual Debt Service coming due in any Bond Year on all Parity Bonds then outstanding. See "THE SEWER REVENUE BONDS - Parity Bonds" herein.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2004 Bonds by the County are subject to the approving opinion of Snell & Wilmer L.L.P., Tucson, Arizona, Bond Counsel to the County. Copies of such opinion will be available at the time of delivery of the Series 2004 Bonds. The form of opinion is included as Appendix D to this Official Statement. Fees of Bond Counsel will be paid from proceeds of the sale of the Series 2004 Bonds.

Certain legal matters will be passed upon for the Underwriter by its Counsel, Greenberg Traurig, LLP, Phoenix, Arizona.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code") contains a number of requirements and restrictions that apply to the Series 2004 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The County has covenanted to comply with all requirements of the Code that must be satisfied in order for the interest on the Series 2004 Bonds not to be included in the gross income of the owners of the Series 2004 Bonds for Federal income tax purposes (the "Tax Covenants").

Subject to the condition that the County comply with the Tax Covenants, under present law, in the opinion of Snell & Wilmer L.L.P., Bond Counsel, the interest received by the owners of the Series 2004 Bonds (i) is not

includable in the gross income of the owners thereof for Federal income tax purposes in accordance with Section 103(a) of the Code, and is not an item of tax preference for purposes of the alternative minimum tax imposed on certain individuals and corporations, and (ii) is excluded from taxable income for Arizona State income tax purposes.

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the County. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the County. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the County's compliance with the Tax Covenants or to inform any person as to whether the Tax Covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the Series 2004 Bonds may affect the federal tax-exempt status of interest on the Series 2004 Bonds.

Failure to comply with certain of the Tax Covenants could cause interest on the Series 2004 Bonds to become subject to Federal income taxation retroactive to the date of issuance of the Series 2004 Bonds.

Ownership of the Series 2004 Bonds may result in collateral Federal income tax consequences to certain taxpayers. Prospective purchasers of the Series 2004 Bonds should consult their tax advisors as to applicability of any such collateral consequences, which will or may result from an investment in the Series 2004 Bonds, the receipt of interest on the Series 2004 Bonds, or the sale, transfer or other disposition of the Series 2004 Bonds.

Certain of the documents executed in connection with the execution and delivery of the Series 2004 Bonds permit certain actions to be taken in the future if a legal opinion is given at the time to the effect that such action will not cause interest on the Series 2004 Bonds to be includable in the gross income of the owners for Federal income tax purposes. The opinion of Bond Counsel with respect to the Series 2004 Bonds will not address any such actions.

Legislative proposals are introduced into the United States Congress from time to time which, if enacted, would amend one or more provisions of the Code in a manner that would alter the Federal tax consequences referred to above or would adversely affect the market value or marketability of the Series 2004 Bonds. It cannot be predicted whether, when or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to obligations (such as the Series 2004 Bonds) delivered prior to such enactment.

ORIGINAL ISSUE DISCOUNT

Certain of the Series 2004 Bonds as indicated on the inside cover page of this Official Statement are being offered and sold to the public at an original issue discount ("OID Bonds"). Original issue discount ("OID") is the excess of the stated amount payable on the maturity date (generally, the face amount) over the lower "issue price" of such OID Bonds. The issue price of the Series 2004 Bonds is the initial offering price to the public (other than to bondhouses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Series 2004 Bonds of the same maturity date are sold pursuant to that offering. For Federal income tax purposes, OID accrues to the owner of the OID Bond over the period to the maturity date based on the constant interest rate method, compounded semiannually. With respect to an initial purchaser of an OID Bond, the portion of OID that accrues during the period such purchaser owns the OID Bond (i) is interest excludable from that purchaser's gross income for Federal income tax purposes to the same extent and subject to the same consideration discussed above as to other interest on the Series 2004 Bonds (see "TAX EXEMPTION" herein), and (ii) is added to that purchaser's tax basis for purposes of determining gain or loss upon the payment, redemption, prior sale or other disposition of that OID Bond.

Purchasers of OID Bonds should consult their own tax advisors as to the determination for Federal income tax purposes of the amount of the OID accruable in any period with respect to the OID Bonds and regarding Federal tax consequences and any state and local tax effects of owning OID Bonds.

BOND PREMIUM

Certain of the Series 2004 Bonds as indicated on the inside front cover page of this Official Statement are being offered and sold to the public with amortizable bond premium (the "Premium Bonds"). The amortizable bond premium is the excess of the "issue price" of such Premium Bonds over the lower stated amount payable at the maturity date (generally, the face amount). The issue price of the Series 2004 Bonds is the initial offering price to the public (other than to bondhouses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Series 2004 Bonds of the same maturity date are sold pursuant to that offering. For Federal income tax purposes, bond premium is amortized over the period to the maturity (or, in the case of a redeemable Premium Bond, the amortization period and yield may be required to be determined on the basis of the earliest redemption date that results in the lowest yield on the Premium Bond), based on the yield to maturity, compounded semiannually. No portion of amortizable bond premium is deductible by an owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption, or other disposition of a Premium Bond, the owner's tax basis is reduced by the amount of amortizable bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for Federal income tax purposes upon the sale of a Premium Bond for an amount equal to or less than the amount paid by that owner for the Premium Bond. A purchaser of a Premium Bond at its issue price in the initial public offering who holds the Premium Bond to the maturity date (or in the case of a redeemable Premium Bond, to its earliest redemption date that results in the lowest yield) will realize no gain or loss upon the payment of that Premium Bond.

Purchasers of Premium Bonds should consult their own tax advisors as to the determination for Federal income tax purposes of the amount of the bond premium properly amortizable in any period with respect to the Premium Bonds and regarding Federal tax consequences and any state and local tax effects of owning Premium Bonds.

LITIGATION

To the knowledge of appropriate representatives of the County, no litigation or administrative action or proceeding is pending or threatened to restrain or enjoin, or seeking to restrain or enjoin, the issuance or delivery of the Series 2004 Bonds, the collection or receipt of revenues to pay the principal of, and interest on, the Series 2004 Bonds, contesting or questioning the proceedings and authority under which the Series 2004 Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Series 2004 Bonds. See, however the discussion under the subheading "Litigation or Administrative Action" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT". Appropriate representatives of the County will deliver a certificate to that effect at the time of the original delivery of the Series 2004 Bonds.

RATINGS

The Series 2004 Bonds have been rated "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies ("S&P") with the understanding that upon delivery of the Series 2004 Bonds the Policy will be issued by Financial Security.

Such ratings reflect only the view of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agencies. The County furnished to the rating agencies certain information and materials, some of which may not have been included in this Official Statement relating to the Series 2004 Bonds or the County.

Generally, rating agencies base their ratings on such information and materials and on their own investigations, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2004 Bonds.

UNDERWRITING

The Underwriter has agreed to purchase the Series 2004 Bonds at a price of $26,769,868.70 plus accrued interest to the date of delivery. Based upon the initial offering prices as shown on the cover hereof, the Underwriter will receive compensation of $257,700.00. The Underwriter will be obligated to accept delivery and pay for all of the Series 2004 Bonds if any are delivered. The Underwriter may offer and sell the Series 2004 Bonds to certain dealers (including dealers depositing Series 2004 Bonds into unit investment trusts) and others at prices lower than the public offering prices reflected on the inside front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

CONTINUING SECONDARY MARKET DISCLOSURE

The County has covenanted for the benefit of holders of the Series 2004 Bonds to provide certain financial information and operating data relating to the County by not later than February 1 in each year commencing February 1, 2005 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events, if material (the "Notice of Material Events"). The Annual Reports will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with any state information depository established by the State. (At present no such state information depository has been designated.) The Notices of Material Events will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with any state information depository established by the State. The specific nature of the information to be contained in the Annual Report and the Notices of Material Events is set forth in Appendix H – "Form of Continuing Disclosure Undertaking."

These covenants have been made in order to assist the underwriters of the Series 2004 Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to Arizona law, the ability of the County to provide information pursuant to such covenants is subject to annual appropriation to, among other things, cover the costs of preparing and mailing the Annual Report and the Notices of Material Events to each Nationally Recognized Municipal Securities Information Repository and to any state information depository established by the State. A failure by the County to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2004 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2004 Bonds and their market price.

Continuing disclosure undertakings previously entered into by the County called for the County to file by February 1, 2000 an Annual Report containing certain financial information and operating data relating to the County and financial statements for the County with respect to the fiscal year ended June 30, 1999. The County filed the required Annual Report with unaudited financial statements on March 7, 2000. The County subsequently filed the audited financial statements for the County for the fiscal year ended June 30, 1999 in June 2000. Additionally, the County failed to file certain schedules as part of its continuing disclosure requirements related to its 1998 Sewer Revenue Bonds by February 1, 2002. The disclosures were, however, subsequently filed with all Nationally Recognized Municipal Securities Information Repositories by July 1, 2002. The County has otherwise complied with all existing continuing disclosure undertakings relating to the County in all material respects.

FINANCIAL STATEMENTS

Included as Appendix E of this Official Statement is the Pima County Department of Wastewater Management (the "Department") financial statements for the fiscal year ended June 30, 2003. The Department's financial statements have been audited by the Office of the Auditor General, State of Arizona, as stated in their opinion which appears in Appendix E.

Included as Appendix F of this Official Statement is the County's general purpose financial statements for the fiscal year ended June 30, 2003. The County's general purpose financial statements have been audited by the Office of the Auditor General, State of Arizona, as stated in their opinion which appears in Appendix F. Also included in Appendix F are certain selected combining statements from the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003.

The County neither requested nor obtained the consent of the Office of the Auditor General to include any of such statements in the Official Statement and the Office of the Auditor General has performed no procedures subsequent to rendering their opinions on any of such statements of the County.

ADDITIONAL INFORMATION

Additional information and copies of the Official Statement and the Sewer Resolution may be obtained from the Underwriter, RBC Dain Rauscher Inc., 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016 (telephone 602-381-5368).

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these opinions or estimates have been or will be realized. Information in this Official Statement has been derived by the County from official and other sources and is believed by the County to be accurate and reliable. Information other than that obtained from official records of the County has not been independently confirmed or verified by the County and its accuracy is not guaranteed.

Neither this Official Statement nor any statement that may have been or that may be made orally or in writing is to be construed as a part of a contract with the original purchasers or subsequent owners of the Series 2004 Bonds.

By: /s/ Sharon Bronson
Chair, Board of Supervisors

By: /s/ C.H. Huckelberry
County Administrator

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By: /s/ Sharon Bronson
Chair, Board of Supervisors

By: /s/ C.H. Huckelberry
County Administrator

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APPENDIX A

PIMA COUNTY, ARIZONA
WASTEWATER MANAGEMENT DEPARTMENT

Organization and Administration

The Department operates as a separate enterprise of the County. The County is authorized to operate and maintain the System under Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes. The wastewater treatment facilities of the System, discharging into waters of the United States, operate under the National Pollutant Discharge Elimination System which was delegated to the Arizona Department of Environmental Quality (ADEQ) in 2003. The Department provides wastewater collection and treatment service to the Tucson metropolitan area and to eight separate outlying service areas located in the eastern portion of the County. The Tucson metropolitan area consists of the cities of Tucson and South Tucson, the Town of Oro Valley, portions of the Towns of Marana and Sahuarita, and the unincorporated areas in proximity to these communities. The Roger Road Wastewater Treatment Facility, the Green Valley Water Reclamation Facility and the Ina Road Water Pollution Control Facility serve these areas. Together, these facilities have a combined, current treatment capacity of 66 million gallons per day (mgd). The Department has just completed the construction of a new Water Reclamation Facility with a capacity of 3.0 mgd at Randolph Park that increases the Tucson metropolitan area capacity to 69 mgd. Additionally, the Ina Road Water Pollution Control Facility is being expanded to 37.5 mgd (metropolitan capacity will increase to 81.5 mgd). Wastewater flows to the metropolitan facilities are approximately 62.1 million gallons per day.

The County Administrator appoints the Wastewater Management Director. The Board of Supervisors (the "Board") adopts the Department's annual operating budget, establishes wastewater rates and fee structures and provides overall policy direction to the Department through the County Administrator and Deputy County Administrator of Public Works. The Board, in 1986, also established a nine member citizens advisory committee to review, evaluate and make recommendations on short and long-range capital improvement needs, development policies and revenue and rate structure formulation of the Department.

The Department is under the direction of Kathleen M Chavez, P.E., who was appointed Director in August 2000. Ms. Chavez has been with the Department since 1982, most recently as Deputy Director - Administration. During her tenure with the department, Ms. Chavez has supervised the preparation of sewer user fee rate studies, development of Capital Improvement Programs and has implemented regulatory water quality programs for the wastewater treatment facilities. She developed the high-strength user fee program, the Mt. Lemmon conservation fee rate structure and directed the preparation of the septage receiving station fee proposal, which was implemented in 1999. She was previously employed in construction as a field engineer. Ms. Chavez is a civil engineering graduate from the University of Arizona and a registered professional engineer in the State of Arizona. She is also active in several professional organizations.

Extraordinary, Uninsured Event

As of June 30, 2003, $10,800,000 had been transferred to the County's Wastewater Management Enterprise Fund from the County's General Fund to cover a short-term cash deficit due to expenses related to the failure of a main sewer trunk line in September 2002, as described below.

In September 2002, a portion of a main sewer trunk line which is part of the System collapsed. The line was scheduled for replacement starting in fiscal year 2003-04. The Department contends that the line failed due to erosion that was caused by a broken City of Tucson water main in the same area and is seeking reimbursement from the City of Tucson Water Department. The County's insurance does not include coverage of an event such as this.

The total fiscal impact of the collapse was approximately $17.1 million. In accordance with Generally Accepted Accounting Principals, $2.4 million was recorded as an Operating Expense for fiscal year 2002-03; the remaining $14.7 million was treated as a capital project of the System and charged against the System Development Fund described in Appendix C. The expenses related to the failure paid as Operating Expenses reduced the amount of Net Revenues available for payment of debt service with respect to Parity Bonds for fiscal year 2002-03. See

table on page A-8 for actual results for fiscal year 2002-03. See also the information under the subheading "Management Review of the County's Financial Position" in Appendix G for a discussion about plans to repay such inter-fund loan.

Litigation or Administrative Actions

On October 10, 2002, the County received a Notice of Violation from the Arizona Department of Environment Quality (ADEQ) for the spill resulting from the failure of the sewer line described under the preceding subheading. Since that time, the County and ADEQ have been in discussions concerning the County's liability, the nature and amount of any penalties, remedial environmental measures, required system upgrades or a combination thereof. On December 19, 2003, the County received a confidential settlement proposal from ADEQ but it is too early to speculate on what a final settlement agreement or the resulting financial impact of any such agreement might be. Previous Notice of Violations received by the County have not resulted in financial penalties, however the violations associated with those notices were not of the same magnitude. While an enforcement action by ADEQ is probable, it is not possible to reasonably estimate the amount or nature of the County's liability at this time.

The wastewater treatment facilities of the System operate under discharge permits issued by the U.S. Environmental Protection Agency and ADEQ. None of these facilities are under consent orders or decrees.

Wastewater Fees and Revenues

The Department's structure of rates, fees and other charges for the System are reviewed annually by the Board and may be revised by a resolution adopted by the Board, which has the ultimate responsibility for setting System rates, fees and charges. The principal sources of revenue for the Department are derived from user fees charged for services provided and one-time connection fees charged to new users for connecting to the System. The Department also receives System revenues from turn-on fees, engineering review and inspection fees, interest earnings and other miscellaneous income.

User Fees

The present schedule of user fees includes a monthly service charge and a monthly commodity usage charge. The service charge is a flat fee assessed monthly to each user to offset administrative expenses and other fixed costs of the Department. In March 2003, the service charge was set at $2.61 per month for each user. On April 13, 2004, the Board increased the sewer user fee rates by four percent (4%), effective July 1, 2004. The commodity usage charge is based on each user's monthly sewage flow contribution to the System. The monthly sewage flow contribution is equal to a user's monthly-metered water consumption, provided that the monthly consumption figure used in calculating a user's commodity usage charge does not exceed the user's average monthly-metered water consumption for the months of December through February. A user fee rate is then multiplied by the monthly sewage flow contribution to calculate the user's commodity usage charge. The user fee rates charged for what is considered to be normal, domestic strength sewage for a residential user is currently $1.05 per hundred cubic feet (Ccf), based on water consumption. Higher user fee rates are charged to various commercial and industrial users whose sewage flow contributions are determined by the Department to be in excess of normal, domestic strength sewage.

The following table summarizes the monthly service charge and the user fee rates for the last ten fiscal years.

PIMA COUNTY, ARIZONA
SUMMARY OF WASTEWATER USER FEES(a)

Fiscal Year	Date User Fee Charges Adopted(b)	Monthly Service Charge	User Fee Rates ($ per Ccf) Residential	Commercial/Industrial (c)
1993-94	July 6, 1993	$2.02	$0.79	$0.79-2.88
1994-95		2.02	0.79	0.79-2.88
1995-96	February 20, 1996	2.09	0.82	0.82-2.98
1996-97		2.09	0.82	0.82-2.98
1997-98	December 9, 1997	2.18	0.86	0.86-3.11
1998-99		2.18	0.86	0.86-3.11
1999-00	January 18, 2000	2.29	0.91	0.91-3.27
2000-01	February 13, 2001	2.40	0.96	0.96-3.43
2001-02	March 19, 2002	2.49	1.00	1.00-3.63
2002-03	March 11, 2003	2.61	1.05	1.05-3.81
2003-04		2.61	1.05	1.05-3.81
2004-05	April 13, 2004	2.71	1.09	1.09-3.96

(a) On April 13, 2004, the Board increased the sewer user fee rates by four percent (4%), effective July 1, 2004.

(b) The dates shown reflect the date the User Fee Increases were adopted by the Board and does not directly correspond to the effective date of the various rate increases.

(c) Indicates the range of user fee rates applied to various commercial/industrial users whose sewage flow contributions are in excess of normal, domestic strength sewage.

Source: Pima County Wastewater Management Department.

PIMA COUNTY, ARIZONA
SUMMARY OF PERCENTAGE INCREASES IN USER FEE RATES

Fiscal Year	User Fee Percentage Rate Increases
1993-94	6.1%
1994-95	0.0
1995-96	3.5
1996-97	0.0
1997-98	4.3
1998-99	0.0
1999-00	5.3
2000-01	5.0
2001-02	3.8
2002-03	5.0
2003-04	0.0
2004-05	4.0

Source: Pima County Wastewater Management Department

The following table shows the revenues derived by the Department from user fees for the past ten fiscal years, broken down between residential users and commercial/industrial users.

PIMA COUNTY, ARIZONA
SUMMARY OF USER FEE REVENUES

Fiscal Year	Billed User Fee Revenue			Percent of User Fee Revenue		Percent User Fee Revenue Increase
	Residential	Comm./Ind.	Total	Res.	Comm./Ind.	
1994-95	$23,030,010	$ 6,480,571	$29,510,581	78.0%	22.0%	5.4%
1995-96	22,357,166	7,773,785	30,130,951	74.2	25.8	2.1
1996-97	21,062,013	11,950,541	33,012,554	63.8 (a)	36.2 (a)	9.6
1997-98	20,345,099	12,522,589	32,867,688	61.9	38.1	(0.4)
1998-99	20,766,974	13,635,035	34,402,009	60.4	39.6	4.7
1999-00	23,854,489	14,620,493	38,474,982	62.0	38.0	11.8
2000-01	24,624,900	16,212,414	40,837,314	60.3	39.7	6.1
2001-02	24,561,202	16,374,134	40,935,336	60.0	40.0	0.2
2002-03	26,570,168	18,748,573	45,318,741	58.6	41.4	10.7
2003-04(b)	29,420,128	18,339,820	47,759,948	61.6	38.4	5.4

(a) Beginning in fiscal year 1996-97, amounts reflect Tucson Water's reclassification of multi-family from residential to commercial/industrial.

(b) Amounts are as projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department

Connection Fees

Connection fees are charged for each new connection made to the System as a condition of service to the property. Three classes are delineated for connection fee purposes: single family residential, multifamily residential and commercial/industrial. These fees are further segregated between participating and non-participating. Participating rates are charged when builders contribute additional infrastructure to the public sewer system, while non-participating rates are charged when no additional infrastructure construction is made.

The connection fee charged to a user is based on the number of fixture units in the building or structure connecting to the System. Participating connection fee rates are currently $101.72 per fixture unit for single-family and multifamily residential users and $144.74 per fixture unit for commercial/industrial users. Non-participating connection fee rates are currently $144.74 per fixture unit for single-family, $115.81 for multifamily residential users and $289.54 per fixture unit for commercial/industrial users.

The following table summarizes connection fee revenues received by the Department for the past ten fiscal years.

PIMA COUNTY, ARIZONA
CONNECTION FEE REVENUES

Fiscal Year	Revenues
1993-94	$ 8,753,422
1994-95	9,859,814
1995-96	8,934,006
1996-97	8,629,678
1997-98	12,034,620
1998-99	14,533,434
1999-00	16,669,833
2000-01	16,768,587
2001-02	17,479,915
2002-03	20,279,607
2003-04 (a)	25,236,998

(a) Amount is as projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. This amount is a "forward looking" statement and should be considered carefully. Such amount is subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department.

Other Fees And Charges

The Department receives additional revenue from various other fees and charges. These fees and charges include turn-on fees, engineering review and inspection fees, interest earnings and miscellaneous other income. A summary of the revenues received by the Department from these sources in recent fiscal years follows:

PIMA COUNTY, ARIZONA
REVENUES FROM OTHER FEES AND CHARGES

Fiscal Year	Engineering Review & Inspection Fees	Interest Earnings (a)	Other Revenue (b)	Total
1993-94	$345,873	$1,343,525	$ 264,188	$1,953,586
1994-95	545,189	2,394,835	625,066	3,565,090
1995-96	282,325	2,829,480	119,312	3,231,117
1996-97	318,361	2,485,261	317,455	3,121,077
1997-98	238,794	2,317,296	218,968	2,775,058
1998-99	370,992	3,645,214	672,833	4,689,039
1999-00	414,618	3,888,599	1,029,165	5,332,382
2000-01	15,064	4,493,386	1,025,713	5,534,163
2001-02	61,564	1,631,580	543,727	2,236,871
2002-03	245,820	977,985	911,057	2,134,862
2003-04 (c)	16,695	182,106	1,193,761	1,392,562

(a) Under the terms of the Sewer Resolution, interest earnings on deposits to the System Development Fund will be included in the definition of Net Revenues only if and to the extent they are transferred to and deposited in the Revenue Fund.

(b) Other revenues include licenses, permits and fines, sanitation fees, and other miscellaneous income.

(c) Amounts are projected by the Department based on the February 2004 Wastewater Management Department Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to change based on actual results and could be materially different.

Source: Pima County Wastewater Management Department.

Accounting and Billing

The Department's financial statements are audited annually by the State of Arizona Office of the Auditor General. The Department performs accounting for System revenues and expenditures.

Billing and collection services for user fees and turn-on fees are currently provided by the City of Tucson, through its agency Tucson Water, and by the Metropolitan Domestic Water Improvement District (MDWID) and, Oro Valley Water. The County has had a long-standing, annually renewable contract with Tucson Water to provide this service. The billing services provided by MDWID began in September 1995. Billing through Tucson Water comprises most of the Department's accounts, approximately 214,000. MDWID bills approximately 15,000 customers and Oro Valley bills approximately 14,000 customers. The County directly bills those sewer customers served by the numerous smaller water companies in the eastern part of the County.

Delinquent user accounts are managed by either Tucson Water, MDWID, Oro Valley or by the County, depending on the source of water for the user. For users receiving water utility service through the Tucson Water system, delinquencies are handled by Tucson Water. Approximately 85% of the users of the System fall into this category. An account becomes delinquent when payment has not been received by the second month's billing. At that time, a notice is mailed advising that water service will be terminated (Tucson Water - 20 days, MDWID - 14 days) unless payment is received. If the user does not respond during this period, the service is discontinued, the account remains in a delinquent status. The account is then held as a delinquent account until it is collected or written off. Tucson Water writes off their accounts after 120 days and MDWID writes their accounts off after 1 year.

For users receiving water utility service from either a private water company or a private well, the Department handles delinquencies. Delinquency billing notices are sent at 30, 60 and 90 days. Between the 60 and 90-day notices, a request that the user calls and discusses the billing is also mailed. If the user then fails to respond, a certified letter is mailed advising that the account is being referred to the County Office of Revenue and Collections for further processing. Collectively for the System, the percentage of delinquent accounts is estimated to be 0.5 percent of annually billed user fee revenue for Tucson Water customers and less for MDWID customers.

Wastewater records show that the number of customers to the sanitary sewer system has been increasing every year. Since fiscal year 1993-94, the average number of customers being served by the System has been:

Fiscal Year	Customers	% Increase
1993-94	171,245	3.2%
1994-95	176,747	3.2
1995-96	181,161	2.5
1996-97	183,790	1.5
1997-98	187,032	1.8
1998-99	191,140	2.2
1999-00	199,090	4.2
2000-01	207,840	4.4
2001-02	222,594	7.1
2002-03	231,572	4.0
2003-04*	235,467	1.7

* Information as of February 2004

Capital Improvements

Wastewater maintains a Capital Improvement Program ("CIP"), originally based on a 20-year Metropolitan Area Facility Plan Update ("Facility Plan") which was adopted by the Board in 1990. The Facility Plan forecasts when capital expenditures would be required for treatment plant expansions and interceptor construction. The Facility Plan is under revision with a projected release date to the Board of Supervisors for adoption by December 2004. The CIP has been revised each year to reflect changes in anticipated needs and project priority. CIP projects include system expansions that are necessary to meet the sewerage needs of the increasing population and planned future development, as well as needed rehabilitations.

At the beginning of FY 2003-2004, the CIP was projected at $26 million for the current fiscal year and $203.4 million for the five-year period (ending FY '07-08). In response to the cash deficit situation described under the subheading "Extraordinary, Uninsured Event", the FY 2003-2004 CIP has been revised to $24.8 million, and $120 million, for the five-year period ending FY '07-08. The CIP included completion of several major projects including:

- Ina Road Water Pollution Control Facility – major expansion and process changes began in 1998, will increase capacity by 12.5 mgd and provide a higher quality of effluent by using a Biological Nutrient Removal process. Approximately $3.8 million will be spent on the Ina Road construction in FY 2003-2004.

- The Green Valley Water Reclamation Facility – upgrade and expansion of capacity from 2.1 mgd to 4.1 mgd. This project, which was substantially completed in November 2003, also includes a Biological Nutrient Removal process upgrade.

- Randolph Park Water Reclamation Facility – Construction is substantially complete. This facility will be equipped with advance membrane technology to produce a high quality filtered and disinfected effluent, financed in part with proceeds of the loan described under the subheading "THE SERIES 2004 BONDS – Parity Bonds". The effluent will be used on the Randolph Park golf course and dispersed through the City of Tucson's reclaimed system to County facilities throughout the community.

Pima County Wastewater Management Department
Comparative Statements of System Gross Revenues, Operation and Maintenance Expenditures and Net Revenues Available for Debt Service

	Actual					Estimated
	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004(a)
REVENUES:						
Sewer Utility Service	$34,402,009	$38,474,982	$40,837,314	$40,935,336	$45,318,741	$47,759,948
Sewer Connection Revenue	14,533,434	16,669,833	16,768,587	17,479,915	20,279,607	25,236,998
Engineering Review & Inspection Fees	370,992	414,618	15,064	61,564	245,820	16,695
Other Income (b)	4,534,479	4,617,236	4,513,271	2,367,825	2,530,600	1,067,965
Gross Revenues	53,840,914	60,176,669	62,134,236	60,844,640	68,374,768	74,081,606
MAINTENANCE AND OPERATIONS COSTS:						
Employee Compensation	15,551,597	16,991,952	17,962,678	20,350,669	23,290,692	25,700,972
Consultants and Outside Services	2,983,582	3,274,974	2,929,587	2,918,701	2,523,079	2,115,528
Treatment Supplies and Chemicals	5,710,301	6,397,461	6,671,822	6,069,710	7,276,779	5,453,324
Repair & Maintenance	1,876,847	2,022,258	1,726,453	3,204,525	4,699,452	3,138,203
General Administration	4,635,127	5,342,858	6,081,183	6,102,213	8,320,189	6,799,906
Capital Expenses	1,946,509	1,304,103	4,270,845	3,925,136	827,240	922,184
Maintenance and Operation Cost	37,703,963	35,333,606	39,642,568	42,580,954	46,937,431	44,130,117
Net Revenues	21,136,951	24,843,063	22,491,668	18,263,686	21,437,337	29,951,489
REVENUE BONDED DEBT SERVICE:						
Principal	3,348,565	4,727,232	5,006,080	7,661,855	8,886,774	9,234,721
Interest	5,395,978	5,157,212	4,531,118	5,782,368	5,912,681	5,934,304
Total Debt Service Payments	8,744,543	9,884,444	9,537,198	13,444,223	14,799,455	15,169,025
Debt Service Coverage	2.42X	2.51X	2.36X	1.36X	1.45X	1.97X
Net Revenues Remaining After Debt Service	$12,392,408	$14,958,619	$12,954,470	$ 4,819,463	$ 6,637,882	$14,782,464

(a) Estimated projections by the Department from its February 2004 Budget Monitoring Report. These amounts are "forward looking" statements and should be considered carefully. Such amounts are subject to changed based on actual results and could be materially different.

(b) Other income includes revenues generated from licenses, permits and fines, sanitation fees, net interest income, and other miscellaneous income.

Source: For fiscal years 1998-99 through 2002-03, prepared by the Department from its audited financial statements, excluding all grant activity. For fiscal year 2003-04, prepared by the Department based on actual revenues and expenses through February 2004.

PIMA COUNTY, ARIZONA
DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County is located in the southern portion of the State of Arizona ("Arizona" or the "State"), with a section of its southern boundary bordering Mexico. The boundaries of the County encompass an area of approximately 9,184 square miles. Organized in 1864 by the Arizona Territorial Legislature as one of the State's four original counties, the County is today the second most populous county in Arizona with an estimated 2003 population of 910,950. Nearly 57% of the County's population resides in the City of Tucson, Arizona ("Tucson"), the County seat of government and southern Arizona's largest city.

Population Statistics For Pima County, the City of Tucson and the State of Arizona

	Pima County	City of Tucson	State of Arizona
2003 Estimate	910,950	514,725	5,629,870
2000 Census	843,746	486,699	5,130,632
1990 Census	666,880	405,390	3,665,228
1980 Census	531,443	330,537	2,716,546
1970 Census	351,667	262,933	1,775,399
1960 Census	265,660	212,892	1,302,161

Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics.

Organization

The County is governed by a five-member Board, each of whom is elected for a four year term to represent one of the designated districts within the County. The chair is selected by the Board from among its members. The Board is responsible for establishing the policies of the various County departments and approving the annual budgets of these departments. The Board appoints a County Administrator who is responsible for the general administration and overall operations of the various departments of the County.

Mr. Charles H. Huckelberry was appointed County Administrator in December, 1993. From 1987 to 1993, Mr. Huckelberry served as an Assistant County Manager with responsibility for the administration of public works. He served as the Director of Pima County's Department of Transportation and Flood Control District from 1979 to 1987; as Deputy Director of the Department from 1976 to 1979; and as the Department's Manager of Field Engineering from 1974 to 1976. He was self employed as a civil engineering and land surveying consultant for one year. From 1972 to 1973, Mr. Huckelberry was employed as a Research and Development Engineer for the Shell Oil Company and during 1969 to 1972, he was a Civil Engineer and Land Surveyor for Jones and Associates. He holds both a Bachelor of Science Degree in Mining Engineering and a Master of Science Degree in Civil Engineering from the University of Arizona and is a registered professional engineer and land surveyor as well as a member of numerous professional organizations.

Ms. Carol Bonchalk was appointed Director of Financial and Information Services in 1993 after having served as Manager of Financial Services for Pima County since 1990 and Budget Supervisor and Budget Analyst from 1989 to 1990. Prior to her employment with Pima County, Ms. Bonchalk was Vice President of Management and Marketing for a private firm specializing in the development and operation of retirement communities and nursing homes; Director of Human Services and Executive Director of an Area Agency on Aging in Pennsylvania, and served as a probation officer for the City of Philadelphia. Ms. Bonchalk received her Bachelor of Science Degree from Pennsylvania State University, and has also completed various graduate level courses and participated

in numerous management and financial programs throughout her career. The County is currently recruiting for a Chief Information Officer to assume responsibilities for the Information Department.

Transportation

Tucson is the economic and transportation center of the County, as well as southern Arizona. Tucson is traversed by Interstates 10 and 19, as well as U.S. Highways 80, 89 and 93. Interstate 10 passes through Tucson and connects Tucson with the City of Phoenix, Arizona to the north and Los Angeles, California, to the west and New Mexico and Texas to the east. Interstate 19 provides access to the City of Nogales, Arizona ("Nogales") and Mexico to the south, while U.S. Highway 86 connects with a direct route to the Gulf of California vacation areas. The main line of the Union Pacific Railroad extends across Tucson to the eastern portion of the County while the western portion of the County is served by a branch line of the Union Pacific that runs through Ajo which is an unincorporated community in the County. Tucson International Airport, located approximately 20 minutes from Tucson's downtown business area, provides local, regional, national and international air service through several airlines. The airport has an 11,000-ft. lighted, paved primary runway, a 9,100-ft. paved secondary runway and a 7,000-ft paved runway, all of which can accommodate all major types of carriers. The County is also served by Greyhound bus lines and Amtrak.

Economy

The economy of the County is based largely on a variety of service industries, trade, and government employment; these three industries represented over 70% of total employment in 2003. Figures from the Arizona Department of Economic Security indicate that 346,800 persons were employed, on average (including the agricultural industry), in the County in 2003. The following table presents the County's average annual total employment by industry for the years indicated:

Pima County
Average Annual Employment
Number of Persons Employed 2001-2003

Industry	2001	2002	2003
Natural Resources and Mining	1,800	1,500	1,200
Construction	22,700	22,500	22,900
Manufacturing	33,000	30,500	28,700
Trade, Transportation and Utilities	55,300	54,500	54,400
Information	7,700	7,900	7,600
Financial Activities	14,400	14,400	15,100
Professional and Business Services	41,300	41,500	41,300
Education and Health Services	41,800	43,600	45,600
Leisure and Hospitality	38,200	37,300	36,500
Other Services	14,300	14,500	14,500
Government	76,800	77,900	78,200
Total Wage & Salary Employment	347,300	346,000	346,000

Source: Arizona Department of Economic Security.

The average unemployment rate for the County in 2003 was 4.3%. The average annual unemployment rate for 2002 and 2001 was 4.5% and 3.5%, respectively. The table below shows comparative unemployment rates for the County, the State of Arizona and the United States.

Pima County
Comparative Employment Statistics

Calendar Year	Pima County Average Employment	Pima County Average Unemployment	Unemployment Rate Pima County	Unemployment Rate Arizona	Unemployment Rate U.S.
2003	426,000	18,400	4.3%	5.6%	6.0%
2002	385,738	18,272	4.5	5.8	5.8
2001	379,032	13,561	3.5	4.7	4.8
2000	373,703	10,954	2.8	3.9	4.0
1999	372,649	12,079	3.1	4.4	4.2

Source: Arizona Department of Economic Security

Pima County
Major Employers

Company	Type of Business	Approximate Number of Full-Time Equivalents
University of Arizona	Education	11,335
Raytheon Missile Systems	Missile Manufacturing	10,100
Davis-Monthan Air Force Base	Military	9,947
State of Arizona	Government	9,732
Tucson Unified School District	Education	8,234
Pima County	Government	7,135
City of Tucson	Government	6,168
Wal-Mart Stores, Inc.	Retail	4,000
Tohono O'odham Nation	Tribal Government	3,375
Phelps Dodge Mining Company	Mining	3,348
Carondelet Health Network	Health Care	2,905
University Medical Center	Health Care	2,566
TMC Health Care	Health Care	2,436
Pima Community College	Education	2,274
Bashas' Inc.	Retail	2,250
Sunnyside Unified School District	Education	2,070

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2004).

Services

From 2001 to 2003, the service industry in the County expanded by 2,500 jobs or 2%. The average annual employment in the service industry in 2003 was 107,700. It is anticipated that as the County continues to grow in population and economic activity, the service industry (the largest employment component in the County comprising 30% of the total wage and salary employment base in 2003) will continue to be a significant contributor. According to the *Star 200 Directory*, which was published by the *Arizona Daily Star* in March 2003, Health Care and Education have been a dominating force in the service industry.

Government

Government employment plays an important role in the County with Federal, State and local government employees numbering approximately 77,100 in 2003. This sector expanded by 300 jobs from 2001 to 2003. The University of Arizona, the State of Arizona and the Davis-Monthan Air Force Base are significant contributors to government employment in the County (see "Pima County - Major Employers" listed in the above table). The Davis-Monthan Air Force Base is a major training ground for active duty members on the A-10 "Warthog" aircraft. The facility is also responsible for the education of tactical missile crews. Its storage capacity of 2,500 aircraft is the largest in the world. In the past, Davis-Monthan Air Force Base has been included reportedly on lists of installations considered for closure or realignment by the Defense Base Closure and Realignment Commission. There can be no assurances that Davis-Monthan Air Force Base will not be included on similar lists in the future. Any such closure or realignment would most likely be subject to review and approval by, among others, the Department of Defense and the President of the United States and would have a negative but unquantifiable effect on the County.

Manufacturing

The manufacturing sector continues to be dominated by the high technology industries of aerospace, electronics, computers, communications and instruments. Learjet Corporation, which is owned by Bombardier Aerospace, maintains an aircraft maintenance modification and customer service facility in Pima County. Bombardier Aerospace recently announced a corporate reorganization that may result in a net loss of approximately 500 jobs in the Tucson area. The company plans to move its Tucson based aircraft finishing work to Wichita, Kansas (resulting in a loss of approximately 800 jobs) to reduce production cycle times and inventory levels. As part of the same reorganization, Bombardier has selected Tucson as the location for its new Regional Aircraft Center and will employ approximately 300 people. The reorganization is expected to be complete by 2005.

Average annual employment in the manufacturing sector within the County in 2003 was 29,200, representing 8.4% of the County's total wage and salary employment base. Manufacturing employment during 2002 and 2001 averaged 30,500 and 33,000, respectively.

The following table presents the major manufacturers in the County and Tucson metropolitan area:

Metropolitan Pima County
Major Manufacturers

Company	Type of Business	Approximate 2003 Employment
Raytheon Missile Systems	Missile Manufacturing	10,100
IBM Storage System Division	Computer Systems	1,700
Bombardier Aerospace.	Aircraft Maintenance	1,350
Texas Instruments Tucson	Semiconductor Products	950
Honeywell	Aircraft Electronic Systems	815
Air System Components	Air Registers	450
Ventura Medical Systems	Computer Systems	395
Kalil Bottling Co.	Soft Drinks	320
Imation	Computer Systems	301
Precision Shooting Equipment	Firearms	300

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2004).

The County's proximity to Mexico makes twin plant "maquiladora" operations practical. Components are manufactured in Tucson and transported duty-free to Nogales, Sonora, Mexico, 65 miles south of Tucson, for assembly. Among the companies operating "twin plants" in Tucson and Nogales are General Electric, Samsonite, Motorola, Acco, Moen Faucets and Masterlock. These manufacturers contribute to the County's economy in many ways including the support of numerous suppliers and peripheral industries. The proximity of the Mexican border is more significant to manufacturing concerns given the existence of the North American Free Trade Agreement

between Canada, the United States and Mexico. However, the uncertainty of the Mexican economy may negatively impact the growth of the previously described manufacturing concerns.

The County has encouraged the location of industry within the community by the development of 33 industrial parks and funding, in conjunction with the City, the Greater Tucson Economic Council, a private, non-profit organization.

Tourism

Tourism is an important economic mainstay in the County and the Tucson area. The County's climate, historical sites, location and proximity to vacation areas in California and other destinations attract vacationers, conventioneers and other visitors. The Metropolitan Tucson Convention and Visitors Bureau estimates that 240,475 convention delegates visited the Tucson area in fiscal year 2000-01. In the Tucson area, there are 232 hotels and resorts with over 15,165 rooms. According to the Arizona Hospitality Research & Resource Center, over $1 billion was spent in the County in 2000 and over $900 million as of September 2001. These figures include the estimated tourist portion of amusement, bar and restaurant, hotel and motel, and retail gross sales. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Pima Air Museum, Saguaro National Monument, Mission San Xavier del Bac, Mount Lemmon, Sabino Canyon, Biosphere 2, and numerous resorts and golf courses. In addition, the Tucson metropolitan area is the home of spring training for Major League Baseball's Arizona Diamondbacks, Chicago White Sox and Colorado Rockies.

Education

The University of Arizona provides 11,335 jobs to the area and is an important link to the economic growth of the County. Its presence as a research university has assisted in attracting new business enterprises. The academic organization of the University is comprised of ten undergraduate colleges, five graduate colleges and a number of interdisciplinary programs. Enrollment figures for the fall semester of 2003 were estimated at 37,308 undergraduate and graduate full-time students. This enrollment includes students in continuing education programs, interns and residents, post-doctoral programs and on-campus non-credit students.

The University of Arizona also operates the Science and Technology Research Park which was voted as the nation's Outstanding Research/Science Park for 2001 by the Association of University Related Research Parks (AURRP).

Pima County Community College offers two-year programs in vocational and technical education. Total student enrollment for Pima County Community College for 2002-03 was estimated at 68,300 students.

Wholesale and Retail Trade

Wholesale and retail trade includes restaurants, hotels, taverns, service stations, automobile repair shops, shopping malls and wholesale dealers. In 2003, this sector employed an average of 93,200 persons. The largest individual employers in the retail sector (companies with more than 1,000 employees) are Wal-Mart Stores, Bashas' Inc., Safeway Stores Inc., Fry's Food and Drug Stores, Walgreen Co. and Conoco Phillips (Circle K).

The retail sales figures set forth on the following page are based on the sales tax collections within the County excluding penalties, late charges and nontaxable items. The sales tax rate levied by the State on retail sales within the County is 5.6%. In addition, cities and towns within Pima County generally levy a 2% to 2.5% sales tax.

The following table sets forth retail sales figures in the County for the past five full years.

Pima County Retail Sales (a)

Year	Amount	% Change
2003	$6,216,097,166	3.39%
2002	6,012,022,946	1.13
2001	5,944,792,196	2.20
2000	5,816,299,178	8.63
1999	5,354,226,543	8.37

(a) Excludes Food Sales and Gas Tax.

Source: Arizona Department of Revenue.

Financial Institutions

The following table illustrates the total dollars on deposit with participating banks of the Arizona Bankers Association for the County on December 31 of each year.

Pima County
Bank Deposits

As of December 31	Amount
2003(a)	$6,518,371,000 (b)
2002	6,062,996,000
2001	6,157,765,000 (c)
2000	5,540,428,000 (d)
1999	4,811,823,000 (e)

(a) Through September, 2003.
(b) Nordstrom FSB did not participate.
(c) Banks not participating are BNC National Bank, Bank of the Southwest, First Interstate Bank & Trust, Frontier State Bank, Johnson Bank, United Arizona Bank and Washington Mutual.
(d) First Interstate Bank & Trust was not a participating bank.
(e) Banks not participating are Stearns Bank, Bank of the Southwest, Pacific Century Bank and Norwest.

Source: Arizona Banker's Association.

Agriculture

Agriculture plays a less significant role in the economy of the County as a whole, but a small portion of the County relies on agriculture as its leading economic source. Principal crops harvested are cotton, wheat and hay, as well as vegetables. The following table sets forth the total cash receipts for all crops and livestock products in the County for the most recent five years for which reports are available.

Cash Receipts From Agricultural Marketing
(Total Crops and Livestock)
Pima County

Year	Receipts
2002	$51,983,000
2001	48,013,000
2000	45,502,000
1999	53,573,000
1998	54,582,000

Source: *2002 Arizona Agricultural Statistics*, July 2003.

Building Permits

The following tables were compiled from *Arizona Construction Report*, a publication of Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University. The Center obtains its data from county and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost of a project, not on market price or the value of construction at the time the permit is issued. The date at which the permit is issued should not be construed as the date of construction.

Pima County
Value of Building Permits

Year	Residential	Commercial	Industrial	Other	Total
2003	$1,386,884,000	$312,257,000	$8,717,000	$ 82,909,000	$1,790,767,000
2002	1,089,239,000	277,762,000	10,766,000	131,771,000	1,509,538,000
2001	989,210,000	234,454,000	23,526,000	98,008,000	1,345,198,000
2000	859,751,000	182,831,000	16,748,000	216,626,000	1,275,956,000
1999	841,455,000	172,765,000	14,035,000	196,959,000	1,225,214,000

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

Pima County
New Housing Starts

Year	Total Housing Units Permitted
2003	9,635
2002	8,915
2001	8,735
2000	8,337
1999	8,547

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

During 1998, the Arizona Legislature promulgated the Growing Smarter Act of 1998 ("Growing Smarter") which created new planning requirements throughout the State and provided stronger tools for local governments in their efforts to manage rapid development. Growing Smarter also created the "Growing Smarter Commission" which conducted hearings throughout the State on ways to enhance the law and to address certain other issues. During 2000, the Arizona Legislature adopted additional legislation known as "Growing Smarter Plus" which significantly expanded the requirements of Growing Smarter, and particularly the planning requirements passed in 1998. Fast growing communities are now required to plan for growth areas and identify the means to provide necessary public services in the future. In addition to environmental and infrastructure elements, an analysis of

available water is also required. To pay for growth, communities are permitted to establish service area limits, beyond which new growth pays the full cost for services. Growing Smarter allowed citizens to refer general plans passed by local government to the ballot for voter approval. Growing Smarter Plus goes a step farther by requiring fast growing and large cities and Pima and Maricopa Counties to submit their general plans to the voters for ratification. The general plan of such jurisdiction will be subject to future ratification by its voters every 10 years. It is not possible to determine the effect the foregoing will have on continuing development in the County.

APPENDIX C

PIMA COUNTY, ARIZONA

FINANCIAL INFORMATION

Introduction

The fiscal year for the County is from July 1 through June 30. The County's budget process is an ongoing function. Each fiscal year's process starts with the issuance in January of guidelines to all departments within which budgets must be developed. Department budget requests are submitted in March. A review process then takes place culminating with the County Administrator's submission of a proposed budget to the Board in time for budget hearings in mid-June. State statutes require that a tentative budget be adopted by the Board no later than the third Monday in July. At the time the final budget is adopted, which can be no later than the first Monday in August of each year, the Board of Supervisors holds a public hearing and meeting to determine the tax levy needed to support the budget. Taxes are then assessed and levied no later than the third Monday in August.

Expenditure Limitation

Beginning in fiscal year 1981-82, the County became subject to an annual expenditure limitation which is set by the Arizona Economic Estimates Commission. This limitation is based on the County's annual expenditures for fiscal year 1978-80, with this base adjusted to reflect interim population, cost of living and boundary changes. Certain expenditures are specifically exempt from the limit, including expenditures made from federal funds and bond sale proceeds, as well as debt service payments. The limitations can be exceeded for certain emergency expenditures or if approved by the voters. The Constitution provisions which relate to the expenditure limitation provide three processes to exceed the spending limit: a permanent base adjustment, a one-time override, and a capital project accumulation.

In the 2001-02 fiscal year, the expenditure limitation for the County was $358,429,223. Actual County expenditures subject to the limitation were under the limit. The County's expenditure limitation for the 2002-03 fiscal year was $368,508,021. Based on the County's budgeted expenditures for the 2002-03 fiscal year, the County's expenditure level will be under the limitation for the 2002-03 fiscal year. The County's 2003-04 fiscal year expenditure limitation is $381,461,790. The County's 2004-05 fiscal year expenditure limitation is $392,677,927.

Ad Valorem Taxes

General

Arizona (the "State" or "Arizona") property taxes are divided into two systems, primary and secondary. Secondary property taxes are those taxes imposed for payment of bonded indebtedness, for exceeding a budget, expenditure or tax limitation pursuant to voter approval and for operating and maintaining certain special districts. Primary property taxes are all ad valorem taxes other than secondary property taxes.

Under the primary system, the full cash value of locally-assessed real property (consisting primarily of residential, commercial, industrial, agricultural and unimproved property) cannot increase by more than 10% per year, except under certain circumstances. This limitation does not apply to mines, utilities and railroads which are assessed by the State. Annual tax levies under the primary system are based on the nature of the property taxed and the taxing authority. Primary taxes levied on residential property only are limited to 1% of the limited full cash value of such property. In addition, primary taxes levied on all types of property by counties, cities, towns and community college districts are limited to a maximum increase of 2% over the prior year's levy plus any amount directly attributable to new construction and annexation. The 2% limitation does not apply to primary taxes levied for local school districts. The County does not currently levy its primary tax levy to the maximum allowed under the law.

Secondary assessed valuation represents the value used in determining property tax levies for the payment of principal and interest on bonds, school district voter-approved budget overrides and special district taxes and the calculation of maximum bonded indebtedness allowed under the State's Constitutional debt limit. See "Debt Limitation" herein. Under the secondary system, there is no limitation on annual increases in full cash value of any property. In addition, annual tax levies for voter-approved bonded indebtedness, overrides and special district taxes are, except as they are described herein under the subheading "The Bonds – Security and Sources of Payment", unlimited.

Arizona law provides for a property valuation "freeze" for certain residential property owners sixty-five years of age and older. Owners of residential property may obtain such freeze against valuation increases (the "Property Valuation Projection Option") if the owner's total income from all sources does not exceed 400% (500% for two or more owners of the same property) of the "Social Security Income Benefit Rate." The Property Valuation Protection Option must be renewed every three years. If the property is sold to a person who does not qualify, the valuation reverts to its current full cash value. Any freeze on increases in full cash value will translate to the secondary assessed value of the affected property as hereinafter described.

Additionally, all property, both real and personal, is assigned a classification to determine its assessed valuation for tax purposes. Each legal classification is defined by property use and has an assessment ratio (a percentage factor) which is multiplied by the limited or full cash values of the property to obtain the assessed valuations.

Tax Procedures

The tax year in Arizona is defined as the calendar year, although tax procedures begin prior to January 1 of each tax year and continue through May of the succeeding calendar year. The first step in the tax process, for taxing entities other than certain special districts, is the determination of the full cash value of each individually-owned parcel of land within the State. Property valuations are established on most property by the individual county assessors, with the State Department of Revenue determining the valuation of centrally assessed properties such as gas, water and electrical utilities, railroads, mines and pipelines. The appropriate property classification assessment ratio is then applied to the full cash value to determine the assessed valuation for such parcel. The assessment ratios utilized over the five-year period 1999-00 through 2003-04 for each class of property are set forth below.

Property Tax Assessment Ratios
1999-00 through 2003-04

Classification (a)	1999-00	2000-01	2001-02	2002-03	2003-04
Mining (b)	25%	-	-	-	-
Utility (b)	25%	-	-	-	-
Commercial and Industrial (b)(c)	25%	25%	25%	25%	25%
Agriculture and Vacant Land (c)	16%	16%	16%	16%	16%
Owner Occupied Residential	10%	10%	10%	10%	10%
Leased or Rented Residential	10%	10%	10%	10%	10%
Railroad, Private Car Company And Airline Flight Property (d)	21%	21%	21%	20%	20%

(a) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation. These classes consist of non-commercial historic property; aerospace manufacturing property in a military reuse zone; certain manufacturing property in an enterprise zone; property in a foreign trade zone; environmental technology property for the first 20 years from the date placed in service; commercial historic property; historic residential property; producing oil, gas and geothermal resource interests; and leasehold or other possessory interests in certain public property.

(b) For tax year 2000 and thereafter, mining and utility properties have been included in the same legal property class as commercial and industrial properties.

(c) The first $55,546 of full cash value of commercial, industrial and agricultural personal property is exempt from tax. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of those amounts will be assessed at 25% or 16% as applicable.

(d) This percentage is determined annually to be equal to the ratio of (i) the total assessed valuation of all mining, utility, commercial, industrial, and military reuse zone properties and agricultural personal property to (ii) the total full cash (market) value of such properties.

Delinquent Tax Procedures

The property taxes due to the County are billed, along with State and other taxes, ordinarily in September of the calendar tax year and are due and payable in two installments on October 1 and March 1 and become delinquent on November 1 and May 1. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month unless the full year's taxes are paid by December 31. After the close of the tax collection period, the County Treasurer prepares a delinquent property tax list and the property so listed is subject to a tax lien sale in February of the succeeding year. In the event that there is no purchaser for the tax lien at the sale, the tax lien is assigned to the State, and the tax lien is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent and current taxes.

It should be noted that in the event of bankruptcy of a taxpayer pursuant to the United States Bankruptcy Code (the "Bankruptcy Code"), the law is currently unsettled as to whether a lien can be attached against the taxpayer's property for property taxes levied during the pendency of bankruptcy. Such taxes might constitute an unsecured and possibly noninterest bearing administrative expense payable only to the extent that the secured creditors of a taxpayer are oversecured, and then possibly only on the prorated basis with other allowed administrative claims. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on a property of a taxpayer within the County. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on the property.

When a debtor files or is forced into bankruptcy, any act to obtain possession of the debtor's estate, any act to create or perfect any lien against the property of the debtor or any act to collect, assess or recover a claim against the debtor that arose before the commencement of the bankruptcy would be stayed pursuant to the Bankruptcy Code. While the stay of a bankruptcy court may not prevent the sale of tax liens against the real property of a bankrupt taxpayer, the judicial or administrative foreclosure of a tax lien against the real property of a debtor would be subject to the stay of a bankruptcy court. It is reasonable to conclude that "tax sale investors" may be reluctant to purchase tax liens under such circumstances, and, therefore, the timeliness of post bankruptcy petition tax collections becomes uncertain.

It cannot be determined what impact any deterioration of the financial condition of any taxpayer, whether or not protection under the Bankruptcy Code is sought, may have on payment of or the secondary market for the Bonds. Neither the County nor their respective agents or consultants have undertaken any independent investigation of the operations and financial condition of any taxpayer, nor have they assumed responsibility for the same.

Property Valuations

The following table lists the various property valuations for the County for the current year.

	Valuations for Fiscal Year 2003-04
Estimated Actual Valuation*	$43,733,555,507
Net Secondary Assessed Valuation	$5,221,270,997
Net Primary Assessed Valuation	$5,022,474,184

*Actual full cash value net of estimated value of property exempt from taxation.

Source: Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

Net Secondary Assessed Valuation Comparisons and Trends

The information set forth below is shown to indicate the ratio between assessed values and estimated actual values for the County, as well as changes in the secondary assessed valuations of the County and overlapping municipal units on a comparative basis. The basis of property assessment for these years is shown under "Ad Valorem Taxes - Tax Procedures".

Net Secondary Assessed Value and Estimated Actual Cash Value Comparison

Fiscal Year	Net Secondary Assessed Valuation	Estimated Actual Valuation*	Net Secondary Assessed Valuation as a Percentage of the Estimated Actual Valuation
2003-04	$5,221,270,997	$43,733,555,507	11.90%
2002-03	4,835,561,219	36,999,609,652	13.07
2001-02	4,491,395,307	34,150,201,378	13.15
2000-01	4,236,070,095	32,488,178,944	13.03
1999-00	4,000,624,012	30,972,409,693	12.92

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance Department and Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

*Actual full cash value net of estimated value of property exempt from taxation.

Net Secondary Assessed Valuation Comparisons

Fiscal Year	City of Tucson	Percent Change	Pima County	Percent Change	State of Arizona	Percent Change
2003-04	$2,427,120,926	5.90%	$5,221,270,997	7.30%	$40,861,415,479	11.02%
2002-03	2,268,733,334	6.09	4,835,561,219	7.66	36,805,206,912	6.76
2001-02	2,138,461,318	4.40	4,491,395,307	6.03	34,473,431,135	8.28
2000-01	2,048,620,866	5.31	4,236,070,095	5.88	31,837,391,782	9.41
1999-00	1,945,160,492	3.69	4,000,624,012	3.84	29,098,557,633	8.61

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance Department and Pima County Assessor's *Abstract of the 2003 Tax Roll for Pima County.*

2003-04 Net Secondary Assessed Valuations of Major Taxpayers

Shown below are the major property taxpayers located within the County, an estimate of their current assessed value and their relative proportion of the County's net secondary assessed value.

Taxpayer (a)	Estimated 2003-04 Net Secondary Assessed Valuation	As Percent of County's 2003-04 Net Secondary Assessed Valuation
Tucson Electric Power	$122,499,051	2.35%
Qwest	108,828,645	2.08
Southwest Gas Corporation	55,710,080	1.07
Arizona Portland Cement	19,989,949	0.38
Tucson Mall	18,703,342	0.36
Westin La Paloma	16,056,671	0.31
El Conquistador Hotel	14,460,625	0.28
Phelps Dodge	14,375,000	0.28
Raytheon Company	13,290,286	0.25
TRICO	11,467,176	0.22
Total	$395,380,825	7.57%

(a) Some of such taxpayers or their parent corporations are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the Filings can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Filings may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR data base at http://www.sec.gov. Neither the County nor its Bond Counsel has examined the information set forth in the Filings for accuracy or completeness, nor do they assume responsibility for the same.

Source: Pima County Assessor's office.

Record of Real and Secured Personal Property Taxes Levied and Collected

Property taxes are levied and collected on all taxable property within the County and are certified to by the County Treasurer. The following table sets forth the real and secured personal property tax collection of the County for the current and past five fiscal years.

Fiscal Year	Real and Secured Personal Property Tax Levy	Fiscal Year Collections (a)		Total Collections (b)	
		Amount	Percent of Tax Levy	Amount	Percent of Tax Levy
2003-04	$260,569,501	(c)	(c)	$143,904,562	55.23%
2002-03	241,415,870	$231,618,472	95.94%	240,012,540	99.42
2001-02	228,476,979	218,191,563	95.50	227,891,867	99.74
2000-01	214,642,135	204,963,396	95.49	213,986,863	99.69
1999-00	201,924,932	192,408,605	95.29	201,170,097	99.63
1998-99	180,549,713	172,329,841	95.45	180,067,895	99.73

(a) Reflects collections made through June 30th, the end of the fiscal year, on such year's levy. Property taxes are payable in two installments. The first installment is due the first day of October and becomes delinquent on November 1, but is waived if the full tax year's taxes are paid in full by December 31. The second installment becomes due the first day of March and is delinquent on May 1. Interest at the rate of 16% per annum

attaches on first and second installments following their delinquent dates. Penalties for delinquent payments are not included in the above collection figures.

(b) Reflects collections made through February 29, 2004 against prior levies.

(c) In the process of collection.

Source: Pima County Treasurer's Office

Tax Rate Data

The tax rates provided below reflect the total property tax rate levied by the County. As such, the rates are the sum of the primary tax rate, which is levied against the primary assessed value within the County, and the secondary tax rate for debt service payments, the County Library District, the County Fire District Assistance Tax and the County Flood Control District, all of which are levied against the County's secondary assessed value (except in the case of the Flood Control District, which is levied against the District's secondary assessed value which excludes the value of personal property).

Fiscal Year	Primary Tax Rate	Secondary Tax Rate	Total Tax Rate
2003-04	$4.0720	$1.4261	$5.4981
2002-03	4.0720	1.4278	5.4998
2001-02	4.0720	1.5108	5.5828
2000-01	4.0720	1.4915	5.5635
1999-00	4.0720	1.4931	5.5651

Source: *Property Tax Rates and Assessed Values,* The Arizona Tax Research Foundation and Pima County Finance Department.

Debt Limitation

Pursuant to the Arizona Constitution, outstanding general obligation debt for County purposes may not exceed 15% of a County's net secondary assessed valuation. The following indicates the County's current bonding capacity.

Net Secondary Assessed Valuation (FY 2003-04)	**$5,221,270,997**
15% Constitutional Limitation	783,190,650
Net Direct General Obligation Bonds	(201,370,000)
Unused 15% Limitation	$581,820,650

General Obligation Bonded Debt Outstanding(b)

The following chart indicates the outstanding general obligation bonded debt of the County.

Date of Issue	Original Amount	Original Purpose	Maturity Dates	Average Int. Rates	Remaining Balance Outstanding
04-15-93	$64,535,000	Refunding (a)	7-1-94/04	5.02%	$ 11,710,000
05-01-98	42,420,000	Various Improvements	7-1-99/13	4.62%	27,625,000
10-01-99	50,000,000	Various Improvements	7-1-00/14	5.04%	33,965,000
08-01-00	50,000,000	Various Improvements	7-1-01/14	4.76%	41,000,000
07-01-01	17,835,000	Refunding (a)	7-1-03/09	4.41%	16,340,000
01-01-02	20,000,000	Various Improvements	7-1-02/16	4.00%	14,500,000
01-05-03	50,000,000	Various Improvements	7-1-03/17	3.90%	49,350,000
01-01-04	6,880,000	Refunding (a)	7-1-04	3.375%	6,880,000
Total General Obligation Bonded Debt Outstanding					$201,370,000

(a) These refunding bonds were issued to refund in advance of maturity certain outstanding general obligation bonds of the County. Debt service requirements on the refunded bonds are secured for payment by government securities which are held in irrevocable trusts and are not reflected in the balance outstanding.

(b) On January 20, 2004, the County's Board of Supervisors called for a special election to be held on May,18 2004 with respect to the authorization of $582,250,000 of general obligation bonds and $150,000,000 of sewer revenue bonds.

Annual Debt Service Requirements of
General Obligation Bonded Debt Outstanding

The following chart indicates the general obligation debt service requirements of the County.

Fiscal Year 30-Jun	Existing General Obligation Bonded Debt Outstanding Principal	Interest	Total Debt Service Service Requirement
2004	$34,265,000	$8,961,410	$43,226,410
2005	24,610,000	7,443,485	32,053,485
2006	23,625,000	6,314,585	29,939,585
2007	22,640,000	5,233,635	27,873,635
2008	18,670,000	4,196,980	22,866,980
2009	13,670,000	3,361,080	17,031,080
2010	12,920,000	2,744,680	15,664,680
2011	10,020,000	2,167,900	12,187,900
2012	10,040,000	1,722,000	11,762,000
2013	10,060,000	1,278,200	11,338,200
2014	7,750,000	859,250	8,609,250
2015	4,700,000	544,250	5,244,250
2016	4,300,000	352,750	4,652,750
2017	4,100,000	174,250	4,274,250

Net Direct and Overlapping General Obligation Bonded Debt

Overlapping bonded debt figures were compiled from information obtained from the County Treasurer's Office and individual jurisdictions. A breakdown of each overlapping jurisdiction's applicable general obligation bonded debt, net secondary assessed valuation and combined tax rate per $100 assessed valuation follows.

Jurisdiction	2003-04 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Portion Applicable to the County Percent	Net Debt Amount	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$40,861,415,479	None	100%	None	$0.0000
Pima County	**5,221,270,997**	**$201,370,000**	**100**	**$ 201,370,000**	**5.1435 (b)**
Pima County Flood Control District (c)	4,511,099,509	4,585,000	100	4,585,000	0.3546
Elementary School Districts	211,995,542	3,700,000	100	3,700,000	2.8773 (d)
Unified School Districts	4,999,662,635	645,730,000	100	645,730,000	7.9164 (d)
Cities and Towns	2,999,764,193	259,495,000	100	259,495,000	0.9376 (d)
Pima County Community College District	5,221,270,997	94,215,000	100	94,215,000	1.4884
Total				$1,209,095,000	

Jurisdiction	2003-04 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$40,861,415,479	None	$0.0000
Pima County	5,221,270,997	$201,370,000	5.1435 (b)
Pima County Flood Control District (c)	4,511,099,509	4,585,000	0.3546
Pima County Community College District	5,221,270,997	94,215,000	1.4884
Elementary School Districts:			
San Fernando ESD #35	685,634	None	0.0000
Empire ESD #37	4,229,622	None	6.4699
Continental ESD #39	181,629,157	3,700,000	2.3198
Redington ESD #44	950,565	None	5.6853
Altar Valley ESD #51	24,500,564	None	6.3615
Unified School Districts:			
Tucson USD #1	2,352,797,558	290,770,000	8.7610
Marana USD #6	398,731,172	79,805,000	6.7979
Flowing Wells USD #8	161,591,356	13,810,000	6.6568
Amphitheater USD #10	962,109,272	113,660,000	6.7601
Sunnyside USD #12	292,460,963	55,865,000	9.1041
Tanque Verde USD #13	123,997,672	7,010,000	7.1785
Ajo USD #15	13,577,947	None	5.3016
Catalina Foothills USD #16	406,627,507	45,415,000	7.0256
Vail USD #20	199,318,912	18,960,000	7.1748
Sahuarita USD #30	84,837,119	20,435,000	9.0113
Indian Oasis USD #40	3,613,154	None	0.0000
Cities and Towns:			
City of Tucson	2,427,120,926	259,495,000	1.1569
City of South Tucson	17,955,803	None	0.2513
Town of Marana	182,878,398	None	0.0000
Town of Oro Valley	326,787,649	None	0.0000
Town of Sahuarita	45,021,417	None	0.0000

(a) Includes general obligation bonds outstanding. Does not include outstanding principal amount of various cities and towns improvement districts' bonded debt as of June 30, 2003, and outstanding principal amount of various County improvement districts' bonded debt, as the indebtedness of these districts is presently being paid from special assessments levied against property owners residing within the various improvement districts. Also does not include various fire districts.

Also does not include the obligation of the Central Arizona Water Conservation District ("CAWCD") to the United States of America, Department of the Interior, for repayment of certain capital costs for construction of the Central Arizona Project ("CAP"), a major reclamation project that has been substantially completed by the Department of the Interior. The obligation is evidenced by a master contract between CAWCD and the Department of the Interior. In April of 2003, the United States and CAWCD agreed to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payment of the operation, maintenance and replacement costs and the application of certain revenues and credits against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.646 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 667,724 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of CAP at no additional cost to CAWCD. Of the $1.646 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be

fixed for the entire 50-year repayment period, which commenced October 1, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and other water claims and will require certain State of Arizona and Federal legislation. If the conditions are not met by May 9, 2012, and the parties do not amend the agreement, the agreement will terminate and litigation will resume. If it appears prior to May 9, 2012, that the conditions will not be met by the deadline, the parties can amend the agreement or either party may petition the U.S. District Court to terminate the agreement and resume litigation. It is not possible to predict whether the agreement will become finally effective, be amended, or terminate, or whether litigation will resume. If litigation resumes, it is not possible to predict the outcome of such litigation. CAWCD is a water conservation district having boundaries coterminous with the exterior boundaries of Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of the CAP and to assist in the repayment to the United States of the CAP capital costs. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of CAP water) and a tax levy against all taxable property within CAWCD's boundaries. At the date of this Official Statement, the tax levy is limited to fourteen cents per $100 of secondary assessed valuation, of which twelve cents is being currently levied. (See Arizona Revised Statutes, Sections 48-3715 and 48-3715.02.) There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract.

(b) The County's total tax rate shown includes the County's primary and secondary debt service tax rates, the $0.2124 tax rate of the Free Library District, and the $0.0441 tax rate of the Fire District Assistance Tax.

(c) The boundaries of the Pima County Flood Control District are coterminous with those of Pima County; however, the Flood Control District only levies taxes on real property.

(d) The tax rate shown is a weighted average based on each jurisdiction's proportionate amount of secondary assessed valuation.

(e) The combined tax rate includes the tax rate for debt service payments, which is based on the secondary assessed valuation of the entity, and the tax rate for all other purposes such as maintenance and operation and capital outlay, which is based on the primary assessed valuation of the municipality or school district.

(f) The following table lists general obligation bonds authorized but unissued for the County and jurisdictions within the County.

Jurisdiction*	Authorized But Unissued General Obligation Bonds
Pima County	$67,460,000
City of Tucson	83,980,000
Marana Unified School District No. 6	4,845,000
Indian Oasis Unified School District No. 40	500,000

* Additional general obligation bonds may be authorized by these and other jurisdictions within the County at future elections.

Net Direct and Overlapping General Obligation Bonded Debt Ratios

The County's direct and overlapping general obligation bonded debt is shown below on a per capita basis and as a percent of the County's net secondary assessed valuation and estimated actual valuation.

	Per Capita Net Debt (Pop. @ 890,545)(a)	As Percent of County's 2003-04 Secondary Assessed Valuation ($5,221,270,997)	Est. Actual Valuation ($43,733,555,507)
Net Direct General Obligation Bonded Debt ($201,370,000)	$226.12	3.86%	0.46%
Net Direct and Overlapping General Obligation Bonded Debt ($1,209,095,000)	$1,357.70	23.16%	2.76%

(a) Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics, July, 2002.

Street and Highway Revenue Bonded Debt Outstanding (a)

The following chart lists the outstanding street and highway revenue bonds of the County.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Remaining Balance Outstanding
5-01-98	$40,000,000	Street & Highway Improvements	7-1-99/08	$ 20,000,000
1-01-02	55,000,000	Street & Highway Improvements	7-1-03/12	50,465,000
1-15-03	35,000,000	Street & Highway Improvements	7-1-04/18	35,000,000
Total Street and Highway Revenue Bonds Outstanding				$105,465,000

(a) In 2002, the County received two loans totaling $5.1 million from the Highway Expansion and Extension Loan Program (HELP) of the Arizona Department of Transportation. The loans from the HELP program will allow the County to accelerate by several years the completion of two projects that are scheduled to be funded from Federal aid highway revenues in future years. Final payments on each loan are due in January 2007 and each loan is payable solely from the County's Highway User Tax Revenues, on a basis junior and subordinate to amounts due on the Bonds and all parity bonds.

Lease, Lease-Purchase and Purchase Agreements

The County has various lease purchase agreements outstanding. A list of the County departments benefited by these agreements and the scheduled payments on these agreements over the past three fiscal years appears below.

	Fiscal Year		
County Department	2000-01	2001-02	2002-03
Elections	$ 459,635	$ 459,635	$459,635
Clerk of Superior Court	13,369	58,251	144,062
Juvenile Court	100,000	115,935	73,986
Legal Services Building	926,550	52,550	-
Public Works Building	1,638,810	1,641,810	1,644,900
Sheriff	235,547	138,910	42,274
Superior Court	435,328	269,315	-
Fiscal Year Total	$3,809,239	$2,736,406	$2,364,857

Source: Pima County Finance Department.

Certificates of Participation

The following chart lists the certificates of participation obligations outstanding for the County.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Remaining Balance Outstanding
4-01-95	$18,515,000	Refunding	7-1-95/04	$ 1,560,000
9-01-99	4,875,000	Refunding	1-1-13/14	4,000,000
10-01-03	27,525,000	Refunding	1-1-05/18	27,525,000
Total Certificates of Participation Obligations Outstanding				$33,085,000

Management's Review of the County's Financial Position

Historically, the County had reported significant year-end deficits in certain of its funds that were offset for financial reporting purposes at year-end with cash from other sources, such as the County General Fund. These deficits did not result in any default or failure by the County to make any payments for any of its debt or to creditors or payees of the County. During the mid to late 1990's, the County's General Fund balances decreased, limiting the County's ability to internally loan General Fund cash to other County departments, while cash deficits within the County's Health Care System and other smaller enterprise and special revenue funds increased. In addition, several accounting changes were imposed upon or enacted by the County that further limited the County's ability to address year-end cash deficits. As a result of these issues, the County instituted a series of short-term measures during fiscal year 1998-99 to address the cash deficits, including drawing upon the County's line of credit with its servicing bank and instituting formal internal borrowings from other County funds while developing a long term plan.

Since 1998-99 Pima County's General Fund financial performance has improved from an actual $8.5 million ending fund balance on June 30, 1999 to a June 30, 2003 fund balance of $33.5 million. During the same period the County also eliminated several long-term cash deficits in certain enterprise and special revenue funds, implemented significant changes in the County's Health Care System, increased its budgeted ending fund balance, absorbed approximately $12 million of cost shifts from the State, increased operating and maintenance costs associated with an aggressive voter authorized capital bond program, increased the County's Contingency Fund and funded several General Fund supported capital projects. All of the above issues, as well as the rest of the County's budget, were funded by maintaining the County's primary property tax rate at the current level of $4.0720 per $100 of assessed value, continued growth in County tax revenues due to the strong local economy and an equity transfer from the County's managed care fund.

The one remaining long-term cash deficit, in the County's Stadium District Fund, is anticipated to be eliminated over the next two fiscal years. The fiscal year 2003-04 General Fund budget provides for approximately one-half of the Stadium District's $6.0 million cash deficit and directs County staff to fund the remaining $3.0 million from the General Fund in the fiscal year 2004-05 budget. Of the $6.0 million deficit approximately $3.9 million relates to initial construction costs associated with the County's stadium and the remaining $2.1 million is the result of accumulated operating losses from the first few years of operation. Declines in tourism revenues have impacted the Stadium's ability to reduce its cash deficit without General Fund support. By eliminating the cash deficit, refinancing the debt incurred to fund construction of the stadium and maintaining the existing contracts with major and minor league baseball teams, the Stadium District revenues are projected to be sufficient to maintain a positive financial position by fiscal year 2004-05.

As of June 30, 2003, the County's Wastewater Management Enterprise Fund had borrowed $10.8 million from the General Fund to cover a short-term cash deficit due to expenses related to the failure of a main sewer trunk line. The line was scheduled for replacement starting in fiscal year 2003-04. The County contends that the sewer line failed due to erosion caused by a broken City of Tucson water main in the same area and is seeking partial reimbursement from the City of Tucson Water Department. See "Extraordinary, Uninsured Event" in Appendix A – "PIMA COUNTY, ARIZONA WASTEWATER MANAGEMENT DEPARTMENT."

The Wastewater Management Department plans to eliminate the cash deficit during the current fiscal year and is not anticipated to require a subsidy from the General Fund. In order to meet this goal, the Department has

revised its Five Year Capital Improvement Program, reduced operating expenses and received approval from the Board to raise the sewer user fee rates by four percent (4%) and sewer connection fees by six percent (6%) effective July 1, 2004.

On December 9, 003, the County received a confidential settlement proposal from ADEQ but it is too early to speculate on what a final settlement agreement or the resulting financial impact of any such agreement might be. Previous Notice of Violations received by the County have not resulted in financial penalties, however, the violations associated with those notices were not of the same magnitude.

Following a series of public meetings in fiscal year 2002-03, the County made several major operational changes in its Health Care system that were intended to limit the County's financial liability while continuing to provide much needed health care services to an underserved section of the County and provide critical psychiatric care services for County residents. As a part of these efforts, the County planned to transition the County hospital, Kino Community Hospital (the "Hospital"), to a psychiatric hospital by the end of the current fiscal year. Some initial steps were taken to do that, such as relinquishing day-to-day operation of the out-patient clinics to not-for--profit organizations, and hiring private firms to manage the Emergency Room, Urgent Care and the in-patient psychiatric services, and reducing the number of medical surgical beds.

In November 2003, University Physicians Inc., a non-profit organization affiliated with the University of Arizona School of Medicine expressed an interest in operating the Hospital as an integral part of their teaching mission. To meet the critical healthcare needs of the community in a fiscally responsible manner, the Board of Supervisors is expected to approve a 25-year lease (the "Lease") with University Physicians, Inc., a nonprofit corporation ("UPI"), for the land and buildings currently known as "Kino Community Hospital". Under the terms of the Lease, beginning on or before July 1, 2004 UPI would assume full responsibility for operation of the facility and over the next few years expand and increase services as set forth in the lease. As consideration for UPI's provision of the services to be offered at the Hospital, the County will pay UPI a Service Fee in the amount, if any, by which the cost of providing these services exceeds the revenue generated by the Hospital, up to the following annual amounts:

Year 1:	$25,000,000
Year 2:	$20,000,000
Year 3:	$15,000,000
Years 4 through 8:	$10,000,000
Year 9:	$9,000,000
Year 10:	$8,000,00
Year 11 through 25:	$0

In addition to the Service Fee, the Lease as currently proposed requires the County to complete a number of capital projects, including but not limited to the mold abatement and chiller replacement. General Fund support of $526,300 will be required in fiscal year 2004/05 to complete the projects that are not covered by the 1997 General Obligation bond funds. Several other projects, which will require, approximately $550,000 would not be complete until Fiscal Year 2005/06. As part of the Lease, UPI assumes responsibility for all other maintenance and capital expenditures related to the existing facilities covered by the Lease.

The Lease agreement provides the County with a cap on the funding needed to support the Hospital in future years. However, it was decided to retain the general hospital license this year so it could be transferred to UPI and the additional expenses related to the transition, are expected to increase the current fiscal year loss to $32 million or $12 million over the $20 million budgeted subsidy. As a result of a larger than anticipated June 30, 2003, General Fund ending balance and an enhanced Contingency Fund, sufficient resources are anticipated to be available to cover such losses without impacting the County's budgeted General Fund balance for the fiscal year 2003-04.

The Board of Supervisors has taken a variety of significant actions to stabilize the finances and enhance the fiscal integrity of the County, a decision to pursue a lease for the Hospital and limit the County's liability is the most recent. In addition, the Board has steadily increased the amount budgeted as the General Fund Ending Balance. From a low of zero in fiscal year 1996-97, the budgeted Ending Balance has been steadily increasing to $13.4

million this fiscal year. In addition, for fiscal year 2003-04, the Board increased its Contingency Fund from $1,500,000 to $3,500,000. Despite investment losses incurred by the County from investments in the State Treasurer's Local Government Investment Pool last fiscal year and a sluggish economy, the June 30, 2003 fund balance was $33.5 million or $20 million over budget.

The Board of Supervisors acting on the recommendation of a County Bond Advisory Committee has scheduled a bond election on May 18, 2004 for the purpose of authorizing $582,250,000 of General Obligation Bonds and $150 million in Sewer Revenue Bonds. The recommended bond program is anticipated to be accomplished by the County at a secondary property tax rate equal to, or less than, the current rate of $0.8150 per $100 of assessed valuation.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
Revenues by Source:						
Taxes	$194,948	$214,332	$227,542	$244,807	$258,375	$278,895
Special Assessments	874	703	845	598	1,023	564
Licenses and Permits	4,306	4,541	4,882	6,077	6,087	6,681
Intergovernmental	211,006	241,225	253,863	260,218	245,378	269,651
Charges for Services	24,404	27,308	26,613	31,112	35,721	33,315
Fines and Forfeits	3,930	4,245	4,365	4,882	5,047	4,431
Interest Income	9,009	11,384	15,468	6,952	4,152	8,530
Miscellaneous	10,208	9,452	8,131	8,143	10,356	10,896
Total Revenues	$458,685	$513,190	$541,709	$562,789	$566,139	$612,963
Expenditures by Fund:						
General	244,912	253,563	270,028	285,486	308,917	332,094
Special Revenues	128,240	141,860	147,367	153,888	149,633	183,739
Debt Service	51,988	46,992	50,219	48,102	57,563	62,378
Capital Projects	66,671	89,215	87,673	109,670	97,147	106,177
Total Expenditures	$491,811	$531,630	$555,287	$597,146	$613,260	$684,388
Excess of Revenues Over (Under) Expenditures	(33,126)	(18,440)	(13,578)	(34,357)	(47,121)	(71,425)
Proceeds of Long-Term Debt	307	54,129	50,358	82,717	85,247	0
Proceeds of Refunding Bonds	0	0	0	22,420	0	0
Payment to Refunded Bond						0
Escrow Agent	0	0	0	(22,551)	0	0
Operating Transfers In (Out)	(48)	(13,134)	(37,941)	(12,905)	(15,140)	(15,324)
Capital Leases	0	0	0	0	177	0
Sale of General Fixed Assets	332	0	0	590	37	0
Beginning Fund Balance, as restated	111,530	80,675	105,554	110,664	147,803	160,976
Restatement Adjustment/LGIP Loss	0	1,816	2,063	1,175	(6,237)	0
Changes in Reserve for Inventory	92	166	(117)	64	629	0
Charges in Reserve for Prepaid	0	(6)	10	(14)	0	0
Residual Equity Transfer In (Out)	1,588	348	4,315	0	0	0
Ending Fund Balance	$ 80,675	$105,554	$110,664	$147,803	$165,395	$74,227

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject to any separate audit procedures.

PIMA COUNTY, ARIZONA
STATEMENT OF FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
General						
Reserved	$2,479	$1,846	$2,233	$2,486	$2,549	$1,367
Unreserved	6,030	24,721	19,653	28,656	30,999	12,033
	8,509	26,567	21,886	31,142	33,548	13,400
Special Revenue						
Reserved	2,317	2,785	3,639	2,570	3,623	680
Unreserved	27,114	40,785	48,616	61,134	42,312	16,185
	29,431	43,570	52,255	63,704	45,935	16,865
Debt Service						
Reserved	8,155	7,627	5,537	5,964	3,078	4,184
	8,155	7,627	5,537	5,964	3,078	4,184
Capital Projects						
Reserved	0	0	0	8	41	0
Unreserved	34,580	27,790	30,986	46,985	82,793	39,778
	34,580	27,790	30,986	46,993	82,834	39,778
Total Fund Balance	$80,675	$105,554	$110,664	$147,803	$165,395	$74,227

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject of any separate audit procedures.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN GENERAL FUND BALANCE
(In $000)

	Actual					Budget
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04(a)
Revenues by Source:						
Taxes	$138,986	$158,750	$169,129	$181,840	$194,552	$210,153
Licenses and Permits	1,698	1,449	1,186	2,071	2,010	2,010
Intergovernmental	94,468	103,828	110,408	111,922	112,530	111,235
Charges for Services	13,375	15,927	15,663	19,974	23,750	22,144
Fines and Forfeits	3,307	3,466	3,483	3,898	4,111	3,624
Interest	269	4,197	4,361	2,086	1,015	1,035
Miscellaneous	3,205	3,227	2,007	1,995	2,884	2,361
Total Revenues	255,308	290,844	306,237	323,786	340,852	352,562
Expenditures:						
Current						
General Government	86,337	92,397	98,689	101,397	110,813	125,679
Public Safety	69,170	72,399	78,785	86,039	90,375	97,311
Sanitation	0	0	0	0	0	0
Health	282	554	532	2,567	2,762	2,642
Welfare	69,687	69,368	71,243	73,060	84,130	83,930
Culture & Recreation	9,382	10,159	11,128	13,453	12,858	14,408
Education & Econ. Opport.	4,649	4,217	4,987	5,299	4,812	5,562
Debt Service:						
Principal	3,418	2,618	2,834	1,913	1,550	1,042
Interest	1,981	1,844	1,826	1,754	1,613	1,514
Miscellaneous	6	7	4	4	4	6
Total Expenditures	244,912	253,563	270,028	285,486	308,917	332,094
Excess of Revenues Over (Under) Expenditures	10,396	37,281	36,209	38,300	31,935	20,468
Other Financing Sources (uses):						
Proceeds of Long-Term Debt	280	369	345	0	0	0
Sale of General Fixed Assets	0	0	0	0	0	0
Proceeds of Refunding Bonds	0	0	0	0	0	0
Payment to Refunded Bond Escrow	0	0	0	0	0	0
Operating Transfers In (Out)	(5,626)	(19,112)	(45,550)	(29,624)	(27,799)	(32,571)
Total Other Financing Sources (Uses):	(5,346)	(18,743)	(45,205)	(29,624)	(27,799)	(32,571)
Excess of Revenues and Other Sources						
Extraordinary item:						
Loss from State Treasurer's Local Government Investment Pool	0	0	0	0	(1,730)	0
Over (Under) Expenditure and Other Uses	5,050	18,538	(8,996)	8,676	2,406	(12,103)
Beginning Fund Balance, as restated	3,934	8,509	26,567	22,466	31,142	25,503
Restatement Adjustment	0	0	0	0	0	0
Changes in Reserve for Inventory	0	0	0	0	0	0
Residual Equity Transfer: In (Out)	(475)	(480)	4,315	0	0	0
Ending Fund Balance	$ 8,509	$ 26,567	$21,886	$31,142	$33,548	$13,400

(a) These amounts are based on budgeted data and are subject to change based on actual results.

Source: Pima County Finance Department. This table has not been the subject of any separate audit procedures.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

May 11, 2004

Board of Supervisors
Pima County, Arizona

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale, and the initial delivery on the date hereof by Pima County, Arizona (the "County"), of $25,770,000 in aggregate principal amount of its Sewer Revenue Refunding Bonds, Series 2004, dated May 1, 2004 (the "Series 2004 Bonds"), issued pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes (the "Act"), and all amendments thereto.

In connection with our engagement as bond counsel, we have examined the law and such documents and matters as we have deemed necessary to render the opinions expressed herein, including, without limitation, the resolution authorizing the issuance of the Series 2004 Bonds (the "Resolution") passed and adopted by the Pima County Board of Supervisors of the County on March 9, 2004. As to questions of fact material to our opinions, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, it is our opinion, and we herewith advise you, as follows:

1. The County is duly created and validly existing as a political subdivision of the State of Arizona with power to pass and adopt the Resolution, perform the agreements on its part contained therein and issue the Series 2004 Bonds.

2. The Resolution has been duly passed and adopted by the Board of Supervisors of the county and is valid and binding upon and enforceable against the County.

3. The Series 2004 Bonds have been duly authorized and delivered by the County and are valid and binding limited obligations of the County payable, as to both principal and interest, from the revenues derived by the County from the operation of its sewer system, after provision has been made for the expenses of operation and maintenance of the sewer system, subject to no prior lien granted under the Act. The Series 2004 Bonds are issued on a parity with the County's Sewer Revenue Bonds, Series 1993; Sewer Revenue Bonds, Series 1994B; Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001; and those certain Loan Agreements between the County as Borrower and the Water Infrastructure Finance Authority of Arizona dated February 1, 1996, June 1, 1997, October 27, 2000, and December 28, 2001, respectively. Neither the general credit nor any property of the County other than as provided in the Resolution has been pledged or committed to the payment of the Series 2004 Bonds. The Series 2004 Bonds are not secured by an obligation or pledge of any taxing power or monies raised thereby and are not a debt of and do not constitute a pledge of the faith and credit of the County.

4. Interest on the Series 2004 Bonds (a) is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax; and (b) is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. No opinion is expressed regarding any other federal or State of Arizona income tax consequences arising with respect to ownership of the Series 2004 Bonds. The opinion set forth in clause (a) above is subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2004 Bonds in order for the interest thereon not to be included in gross income of the owners for federal income tax purposes. Failure by the County to comply with certain of these requirements could result in the interest on the Series 2004 Bonds being included in gross income for federal income tax purposes retroactive to the date of issuance. The County has covenanted and agreed to comply with all such requirements and our opinion assumes such compliance.

The rights of the owners of the Series 2004 Bonds and the enforceability thereof may be subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws and equitable principles generally affecting the enforcement of creditors' rights.

The opinions expressed in this letter are based upon the law in effect on the date hereof and may be affected by actions taken or omitted or events occurring after the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or otherwise, or to determine or to inform any person whether any such actions are taken or omitted or any such events occur.

Respectfully submitted,

SNELL & WILMER L.L.P.

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE PIMA COUNTY DEPARTMENT OF WASTEWATER MANAGEMENT FOR FISCAL YEAR ENDED JUNE 30, 2003

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A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Pima County

Department of Wastewater Management

June 30, 2003

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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Pima County
Department of Wastewater Management
Report on Audit of Financial Statements
June 30, 2003

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Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of the Pima County Department of Wastewater Management as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Pima County Department of Wastewater Management's financial statements are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and major funds of Pima County that is attributable to the Pima County Department of Wastewater Management Fund. They do not purport to, and do not, present fairly the financial position of Pima County as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima County Department of Wastewater Management as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pima County Department of Wastewater Management. The accompanying financial information listed as supplementary schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Debbie Davenport
Auditor General

November 7, 2003

Pima County
Department of Wastewater Management
Statement of Net Assets—Enterprise Fund
June 30, 2003

Assets

Current assets:	
Cash and cash equivalents	$ 966,267
Interest receivable	7,021
Accounts receivable, net	6,859,763
Due from other Pima County funds	1,675
Due from other governments	287,517
Inventory of materials and supplies	2,610,951
Prepaid expenses	128,877
Total current assets	10,862,071
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents:	
Restricted for debt service	1,245,429
Restricted for operation and maintenance	3,669,003
Held in escrow as construction contract retentions	2,987,679
Interest receivable	19,952
Total restricted assets	7,922,063
Capital assets, net of accumulated depreciation where applicable:	
Land and other improvements	11,958,225
Solid waste transfer stations, net	1,595,764
Conveyance systems, net	264,664,983
Treatment facilities, net	130,640,733
Equipment, net	6,952,999
Construction in progress	136,170,979
Total capital assets, net	551,983,683
Deferred financing costs	848,259
Total noncurrent assets	560,754,005
Total assets	$571,616,076

(Continued)

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Net Assets—Enterprise Fund
June 30, 2003
(Continued)

Liabilities

Current liabilities:	
Accounts payable	$ 8,371,812
Accrued payroll and employee benefits	3,146,908
Due to other Pima County funds	10,967,672
Interest payable	11,714
Current portion of sewer revenue bonds payable	4,965,000
Current portion of wastewater loans payable	4,269,721
Deferred sewer connection revenue	1,346,678
Deferred sludge hauling revenue	500
Total current liabilities	33,080,005
Noncurrent liabilities:	
Construction contract retentions payable	6,848,853
Landfill closure and postclosure care costs payable	15,644,952
Sewer revenue bonds payable, less current portion	63,275,000
Wastewater loans payable, less current portion	59,609,308
Deferred interest expense and bond discount	(5,469,829)
Total noncurrent liabilities	139,908,284
Total liabilities	172,988,289

Net Assets

Invested in capital assets, net of related debt	426,182,741
Restricted for:	
Debt service	1,245,429
Capital projects	3,007,631
Wastewater management	3,669,003
Unrestricted deficit	(35,477,017)
Total net assets	$398,627,787

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Enterprise Fund
Year Ended June 30, 2003

Operating revenues:	
Sewer utility service	$ 45,318,741
Solid waste fees	5,690,740
Engineering review and inspection fees	245,820
Permits and fines	91,024
Other income	870,785
Total operating revenues	52,217,110
Operating expenses:	
Employee compensation	25,377,959
Operating supplies	5,227,812
Utilities	1,976,584
Sludge and refuse disposal	2,241,854
Repairs and maintenance	5,105,339
Landfill closure and postclosure care costs	1,078,282
General and administrative	8,025,785
Consultants and professional services	3,646,323
Depreciation	16,670,498
Total operating expenses	69,350,436
Operating loss	(17,133,326)
Nonoperating revenues (expenses):	
Grant revenue	303,934
Interest income	1,014,349
Sewer connection revenue	20,279,607
State-shared tax revenue	958,603
Loss on disposal of equipment	(213,135)
Interest expense	(5,271,134)
Amortization of deferred charges	(88,645)
Total nonoperating revenues (expenses)	16,983,579
Loss before capital contributions and extraordinary item	(149,747)
Capital contributions	13,702,141
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,263,168)
Increase in net assets	12,289,226
Net assets—July 1, 2002	386,338,561
Net assets—June 30, 2003	$ 398,627,787

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2003

Cash flows from operating activities:	
Receipts from customers	$ 51,598,819
Miscellaneous receipts	2,449,039
Payments to suppliers for goods and services	(19,752,290)
Payments to other Pima County funds	(8,814,623)
Payments to employees	(24,872,770)
Net cash provided by operating activities	608,175
Cash flows from noncapital financing activities:	
Noncapital grant receipts	303,934
State-shared tax receipts	958,603
Net interfund borrowings	10,982,193
Net cash provided by noncapital financing activities	12,244,730
Cash flows from capital and related financing activities:	
Proceeds from loans	9,745,533
Sewer connection receipts from customers	19,701,257
Purchase and construction of capital assets	(59,227,759)
Principal payments on revenue bonds and loans	(8,886,774)
Interest payments on revenue bonds and loans	(4,742,206)
Net cash used for capital and related financing activities	(43,409,949)
Cash flows from investing activities:	
Loss from State Treasurer's Local Government Investment Pool	(1,263,168)
Interest received on investments	1,124,948
Net cash used for investing activities	(138,220)
Net decrease in cash and cash equivalents	(30,695,264)
Cash and cash equivalents, July 1, 2002	39,563,642
Cash and cash equivalents, June 30, 2003	$ 8,868,378

(Continued)

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2003
(Continued)

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$(17,133,326)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	16,670,498
Landfill closure and postclosure care costs	1,078,282
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	1,497,046
Due from other governments	333,702
Inventory of materials and supplies	(54,092)
Prepaid expenses	(47,448)
Increase (decrease) in liabilities:	
Accounts payable	(2,236,910)
Accrued payroll and employee benefits	505,189
Due to other Pima County funds	(4,766)
Net cash provided by operating activities	$ 608,175

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2003, Pima County transferred capital assets with a net book value of $1,228,477 to the Department. This transaction was recorded as a capital contribution.

During the year ended June 30, 2003, the Department retired capital assets with a net book value of $213,135, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, developers conveyed capital assets with an estimated fair value of $12,473,664 to the Department. This transaction was recorded as a capital contribution.

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Wastewater Management conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Department's more significant accounting policies follows.

A. Reporting Entity

The Department is accounted for as an enterprise fund of Pima County, Arizona, and is responsible for managing and operating all liquid and solid waste programs in Pima County. The Department's management is directed by an administrator appointed by the Pima County Board of Supervisors. However, ultimate financial accountability for the Department remains with Pima County.

B. Fund Accounting

The Department's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Department's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. A fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Department's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred, regardless of when the related cash flows take place. When both restricted and unrestricted net assets are available to finance departmental expenses, restricted resources are used before unrestricted resources. Interfund transactions

that would be treated as revenues or expenses if they involved parties external to Pima County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the Department are eliminated for the consolidated financial statement presentation.

The Department follows those Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the Department at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Department's obligations. Invested in capital assets net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about the Department's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and extraordinary items. Generally, operating revenues, such as sewer utility service and solid waste fees, result from transactions associated with the Department's principal activities. Other revenues, such as sewer connection revenues and interest earnings, are not generated from operations and are considered to be nonoperating revenues.

A statement of cash flows provides information about the Department's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either, operating, noncapital financing, capital financing, or investing.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, and deposits held in escrow accounts. All investments are stated at fair value.

F. Deferred Charges

Deferred charges (primarily bond and loan issuance costs) are being amortized over the life of the related debt using the straight-line method.

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. The Department capitalizes all land and buildings regardless of cost and all other property, plant and equipment valued at $5,000 and above. Costs for internally constructed capital assets include material, direct labor, engineering, interest, and allocated portions of other indirect costs related to the construction projects. Depreciation of such assets is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	3 to 50 years
Conveyance systems	50 years
Solid waste transfer stations	50 years

H. Compensated Absences

Compensated absences consist of annual leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of annual leave, but must forfeit any annual leave hours in excess of the maximum that are unused at the end of the payroll period in which the employee's anniversary date falls. Upon termination, all unused and unforfeited annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the financial statements. Employees may accumulate an unlimited number of sick leave hours.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but do not vest with employees and therefore, are not accrued in the financial statements. However, for employees who retire with 20 years or more of continuous service or who have a combined total of age and years of service equal to 80 points, and who retire from service into the Arizona State Retirement System, sick leave benefits do vest and, therefore, are accrued.

I. Construction Contract Retentions

The Department has numerous construction projects in process. The Department retains a percentage of each progress payment until the project's successful completion. In some instances, contract retentions are deposited in escrow accounts so contractors may earn interest during the construction period.

J. Deferred Interest Expense

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the refunded debt or the refunding debt, whichever is shorter. This deferred amount is reported as a deduction from the new debt liability on the statement of net assets.

K. Revenues

Sewer utility billings are based on the content and volume of wastewater discharged and a minimum charge for service. Solid waste fees are based on landfill location, weight of disposed material, and material type.

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as an increase in net assets at their estimated fair value. In those instances where a developer makes enhancements that exceed the requirements for the conveyance systems, the Department establishes reduced fees and credits that can be used to offset future fees charged to developers for each new connection to the conveyance systems. These credits are recorded as deferred sewer connection revenue and recognized as income when connection permits are issued.

Sewer connection fees are assessed to land developers based on the type and number of fixtures attached to the conveyance systems. Fees are established at a level to provide for the recovery of the Department's operating expenses that are not recovered by the sewer utility service fees. Accordingly, fees collected are classified as nonoperating revenues.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following amounts:

Current assets:	
Cash on hand	$ 3,850
Cash and investments held by the Pima County Treasurer	864,313
Investments with State Treasurer	98,104
Total current cash and cash equivalents	966,267
Restricted assets:	
Cash and investments held by the Pima County Treasurer	4,914,432
Deposits held in escrow accounts	2,987,679
Total restricted cash and cash equivalents	7,902,111
Total cash and cash equivalents	$8,868,378

The Department's cash and investments held by the Pima County Treasurer represent a proportionate interest in the County Treasurer's investment pool portfolios. This portion is not identified with specific investments and is not subject to custodial credit risk.

In addition, the investments with the State Treasurer represent investments in the State Treasurer's Local Government Investment Pool. The State Board of Investment 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. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Of the deposits held in escrow by financial institutions, $100,000 was covered by federal depository insurance and $2,887,679 was uninsured and uncollateralized.

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2003, is presented in the following schedule:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets not being depreciated:				
Land and other improvements	$ 11,858,947	$ 99,278		$ 11,958,225
Construction in progress	73,886,991	62,685,801	$(401,813)	136,170,979
Total capital assets not being depreciated	85,745,938	62,785,079	(401,813)	148,129,204
Capital assets being depreciated:				
Transfer stations	2,168,380			2,168,380
Conveyance systems	386,816,567	12,929,925		399,746,492
Treatment facilities	214,237,033	18,923		214,255,956
Equipment	14,835,405	2,792,193	(645,017)	16,982,581
Total capital assets being depreciated	618,057,385	15,741,041	(645,017)	633,153,409
Less accumulated depreciation for:				
Transfer stations	(530,141)	(42,475)		(572,616)
Conveyance systems	(126,621,930)	(8,459,579)		(135,081,509)
Treatment facilities	(76,509,958)	(7,105,265)		(83,615,223)
Equipment	(9,117,814)	(1,343,650)	431,882	(10,029,582)
Total accumulated depreciation	(212,779,843)	(16,950,969)	431,882	(229,298,930)
Total capital assets being depreciated, net	405,277,542	(1,209,928)	(213,135)	403,854,479
Total capital assets, net	$ 491,023,480	$ 61,575,151	$(614,948)	$ 551,983,683

Note 4 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2003:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Due Within 1 year
Sewer revenue bonds	$ 73,440,000		$5,200,000	$ 68,240,000	$4,965,000
Less unamortized deferred amounts	5,628,968		487,030	5,141,938	
Total revenue bonds payable	67,811,032		4,712,970	63,098,062	4,965,000
Wastewater loans payable	57,820,270	$ 9,745,533	3,686,774	63,879,029	4,269,721
Less unamortized deferred amounts	364,323		36,432	327,891	
Total loans payable	57,455,947	9,745,533	3,650,342	63,551,138	4,269,721
Landfill closure and postclosure care costs	14,566,670	1,078,282		15,644,952	
Construction contract retentions payable	3,684,792	4,156,410	992,349	6,848,853	
Total long-term liabilities	$143,518,441	$14,980,225	$9,355,661	$149,143,005	$9,234,721

Sewer Revenue Bonds—The Department has issued several series of sewer revenue bonds (Series 1993, Refunding 1994A, Series 1994B, Series 1998, and Series 2001) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and improvements to the sewer system. The bonds are callable at various prices depending on the date of call. Interest on the bonds is payable semiannually. Of the total amount originally authorized, $23,910,000 from the May 20, 1997, bond election remains unissued.

Loans Payable—The Department has entered into three loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, and 2000 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period.

At June 30, 2003, the Department has drawn down only $54,009,932 of the $61,180,286 authorized loan amount for the 2000 Water Infrastructure Financing Authority of Arizona loan. Payments of principal, which are subject to change, are based upon the total amounts drawn.

Debt Covenants—All revenue bonds were issued and the loan agreements were executed with a first lien on the first pledge of the Department's net revenues and have restrictive covenants, primarily related to minimum utility rates and limitations on future bond issues. The bond covenants also require the Department to either maintain a surety bond guaranteeing the payment of annual debt service or to maintain in the Bond Reserve Account monies equal to the average annual debt service payment. At June 30, 2003, the Department had a surety bond in place to meet the requirements of the debt covenants. The Department is also authorized to issue additional parity bonds if certain conditions are met (primarily that net revenues for the fiscal year immediately preceding issuance of the parity bonds exceed 120 percent of the maximum annual debt service requirements immediately after such issuance).

Bonds and loans outstanding at June 30, 2003, were as follows:

Description	Interest Rates	Maturity Dates	Outstanding Principal June 30, 2003
Series 1993	5.6-6.5%	2004 -2005	$ 615,000
Refunding 1994A	4.5-5.0%	2004 -2015	25,520,000
Series 1994B	5.5%	2004	580,000
Series 1998	4.0-5.5%	2004 -2015	23,395,000
Refunding 2001	4.0-5.4%	2004 -2015	18,130,000
Total bonds payable			$68,240,000
1996 loan payable	3.19%	2004 -2012	11,313,350
1997 loan payable	2.95%	2004 -2011	4,757,899
2000 loan payable	2.02%	2004 -2016	47,807,780
Total loans payable			$63,879,029

Revenue bond debt service and loan payment requirements to maturity, are as follows:

	Revenue Bond Debt Service		Revenue Loan Debt Service	
	Principal	Interest	Principal	Interest
Year ending June 30,			-	-
2004	$ 4,965,000	$ 3,315,426	$ 4,269,721	$ 2,350,906
2005	4,595,000	3,067,341	4,950,734	2,194,315
2006	4,470,000	2,841,886	5,502,957	2,012,687
2007	5,525,000	2,622,699	4,892,394	1,810,721
2008	5,800,000	2,340,529	5,098,403	1,631,275
2009-2013	28,990,000	7,580,549	30,053,570	4,955,200
2014-2016	13,895,000	1,064,456	9,111,250	480,949
Total	$68,240,000	$22,832,886	$63,879,029	$15,436,053

Refunded Sewer Revenue Bonds Outstanding—The Department used the proceeds of the 1996 loan payable to refund certain sewer revenue bonds. The proceeds were used to purchase U.S. government securities, which were placed in irrevocable trusts with the escrow agents to provide for future debt service payments on the refunded bonds. Accordingly, the trust account assets of $2,952,256 and the liability for the defeased bonds listed below are not included in the Department's financial statements:

Description	Interest Rates	Maturity Dates	Outstanding Principal June 30, 2003
Series 1993	5.0-5.9%	2006-2012	$2,845,000

Landfill Closure and Postclosure Care Costs—State and federal laws and regulations require the Department to place a final cover on its solid waste landfill sites when these sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the Department reports a portion of these closure and postclosure care costs in each operating period even though actual payouts will not occur until the landfill is closed. The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The $15,644,952 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of 90, 99, and 78 percent of the estimated capacity of the Ajo, Sahuarita, and Tangerine landfills, respectively. The Department will recognize the remaining estimated cost of closure and postclosure care of $3,309,607 as the remaining estimated capacity of each landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2003. The Department expects to close the Ajo, Sahuarita, and Tangerine, landfills in the years 2007, 2003, and 2008, respectively, and actual costs may be higher due to inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure and corrective action when needed. The County is in compliance with these requirements.

El Camino del Cerro Landfill stopped accepting waste during 1978 and is not subject to the state and federal regulations referred to above. However, the Arizona Department of Environmental Quality (ADEQ) has filed a complaint pursuant to other state and federal laws alleging that hazardous substances have been released at the landfill. The County has entered into settlement negotiations with the ADEQ to resolve the cleanup litigation. The County has also voluntarily incurred cleanup expenses for a soil vapor extraction system, a series of drainage improvements, a re-grade of the landfill cap, and groundwater remediation. No liability has been recognized in the financial statements because the outcome of the litigation is uncertain. The County's cleanup costs could total $3.6 million, and county management plans to finance any required cleanup costs through future bond issues.

Construction Contract Retentions Payable—State laws and regulations require the Department to withhold a portion of progress payments made on construction contracts until the successful completion of the construction project.

Note 5 - Due To Other Pima County Funds

Amounts due to other Pima County funds at June 30, 2003, include $10,843,386 due to the General Fund, $68,305 due to the Special Revenue Funds, and $55,981 due to the Capital Projects Fund. Of the amount due to the General Fund, $10,823,837 represented a short-term loan to eliminate a negative cash balance within the Department. This cash deficit can be eliminated in the future through normal operations or by operating transfers from the General Fund.

Note 6 - Related Party Transactions

Administrative and Fiscal Services—The Department incurred expenses from Pima County for a variety of administrative and fiscal services, including $1,676,352 for the allocation of overhead; $763,916 for self-insurance premiums; $2,735,128 for interdepartmental supplies and services charges; $1,834,037 for motor pool charges; $410,511 for professional charges; $400,357 for repair and maintenance charges; $94,867 for printing charges; and $445,082 for miscellaneous other charges.

Public Works Center—The Department occupies a portion of the Public Works Center and pays rent based on a pro rata share of the building expenses incurred by the Pima County Facilities Management department. The Department's rent expense totaled $449,607 for the year ended June 30, 2003.

Note 7 - Significant Commitments

Commitments under construction contracts at June 30, 2003, totaled $40,370,425.

Note 8 - Risk Management

The Department is a participant in Pima County's self-insurance program. The County's self-insurance program covers the Department for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In the opinion of the Department's management, any unfavorable outcomes from these types of risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for these unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report*.

Risks of loss arising from contractual breaches are not covered by the County's self-insurance program or commercial insurance. The Department's management does not believe that these types of losses would be material to the financial statements; therefore, no accrual of losses has been made within the financial statements. At June 30, 2003, there were no material lawsuits related to contractual breaches.

The Department has received a Notice of Violation from the ADEQ that could result in various penalties, fines or remediation requirements as a result of the Northwest Outfall sewer line failure, which ruptured on September 7, 2002, causing several sink holes and discharging raw sewage into the Santa Cruz River. The Department is currently in a 90-day negotiation period with ADEQ, and is unable to speculate on a possible settlement agreement or the resulting financial impact of any such agreement at this time. Previous Notice of Violations received by the Department have not resulted in financial penalties, however the violations were not of the same magnitude as the most recent sewer line failure. Any loss incurred by the Department for the sewer rupture will not be covered by the County's self insurance program since that program does not cover risks of loss related to maintenance issues.

Note 9 - Intergovernmental Agreement

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID) and Oro Valley Water provide sewer utility billing and collection services, certain computer services, accounting information, and statistical data to the Department. During the year ended June 30, 2003, the Department paid fees totaling $1,360,443, $107,111, and $97,917, respectively, for such services. As part of its agreement, the City of Tucson invests cash collected from utility customers and held for remittance to the Department. Interest earnings on such investments are remitted to the Department. The MDWID and Oro Valley Water submit cash receipts to the Department regularly. However, cash collections are not invested, and therefore, neither MDWID or Oro Valley Water remit interest to the Department.

Note 10 - Segment Information

Liquid Waste, a division of the Department, is reported within the Department's enterprise fund. Liquid Waste operates the sewer system which provides wastewater collection, treatment, and disposal throughout Pima County. All revenues generated by the ownership, use, and operation of Pima County's sewer system are pledged in support of sewer system debt. In addition, debt covenants require sewer system revenues, expenses, gains, losses, assets, and liabilities to be accounted for separately. As a result, condensed financial information for Liquid Waste is presented in the following tables:

Condensed Statement of Net Assets

	Liquid Waste
Assets	
Current assets	$ 7,286,464
Due from other Pima County funds	1,675
Restricted assets	7,922,063
Capital assets, net of accumulated depreciation	540,657,461
Other noncurrent assets	848,259
Total assets	556,715,922
Liabilities	
Current liabilities	21,594,026
Due to other Pima County funds	10,963,213
Noncurrent liabilities	124,263,332
Total liabilities	156,820,571
Net Assets	
Invested in capital assets, net of related debt	414,856,520
Restricted	7,922,063
Unrestricted deficit	(22,883,232)
Total net assets	$399,895,351

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

	Liquid Waste
Operating revenues (expenses)	
Sewer utility service	$ 45,318,741
Other operating revenues	1,157,352
Depreciation expense	(16,364,451)
Other operating expenses	(46,377,358)
Operating loss	(16,265,716)
Nonoperating revenues (expenses)	
Sewer connection revenue	20,279,607
Other nonoperating revenues	1,281,919
Interest expense	(5,271,123)
Other nonoperating expenses	(239,152)
Capital contributions	12,473,664
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,186,975)
Change in net assets	11,072,224
Net assets, July 1, 2002	388,823,127
Net assets, June 30, 2003	$399,895,351

Condensed Statement of Cash Flows

Net cash provided by (used for)	
Operating activities	$ (31,576)
Noncapital financing activities	13,240,942
Capital and related financing activities	(43,075,177)
Investment activities	(97,048)
Decrease in cash	(29,962,859)
Cash and cash equivalents, July 1, 2002	37,867,420
Cash and cash equivalents, June 30, 2003	$ 7,904,561

Note 11 - Retirement Plan

Plan Description—The Department contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System that covers general employees of the Department. 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 Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a publicly available annual financial report that includes its 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, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Department's contribution rates. For the year ended June 30, 2003, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Department's contributions to the system for the years ended June 30, 2003, 2002, and 2001, were $495,645, $449,580, and $427,785, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Pima County
Department of Wastewater Management
Combining Statement of Net Assets
June 30, 2003

Assets	Liquid Waste	Solid Waste	Total
Current assets:			
Cash and cash equivalents	$ 2,450	$ 963,817	$ 966,267
Interest receivable	3,946	3,075	7,021
Accounts receivable, net	6,413,912	445,851	6,859,763
Due from other Pima County funds	1,675		1,675
Intrafund due from (due to)	(1,955,798)	1,955,798	-
Due from other governments	87,517	200,000	287,517
Inventory of materials and supplies	2,610,951		2,610,951
Prepaid expenses	123,486	5,391	128,877
Total current assets	7,288,139	3,573,932	10,862,071
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents:			
Restricted for debt service	1,245,429		1,245,429
Restricted for operation and maintenance	3,669,003		3,669,003
Held in escrow as construction contract retentions	2,987,679		2,987,679
Interest receivable	19,952		19,952
Total restricted assets	7,922,063		7,922,063
Capital assets, net of accumulated depreciation where applicable:			
Land and other improvements	4,117,586	7,840,639	11,958,225
Solid waste transfer stations, net		1,595,764	1,595,764
Conveyance systems, net	264,664,983		264,664,983
Treatment facilities, net	130,640,733		130,640,733
Equipment, net	5,063,180	1,889,819	6,952,999
Construction in progress	136,170,979		136,170,979
Total capital assets, net	540,657,461	11,326,222	551,983,683
Deferred financing costs	848,259		848,259
Total noncurrent assets	549,427,783	11,326,222	560,754,005
Total assets	$556,715,922	$14,900,154	$571,616,076

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Net Assets
June 30, 2003
(Continued)

Liabilities	Liquid Waste	Solid Waste	Total
Current liabilities:			
Accounts payable	$ 8,066,815	$ 304,997	$ 8,371,812
Accrued payroll and employee benefits	2,933,598	213,310	3,146,908
Due to other Pima County funds	10,963,213	4,459	10,967,672
Interest payable	11,714		11,714
Current portion of sewer revenue bonds payable	4,965,000		4,965,000
Current portion of wastewater loans payable	4,269,721		4,269,721
Deferred sewer connection revenue	1,346,678		1,346,678
Deferred sludge hauling revenue	500		500
Total current liabilities	32,557,239	522,766	33,080,005
Noncurrent liabilities:			
Construction contract retentions payable	6,848,853		6,848,853
Landfill closure and postclosure care costs payable		15,644,952	15,644,952
Sewer revenue bonds payable, less current portion	63,275,000		63,275,000
Wastewater loans payable, less current portion	59,609,308		59,609,308
Deferred interest expense and bond discount	(5,469,829)		(5,469,829)
Total noncurrent liabilities	124,263,332	15,644,952	139,908,284
Total liabilities	156,820,571	16,167,718	172,988,289
Net Assets			
Invested in capital assets, net of related debt	414,856,520	11,326,221	426,182,741
Restricted for:			
Debt service	1,245,429		1,245,429
Capital projects	3,007,631		3,007,631
Wastewater management	3,669,003		3,669,003
Unrestricted deficit	(22,883,232)	(12,593,785)	(35,477,017)
Total net assets	$399,895,351	$ (1,267,564)	$398,627,787

Pima County
Department of Wastewater Management
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2003

	Liquid Waste	Solid Waste	Total
Operating revenues:			
Sewer utility service	$ 45,318,741		$ 45,318,741
Solid waste fees		$ 5,690,740	5,690,740
Engineering review and inspection fees	245,820		245,820
Permits and fines	91,024		91,024
Other income	820,508	50,277	870,785
Total operating revenues	46,476,093	5,741,017	52,217,110
Operating expenses:			
Employee compensation	23,369,572	2,008,387	25,377,959
Operating supplies	5,226,695	1,117	5,227,812
Utilities	1,921,413	55,171	1,976,584
Sludge and refuse disposal	2,052,083	189,771	2,241,854
Repairs and maintenance	4,700,639	404,700	5,105,339
Landfill closure and postclosure care costs		1,078,282	1,078,282
General and administrative	6,409,429	1,616,356	8,025,785
Consultants and professional services	2,697,527	948,796	3,646,323
Depreciation	16,364,451	306,047	16,670,498
Total operating expenses	62,741,809	6,608,627	69,350,436
Operating loss	(16,265,716)	(867,610)	(17,133,326)
Nonoperating revenues (expenses):			
Grant revenue	303,934		303,934
Interest income	977,985	36,364	1,014,349
Sewer connection revenue	20,279,607		20,279,607
State-shared tax revenue		958,603	958,603
Loss on disposal of equipment	(150,507)	(62,628)	(213,135)
Interest expense	(5,271,123)	(11)	(5,271,134)
Amortization of deferred charges	(88,645)		(88,645)
Total nonoperating revenues (expenses)	16,051,251	932,328	16,983,579
Income (loss) before capital contributions and extraordinary item	(214,465)	64,718	(149,747)
Capital contributions	12,473,664	1,228,477	13,702,141
Extraordinary item—loss from State Treasurer's Local Government Investment Pool	(1,186,975)	(76,193)	(1,263,168)
Increase in net assets	11,072,224	1,217,002	12,289,226
Net assets—July 1, 2002	388,823,127	(2,484,566)	386,338,561
Net assets—June 30, 2003	$399,895,351	$(1,267,564)	$398,627,787

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2003

	Liquid Waste	Solid Waste	Total
Cash flows from operating activities:			
Receipts from customers	$ 45,982,447	$ 5,616,372	$ 51,598,819
Miscellaneous receipts	2,398,762	50,277	2,449,039
Payments to suppliers for goods and services	(18,288,106)	(1,464,184)	(19,752,290)
Payments to other Pima County funds	(7,241,725)	(1,572,898)	(8,814,623)
Payments to employees	(22,882,954)	(1,989,816)	(24,872,770)
Net cash provided by (used for) operating activities	(31,576)	639,751	608,175
Cash flows from noncapital financing activities:			
Noncapital grant receipts	303,934		303,934
State-shared tax receipts		958,603	958,603
Net intrafund borrowings	1,955,798	(1,955,798)	-
Net interfund borrowings	10,981,210	983	10,982,193
Net cash provided by (used for) noncapital financing activities	13,240,942	(996,212)	12,244,730
Cash flows from capital and related financing activities:			
Proceeds from issuing sewer bonds and loans	9,745,533		9,745,533
Sewer connection receipts from customers	19,701,257		19,701,257
Purchase and construction of capital assets	(58,892,987)	(334,772)	(59,227,759)
Principal payments on revenue bonds and loans	(8,886,774)		(8,886,774)
Interest payments on revenue bonds and loans	(4,742,206)		(4,742,206)
Net cash used for capital and related financing activities	(43,075,177)	(334,772)	(43,409,949)
Cash flows from investing activities:			
Loss on investments	(1,186,975)	(76,193)	(1,263,168)
Interest received on investments	1,089,927	35,021	1,124,948
Net cash used for investing activities	(97,048)	(41,172)	(138,220)
Net decrease in cash and cash equivalents	(29,962,859)	(732,405)	(30,695,264)
Cash and cash equivalents, July 1, 2002	37,867,420	1,696,222	39,563,642
Cash and cash equivalents, June 30, 2003	$ 7,904,561	$ 963,817	$ 8,868,378

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2003
(Continued)

	Liquid Waste	Solid Waste	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$(16,265,716)	$ (867,610)	$(17,133,326)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	16,364,451	306,047	16,670,498
Landfill closure and postclosure care costs		1,078,282	1,078,282
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	1,578,255	(81,209)	1,497,046
Due from other governments	326,862	6,840	333,702
Inventory of materials and supplies	(54,092)		(54,092)
Prepaid expenses	(44,508)	(2,940)	(47,448)
Increase (decrease) in liabilities:			
Accounts payable	(2,423,446)	186,536	(2,236,910)
Accrued payroll and employee benefits	486,618	18,571	505,189
Due to other Pima County funds		(4,766)	(4,766)
Net cash provided by (used for) operating activities	$ (31,576)	$ 639,751	$ 608,175

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2003, Pima County transferred capital assets with a net book value of $1,228,477 to the Solid Waste Division. This transaction was recorded as a capital contribution.

During the year ended June 30, 2003, the Solid Waste Division retired capital assets with a net book value of $62,628, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, the Liquid Waste Division retired capital assets with a net book value of $150,507, resulting in a loss on disposal of equipment.

During the year ended June 30, 2003, developers conveyed capital assets with an estimated fair value of $12,473,664 to the Liquid Waste Division. This transaction was recorded as a capital contribution.

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APPENDIX F

AUDITED FINANCIAL STATEMENTS
OF PIMA COUNTY, ARIZONA
FOR FISCAL YEAR ENDED JUNE 30, 2003

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COUNTY ADMINISTRATOR'S OFFICE

PIMA COUNTY GOVERNMENTAL CENTER
130 W. CONGRESS, TUCSON, AZ 85701-1317
(520) 740-8661 FAX (520) 740-8171

C. H. HUCKELBERRY
County Administrator

December 1, 2003

The Honorable Board of Supervisors
Pima County, Arizona

We are pleased to submit, in accordance with state statutes, the Comprehensive Annual Financial Report (CAFR) of Pima County, prepared by the Finance Department, for the fiscal year ended June 30, 2003. This report presents comprehensive financial and operating information about the County's activities for the fiscal year that is useful to its property owners, businesses and other resource providers. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County.

This report has been prepared following the standards adopted and promulgated by the Governmental Accounting Standards Board (GASB). This is the second year the County has implemented GASB Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. As such, the CAFR has been organized to comply with new reporting requirements as well as conceptual changes. The Management's Discussion and Analysis (MD&A) section, which begins on page 13, was introduced last year. The MD&A provides additional information to assist readers in understanding the financial position of the County as of June 30, 2003. It provides a narrative introduction and overview to assist in the interpretation of the basic financial statements while also providing an analysis of key data presented within the basic financial statements.

We believe that the financial information, as presented, is accurate in all material aspects; that it is presented in a manner designed to openly disclose the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The CAFR consists of three sections:

- The ***INTRODUCTORY*** section, which familiarizes the reader with the organizational structure of the County, the nature and scope of the services it provides, and the specifics of its legal operating environment.

- The ***FINANCIAL*** section, which includes the independent auditor's report, MD&A, audited basic financial statements and notes to the statements, required supplementary information, and supporting statements and schedules necessary to fairly present the financial position and results of operations of the County in conformity with generally accepted accounting principles.

- The ***STATISTICAL*** section, which contains comprehensive statistical data on the County's financial, physical, economic and demographic characteristics.

Pima County and its Services

Pima County is situated in the southern part of Arizona with a portion of its southern boundary bordering Mexico. The County was organized in 1864 under the Arizona Territorial Legislature as one of the State's four original counties.

A five-member Board of Supervisors is responsible for implementing the County's governmental and administrative affairs. Each member of the Board is elected from a designated district to serve a four-year term. The Chair is selected by the Board from among its members. The Board is also responsible for establishing the policies of the County, which provide guidance to the various County constitutional officers and departments. The Board appoints a County Administrator who is responsible for the general administrative and overall operations of the various departments of the County.

Pima County includes in its financial statements all funds, agencies, boards, commissions and authorities for which the Pima County Board of Supervisors is financially accountable. As the primary government, Pima County is financially accountable if it appoints a voting majority of an organization's governing body and either: 1) it is able to impose its will on that organization, or 2) a potential exists for that organization to provide specific benefits to, or impose specific financial burdens on, the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government.

Pima County offers a wide variety of governmental services, including:

- *Justice and Law Enforcement*: Clerk of the Superior Court, Constables, County Attorney, Superior Court, Juvenile Court, Justice Court system, Sheriff's Department, Indigent Defense and Public Fiduciary

- *Medical Services*: Pima Health Care System, including Pima Health System and Kino Community Hospital, Department of Institutional Health, Public Health Department (including Health & Animal Control) and Forensic Science Center

- *Community Resources*: Superintendent of Schools, Community Services, Community Resources, County Free Library District, Southwestern Fair Commission and Stadium District

- *Public Works*: Flood Control District, Development Services (including Planning & Zoning), Transportation, Wastewater Management (including Solid Waste Management), Environmental Quality, Capital Projects, Automotive Services, Natural Resources, Parks & Recreation, and Graphics

- *County Administration*: Board of Supervisors, County Administrator, Assessor's Office, Clerk of the Board, Elections, Finance, Human Resources, Information Technology, Non-Departmental (including Contingency), Procurement, Recorder, Risk Management Treasurer, Facilities Management, Communications and Parking Garages

Pima County is also responsible for reporting the financial activities of its component units. These units are either discretely presented or blended. Although they are separate legal entities, blended component units are substantially a part of the County's financial activities and are combined with data for the County. Blended and discrete component units include:

- *Metropolitan Domestic Water Improvement District and Marana Domestic Water Improvement District*. Activities of the Districts are reported as discrete components of the County in the accompanying financial statements.

- *Southwestern Fair Commission.* Activities of the Commission are reported as a discrete component of the County in the accompanying financial statements.

- *Municipal Property Corporation.* Activities of the Corporation are reported in a special revenue fund as a blended component unit in the accompanying financial statements.

- *Pima County Stadium District, Flood Control District, and Library District.* Activities are reported in a special revenue fund as a blended component unit in the accompanying financial statements.

- *Special districts.* Pima County includes the financial activities of various improvement districts in its financial statements. Improvement districts are established to pay for the construction of specific public works projects that benefit citizens of a limited geographical area. The County's currently active improvement districts include La Cholla Boulevard, Country Club Estates and Cimarron Improvement Districts.

The County also has various independently governed school, irrigation, fire, and street lighting districts, and a health district. In addition, there are other entities for which the County is not financially accountable. These entities include the Industrial Development Authority, various lighting districts, Pima Association of Governments, Pima Council on Aging and the Private Industry Council. The financial statements of such districts and entities are not included in the accompanying financial statements except to reflect amounts held in a fiduciary capacity by the County Treasurer.

Economic Outlook

According to *Arizona's Economy*, a publication of the University of Arizona's Economic & Business Research Program, Pima County's population increased 2.0% to 904,600 persons for the year ended June 30, 2003. Over the same period, per capita income rose 1.7% to $25,395.

For the Tucson metropolitan area, the research center expects non-farm payrolls to increase 1.5% to 353,100 jobs during 2003. For all of 2003, per-capita wage income is forecast to rise 2.6% to $31,326 and aggregate retail sales are forecast to rise 3.4% to $9.0 billion. The number of residential permits is forecast to decline 0.6% to 7,954, signaling a modest slowdown in the housing sector.

Expenditure Limitation

Arizona voters approved a proposition amending the state constitution in 1980 that established revenue and expenditure limitations for local governments, including Pima County.

Major Program Initiatives and Developments

Some of the major developments that occurred in Pima County during the fiscal year ended June 30, 2003 include:

Wastewater Management

The Wastewater Management Department utilized significant resources this year as a result of the Northwest Outfall Rupture and Randolph Park Restoration Projects. The Northwest Outfall Rupture, which

occurred in September of 2002, led to approximately $16 million of significant repairs and upgrades of major sewer lines on West Speedway Boulevard. The Randolph Park Restoration Project used approximately $29 million of Wastewater Management resources as of June 30, 2003, and is expected to be complete during fiscal year 2003/2004 at an estimated total cost of $35 million.

Capital Improvement Projects

The County's progress in improvements of infrastructure, land, and buildings based on the 1997 voter authorized program is continuing at an aggressive pace. During the fiscal year, the County issued $50 million of general obligation bonds and $35 million of transportation revenue bonds.

For the fiscal year ended June 30, 2003, major completed transportation projects included: 1) Sunrise Drive between Swan and Craycroft Roads; 2) Thornydale Road between Ina and Cortaro Farms Roads; 3) Shannon Road between Ina and Magee Roads; 4) Santa Cruz River flood control enhancements between Grant and Fort Lowell Roads; 5) River Road between First and Campbell Avenues, and 6) Ajo Way between Country Club and Alvernon Roads. In addition, La Cholla Boulevard between Omar and Magee Roads was significantly complete.

Of the $50 million general obligation bond proceeds, $14.4 million was allocated to law enforcement and Superior Court improvements; $16.7 million to parks and land acquisition for the County's Sonoran Desert Conservation Plan; $9 million for public health, safety, recreational and cultural affairs; and $9.6 million for road, solid waste and flood control projects. The single largest project, the Sheriff's maximum security Adult Detention Center, is expected to cost $20.3 million and is approximately 57% complete.

During the year, the County completed rehabilitation of the Robles Ranch House. Other completed projects that were financed by general obligation bonds include the Drexel Heights Community Center, Northwest Community Center and Pool complex and the Fairview-Limberlost Drainage Improvements.

Sonoran Desert Conservation Plan

Background and Purpose: The Pima County Board of Supervisors continues to support the Sonoran Desert Conservation Plan (SDCP). This comprehensive plan aims to: (1) prevent urban sprawl through the protection of natural and cultural resources; (2) provide a basis for natural resource protection; (3) lead to the recovery of the pygmy owl and other species protected under the Endangered Species Act (ESA); (4) stabilize the ecosystem and plant communities supporting indigenous plants and animals and mitigate a need for future endangered species listings; and (5) lead to the issuance of a regional conservation plan that balances environmental and economic considerations. In 2001 and 2002, parts of the Plan were adopted into Pima County's Comprehensive Land Use Plan and updated in accordance with state law.

Scope: The SDCP is a countywide planning effort aimed at resolving compliance issues with the ESA and balancing the economic needs of the community. The 9,184-square-mile project area covers all of Pima County and encompasses federal, state and tribal reservation lands. The Plan's scope is roughly 10 times the area of San Diego County's multi-species effort. The Plan has received numerous state, regional and national awards, including the American Planning Association's Outstanding Planning Award for 2002, the Arizona Planning Association Award for Multi-Agency Coordination in 2001 and a number of awards for technical merit.

Recent Developments: During 2003, the SDCP's steering committee, comprised of over 70 community members, voted to support the Plan and asked the Board of Supervisors to pursue an open space bond initiative to fund the plan's efforts. Separately, aspects of the Plan's implementation that pertain to Section 10 of the ESA are scheduled for completion in 2003 and 2004, and an Environmental Impact Statement is scheduled for completion in 2005.

Financial Information

Accounting System and Budgetary Control

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal control procedures. Internal controls for accounting purposes are designed to provide reasonable, but not absolute, assurance regarding: (1) safeguarding of assets against loss from unauthorized use or disposition, and (2) reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) costs of implementing controls should not exceed their likely derived benefits, and (2) evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the County's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the elected official or department level and is aided during the fiscal year by the use of encumbrances of estimated purchases. Open encumbrances lapse at year-end and are budgeted again as needed in the next fiscal year.

Capital Assets System

The County has initiated the selection process for a comprehensive asset management system that will be used to interface with its existing financial management system. An important desired feature of the asset management system is that it will facilitate the County's compliance with the reporting requirements of Governmental Accounting Standards Board Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. GASB 34 requires disclosure and capitalization of infrastructure, such assets as roads, parks and bridges, which had previously not been required for governmental reporting.

Cash Management

Most cash, other than imprest accounts, is on deposit with the County Treasurer or the State Treasurer. Amounts temporarily available during the course of the fiscal year are invested on a short-term basis. To address cash flow needs in the short term, the County instituted internal borrowings among funds that were recorded formally in its accounting records.

Risk Management

Pima County has established a Self Insurance Trust Fund to account for the risk management function of the County. The Fund is administered by an appointed Board of Trustees and provides self-insured coverage to the County for medical malpractice, workers' compensation, unemployment, general liability, property damage, environmental damage and employee dental benefits, as well as obtaining coverage for other risks. The Fund is financed by charges to other County funds.

OTHER INFORMATION

Independent Audit

Arizona Revised Statutes require an annual audit of the financial statements. The County is fully compliant with this legal requirement. An independent auditors' report is included in this CAFR.

Single Audit

As a recipient of federal and state financial assistance, the County is required to ensure adequate internal controls are in place to comply with applicable laws and regulations related to administration of these programs. This internal control structure is subject to periodic evaluation by management of Pima County.

As a part of the County's single audit, tests are made to determine 1) the adequacy of the internal control structure, including that portion related to federal financial assistance programs and 2) whether the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2002 included a reportable condition that cited inadequate policies and procedures for ensuring allocation of costs based on the relative benefits received, as required by OMB Circular A-87. Specifically, the reportable condition pertained to a County Sheriff's Office purchase of a telephone switch upgrade. A portion of the cost of the upgrade was charged to the County's High Intensity Drug Trafficking Areas (HIDTA) program without adequate documentation for how the relative benefits to the HIDTA program were estimated. The auditors determined that this reportable condition was not a material event and the County has since submitted a corrective action plan.

The Single Audit for Pima County for the fiscal year ended June 30, 2003 was not complete at the time of publication of this Comprehensive Annual Financial Report.

As demonstrated by the statements and schedules included in the financial section of this report, Pima County continues to meet its responsibility for sound financial management.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pima County, Arizona for its comprehensive annual financial report for all fiscal years ended June 30, 1984 through 2002, except for fiscal years ended June 30, 1990 and June 30, 1999, due to missing the filing deadline.

In order to receive a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents that conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Acknowledgements

Preparation of this report could not be accomplished without the efficient and dedicated service of the staff of the County's Finance Department. We also wish to thank the Board of Supervisors for its continued support in planning and conducting the County's financial operations in a responsible fiduciary manner.

Respectfully submitted,

C. H. Huckelberry
County Administrator

Carol Bonchalk
Director, Finance Department

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2003, as listed in the table of contents, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of Pima County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units of Pima County, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 13 through 28, the Budgetary Comparison Schedule on pages 83 and 85, and the Schedule of Agent Retirement Plans' Funding Progress on page 84 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

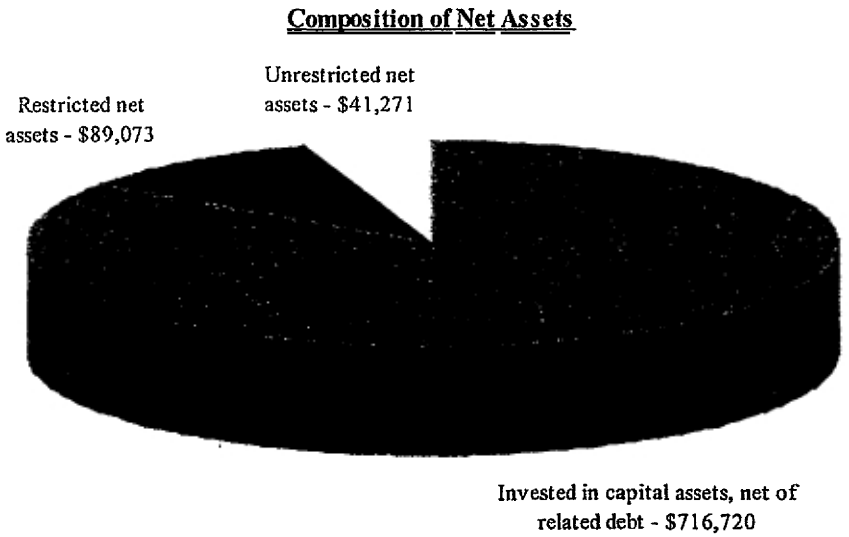
December 1, 2003

Management's Discussion & Analysis

This section of Pima County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the year ended June 30, 2003 and should be read in conjunction with the County's basic financial statements in the following sections. All dollar amounts are expressed in thousands (000's) unless otherwise noted.

FINANCIAL HIGHLIGHTS

- At June 30, 2003, the County's combined assets exceeded combined liabilities (*net* assets) by $847,064, an increase of 7.1% from the prior year. Of this amount, $41,271 is available for general government expenditures (*unrestricted net assets)*, $89,073 is restricted for specific purposes (*restricted net assets)*, and $716,720 is invested in capital assets, net of related debt and accumulated depreciation.



- Of the total fund balances of the County's governmental funds, the general fund has a total fund balance of $33,548, with $ 30,999 of this amount available for expenditure. Within the capital projects fund and the County's other governmental funds, $82,793 and $42,312 is available for future expenditures, respectively.

- As of the end of the fiscal year, the general fund unreserved fund balance increased $2,343 from the previous year to $30,999. This balance accounts for approximately 10% of the County's general fund expenditures and 5.1% of total governmental funds expenditures.

- As a result of the County's investment in the State of Arizona Treasurer's Local Government Investment Pool, the County recognized a loss of $10,120 from a bankruptcy within the investment pool. This loss was distributed to specific County departments according to their share in the investment pool. Due to the unusual and infrequent nature of the loss, the County has reported this as an extraordinary loss.

- On September 7, 2002, the department of Wastewater Management experienced a rupture in the Northwest outfall sewer on Speedway Boulevard. This event required a substantial amount of capital and resources to clean up and repair the rupture, greatly diminishing Wastewater's financial position.

- Pima Health Care System has experienced continued, significant increases in expenses over the past year. This is consistent with a general trend of higher costs within the health care field and increased enrollment in the AHCCCS program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of four components: (1) Government-wide financial statements; (2) Fund financial statements; (3) Component unit financial statements; and (4) Notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation or sick leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, health, welfare, culture and recreation, education and economic opportunity. The business-type activities of the County include Pima Health Care System (PHCS), which includes Kino Community Hospital, Wastewater Management, Development Services and the County's downtown parking garages.

Discretely presented component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. The County's discretely presented component units are the Metropolitan Domestic Water Improvement District, the Marana Domestic Water Improvement District, and the Southwestern Fair Commission, which operates the County Fairgrounds and the annual Pima County Fair.

The government-wide financial statements can be found on pages 29-30 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and

local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance with applicable State statutes and federal OMB budgeting guidelines. All of the funds of the County can be divided into three categories: (1) *governmental funds*; (2) *proprietary funds*; and (3) *fiduciary 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 funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on *balances of expendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains fourteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental fund financial statements can be found on pages 31-34 of this report.

Proprietary funds are maintained in two ways. *Enterprise funds* are used to report the same functions presented as *business-type* activities in the government-wide financial statements. The County uses enterprise funds to account for certain health care services, including medical and long-term health care, sewer systems maintenance and operation, real estate-related development services, and parking garage operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for risk management, automotive fleet maintenance and operations, printing and communications. Because these services predominantly benefit governmental rather than business-type functions, most of the assets and liabilities of these services have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Wastewater Management and Pima Health Care System operations are considered to be major funds of the County. Data from the other enterprise funds are combined into a single, aggregated presentation. Similarly, the County's internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the other enterprise and internal service funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 35-38 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs.

The fiduciary fund financial statements can be found on pages 39-40 of this report.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 43-81 of this report.

Required Supplementary Information (RSI) is presented concerning the County General Fund budgetary schedule and the schedule of retirement plans' funding progress. Required supplementary information can be found on pages 83-85 of this report.

The combining and individual fund statements and schedules referred to earlier provide information for non-major governmental and enterprise funds and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 88-118 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the County, assets exceeded liabilities by $847,064 at June 30, 2003. The following table shows condensed information for the Statement of Net Assets:

Table 1
Statement of Net Assets
At June 30, 2003

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2002-2003	2001-2002*	2002-2003	2001-2002*	2002-2003	2001-2002
Current and other assets	$ 276,801	$ 274,836	$ 58,814	$ 102,118	$ 335,615	$ 376,954
Capital assets:						
Land, buildings, equipment & other	574,133	505,746	570,391	508,931	1,144,524	1,014,677
Total assets	850,934	780,582	629,205	611,049	1,480,139	1,391,631
Current and other liabilities	68,936	78,695	39,077	38,624	108,013	117,319
Long-term liabilities	375,919	340,119	149,143	143,519	525,062	483,638
Total liabilities	444,855	418,814	188,220	182,143	633,075	600,957
Net assets :						
Invested in capital assets, net of related debt	272,130	215,646	444,590	380,916	716,720	596,562
Restricted net assets	67,934	82,541	21,139	55,630	89,073	138,171
Unrestricted net assets (deficit)	66,015	63,581	(24,744)	(7,640)	41,271	55,941
Total net assets	$ 406,079	$ 361,768	$ 440,985	$ 428,906	$ 847,064	$ 790,674

*As restated - See Note 2 of the financial statements

The largest portion of the County's net assets reflects its investment in capital assets (i.e. land, buildings, infrastructure, equipment), less any related outstanding debt used to acquire those assets. As of June 30, 2003, investment in capital assets totaled $716,720, comprising approximately 84.6% of total net assets. The County uses a portion of these capital assets to provide services to its citizens, with the other portion available to its citizens for use; consequently, these assets are *not* available for future spending. The $120,158 increase in capital assets, net of related debt, for fiscal year 2002-2003 is mostly due to the sig-

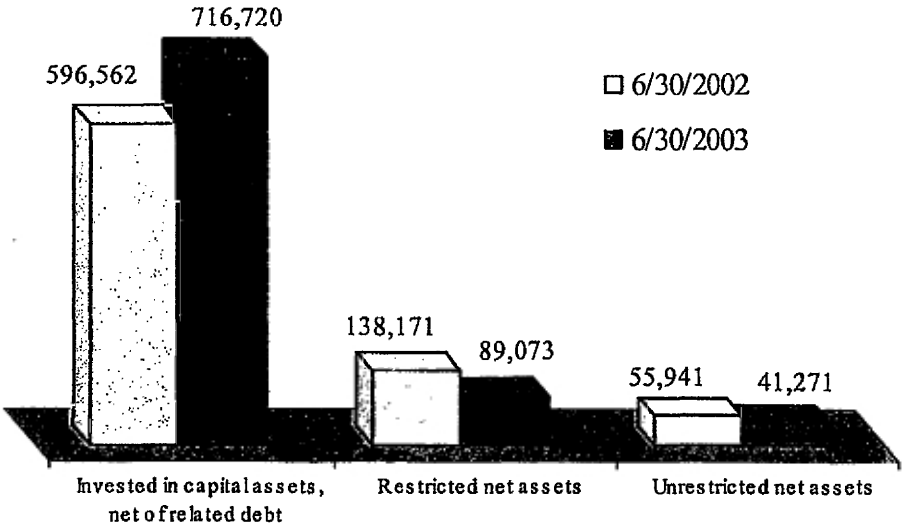
nificant amount of capital project activity that has been completed and capitalized over the past year. Although the County's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. As of June 30, 2003, restricted net assets totaled $89,073 and comprised approximately 10.5% of total net assets. This represents a $49,098 decline in restricted net assets from the $138,171 balance of fiscal year 2001-2002.

The remaining balance of the County's net assets represents *unrestricted net assets*, which may be used to meet the County's ongoing obligations to citizens and creditors. As of June 30, 2003, unrestricted net assets totaled $41,271 and comprised approximately 4.9% of total net assets.

The following chart shows the composition and changes in net assets for the fiscal years ended June 30, 2003 and June 30, 2002:

Comparative Composition of Net Assets



Governmental activities

Governmental activities contributed $44,311, or 78.6%, of the County's $56,390 increase in total net assets during fiscal year 2002-2003. The following table shows changes in net assets for governmental activities:

Table 2
Governmental Activities
Comparative Statements of Activities
For the Years Ended June 30, 2003 and 2002

	Fiscal Year 2002-2003	Fiscal Year 2001-2002*	Variance Amount	Variance Percent
Program revenues:				
Charges for services	$ 45,527	$ 45,307	$ 220	0.5%
Operating grants and contributions	121,587	121,934	(347)	-0.3%
Capital grants and contributions	5,665	18,207	(12,542)	-68.9%
Total program revenues	172,779	185,448	(12,669)	-6.8%
General revenues:				
Property taxes	251,844	237,049	14,795	6.2%
State-shared taxes	100,408	97,845	2,563	2.6%
Investment earnings	5,064	8,157	(3,093)	-37.9%
Other general revenues	35,985	29,464	6,521	22.1%
Total general revenues	393,301	372,515	20,786	5.6%
Total primary government revenues	566,080	557,963	8,117	1.5%
Expenses:				
General government	131,925	133,765	(1,840)	-1.4%
Public safety	132,939	123,513	9,426	7.6%
Highways and streets	39,492	42,515	(3,023)	-7.1%
Health	23,917	23,120	797	3.4%
Welfare	84,457	73,243	11,214	15.3%
Culture and recreation	31,326	27,081	4,245	15.7%
Education and economic opportunity	35,033	37,565	(2,532)	-6.7%
Unallocated depreciation and amortization	1,474	1,376	98	7.1%
Interest on long-term debt	15,779	14,391	1,388	9.6%
Total expenses	496,342	476,569	19,773	4.1%
Excess before transfers and extraordinary item	69,738	81,394	(11,656)	-14.3%
Extraordinary Item:				
Loss from State Treasurer's Local Government Investment Pool	(7,447)	-	(7,447)	n/a
Transfers out	(17,980)	(13,954)	(4,026)	28.9%
Change in net assets	$ 44,311	$ 67,440	$ (23,129)	-34.3%

*As restated - See Note 2 of the financial statements

Key elements of the change in net assets from governmental activities are as follows:

- Program revenues decreased $12,669, primarily due to a $12,542 decrease in capital grants and contributions for highways and streets, specifically Urban-area HURF monies from the Pima Association of Governments. The County received less of this revenue as a result of the completion of a number of transportation projects in fiscal year 2001-2002.

- General revenues increased by $20,786, primarily due to increases in property tax revenues and other general revenues. Increases in real property assessed valuations and residential construction activity were the primary reasons property tax revenues increased by $14,795.

- Investment earnings continued to decrease in fiscal year 2002-2003. The County invests a majority of its funds in the State Treasurer's Local Government Investment Pool. The interest rate for

this pool has declined for a third consecutive year, resulting in less investment earnings. As of June 30, 2003, the Treasurer's effective interest rate was 1.9%. This rate is down from 2.2% and 4.7% as of June 30, 2002 and June 30, 2001, respectively.

- Expenses from governmental activities experienced a cumulative increase of $19,773. Most of this increase occurred for public safety and welfare expenses, which increased by $9,426 and $11,214, respectively. Public safety expenses increased as a result of higher Sheriff salaries and the funding of adult probation officer salaries that had previously been covered by state funds. The County was also required to remit funds to support the State Aid Enhancement Program for Probation. Welfare expenses changed due to an approximated $10,500 increase in expenditures by the Department of Institutional Health (Medical Assistance), including expenditures for new contracted services relating to the medical treatment of incarcerated adults and juveniles.

Business-type activities

Business-type activities contributed $12,079, or 21.4%, of the County's increase of $56,390 in total net assets during the year ended June 30, 2003. The following table shows changes in revenues and expenses for business-type activities between the current and prior year:

Table 3
Business-type Activities
Comparative Statements of Activities
For the Years Ended June 30, 2003 and 2002

	Fiscal Year		Variance	
	2002-2003	2001-2002*	Amount	Percent
Program revenues:				
Charges for services	$ 277,375	$ 252,131	$ 25,244	10.0%
Operating grants and contributions	4,909	6,505	(1,596)	-24.5%
Total program revenues	282,284	258,636	23,648	9.1%
General revenues:				
Capital contributions	12,479	11,261	1,218	10.8%
Investment earnings	1,727	2,888	(1,161)	-40.2%
Other general revenues	6,787	4,214	2,573	61.1%
Total general revenues	20,993	18,363	2,630	14.3%
Total primary government revenues	303,277	276,999	26,278	9.5%
Expenses:				
Wastewater Management	74,816	66,350	8,466	12.8%
Pima Health Care System	221,970	198,000	23,970	12.1%
Development Services	8,373	8,021	352	4.4%
Parking Garages	1,346	1,270	76	6.0%
Total expenses	306,505	273,641	32,864	12.0%
Excess before transfers and extraordinary item	(3,228)	3,358	(6,586)	-196.1%
Extraordinary item: Loss from State Treasurer's Local Government Investment Pool	(2,673)	-	(2,673)	n/a
Transfers in	17,980	13,954	4,026	28.9%
Increase in net assets	$ 12,079	$ 17,312	$ (5,233)	-30.2%

*As restated - See Note 2 of the financial statements

In fiscal year 2002-2003, the total increase in expenses of $32,864 (12.0%) was greater than the total increase in revenues of $26,278 (9.5%). Overall, however, net assets still increased, primarily as a result of transfers from the general fund to Pima Health Care System. Key elements to the increase in net assets from business-type activities include:

- Charges for services increased by $25,244 during the year due to an increase in certain revenues for Wastewater Management and Pima Health Care System. Wastewater Management experienced an increase in charges for services of $8,025 primarily due to the 5% rate increase in user fees for the third quarter of fiscal year 2001-2002, as well as an additional 5% user fee increase in the fourth quarter of fiscal year 2002-2003. Pima Health Care System's increase of $16,550 is due to increased enrollment over the past year.

- Concurrently, expenses for Wastewater Management and Pima Health Care System increased by $8,466 and $23,970, respectively. For Wastewater Management, these expenses are mostly attributable to the repair and cleanup of the Northwest Outfall sewer rupture. For Pima Health Care System, the increase in expenditures is the result of continued increases in health care costs.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds

The County's general government functions are accounted for in the General, Special Revenue, Debt Service, and Capital Project funds. Included in these funds are special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the County's governmental funds reported combined fund balances of $165,395, an increase of $17,592 in comparison with the prior year. Approximately 94.4% of the combined fund balances, or $156,104 constitutes unreserved fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed to the following:

- $3,146 to pay debt service
- $5,165 to reflect inventories and prepaid amounts
- $200 for a loan receivable
- $705 committed to specific programs
- $75 reserved for capital repairs and refurbishments

The General Fund is the chief operating fund of the County. At June 30, 2003, unreserved fund balance of the general fund was $30,999 while total fund balance reached $33,548. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Revenues for governmental functions totaled approximately $566,139 in fiscal year 2002-2003, which represents an increase of $3,350 (0.6%) from the previous year.

The following table presents the amount of revenues from various sources and increases or (decreases) from the prior year.

Table 4
Revenues Classified by Source
All Government Funds

	Fiscal Year					
	2002-2003		2001-2002		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenues by source:						
Taxes	$ 258,375	45.6%	$ 244,807	43.5%	$ 13,568	5.5%
Special assessments	1,023	0.2%	598	0.1%	425	71.1%
Licenses and permits	6,087	1.1%	6,077	1.1%	10	0.2%
Intergovernmental	245,378	43.4%	260,218	46.3%	(14,840)	-5.7%
Charges for services	35,721	6.3%	31,112	5.5%	4,609	14.8%
Fines and forfeits	5,047	0.9%	4,882	0.9%	165	3.4%
Interest	4,152	0.7%	6,952	1.2%	(2,800)	-40.3%
Miscellaneous	10,356	1.8%	8,143	1.4%	2,213	27.2%
Total revenues	$ 566,139	100.0%	$ 562,789	100.0%	$ 3,350	0.6%

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Property taxes. Revenues from property taxes increased $13,568. This was a result of growth in construction activity within the County over the past year, as well as continued increases in assessed property valuations and greater real estate market values.

- Intergovernmental revenue. The $14,840 decrease in intergovernmental revenue is mostly due to a $12,542 reduction in the amount of 12.6% Urban-area HURF funds given to transportation and flood control capital projects from the Pima Association of Governments.

- Charges for services. An increase of $4,609 this year is due to an increase in charges for real estate transactions, an increased number of real estate transactions, increased allocation of administrative overhead expenses, and an increase in prisoner housing revenue from the City of Tucson.

- Interest revenue. As mentioned previously, the County invests a majority of its funds in the State Treasurer's Local Government Investment Pool. Interest rates are down again for fiscal year 2002-2003 due to a continued decline in the investment pool's interest rate, resulting in decreased interest revenue.

The following table presents expenditures by function compared to prior year amounts:

Table 5
Expenditures by Function
All Governmental Funds

Government Function	Fiscal Year 2002-2003 Amount	Percent	2001-2002 Amount	Percent	Increase (Decrease) Amount	Percent
General government	$132,416	21.6%	$125,416	21.0%	$7,000	5.6%
Public safety	127,155	20.7%	123,021	20.5%	4,134	3.4%
Highways and streets	26,741	4.4%	27,835	4.7%	(1,094)	-3.9%
Health	24,029	3.9%	23,102	3.9%	927	4.0%
Welfare	84,238	13.7%	73,136	12.2%	11,102	15.2%
Culture and recreation	25,214	4.1%	25,581	4.3%	(367)	-1.4%
Education and economic opportunity	35,057	5.7%	37,524	6.3%	(2,467)	-6.6%
Capital outlay	97,147	15.9%	109,670	18.3%	(12,523)	-11.4%
Debt service:						
- Principal	45,544	7.4%	37,342	6.3%	8,202	22.0%
- Interest	15,695	2.6%	14,128	2.4%	1,567	11.1%
- Miscellaneous	24	0.0%	391	0.1%	(367)	-93.9%
Total expenditures	$613,260	100.0%	$597,146	100.0%	$16,114	2.7%

Total expenditures in governmental funds increased during fiscal year 2002-2003 by $16,114. As mentioned previously, an $11,102 increase in welfare expenditures was due to a $10,500 increase in expenditures for the Department of Institutional Health (Medical Assistance). (See related discussion on page 19)

Capital outlay decreased by $12,523 this year. However, last fiscal year, capital outlay of $109,670 was at a record high for the County. Both fiscal years indicate the County's substantial capital project activity is due to the following factors

- More capital projects planned and budgeted for several departments, including Transportation and Flood Control.
- More bond proceeds available to fund projects. These include the 2000 and 2002 General Obligation Bonds and the 2002 Highway User Revenue Bonds for fiscal year 2001-2002. For fiscal year 2002-2003, only the 2003 General Obligation and Highway User Revenue Bonds were available for capital project expenditures. With less funding available in fiscal year 2002-2003, fewer projects were planned and implemented.

Debt service principal payments increased as the result of a number of changes in outstanding debt. Over $3,000 in principal payments were made to retire debt before it was due, including the 1992 General Obligation Refunding Bonds, the 1993 General Obligation Bonds, and the Municipal Property Corporation Bonds. There were also $5,100 in 2002 Highway Expansion and Extension Loan Program (HELP) loans, $50,000 in 2003 General Obligation (GO) Bonds, and $35,000 in 2003 Highway User Revenue Bonds (HURF) that began principal repayment in fiscal year 2002-2003.

Budget to Actual Comparison for the General Fund

Overall, budgeted revenues and expenditures for General Fund were generally consistent with actual fund activity. Actual revenues exceeded budgeted revenues by $9,717 and actual expenditures were less than budgeted by $4,829. No variances between the budget to actual amounts were significant enough to affect the County's ability to provide future services.

Proprietary funds

The County's proprietary fund functions are contained in the Enterprise and Internal Service funds. The enterprise funds of the County are Pima Health Care System, Wastewater Management, Development Services, and Parking Garages. These business-type activities are accounted for in a similar fashion to private-sector businesses, and the costs for services provided are expected to be covered either fully or in part by current revenues generated, which include fees charged to external users.

The following table presents a comparison of this year's enterprise fund activities with the prior year:

Table 6
Summary Statement of Revenues, Expenses and Changes in Fund Net Assets
Total Enterprise Funds
For the Fiscal Years ended June 30, 2003 and 2002

	Fiscal Year		Variance	
	2002-2003	2001-2002	Amount	Percent
Operating revenues:				
Net patient services	$ 195,872	$ 176,324	$ 19,548	11.1%
Charges for services	61,223	58,327	2,896	5.0%
Other	29,346	16,563	12,783	77.2%
State reimbursement of disproportionate share	(23,518)	(13,254)	(10,264)	77.4%
Total net operating revenues	262,923	237,960	24,963	10.5%
Operating expenses:				
Employee compensation	90,824	83,357	7,467	9.0%
Medical claims	127,235	100,342	26,893	26.8%
Operating supplies & services	13,864	16,755	(2,891)	-17.3%
Utilities	3,575	3,881	(306)	-7.9%
Sludge and refuse disposal	2,242	1,501	741	49.4%
Repair and maintenance	6,801	5,143	1,658	32.2%
Landfill closure and post-closure care costs	1,078	1,030	48	4.7%
General and administrative	19,098	19,384	(286)	-1.5%
Consultants and professional services	17,551	17,235	316	1.8%
Depreciation and amortization	18,497	18,570	(73)	-0.4%
Total operating expenses	300,765	267,198	33,567	12.6%
Operating loss	(37,842)	(29,238)	(8,604)	29.4%
Nonoperating revenues (expenses):				
Grants	4,909	6,505	(1,596)	-24.5%
Shared State tax revenue	959	905	54	6.0%
Interest income	1,727	2,888	(1,161)	-40.2%
Sewer connection fees	20,280	17,480	2,800	16.0%
Interest expense	(5,434)	(6,041)	607	-10.0%
Loss on disposal of capital assets	(338)	(162)	(176)	108.6%
Amortization of deferred charges	(89)	(89)	0	0.0%
Total nonoperating revenues (expenses)	22,014	21,486	528	2.5%
Loss before extraordinary item, contributions and transfers	(15,828)	(7,752)	(8,076)	104.2%
Extraordinary Item: Loss on State Treasurer's Local Government Investment Pool	(2,673)	-	(2,673)	n/a
Capital contributions	15,521	12,462	3,059	24.5%
Transfers in	23,065	20,471	2,594	12.7%
Transfers (out)	(8,127)	(7,718)	(409)	5.3%
Change in net assets	$ 11,958	$ 17,463	$ (5,505)	-31.5%

Key activity within the enterprise funds for fiscal year 2002-2003 include the following:

- While net operating revenues for the County's enterprise funds increased $24,963 (10.5%), operating expenses also increased $33,567 (12.6%), resulting in an operating loss of $37,842, an increase of $8,604 or 29.4%. The increase in operating losses resulted mostly because of the increased health care service costs for PHCS. Wastewater Management also contributed to this increase in operating loss as a result of the Northwest Outfall sewer reparations.

- Net Patient Services revenues increased by $19,548 from fiscal year 2001-2002. This is attributable to increased membership enrollment for Pima Health System services, which generated increases in capitation revenues and reinsurance claim revenues.

- State laws required Pima Health Care System and its subfund, Kino Community Hospital, to return some disproportionate share revenue to the State's general fund. The $10,264 increase in state reimbursement for fiscal year 2002-2003 is simply a result of greater allocation of funds by the state, which were in turn paid back, based on a specific formulation.

- Employee compensation increased as the result of a motion passed by the Board of Supervisors in December of 2002, increasing compensation for all Pima County employees by $0.8134 per hour.

- Sewer connection fees charged by Wastewater Management increased by $2,800. This is a continued effect from a 12% rate increase in March of 2002, plus an additional 12% increase in April of 2003, which increased sewer connection revenues even further in the fourth quarter of fiscal year 2002-2003.

- Medical claims continued to increase this year as a result of the passage of Proposition 204 in the prior fiscal year, which expanded the eligibility for medical care within the Arizona Health Care Cost Containment System (AHCCCS), resulting in higher enrollment for Pima Health Care System. An increase in doctor fees is also responsible for a portion of the rise in medical claims expenditures.

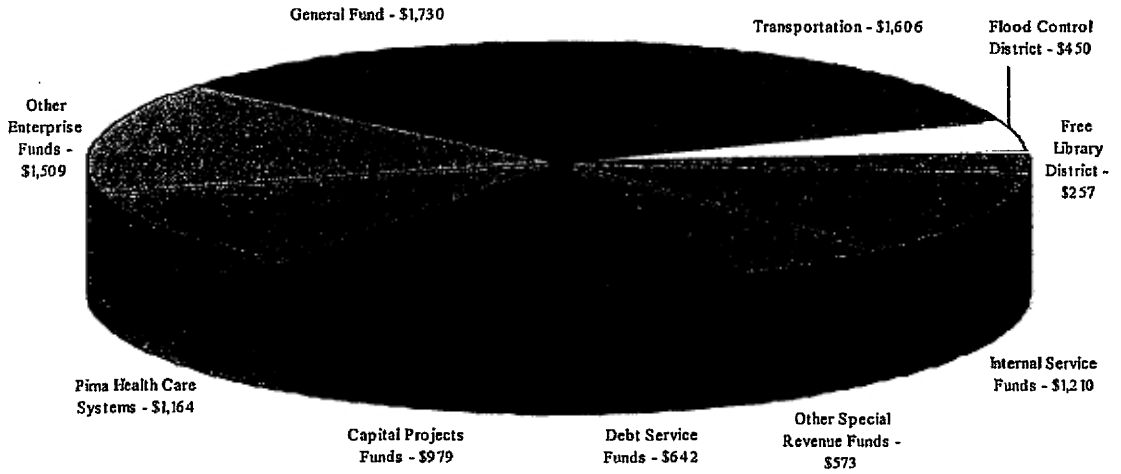
- The significant increase in capital contributions is primarily attributable to a $1,700 increase in contractor sewer connection contributions for Wastewater Management and the $1,300 purchase and reconstruction of a parking lot at Kino Hospital.

- There was a $2,673 extraordinary loss from the Local Government Investment Pool as a result of the bankruptcy described below.

Loss on Investment

In November of 2002, the State Treasurer of Arizona, who through statutory authority holds a significant portion of the County's monies in the State Treasurer's Local Government Investment Pool (LGIP), declared that a portion of the LGIP had been lost as a result of the bankruptcy of one of its investment components, National Century Financial Enterprises. Of the approximately $131,000 lost from the bankruptcy state-wide, Pima County held ownership to $10,120 and was required to designate the loss to specific departments and/or funds based on their proportionate participation in the investment pool. The distribution on a fund basis was as follows:

Allocation of Loss from the State Treasurer's Local Government Investment Pool



Pima County has reported the bankruptcy loss as an extraordinary loss. Although a nominal recovery of principal may occur in the future, it is believed that any recovery will be minimal, and will not occur for several years.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital for its governmental and business-type activities as of June 30, 2003 amounted to $1,144,524 (net of accumulated depreciation), an increase of 12.8%. The County's investment in capital assets consists of land, buildings, sewage conveyance systems, infrastructure, equipment and construction in progress.

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

- Land increased by $14,778. This was mostly due to acquisitions required for transportation and flood control projects.

- A number of roads and flood control projects were completed in fiscal year 2002-2003, increasing infrastructure by $72,181. These completed road projects include River Road from First Avenue to Campbell Avenue, Sunrise Drive from Swan Road to Craycroft Road, Ajo Way from Country Club Road to Alvernon Way, Thornydale Road from Ina Road to Cortaro Farms Road, La Cholla Boulevard from Omar Drive to Magee Road, and South 12th Avenue from Los Reales Road to Lerdo Road.

- Construction in Progress increased by $30,958. This is mostly due to a number of projects in progress for Wastewater Management, including the Randolph restoration projects, the Northwest outfall rehabilitation, and the Ina Road Water Pollution Control Facility.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Table 7
Capital Assets
Governmental and Business-type Activities

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2002-2003	2001-2002	2002-2003	2001-2002	2002-2003	2001-2002
Land	$ 127,854	$ 113,175	$ 12,865	$ 12,766	$ 140,719	$ 125,941
Buildings and improvements	200,966	193,251	147,183	153,061	348,149	346,312
Sewage conveyance systems	-	-	264,665	260,195	264,665	260,195
Machinery and equipment	32,875	27,737	9,507	9,022	42,382	36,759
Infrastructure	79,253	7,072	-	-	79,253	7,072
Construction in progress	133,185	164,511	136,171	73,887	269,356	238,398
Total	$ 574,133	$ 505,746	$ 570,391	$ 508,931	$1,144,524	$1,014,677

The County's infrastructure assets are recorded at historical cost in the government-wide financial statements. Additional information regarding the County's capital assets can be found in Note 5 of the financial statements on pages 53 – 56 of this report.

Long-term Debt

Significant, comparative long-term debt data is presented below:

Table 8
Long-Term Debt
Governmental Funds

	Fiscal Year	
	2002-2003	2001-2002
Bonds issued (at face value):		
General obligation refunding		$ 17,835
General obligation	50,000	20,000
Transportation revenue	35,000	55,000
Flood control district refunding		4,585
Special assessment with government commitment		1,821
Sewer revenue refunding		
Capital leases	177	590
Loan proceeds		5,100
Total	$ 85,177	$ 104,931

General obligation bonds issued in FY 2002-2003 amounted to $50,000; the proceeds of this issue were allocated as follows:

- $642 to Sahuarita expansion,
- $4,230 to improvement and expansion of the County's roads,
- $14,460 to public safety, law enforcement, and superior courts,
- $13,767 to improvements in the County's parks system,
- $3,072 to Sonoran Desert open space preservation programs,
- $9,037 to public health, safety, recreation, and cultural facilities projects,
- $4,039 to flood control projects,
- $753 to improve solid waste disposal facilities.

The $35,000 in Transportation Revenue bonds proceeds were allocated to major street and road improvements, principally in the Tucson metropolitan area, outside of city limits. These include projects such as:

- La Cañada Drive from Lambert Lane to Ina Road.
- Skyline Drive from Orange Grove Road to Campbell Avenue.
- Wetmore Road/Ruthrauff Road from La Cholla Boulevard to Fairview Road.
- Kolb Road from Sabino Canyon to Sunrise Drive.
- Catalina Highway from Tanque Verde Road to Houghton Road.
- La Cholla Boulevard from Omar Road to River Road.
- South 12th Avenue from 38th Street to Los Reales Road.

Pima County maintains an "A+" rating from Standard & Poor's and an "A1" rating from Moody's for general obligation bonds, street and highway revenue bonds, sewer revenue bonds, and flood control general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total asset valuation. The current debt limitation for Pima County is $725,334, which is significantly in excess of Pima County's outstanding general obligation debt.

Additional information regarding the County's debt can be found in Note 7 of the financial statements on pages 58-71 of this report.

Economic Factors and Next Year's Budget

The economic outlook for the County continues to show a number of hurdles for the County to work through over the next year. With the State Legislature and the Governor of Arizona reducing state-provided revenues by over $4,000, the County has allocated funds to absorb the costs associated with this lost revenue. Overall, the County budget has increased for fiscal year 2003-2004 by $42,000 as follows:

- Expenditures for the General Fund are expected to increase by $18,400 to fund higher employee health insurance premiums, increased costs for behavioral health services, an increase in required payment to the State's County Contribution Fund, increased probation costs, and a decrease in payment to the Arizona Long Term Care System.

- Special Revenue Funds are expected to have expenditures increase by $2,600, due mostly to an increase in the Transportation Fund's operating and maintenance budget and an increase in the County's mandated contribution to the Arizona State Retirement System. These increases are coupled with various minor decreases throughout the Special Revenue Funds.

- Expenditures within the Debt Service fund are expected to increase by $5,700 in order to cover payments for bond sales made in fiscal year 2002-2003 as well as costs associated with proposed restructuring of debt in fiscal year 2003-2004.

- Budgeted expenditures for the Capital Projects Fund increased by $23,400 in alignment with the budget detailed in the County's Capital Improvement Plan.

- The Enterprise Funds' budget increased $38,900 to cover the expansion of the Wastewater Management system as well as expected increases in costs for Pima Health System and Services related to the award of a five-year acute care contract, increased enrollment under AHCCCS and ALTCS, and rising medical care costs.

Other significant activity affecting the fiscal year 2003-2004 budget include the following:

- The County has budgeted a $20,000 transfer from the general fund to Kino Community Hospital to cover an estimated loss of $15,000, increased personnel costs of $3,000, and required facility improvements of $2,000.

- The total County tax rate was decreased by $0.0017.

- Across-the-board departmental reductions averaging 4.5% were adopted.

- Salary increases to County employees were not budgeted for the coming year, as funds were not available to do so while still meeting the requirements of the public.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Any questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 130 W. Congress, 7th Floor, Tucson, AZ, 85701.

PIMA COUNTY
STATEMENT OF NET ASSETS

Exhibit A-1

As of June 30, 2003
(in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 61,966	$ 34,077	$ 96,043	$ 10,914
Investments				1,327
Property taxes receivable (net)	10,700		10,700	
Interest receivable	711	63	774	
Internal balances	10,235	(10,235)		
Due from other governments	40,372	3,899	44,271	
Accounts receivable (net)	1,473	17,600	19,073	1,593
Inventories	2,617	3,431	6,048	417
Prepaids	3,866	1,209	5,075	212
Other assets	200	848	1,048	1,619
Restricted assets:				
Cash and cash equivalents	141,843	7,902	149,745	3,356
Interest receivable		20	20	
Investments	2,750		2,750	
Regulatory asset				7,812
Deposits with fiscal agents	68		68	
Capital assets (net):				
Land	127,854	12,865	140,719	958
Buildings and improvements	200,966	147,183	348,149	3,397
Sewage conveyance system		264,665	264,665	
Machinery and equipment	32,875	9,507	42,382	771
Infrastructure	79,253		79,253	35,674
Construction in progress	133,185	136,171	269,356	3,154
Total assets	850,934	629,205	1,480,139	71,204
LIABILITIES				
Accounts payable	30,032	22,802	52,834	1,596
Interest payable	23	19	42	534
Contract retentions	643		643	
Employee compensation	30,495	8,809	39,304	
Due to other governments	855	6,099	6,954	
Deposits and rebates	2,890		2,890	168
Deferred revenues	3,998	1,348	5,346	
Noncurrent liabilities:				
Due within one year	50,124	9,235	59,359	2,222
Due in more than one year	325,795	139,908	465,703	49,867
Total liabilities	444,855	188,220	633,075	54,387
NET ASSETS				
Invested in capital assets, net of related debt	272,130	444,590	716,720	2,720
Restricted for:				
Special revenue	29,322		29,322	
Debt service	2,926	1,245	4,171	2,397
Capital projects	35,686	3,008	38,694	455
Wastewater management		3,669	3,669	
Health care		13,217	13,217	
Unrestricted (deficit)	66,015	(24,744)	41,271	11,245
Total net assets	$ 406,079	$ 440,985	$ 847,064	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF ACTIVITIES

Exhibit A-2

For the Year Ended June 30, 2003
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 131,925	$ 18,667	$ 9,368		$ (103,890)		$ (103,890)	
Public safety	132,939	10,804	25,856	$ 1,042	(95,237)		(95,237)	
Highways and streets	39,492	5,339	48,258	4,235	18,340		18,340	
Health	23,917	7,822	8,434		(7,661)		(7,661)	
Welfare	84,457	1,037	250		(83,170)		(83,170)	
Culture and recreation	31,326	1,662	363	388	(28,913)		(28,913)	
Education and economic opportunity	35,033	196	29,058		(5,779)		(5,779)	
Depreciation - unallocated	820				(820)		(820)	
Amortization	654				(654)		(654)	
Interest on long-term debt	15,779				(15,779)		(15,779)	
Total governmental activities	496,342	45,527	121,587	5,665	(323,563)		(323,563)	
Business-type activities:								
Wastewater Management	74,816	71,626	304			$ (2,886)	(2,886)	
Pima Health Care System	221,970	195,872	4,605			(21,493)	(21,493)	
Development Services	8,373	8,464				91	91	
Parking Garages	1,346	1,413				67	67	
Total business-type activities	306,505	277,375	4,909			(24,221)	(24,221)	
Total primary government	$ 802,847	$ 322,902	$ 126,496	$ 5,665	(323,563)	(24,221)	(347,784)	
Component units:								
Metropolitan Domestic Water Imp. District	$ 9,817	$ 10,712						$ 895
Marana Water Improvement District	395	481	$ 45					131
Southwestern Fair Commission	4,642	4,513	88					(41)
Total component units	$ 14,854	$ 15,706	$ 133					$ 985
General revenues:								
Property taxes, levied for general purposes					187,923		187,923	
Property taxes, levied for flood control district					14,638		14,638	
Property taxes, levied for library district					10,150		10,150	
Property taxes, levied for debt service					39,133		39,133	
Hotel/motel taxes					2,557		2,557	
Other taxes levied for stadium district					1,597	959	2,556	
Unrestricted share of state sales tax					78,504		78,504	
Unrestricted share of state vehicle license tax					21,904		21,904	
Grants and contributions not restricted to specific programs					9,216		9,216	
Interest and penalties on delinquent taxes					7,052		7,052	
Investment earnings					5,064	1,727	6,791	369
Miscellaneous					12,774	5,828	18,602	387
Capital contributions					2,789	12,479	15,268	1,005
Extraordinary item: Loss from State Treasurer's Local Government Investment Pool					(7,447)	(2,673)	(10,120)	(432)
Transfers					(17,980)	17,980		
Total general revenues, extraordinary item and transfers					367,874	36,300	404,174	1,329
Change in net assets					44,311	12,079	56,390	2,314
Net assets at beginning of year, as restated					361,768	428,906	790,674	14,503
Net assets at end of year					$ 406,079	$ 440,985	$ 847,064	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-3

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003
(in thousands)

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 19,416	$ 86,292	$ 55,551	$ 161,259
Deposits with fiscal agents			68	68
Investments		6		6
Property taxes receivable (net of allowances for uncollectables)	7,971		2,729	10,700
Interest receivable	83	120	214	417
Due from other funds	21,149	1,653	1,491	24,293
Due from other governments	10,281	2,443	17,514	30,238
Accounts receivable	1,026	9	426	1,461
Inventory			2,298	2,298
Prepaid expenditures	2,349	41	477	2,867
Loan receivable	200			200
Restricted assets		2,744		2,744
Total assets	$ 62,475	$ 93,308	$ 80,768	$ 236,551
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 8,470	$ 7,024	$ 12,336	$ 27,830
Interest payable	1	15	7	23
Contract retentions		631	12	643
Employee compensation	8,816	39	3,228	12,083
Interfund payable	177		9	186
Due to other funds	2,601	21	11,165	13,787
Due to other governments	623		232	855
Deposits and rebates	132	2,744	14	2,890
General obligation bonds			5	5
Deferred revenues	8,107		4,747	12,854
Total liabilities	28,927	10,474	31,755	71,156
Fund balances:				
Reserved for:				
Inventory			2,298	2,298
Prepaid expenditures	2,349	41	477	2,867
Debt service			3,146	3,146
Capital repairs and refurbishments			75	75
Loan receivable	200			200
Specified programs			705	705
Unreserved, reported in:				
General fund	30,999			30,999
Special revenue funds			42,312	42,312
Capital projects fund		82,793		82,793
Total fund balances	33,548	82,834	49,013	165,395
Total liabilities and fund balances	$ 62,475	$ 93,308	$ 80,768	$ 236,551

See Notes to the Financial Statements

Exhibit A-4

PIMA COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(in thousands)

Fund balances - total governmental funds		$ 165,395
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	$ 654,808	
Less accumulated depreciation	(97,413)	557,395
Certain receivables are not available to pay for current period expenditures and therefore are not reported in the governmental funds		
Due from other governments	10,061	
Other	179	10,240
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds		
Bonds payable	(313,291)	
Loans and leases payable	(35,109)	
Certificates of participation payable	(1,560)	
Employee compensation	(17,746)	(367,706)
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements		8,856
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		31,899
Net assets of governmental activities		$ 406,079

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-5

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2003
(in thousands)

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 194,552		$ 63,823	$ 258,375
Special assessments			1,023	1,023
Licenses and permits	2,010		4,077	6,087
Intergovernmental	112,530	$ 4,642	128,206	245,378
Charges for services	23,750	3,683	8,288	35,721
Fines and forfeits	4,111		936	5,047
Interest	1,015	1,242	1,895	4,152
Miscellaneous	2,884	1,344	6,128	10,356
Total revenues	340,852	10,911	214,376	566,139
Expenditures:				
Current:				
General government	110,813		21,603	132,416
Public safety	90,375		36,780	127,155
Highways and streets			26,741	26,741
Health	2,762		21,267	24,029
Welfare	84,130		108	84,238
Culture and recreation	12,858		12,356	25,214
Education and economic opportunity	4,812		30,245	35,057
Capital outlay		97,147		97,147
Debt service - principal	1,550		43,994	45,544
- interest	1,613		14,082	15,695
- miscellaneous	4		20	24
Total expenditures	308,917	97,147	207,196	613,260
Excess (deficiency) of revenues over (under) expenditures	31,935	(86,236)	7,180	(47,121)
Other financing sources (uses):				
Issuance cost on bonds		(163)		(163)
Premium on bonds		410		410
Capital leases			177	177
Proceeds from sale of capital assets		1	36	37
Face amount of long-term debt		85,000		85,000
Transfers in	10,822	38,200	29,435	78,457
Transfers (out)	(38,621)	(392)	(54,584)	(93,597)
Total other financing sources (uses)	(27,799)	123,056	(24,936)	70,321
Extraordinary item:				
Loss from State Treasurer's Local Government Investment Pool	(1,730)	(979)	(3,528)	(6,237)
Net change in fund balances	2,406	35,841	(21,284)	16,963
Fund balance at beginning of year	31,142	46,993	69,668	147,803
Change in reserve for inventory			629	629
Fund balance at end of year	$ 33,548	$ 82,834	$ 49,013	$ 165,395

See Notes to the Financial Statements

Exhibit A-6

PIMA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

Net change in fund balances - total governmental funds		$ 16,963
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 depreciated over their estimated useful lives and reported as depreciation expense		
Expenditures for capital assets	$ 74,133	
Less current year depreciation	(10,995)	63,138
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items		
Face amount of long-term debt	(85,000)	
Debt service - principal payments	45,544	
Premium on bonds	(410)	
Capital leases	(177)	
Deferred bond issue costs	163	
Amortization expense	(361)	(40,241)
Some revenues reported in the statement of activities do not represent the collection of current financial resources and therefore are not reported as revenues in the governmental funds		
Tax revenues	462	
Other	5,187	5,649
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		
Change in compensated absences	(311)	
Loss on disposal of capital assets	(833)	
Change in reservation of fund balances	629	(515)
Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the net revenue of the internal service funds is reported with governmental activities		(683)
Change in net assets of governmental activities		$ 44,311

See Notes to the Financial Statements

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities-Internal Service Funds
	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Assets					
Current assets:					
Cash and cash equivalents	$ 23,748	$ 966	$ 9,363	$ 34,077	$ 42,549
Interest receivable	36	7	20	63	115
Interfund receivables	299			299	
Due from other funds	2,002	2	197	2,201	
Due from other governments	3,612	287		3,899	73
Accounts receivable	10,706	6,860	34	17,600	12
Inventory	820	2,611		3,431	318
Prepaid expense	1,064	129	16	1,209	998
Total current assets	42,287	10,862	9,630	62,779	44,065
Noncurrent assets:					
Restricted:					
Cash and cash equivalents		7,902		7,902	
Interest receivable		20		20	
Total restricted assets		7,922		7,922	
Capital assets:					
Land and other improvements	250	11,958	657	12,865	592
Buildings and improvements	29,388	216,424	12,927	258,739	462
Sewage conveyance system		399,747		399,747	
Equipment	9,896	16,983	969	27,848	28,171
Less accumulated depreciation	(28,640)	(229,299)	(7,040)	(264,979)	(12,487)
Construction in progress		136,171		136,171	
Total capital assets (net of accumulated depreciation)	10,894	551,984	7,513	570,391	16,738
Deferred financing costs		848		848	
Total noncurrent assets	10,894	560,754	7,513	579,161	16,738
Total assets	53,181	571,616	17,143	641,940	60,803
Liabilities					
Current liabilities:					
Accounts payable	14,163	8,372	267	22,802	2,202
Employee compensation	4,846	3,147	816	8,809	663
Interest payable	7	12		19	
Interfund payable					113
Due to other funds	1,736	10,967	2	12,705	2
Due to other governments	5,947		152	6,099	
Deferred revenues	1	1,347		1,348	
Current portion of sewer revenue bonds		4,965		4,965	
Current portion of wastewater loans payable		4,270		4,270	
Current portion reported but unpaid losses					2,996
Current portion incurred but not reported losses					2,973
Total current liabilities	26,700	33,080	1,237	61,017	8,949
Noncurrent liabilities:					
Contracts and notes		6,849		6,849	
Landfill closure payable		15,645		15,645	
Sewer revenue bonds		58,133		58,133	
Wastewater loans payable		59,281		59,281	
Reported but unpaid losses					10,031
Incurred but not reported losses					9,954
Total noncurrent liabilities		139,908		139,908	19,985
Total liabilities	26,700	172,988	1,237	200,925	28,934
Net assets					
Invested in capital assets, net of related debt	10,894	426,183	7,513	444,590	16,738
Restricted for:					
Debt service		1,245		1,245	
Capital projects		3,008		3,008	
Wastewater management		3,669		3,669	
Health care	13,217			13,217	
Unrestricted	2,370	(35,477)	8,393	(24,714)	15,131
Total net assets	$ 26,481	$ 398,628	$ 15,906	441,015	$ 31,869

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.	(30)
Net assets of business-type activities	$ 440,985

See Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2003 (in thousands)	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Operating revenues:					
Net patient services	$ 195,872			$ 195,872	
Charges for services		$ 51,346	$ 9,877	61,223	$ 28,751
Other (including $23,799 in disproportionate share settlement)	28,307	871	168	29,346	750
Reimbursement of disproportionate share settlement	(23,518)			(23,518)	
Total net operating revenues	200,661	52,217	10,045	262,923	29,501
Operating expenses:					
Employee compensation	59,040	25,378	6,406	90,824	5,885
Medical claims	127,235			127,235	
Operating supplies and services	7,889	5,228	747	13,864	4,293
Utilities	1,328	1,977	270	3,575	
Sludge and refuse disposal		2,242		2,242	
Repair and maintenance	1,446	5,105	250	6,801	78
Landfill closure and postclosure care costs		1,078		1,078	
Incurred losses					7,036
Insurance premiums					4,822
General and administrative	9,931	8,026	1,141	19,098	4,183
Consultants and professional services	13,434	3,646	471	17,551	635
Depreciation and amortization	1,385	16,670	442	18,497	1,942
Total operating expenses	221,688	69,350	9,727	300,765	28,874
Operating income (loss)	(21,027)	(17,133)	318	(37,842)	627
Nonoperating revenues (expenses):					
Grants	4,605	304		4,909	
Shared State tax revenue		959		959	
Interest income	575	1,014	138	1,727	729
Sewer connection fees		20,280		20,280	
Interest expense	(163)	(5,271)		(5,434)	
Loss on disposal of capital assets	(119)	(213)	(6)	(338)	(910)
Amortization of deferred charges		(89)		(89)	
Total nonoperating revenues (expenses):	4,898	16,984	132	22,014	(181)
Income (loss) before contributions, transfers and extraordinary item:	(16,129)	(149)	450	(15,828)	446
Capital contributions	1,819	13,702		15,521	
Extraordinary item:					
Loss from State Treasurer's Local Government Investment Pool	(1,164)	(1,263)	(246)	(2,673)	(1,210)
Transfers in	23,065			23,065	202
Transfers (out)	(7,993)		(134)	(8,127)	
Change in net assets	(402)	12,290	70	11,958	(562)
Net assets at beginning of year	26,883	386,338	15,836	429,057	32,431
Net assets at end of year	$ 26,481	$ 398,628	$ 15,906	441,015	$ 31,869

Some amounts reported for *business-type activities* in the statement of activities are different because a portion of the net revenue of certain internal service funds is reported with business-type activities.	121
Change in net assets of business-type activities	$ 12,079

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A-9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2003
(in thousands)

	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Cash flows from operating activities:					
Cash received from other funds for goods and services provided	$ 6,472		$ 627	$ 7,099	$ 28,755
Cash received from customers for goods and services provided	193,411	$ 51,599	9,880	254,890	
Cash received from miscellaneous operations	2,938	2,449	148	5,535	693
Cash payments to suppliers for goods and services	(156,235)	(19,752)	(1,650)	(177,637)	(11,317)
Cash payments to other funds for goods and services	(3,489)	(8,815)	(2,383)	(14,687)	(2,232)
Cash payments for incurred losses					(9,194)
Cash payments to employees for services	(58,494)	(24,873)	(5,958)	(89,325)	(5,819)
Net cash provided by (used) for operating activities	(15,397)	608	664	(14,125)	886
Cash flows from noncapital financing activities:					
Interest paid on short-term credit	(176)			(176)	
Transfers in	21,065			21,065	202
Transfers out	(7,993)		(134)	(8,127)	
Loan payments from other funds		75	2,238	2,313	2,211
Proceeds of loans from other funds	1,736	10,907		12,643	
Loan payments to other funds	(12,574)		(10)	(12,584)	(2)
Shared State tax revenues		958		958	
Grant revenues	4,211	304		4,515	
Net cash provided for noncapital financing activities	6,269	12,244	2,094	20,607	2,411
Cash flows from capital and related financing activities:					
Proceeds of loans		9,746		9,746	
Principal paid on bonds and loans		(8,887)		(8,887)	
Interest paid on bonds and loans		(4,742)		(4,742)	
Sewer connection fees		19,701		19,701	
Proceeds from sale of capital assets					440
Purchase of capital assets	(561)	(59,228)	(71)	(59,860)	(5,618)
Net cash used for capital and related financing activities	(561)	(43,410)	(71)	(44,042)	(5,178)
Cash flows from investing activities:					
Interest received on cash and investments	568	1,125	142	1,835	749
Loss from State Treasurer's Local Government Investment Pool	(1,164)	(1,263)	(246)	(2,673)	(1,210)
Net cash used for investing activities	(596)	(138)	(104)	(838)	(461)
Net increase (decrease) in cash and cash equivalents	(10,285)	(30,696)	2,583	(38,398)	(2,342)
Cash and cash equivalents at beginning of year	34,033	39,564	6,780	80,377	44,891
Cash and cash equivalents at end of year	$ 23,748	$ 8,868	$ 9,363	$ 41,979	$ 42,549

(Continued)

See Notes to the Financial Statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003
(in thousands)
(Continued)

Reconciliation of operating income (loss) to net cash provided (used) by operating activities	Pima Health Care System	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating income (loss)	$ (21,027)	$ (17,133)	$ 318	$ (37,842)	$ 627
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,385	16,670	442	18,497	1,942
Provision for doubtful accounts	6,203			6,203	
Landfill closure and postclosure care costs		1,078		1,078	
Decrease (increase) in accounts receivable	(3,328)	1,497	(17)	(1,848)	(69)
Decrease in interfund receivables	500			500	
Decrease (increase) in inventory and other assets	(732)	233	(15)	(514)	(461)
Increase (decrease) in accounts payable	(3,025)	(2,237)	(84)	(5,346)	1,071
(Decrease) in interfund payables	(23)	(5)		(28)	
(Decrease) in reported but unpaid losses					(3,975)
Increase in incurred but not reported losses					1,817
Increase (decrease) in other current liabilities	4,650	505	20	5,175	(66)
Net cash provided by (used) for operating activities	$ (15,397)	$ 608	$ 664	$ (14,125)	$ 886

Noncash investing, capital, and financing activities during the year ended June 30, 2003:

Wastewater Management Enterprise Fund retired capital assets with a net book value of $213.

Wastewater Management Enterprise Fund received capital assets with a net book value of $1,129 from the Other Internal Service Funds.

Wastewater Management Enterprise Fund was contributed developer built conveyance systems with estimated fair values totaling $12,473. These contributions were recorded as an increase in capital assets and capital contributions (a noncash transaction).

Wastewater Management Enterprise Fund received capital assets with a net book value of $99 from the Capital Projects Fund.

Pima Health Care System Enterprise Fund retired equipment with a net book value of $119.

Pima Health Care System Enterprise Fund received equipment from the Capital Projects Fund with a net book value of $1,813 and received donated equipment valued at $6.

Other Enterprise Funds disposed of capital assets with a net book value of $6.

Other Internal Service Funds retired equipment with a net book value of $221.

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2003
(in thousands)

Exhibit A-10

	Investment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 122,905	$ 33,584
Interest receivable	272	
Due from other governments		3,978
Total assets	123,177	37,562
LIABILITIES		
Employee compensation		2,522
Due to other governments		13,531
Deposits and rebates		21,509
Total liabilities		$ 37,562
NET ASSETS		
Held in trust for pool participants	$ 123,177	

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the Year Ended June 30, 2003
(in thousands)

Exhibit A-11

	Investment Trust Funds
ADDITIONS	
Contributions from participants	$ 1,832,528
Total contributions	1,832,528
Investment interest earnings	3,133
Total investment earnings	3,133
Total additions	1,835,661
DEDUCTIONS	
Distributions to participants	1,875,271
Total deductions	1,875,271
Change in net assets	(39,610)
Net assets held in trust July 1, 2002	162,787
Net assets held in trust June 30, 2003	$ 123,177

See Notes to the Financial Statements

PIMA COUNTY
COMBINING STATEMENT OF NET ASSETS
Component Units
June 30, 2003
(in thousands)

Exhibit A-12

	Metropolitan Domestic Water Improvement District	Marana Domestic Water Improvement District	Southwestern Fair Commission	Total
ASSETS				
Cash and cash equivalents	$ 9,938	$ 164	$ 812	$ 10,914
Investments	1,327			1,327
Accounts receivable (net)	1,504	61	28	1,593
Inventories	377	3	37	417
Prepaids	192		20	212
Other assets	1,596	14	9	1,619
Restricted assets:				
Cash and cash equivalents	3,345	11		3,356
Regulatory asset	7,812			7,812
Capital assets (net):				
Land	950	8		958
Buildings and improvements	1,749	2	1,646	3,397
Machinery and equipment	561	15	195	771
Water system	34,702	972		35,674
Construction in progress	2,785	369		3,154
Total assets	66,838	1,619	2,747	71,204
LIABILITIES				
Accounts payable	1,409	18	169	1,596
Deposits and rebates	139	17	12	168
Payable from restricted assets	534			534
Noncurrent liabilities:				
Due within one year:				
Contracts and notes	105	26	104	235
Revenue bonds	1,980	7		1,987
Due in more than one year:				
Contracts and notes	1,716	1,107	533	3,356
Revenue bonds	46,184	327		46,511
Total liabilities	52,067	1,502	818	54,387
NET ASSETS				
Invested in capital assets, net of related debt	1,603	(87)	1,204	2,720
Restricted for:				
Debt service	2,386	11		2,397
Capital projects	425		30	455
Unrestricted	10,357	193	695	11,245
Total net assets	$ 14,771	$ 117	$ 1,929	$ 16,817

See Notes to the Financial Statements

PIMA COUNTY
COMBINING STATEMENT OF ACTIVITIES
Component Units
For the Year Ended June 30, 2003
(in thousands)

Exhibit A-13

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	MDWID	MARANA	SFC	Total
Metropolitan Domestic Water Improvement District (MDWID)							
Operations	$ 9,817	$ 10,712		$ 895			$ 895
Total MDWID	9,817	10,712		895			895
Marana Domestic Water Improvement District (MARANA)							
Operations	395	481	$ 45		$ 131		131
Total Marana	395	481	45		131		131
Southwestern Fair Commission (SFC)							
Operations	4,642	4,513	88			$ (41)	(41)
Total SFC	4,642	4,513	88			(41)	(41)
Total component units	$ 14,854	$ 15,706	$ 133	895	131	(41)	985
General revenues:							
Investment earnings				369			369
Miscellaneous				272		115	387
Capital Contributions				1,005			1,005
Extraordinary Item: Loss from State Treasurer's Local Government Investment Pool				(432)			(432)
Total general revenues and extraordinary item				1,214		115	1,329
Change in net assets				2,109	131	74	2,314
Net assets at beginning of year, as restated				12,661	(13)	1,855	14,503
Net assets at end of year				$ 14,770	$ 118	$ 1,929	$ 16,817

See Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pima County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The County is a general-purpose local government that is governed by a separately elected board of Pima County supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year-end.

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the Pima County Board of Supervisors to assist in the development of the County, among other things, by acquiring, constructing and improving any facilities, including real property and improvements and personal property, entirely for use by the County. The Corporation undertook its first bond issue in October, 1992. The Corporation is governed by a five-member board elected by the Pima County Board of Supervisors to one-year terms. The Corporation is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the MPC can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Pima County Stadium District, a legally separate entity, was formed to promote and establish major league baseball spring training in Pima County. The Board of Directors of the District comprises the same individuals who constitute the Pima County Board of Supervisors. Acting in the capacity of the Board of Directors, the Pima County Board of Supervisors is able to impose its will on the District. The Board of Directors levies the car rental surcharge rates and the recreation vehicle (RV) park tax for the District. The District is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the District can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Pima County Library District was established in 1986 when legislation allowed full taxing authority and the ability to enter into agreements with other jurisdictions for the provision of library services. The Board of Directors is the Pima County Board of Supervisors. The terms of the Board are determined by the actual time one is a Pima County Supervisor. The Library District and the City of Tucson have had intergovernmental agreements to provide library services since 1986. The Library District is reported as a special revenue fund (blended component unit) in these financial statements. Financial information for the District is presented in the Combining Statements and Other Schedules – Other (Non-major) Governmental Funds on pages 88-91 of this report.

The Pima County Flood Control District was established June 5, 1978, and became operational on July 1, 1978. To comply with federal law, the State of Arizona enacted the Floodplain Management Act of 1973. This act authorized the counties in Arizona to adopt rules and regulations concerning the management of floodplain areas. The State of Arizona subsequently authorized flood control districts to levy taxes on real property to finance district-operating expenses. The district is responsible for floodplain management activities for the unincorporated areas of Pima

County (excepting the national forests, parks, monuments and Indian Nations) and the City of South Tucson, and the Town of Sahuarita. The Pima County Board of Supervisors is the Board of Directors for the Flood Control District. The Flood Control District is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the District can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Metropolitan Domestic Water Improvement District (MDWID) of Pima County, a legally separate entity, was formed by the Pima County Board of Supervisors on July 7, 1992. The initial Board of Directors of the District was comprised of five members appointed by the Pima County Board of Supervisors to varying terms. In November 1994, three members were elected to four-year terms. The Board of Directors of the District has all the powers and duties of the Board of Supervisors of Pima County sitting as the board of directors of a county improvement district that are not in conflict with the provisions of the law. The Pima County Board of Supervisors may review all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may revoke at any time the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements of the District can be obtained from its administrative offices located at 6265 North La Canada Drive, Tucson, Arizona 85704.

The Southwestern Fair Commission, Inc. (SFC) is a nonprofit corporation, which manages and maintains the fairgrounds owned by the County and conducts an annual fair and other events at the fairgrounds. The Commission's members are appointed, and can be removed at any time, by the Pima County Board of Supervisors. Based on these factors, SFC is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements for SFC can be obtained from the Pima County Finance Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Marana Domestic Water Improvement District (MARANA) of Pima County is a municipal corporation organized in 1997 under the laws of Arizona. It is a public service corporation authorized to engage in the sale of water for commercial and domestic use. The Board of Directors of the District are appointed by the Pima County Board of Supervisors. The Board of Directors of the District has all the powers and duties of the Board of Supervisors of Pima County, as the board of directors of a County improvement district that are not in conflict with the provisions of the law. The Pima County Supervisors may review and shall have veto authorization over all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may revoke at any time the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements of the District can be obtained from its administrative offices located at 16560 W. El Tiro Road, P.O. Box 518, Marana, Arizona 85653-0518.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund-based financial statements. The government-wide statements focus on the County as a whole, while the fund-based financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements - provide information about the primary government (Pima County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

- Charges for services (fines and forfeitures, licenses and permits, and special assessments).
- Operating grants and contributions.
- Capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues. The net effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

Fund-based financial statements – provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund-based financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with each fund's principal activity in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as non-operating revenues.

The County reports the following major governmental funds:

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

The Capital Projects Fund – accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The County reports the following major enterprise funds:

Pima Health Care System – provides health care services through Kino Hospital, Pima Health System, and Home Health including inpatient hospital care and outpatient clinical care for medical and psychiatric problems, indigent health care under the Arizona Health Care Cost Containment System (AHCCCS), an alternative to Medicaid, home health services and long-term nursing care.

Wastewater Management Fund – accounts for the management and operation of wastewater treatment, water pollution control programs, and solid waste management throughout the County.

The County reports the following fund types:

Internal service funds – account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis. These funds account for automotive maintenance and operation, insurance, printing and graphics, and telecommunications services.

Investment trust funds – account for assets held by the County Treasurer in an external investment pool and individual investment accounts for the benefit of outside jurisdictions.

Agency funds – account for the assets held by the County as an agent for individuals, private organizations or other governmental units. The agency fund is custodial in nature and does not present results of operations or have a measurement focus.

C. Basis of Accounting

The government-wide and proprietary funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds in the fund-based financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

The County's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash and Investments

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

If an individual fund has a deficit balance in the amount on deposit with the County Treasurer at year-end, that balance is reclassified as an amount due to other funds.

E. Inventories

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method or average cost method. Inventories of:

- Pima Health Care System, an enterprise fund, are valued at the lower of cost or market, cost being determined on the first-in, first-out method.
- Wastewater Management, an enterprise fund, are valued at lower of cost or market, cost being determined using the moving average method.
- Automotive Services, an internal service fund, are valued at the lower of cost or market, cost being determined using the moving average method.

F. Property Tax Calendar

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Personal property taxes are also levied on or before the third Monday in August and become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

G. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Excluding component units, capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Buildings and building improvements	All	Straight Line	7 to 40 Years
Equipment	$ 5	Straight Line	3 to 25 Years
Automotive service vehicles	$ 5	Units of Production Based on number of hours or miles	5 to 15 Years
Infrastructure	$100	Straight Line	20 to 50 Years
Land improvements	$100	Straight Line	20 to 25 Years
Wastewater sewer conveyance	$ 20	Straight Line	20 to 50 Years
Wastewater treatment facilities, transfer stations and other property and equipment	$ 20	Straight Line	50 Years

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees, however an estimate is made for non-vested sick leave. For employees who have twenty or more years of continuous service with the County or who have a combined total of age and years of service equal to eighty points, and who retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan, sick leave benefits do vest and, therefore, are accrued.

NOTE 2: NET ASSET BEGINNING BALANCES RESTATED

The beginning governmental activities and business-type activities net asset balances are being restated due to an error in the calculation of the internal balances from the Internal Services Fund assets, liabilities and net revenues which were included in the business-type activities in the prior year.

	Governmental Activities	Business-type Activities
Net assets-June 30, 2002, as previously reported	$ 358,237	$ 432,437
Correction of error	3,531	(3,531)
Net assets, July 1, 2002, as restated	$ 361,768	$ 428,906

The beginning discretely presented component units' net asset balance was restated by $(13) to include the Marana Domestic Water Improvement District. Although this District should have been included in the prior year, its financial information was immaterial and unaudited, and therefore not included. The discretely presented component units were therefore restated this fiscal year to include this District.

NOTE 3: CASH AND INVESTMENTS

PRIMARY GOVERNMENT

The County's cash and investment policies are governed by State statutes and by bond covenants. The County Treasurer is authorized to invest public monies in the State Treasurer's Investment Pool; interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations issued or guaranteed by the United States government; and bonds of the State of Arizona or any of its counties, cities, towns, school districts as specified by statute. State statutes also require collateral for demand deposits, certificates of deposit and repurchase agreements at 101 percent of all deposits not covered by Federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, and obligations of the various states and their municipalities, school districts and special districts. At least monthly, the Treasurer's Office determines that the collateral is adequate to cover the deposits by calculating the lower amount of par or fair value of individual securities pledged as collateral.

Most cash, including amounts held in trust and agency capacity for other entities, is deposited with the County Treasurer who invests the pooled balances on a short-term basis. Interest received is allocated monthly, on the basis of average daily cash balances, to separate districts and to various County funds. The County Treasurer also maintains discrete deposit and investment accounts for various funds and other entities. Deposits and investments are displayed on the financial statements as cash and cash equivalents, deposits with fiscal agents, investments, and restricted assets.

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The County Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The County Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the County Treasurer determines the fair value of those pooled investments annually at June 30. The County Treasurer's Investment Pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The structure of the pool does not provide for shares and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

Deposits—At June 30, 2003, the investment pool had cash on hand of $4. The carrying amount of the pool's total cash in bank was $26,369 and the bank balance was $38,398. Of the bank balance, $100 was covered by federal depository insurance and $38,298 was covered by collateral held by the pledging financial institution's agent in the County's name.

Investments—At June 30, 2003, the County Treasurer's Investment Pool's investments consisted of $226,213 invested in the State Treasurer's Investment Pool. The State Board of Investment 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. Those shares are not identified with specific investments, are not subject to custodial credit risk, and have no stated interest rate or maturity date.

A condensed statement of the investment pool's net assets and changes in net assets follows:

Statement of Net Assets	
Net assets held in trust for:	
Internal participants	$ 149,303
External participants	103,469
Total Liabilities	$ 0
Total net assets held in trust	$ 252,772
Statement of Changes in Net Assets	
Total additions	$ 4,851,230
Total deductions	(4,880,720)
Net decrease	(29,490)
Net assets held in trust:	
July 1, 2002	282,262
June 30, 2003	$ 252,772

Other Cash and Investments—At June 30, 2003, the total nonpooled cash on hand was $53. The carrying amount of the total nonpooled cash in bank was $19,557, and the bank balance was $20,374. Of the bank balance, $16,408 was covered by federal depository insurance; $3,129 was covered by collateral held by the pledging financial institution's agent in the County's name; and $837 was uninsured and uncollateralized.

Deposits held in escrow total $5,731. They are not reflected in a risk category.

The County's nonpooled investments are categorized below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered in the County's name or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the County's name. The County's investment in the

State Treasurer's Investment Pool represents shares of the pool's portfolio. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Investment Type	Category 1	Category 2	Category 3	Reported Amount	Fair Value
U.S. Government Issues	$ 0	$ 0	$ 1,646	$ 1,646	$ 1,646
State Treasurer's Investment Pool				125,522	125,522
Total				$ 127,168	$ 127,168

A reconciliation of financial statement amounts to amounts disclosed within this footnote is as follows:

Basic Financial Statements:	
Government-Wide Statement of Net Assets:	
Cash and cash equivalents	$ 96,043
Restricted assets:	
Cash & cash equivalents	149,745
Investments	2,750
Deposits with fiscal agents	68
Statement of Fiduciary Net Assets:	
Investment Trust Funds	122,905
Agency Funds	33,584
Total	$ 405,095

Note 3	
Cash in bank and on hand	$ 45,983
Deposits held in escrow	5,731
County Treasurer's Investment Pool	226,213
Other Investments	127,168
Total	$ 405,095

DISCRETELY PRESENTED COMPONENT UNITS

Metropolitan Domestic Water Improvement District (MDWID)— At June 30, 2003, MDWID's cash deposits had a carrying balance of $1,213 and a corresponding bank balance of $1,234. Of the bank balance $440 was covered by federal depository insurance and the remaining amount, with the exception of operating cash accounts, was fully insured or collateralized with securities held by MDWID or its agents in MDWID's name.

The MDWID cash and cash equivalents also include $1,850 in operating funds held by the Pima County Treasurer, which represent a portion of the Pima County Treasurer investment pool portfolio for the year ended June 30, 2003; $9,091 deposited with the State of Arizona Treasurer; and $1,129 in money market funds. These deposits are not subject to custodial credit risk. At June 30, 2003, MDWID's investments had a fair value of $1,327. These investments were with federally insured agencies and were considered custodial credit risk category 1, indicating they were insured or registered in MDWID's name or the securities were held by MDWID or its agent in MDWID's name.

Marana Domestic Water Improvement District —At June 30, 2003, the district's cash and cash equivalents were $175 and included cash on hand and amounts held by the Pima County Treasurer.

Southwestern Fair Commission—At June 30, 2003, the commission's $812 of cash and cash equivalents consisted of deposits with financial institutions, of which $500 was uninsured and uncollateralized.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Governmental Activities:

	General	Capital Projects Fund	Other Government Funds	Internal Service Funds	Total Government Activities
Federal government:					
Grants and contributions	$ 250	$ 656	$ 11,034	$ 22	$ 11,962
State of Arizona:					
Taxes and shared revenues	15,594		1,162		16,756
Grants and contributions		690	8,177	38	8,905
Reimbursement for services			38		38
City of Tucson:					
Reimbursement for services	965	1,097	242		2,304
Due from other governments:					
Reimbursement for services	274		120	13	407
Due from other governments Statement of Net Assets					$ 40,372
Amount unavailable and therefore not accrued in government funds	(6,802)		(3,259)		
Total due from other governments-fund based statements	$ 10,281	$ 2,443	$ 17,514	$ 73	

Business-type Activities:

	Pima Health Care System	Wastewater Management	Business – type Activities Total
Federal Government:			
Grants and contributions	$ 382	$ 87	$ 469
State of Arizona:			
Grants and contributions	3,230	200	3,430
Total due from other Governments	$ 3,612	$ 287	$ 3,899

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 113,175	$ 14,679	$	$ 127,854
Construction in progress	164,511	59,694	(91,020)	133,185
Total capital assets not being depreciated	277,686	74,373	(91,020)	261,039
Capital assets being depreciated:				
Buildings and improvements	255,878	14,266	(1,079)	269,065
Infrastructure	7,072	72,549		79,621
Equipment	67,515	12,167	(5,374)	74,308
Total capital assets being depreciated	330,465	98,982	(6,453)	422,994
Less accumulated depreciation for:				
Buildings and improvements	(62,627)	(5,681)	209	(68,099)
Infrastructure		(368)		(368)
Equipment	(39,778)	(6,888)	5,233	(41,433)
Total accumulated depreciation	(102,405)	(12,937)	5,442	(109,900)
Total capital assets being depreciated, net	228,060	86,045	(1,011)	313,094
Governmental activities capital assets, net	$ 505,746	$ 160,418	$ (92,031)	$ 574,133

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 12,766	$ 99	$	$ 12,865
Construction in progress	73,887	62,686	(402)	136,171
Total capital assets not being depreciated	86,653	62,785	(402)	149,036
Capital assets being depreciated:				
Buildings and improvements	257,224	2,219	(704)	258,739
Sewer conveyance system	386,817	12,930		399,747
Equipment	26,432	3,043	(1,628)	27,847
Total capital assets being depreciated	670,473	18,192	(2,332)	686,333
Less accumulated depreciation for:				
Buildings and improvements	(104,163)	(8,035)	642	(111,556)
Sewer conveyance system	(126,622)	(8,460)		(135,082)
Equipment	(17,410)	(2,282)	1,352	(18,340)
Total accumulated depreciation	(248,195)	(18,777)	1,994	(264,978)
Total capital assets being depreciated, net	422,278	(585)	(338)	421,355
Business-type activities capital assets, net	$ 508,931	$ 62,200	$ (740)	$ 570,391

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 2,921
Public safety	3,046
Highway and streets	659
Health	307
Welfare	9
Culture and recreation	2,975
Education and economic opportunity	258
Unallocated	820
Internal service funds	1,942
Total governmental activities depreciation	$ 12,937
Business-type activities:	
Health plans	$ 1,385
Parking garages	340
Wastewater management	16,670
Development services	102
Total business-type activities depreciation	$ 18,497

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Discretely presented component units:				
Metropolitan Domestic Water Improvement District (MDWID):				
Capital assets not being depreciated:				
Land	$ 950			$ 950
Construction in progress	2,061	$ 3,362	$ (2,638)	2,785
Total capital assets not being depreciated	3,011	3,362	(2,638)	3,735
Capital assets being depreciated:				
Buildings and improvements	1,799	183		1,982
Water systems	37,412	3,523	(275)	40,660
Equipment	1,974	65	(30)	2,009
Total capital assets being depreciated	41,185	3,771	(305)	44,651
Less accumulated depreciation for:				
Buildings and improvements	(131)	(102)		(233)
Water systems	(5,058)	(985)	85	(5,958)
Equipment	(1,266)	(212)	30	(1,448)
Total accumulated depreciation	(6,455)	(1,299)	115	(7,639)
Total capital assets, being depreciated, net	34,730	2,472	(190)	37,012
MDWID capital assets, net	37,741	5,834	(2,828)	40,747
Southwestern Fair Commission (SFC):				
Capital assets being depreciated:				
Buildings and improvements	3,492	39		3,531
Equipment	1,325	85	(43)	1,367
Total capital assets being depreciated	4,817	124	(43)	4,898
Less accumulated depreciation for:				
Buildings and improvements	(1,676)	(209)		(1,885)
Equipment	(1,170)	(45)	43	(1,172)
Total accumulated depreciation	(2,846)	(254)	43	(3,057)
Total capital assets being depreciated, net	1,971	(130)		1,841
SFC capital assets, net	1,971	(130)		1,841

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Marana Domestic Water Improvement District (Marana):				
Capital assets not being depreciated:				
Land	3	5		8
Construction in progress		369		369
Total capital assets not being depreciated	3	374		377
Capital assets being depreciated:				
Capital assets being depreciated:				
Buildings and improvements	2			2
Water systems	1,150			1,150
Equipment	18	3		21
Total capital assets being depreciated	1,170	3		1,173
Less accumulated depreciation for:				
Buildings and improvements				
Water systems	(109)	(69)		(178)
Equipment	(3)	(3)		(6)
Total accumulated depreciation	(112)	(72)		(184)
Total capital assets, being depreciated, net	1,058	(69)		989
Marana capital assets, net	1,061	305		1,366
Discretely presented component units capital assets, net	$ 40,773	$ 6,009	$ (2,828)	$ 43,954

NOTE 6: CLAIMS, JUDGMENTS and RISK MANAGEMENT

Pima County is a defendant in a number of court actions. In the opinion of County management, the final disposition of these actions, if unfavorable, will not have a material effect upon the County's financial statements.

Wastewater Management

The County has entered into settlement negotiations with Arizona Department of Environmental Quality (ADEQ) to resolve litigation associated with the cleanup of the Camino del Cerro landfill. Cleanup expenses have been incurred and include a soil vapor extraction system, a series of drainage improvements, re-grade landfill cap and groundwater remediation. The liability is not presented within the financial statements because the outcome of the settlement negotiations is uncertain. However, cleanup costs could total $3,600 and county management plans to finance the cost of any such settlement through future bond issues.

As a result of a major sewer line failure, the County Wastewater Management Department has received a Notice of Violation from the ADEQ that could result in various penalties, fines or remediation requirements. The County is in negotiation with ADEQ and it is too early to speculate on a possible settlement agreement or the resulting financial impact of any such agreement.

Other

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; environmental claims; and natural disasters. Claims against the County are accounted for in the Self Insurance Trust Fund (the Fund), an internal service fund. Annually, an actuarial evaluation is performed to determine the County's anticipated losses except for environmental losses. Environmental losses are based on reported claims and the County risk manager's knowledge and experience. Losses accounted for include reported and paid, reported but unpaid, and incurred but not reported. All liabilities of the Fund except for environmental losses are reported at their present value using an expected future investment yield assumption of four percent. The County purchases commercial insurance for claims in excess of coverage provided by the Fund and for some other risks of loss. Settled claims have not exceeded insurance coverage in any of the last three fiscal years.

All funds of the County participate in the Fund. With the exception of environmental losses, payments to the Fund are based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish some reserve for catastrophic losses. That reserve was estimated to be $500 at June 30, 2003, and is included in the Fund net assets. Payments to the Fund for environmental losses are based on historical experience, since an actuarial basis is not available.

The claims liability of $25,954 reported in the Fund at June 30, 2003, is based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The ultimate cost of claims includes incremental claim adjustment expenses that have been allocated to specific claims, as well as salvage and subrogation. No other claim adjustment expenses have been included.

	2003	2002
Claims liability balance—beginning	$28,112	$ 26,250
Current year claims and changes in estimates	7,036	8,912
Claims payments	(9,194)	(7,050)
Claims liability balance—ending	$25,954	$ 28,112

NOTE 7: LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003.

	Balance July 1, 2002 As restated	Additions	Reductions	Balance July 1, 2003	Due within 1 year
Governmental activities:					
General obligation bonds	$183,085	$50,000	$32,805	$200,280	$27,390
Plus deferred premium	296	356	251	401	28
Less deferred bond issuance cost	(173)	(90)	(136)	(127)	(9)
Total general obligation bonds	183,208	50,266	32,920	200,554	27,409
Flood control bonds	5,330		745	4,585	780
Plus deferred premium	18		18		
Less deferred bond issuance cost	(49)		(49)		
Total flood control bonds	5,299		714	4,585	780
Transportation revenue bonds	79,000	35,000	8,535	105,465	10,215
Plus deferred premium	206	54	24	236	25
Less deferred bond issuance cost	(106)	(73)	(19)	(160)	(16)
Total transportation revenue bonds	79,100	34,981	8,540	105,541	10,224
Lease revenue bonds	825		330	495	155
Special assessment bonds with governmental commitment	2,506		385	2,121	385
Certificates of participation payable	3,045		1,485	1,560	1,560
Loans and Leases:					
Transportation loans payable	5,100		1,040	4,060	1,040
Capital leases payable:					
Jail capital lease	31,420		965	30,455	2,310
Other capital leases	1,176	177	759	594	292
Total capital leases	32,596	177	1,724	31,049	2,602
Total loans and leases	37,696	177	2,764	35,109	3,642
Reported but unpaid losses (Note 6)	17,002	5,219	9,194	13,027	2,996
Incurred but not reported losses (Note 6)	11,110	1,817		12,927	2,973
Total governmental activities long-term liabilities	$339,791	$92,460	$56,332	$375,919	$50,124

	Balance July 1, 2002	Additions	Reductions	Balance July 1, 2003	Due within 1 year
Business-type activities:					
Sewer revenue bonds	$73,440		$5,200	$68,240	$4,965
Less unamortized deferred amount	(5,629)		(487)	(5,142)	
Total revenue bonds payable	67,811		4,713	63,098	4,965
Wastewater loans payable	57,820	$9,746	3,687	63,879	4,270
Less unamortized deferred amount	(364)		(36)	(328)	
Total loans payable	57,456	9,746	3,651	63,551	4,270
Landfill closure and post-closure care costs	14,567	1,078		15,645	
Contracts and notes	3,685	4,156	992	6,849	
Total business-type activities long-term liabilities	$143,519	$14,980	$9,356	$149,143	$9,235
Discretely presented component units:					
MDWID Revenue Bonds	$50,055		$1,335	$48,720	$1,980
Less unamortized deferred amount	(540)	(102)	(85)	(557)	
Total revenue bonds	49,515	(102)	1,250	48,163	1,980
MDWID notes payable	$1,937		$116	$1,821	105
Marana Domestic WID bonds		$335		$335	$7
Marana Domestic WID loans payable	$1,156		$ 23	1,133	26
Total	1,156	335	23	1,468	33
Southwestern Fair Commission notes payable	$740		$103	$637	$104
Total discretely presented component units long-term liabilities	$53,348	$233	$1,492	$52,089	$2,222

The beginning balances of the governmental activities' General Obligation and Flood Control Bonds were restated to include deferred costs. The deferred costs were recorded as an Other Asset in the prior year. This had no effect on beginning net assets.

GENERAL OBLIGATION BONDS OUTSTANDING
Governmental Activities
(Payments made from property
tax revenues of the Debt Service Fund)

General obligation bonds payable at June 30, 2003, consisted of the outstanding general obligation bonds presented below. Of the total amounts originally authorized, $2,919 from the November 2, 1982 bond election and $64,541 from the May 20, 1997 bond election remains unissued. The table below presents amounts outstanding by issue.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
1993 Refunding	$64,535	5.00%	2003-04	$ 11,710
Series of 1998	42,420	4.40 – 5.00%	2003-13	27,625
Series of 1999	50,000	5.00 - 5.125%	2003-14	39,750
Series of 2000	50,000	4.00 – 5.00%	2003-14	41,000
2001 Refunding	17,835	4.00 – 5.00%	2003-09	16,340
Series of 2002	20,000	3.50 – 4.50%	2003-16	14,500
Series of 2003	50,000	3.25 – 4.25%	2003-17	49,350
G.O. bonds outstanding				200,275
Plus deferred premium				401
Less deferred bond issuance cost				127
Plus matured and unredeemed bonds: 1979 Series A				5
Total G.O. bonds outstanding				$200,554

The following schedule details general obligation bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 27,385	$ 8,990
2005	24,610	7,733
2006	23,625	6,604
2007	22,640	5,523
2008	18,670	4,486
2009-2013	61,495	12,380
2014-2017	21,850	1,980
Total	$200,275	$47,696

GENERAL OBLIGATION REFUNDING BONDS OUTSTANDING

In prior years, the County defeased certain General Obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. The cash and investments held in the irrevocable trust at June 30, 2003 were as follows:

Issue	Outstanding June 30, 2003
Series of 1993	$8,400

FLOOD CONTROL REFUNDING BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues
of the Debt Service Fund of the district)

The Pima County Flood Control District was created on April 3, 1978, by State law.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
2001 Refunding	$4,585	4.00 - 4.20%	2004-09	$4,585

The following schedule details flood control bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 780	$ 186
2005	795	154
2006	780	123
2007	760	91
2008	745	61
2009	725	30
Total	$4,585	$645

TRANSPORTATION BONDS
Governmental Activities
(Payments made from street and highway revenues)

Pima County transportation revenue bonds of 1998 were issued to provide monies to construct improvements to the County's streets and highways. Of the total amount originally authorized, $220,000 from the November 4, 1997, bond election remains unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Series of 1998	$40,000	4.50%	2004-08	$20,000
Series of 2002	55,000	4.00 – 4.50%	2004-12	50,465
Series of 2003	35,000	3.38 – 4.38%	2004-18	35,000
Transportation bonds outstanding				105,465
Plus deferred premium				236
Less deferred bond issuance cost				160
Total transportation bonds outstanding				$105,541

The following schedule details transportation bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$ 10,215	$ 4,394
2005	8,905	3,965
2006	10,710	3,589
2007	11,435	3,140
2008	11,745	2,636
2009-2013	37,185	7,391
2014-2018	15,270	2,005
Total	$105,465	$27,120

TRANSPORTATION LOANS PAYABLE
Governmental Activities

During the fiscal year ended June 30, 2002, Pima County Transportation Department entered into loan agreements to provide funds for the construction and improvement of certain highways and streets. Interest is payable semi-annually and is calculated based on the principal amount of the loan outstanding during such period.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
2002 HELP Loan – Ajo	$3,700	3.23%	2004-07	$2,960
2002 HELP Loan – Shannon	1,400	3.23%	2004-07	1,100
Total transportation loans payable				$4,060

The following schedule details transportation loans debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,040	$123
2005	1,040	89
2006	1,040	55
2007	940	23
Total	$4,060	$290

LEASE REVENUE BONDS
Governmental Activities
(Payments made from revenues received in the Governmental Funds)

The Pima County, Arizona, Municipal Property Corporation, a Special Revenue Fund, issued lease revenue bonds in 1992 to provide monies for financing the cost of acquiring, constructing, reconstructing or improving, building, and equipping other real and personal properties suitable for use by Pima County.

Issue	Interest Rates	Maturities	Outstanding June 30, 2003
1992 Lease Revenue Bonds	6.25 - 6.50%	2004-06	$495

The following schedule details lease revenue bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$155	31
2005	165	22
2006	175	11
Total	$495	$64

SPECIAL ASSESSMENT BONDS OUTSTANDING
Governmental Activities
(Payments made from assessments received in the Debt Service Fund)

Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the bond issues were used to finance construction in these districts. While there is no legal obligation for the County to further secure the special assessment bonds of the districts listed below, the County has made a moral commitment to take steps necessary to prevent default.

Improvement District	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Country Club Estates	$2,745	7.200%	2004-05	$ 474
C.C. Estates 2nd Issue	30	7.200%	2004-05	7
La Cholla Boulevard	1,821	6.500%	2004-12	1,640
Total special assessment bonds outstanding				$2,121

The following schedule details special assessment bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$385	$128
2005	460	99
2006	182	77
2007	182	65
2008	182	53
2009-2012	730	95
Total	$2,121	$517

REFUNDING CERTIFICATES OF PARTICIPATION OUTSTANDING
Governmental Activities
(Payments made from General Fund revenues
and from Special Revenue Fund revenues)

The Refunding Certificates of Participation (COPs) Series 7 were issued on April 1, 1995. The purpose of the original debt was to finance the purchase of the Legal Services and Public Works Buildings.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
COPS SERIES 7	$18,515	5.30%	2004	$1,560

The following schedule details refunding certificates of participation debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,560	$83

CAPITAL LEASES
Governmental Activities

On February 1, 1997, the County entered into an agreement to sell certain jail facilities and then lease them back for a 15-year term. The jail facilities were sold for $34,500, and the proceeds were used to finance the construction of the baseball stadium. On September 1, 1999, Pima County amended the capital lease agreement between U.S. Bank Trust National Association and Pima County. The amendments extended the lease term to 2014, increased the range of interest rates and increased the County's obligation under the lease agreement.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Jail Capital Lease	$35,660	4.75 – 5.25	2004-14	$30,455

The County has also entered into capital leases for election and other equipment. The outstanding balance as of June 30, 2003, for these leases totaled $594.

The net book value of assets acquired through capital leases consist of $24,787 of buildings and $612 of equipment.

The following schedule details capital lease debt service requirements to maturity at June 30, 2003.

Governmental Activities:

	Buildings		Equipment	
Year Ending June 30	Principal	Interest	Principal	Interest
2004	$2,310	$1,514	$292	$20
2005	2,420	1,400	195	9
2006	2,545	1,279	86	3
2007	2,675	1,150	21	
2008	2,810	1,011		
2009	2,960	863		
2010-2014	14,735	1,805		
Total	$30,455	$9,022	$594	$32

SEWER REVENUE BONDS
Business-type Activities
(Payments made from user charges received
in the Wastewater Management Enterprise Fund)

Pima County sewer revenue bonds, as presented below, were issued to provide monies to construct improvements to the County's wastewater management system. Of the total amount originally authorized, $23,910 from the May 20, 1997, bond election remains unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
Series of 1993	$ 6,000	5.60 - 6.50%	2004-05	$ 615
1994A Refunding	28,670	4.50 - 5.00%	2004-15	25,520
Series of 1994B	8,000	5.5%	2004	580
Series of 1998	29,185	4.00 - 5.50%	2004-15	23,395
2001 Refunding	19,440	4.00 - 5.40%	2004-15	18,130
Sewer revenue bonds outstanding				68,240
Less unamortized deferred amount:				(5,142)
Total sewer revenue bonds outstanding				$63,098

The following schedule details sewer revenue bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$4,965	$3,315
2005	4,595	3,067
2006	4,470	2,842
2007	5,525	2,623
2008	5,800	2,341
2009-2013	28,990	7,581
2014-2015	13,895	1,064
Total	$68,240	$22,833

REFUNDED SEWER REVENUE BONDS OUTSTANDING

In prior years, the County defeased certain sewer revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. The cash and investments held in the irrevocable trust at June 30, 2003, amounted to $2,952. Refunded amounts outstanding as of June 30, 2003 were as follows:

Issue	Outstanding June 30, 2003
Series of 1993	$2,845

LOANS PAYABLE
Business-type Activities
(Payments made from user charges received
in the Wastewater Management Enterprise Fund)

Wastewater Management (WWM) entered into loan agreements (1996, 1997 and 2000 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period. For the 2000 loan payable, principal payments to maturity are subject to change based upon the total amounts drawn down. As of June 30, 2003, WWM has drawn down $54,010 of the available $61,180 from the 2000 loan amount.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2003
1996 Loan Payable	$11,313	3.19%	2004-12	$11,313
1997 Loan Payable	7,500	2.95%	2004-11	4,758
2000 Loan Payable	54,010	2.02%	2004-16	47,808
Loans payable				63,879
Less unamortized deferred interest expense				(328)
Total loans payable				$63,551

The following schedule details loans payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$4,270	$2,351
2005	4,951	2,194
2006	5,503	2,013
2007	4,892	1,811
2008	5,098	1,631
2009-2013	30,054	4,955
2014-2016	9,111	481
Total	$63,879	$15,436

CONTRACTS AND NOTES
Business-type Activities
(Payments made from restricted assets in the Wastewater
Management Fund)

Contracts and notes consist of contract retentions for several construction projects. Generally, interest is not accrued and the timing of payments is based on completion of the related construction projects.

WATER REVENUE AND REFUNDING BONDS OUTSTANDING
Component Unit- Metropolitan Domestic Water Improvement District (MDWID)
(Payments made from user charges and special assessments)

Description	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2002
Series of 1999	$27,985	3.7- 4.875%	2004-2019	$24,125
Series of 2002	24,855	2.9-5.25%	2004-2022	24,595
Water revenue and refunding bonds				48,720
Less unamortized amounts				(557)
Total water revenue and refunding bonds				$48,163

The following schedule details MDWID water revenue and refunding debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$1,980	$2,216
2005	2,065	2,135
2006	2,150	2,047
2007	2,240	1,958
2008	2,335	1,864
2009-2013	11,775	7,714
2014-2018	17,335	4,251
2019-2022	8,840	607
	$48,720	$22,792

ADVANCED REFUNDINGS OF WATER REVENUE BONDS

On February 1, 1999, the District (MDWID) issued $27,985 in Water Revenue and Refunding Bonds with an average interest rate of 4.35 percent to advance refund $14,105 of outstanding 1992 Series bonds with an average interest rate of 5.95 percent. The net proceeds of $27,823 (after payment of approximately $162 in underwriting fees, insurance and other issuance costs) plus an additional $1,921 of 1992 Series sinking fund monies were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series bonds. As a result, the 1992 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

On February 1, 2002, the District issued $24,855 in Water Revenue and Refunding Bonds with an average interest rate of 4.605 percent to advance refund $5,390 of outstanding 1998 Series bonds with an average interest rate of 5.775 percent, as well as the District's outstanding principal amount of its obligations under the City of Tucson settlement of $10,223 with an interest rate of 5.3 percent. The net proceeds of approximately $24,200 (after payment of approximately $655 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. Government Securities.

A portion of those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Series bonds. The entire principal amount was prepaid with another portion of the proceeds of the 2002 Subordinate Obligations. As a result, the 1998 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt, and the obligations under the City of Tucson settlement were completely satisfied.

The advance refunding of the 1998 Series bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $417. This difference, reported in the accompanying financial statements as a deduction from bonds payable (valuation account), is being charged to operations through year 2023 using the straight-line method.

NOTES PAYABLE

Component Unit- Metropolitan Domestic Water Improvement District (MDWID)
(Payments made from user charges)

MDWID's notes payable are due in monthly installments and are secured by equipment.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Credit company	6.25%	July 2003 - February 2004	$12
Hub Water Company Inc.	6.00%	July 2003 - June 2019	1,757
Credit company	6.60%	July 2003 - May 2005	8
Credit company	6.25%	July 2003 - July 2005	11
Credit company	6.25%	July 2003 - July 2005	15
Credit company	6.40%	July 2003 - July 2005	18
Total			$1,821

The following schedule details MDWID's notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$105	$106
2005	98	100
2006	78	95
2007	81	91
2008	86	86
2009-2013	518	342
2014-2018	698	162
2019	157	6
Total	$1,821	$988

BONDS PAYABLE
Component Unit- Marana Domestic Water Improvement District

On February 19, 2003, Rural Utility Services entered into a bond agreement with the Marana Domestic Water Improvement District, Inc., in the amount of $397. The bond is payable commencing January 1, 2004, in annual installments of $24, including interest at 4.625% through January 1, 2032. At June 30, 2003 the outstanding balance of the bonds payable was $334.

The following schedule details bond debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$7	$26
2005	7	18
2006	7	17
2007	8	17
2008	8	17
2009-2013	47	78
2014-2018	58	66
2019-2023	73	51
2024-2028	92	32
2029-2032	28	4
	$335	$326

LOANS PAYABLE
Component Unit-Marana Domestic Water Improvement District

On February 22, 2002, the Water Infrastructure Finance Authority of Arizona (WIFA), entered into a loan agreement under the Drinking Water Revolving Fund Loan program with the Marana Domestic Water Improvement District, Inc., in the amount of $1,156. The loan is payable in monthly installments, commencing September 1, 2002, in the amount of $6, including interest at 2.918% through February 2032. At June 30, 2003 the outstanding balance was $1,133.

The following schedule details notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$26	$33
2005	27	32
2006	27	31
2007	28	30
2008	29	31
2009-2013	157	142
2014-2018	184	120
2019-2023	217	92
2024-2028	258	54
2029-2030	180	10
	$1,133	$575

NOTES PAYABLE
Component Unit-Southwestern Fair Commission
(Payments made from user charges)

Southwestern Fair has a note payable to Pima County, due in annual installments of $50, unsecured, non-interest bearing.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Pima County	None	Annual installments until June 2007	$200

Southwestern Fair Commission's other notes payable are due in monthly installments and are secured by equipment.

Description	Interest Rates	Maturities	Outstanding June 30, 2003
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	$324
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	113
Total			$437

The following schedule details Southwestern Fair Commission's notes payable debt service requirements to maturity at June 30, 2003.

Year Ending June 30	Principal	Interest
2004	$104	$19
2005	106	16
2006	108	12
2007	110	7
2008	63	3
2009-2014	146	0
Total	$637	$57

LEGAL DEBT MARGIN

COUNTY GENERAL OBLIGATION BONDS

General obligation debt may not exceed six percent of the value of the County's taxable property as of the latest assessment. However, Pima County received voter approval to increase the debt limit to 15 percent of the value of taxable property. The legal debt margin at June 30, 2003, is as follows:

Net assessed valuation:		$4,835,561
Debt Limit (15% of net assessed valuation):		725,334
Amount of debt applicable to debt limit:		
General obligation bonds outstanding	200,275	
Less net assets in debt service fund available for payment of general obligation bond principal	(2,226)	(198,049)
Legal debt margin available		$ 527,285

FLOOD CONTROL GENERAL OBLIGATION BONDS

Flood Control general obligation debt may not exceed five percent of the value of the Flood Control District's taxable property as of the latest assessment. Legal debt margin at June 30, 2003, is as follows:

Net assessed valuation:		$4,158,577
Debt Limit (5% of net assessed valuation):		207,929
Amount of debt applicable to debt limit:		
Flood Control general obligation bonds outstanding	4,585	
Less net assets in debt service fund available for payment of flood control bond principal	(26)	(4,559)
Legal debt margin available		$ 203,370

NOTE 8: SHORT-TERM DEBT

LINE OF CREDIT

The County maintains a revolving line of credit with Bank of America National Trust and Savings Association, with a maximum outstanding balance of $30,000, to meet its short-term cash needs. At June 30, 2003, the County had an outstanding balance of $0. Advances on the line of credit are payable on demand. The credit line is secured by the County's general taxing authority.

	Beginning Balance	Draws	Repayments	Ending Balance
Line of credit	$0	$22,300	$22,300	$0

NOTE 9: LANDFILL LIABILITIES

SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS:

State and Federal laws and regulations require the County to place a final cover on its solid waste landfill sites when these sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after their closure. Although closure and postclosure care costs will not be paid until near or after the date the landfills stop accepting waste, the County records a portion of these closure and postclosure care costs as a long-term liability in each period based on landfill capacity used as of each balance sheet date. The $15,645 reported as landfill closure and postclosure care liability in the Wastewater Management Enterprise Fund represents the cumulative amount reported to date based on the percentage used of each landfill's total estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of $3,310 as the remaining estimated capacities are used. These amounts are based on what it would cost to perform all closure and postclosure care in the fiscal year ended June 30, 2003; actual costs may change due to inflation, changes in technology, or changes in regulations.

Landfill Site	Capacity Used June 30, 2003	Estimated Year of Closure
Ajo	90%	2007
Sahuarita	99%	2003
Tangerine	78%	2008

The County plans to fund the estimated closure and postclosure care costs with proceeds of general obligation bonds and with solid waste tipping fees.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

NOTE 10: RETIREMENT PLANS

Plan Descriptions

The County contributes to the Arizona State Retirement System **(ASRS)**, the Corrections Officer Retirement Plan **(CORP)**, the Public Safety Personnel Retirement System **(PSPRS)**, consisting of Pima County Sheriffs and Pima County - County Attorney Investigators, and the Elected Officials Retirement Plan **(EORP)**. The **EORP** and the **PSPRS** - Pima County, County Attorney Investigators, are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

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

The **PSPRS** is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The **PSPRS**, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 195 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The **CORP** is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The **CORP** is governed by the Fund Manager of **PSPRS** and 16 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

ASRS	PSPRS and CORP
3300 N. Central Ave. P.O.Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778	1020 E. Missouri Ave. Phoenix, AZ 85014 (602) 255-5575

Funding Policy

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

Cost-sharing plans For the year ended June 30, 2003, active **ASRS** members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to **ASRS** for the years ended June 30, 2003, 2002, and 2001 were $6,307, $6,351 and $6,233 respectively, which were equal to the required contributions for the year.

Agent plans For the year ended June 30, 2003, active **PSPRS** members were required by statute to contribute 7.65

percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.51 percent. As allowed by statute, the County contributed 3.65 percent of the members' required contribution, with the members contributing 4.00 percent. Active **CORP** members were required by statute to contribute 8.50 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.00 percent.

Annual Pension Cost: The County's pension cost for the two agent plans for the year ended June 30, 2003, and related information follow:

	PSPRS	CORP
Contribution rates:		
County	6.16%	2.00%
Plan members	4.00%	8.50%
Annual pension cost	$ 1,463	$ 296
Contributions made	$ 1,463	$ 296
Actuarial valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	9.00%	9.00%
Projected salary increases	6.5% - 9.5%	5.5% - 9.5%
includes inflation at	5.5%	5.5%
Amortization method	Level percent open	Level percent open
Remaining amortization period	20 years	20 years
Asset valuation method	smoothed market	smoothed market

Trend Information: Information for each of the three most recent actuarial valuations for each of the agent plans follows:

Contributions Required and Contributions Made

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2003	$ 1,463	100%	$ -
	2002	1,319	100%	-
	2001	1,044	100%	-
CORP	2003	$ 296	100%	$ -
	2002	274	100%	-
	2001	169	100%	-

NOTE 11: SEGMENT INFORMATION

Liquid Waste, a division of Pima County's Department of Wastewater Management, is reported within the Wastewater Management Enterprise Fund. Liquid Waste operates the sewer system which provides wastewater collection, treatment, and disposal throughout Pima County. All revenues generated by the ownership, use, and operation of Pima County's sewer system are pledged in support of sewer system debt. In addition, debt covenants require sewer system revenues, expenses, gains, losses, assets and liabilities to be accounted for separately. As a result, condensed financial information for Liquid Waste is presented in the following table.

Condensed Statement of Net Assets

	Wastewater Management Liquid Waste
Assets:	
Current assets	$ 7,286
Due from other funds	2
Restricted assets	7,922
Capital assets, net	540,658
Other non-current assets	848
Total Assets	556,716
Liabilities:	
Current liabilities	21,594
Due to other funds	10,963
Non-current liabilities	124,263
Total Liabilities	$ 156,820
Net Assets:	
Invested in capital assets (net of related debt)	414,856
Restricted	7,922
Unrestricted	(22,883)
Total Net Assets	$ 399,895

Condensed Statement of Revenues, Expenses and Change in Net Assets

Operating revenues/(expenses):

	Wastewater Management Liquid Waste
Charges for services	$ 46,476
Depreciation expense	(16,364)
Other operating expenses	(46,378)
Operating loss	(16,266)
Non-operating revenues/(expenses):	
Sewer connection revenue	20,280
Other non-operating revenue	1,282
Interest expense	(5,271)
Loss on disposal of fixed assets	(150)
Other non-operating expense	(89)
Extraordinary Loss from State Treasurer's Local Government Investment Pool	(1,187)
Capital contributions	12,473
Change in net assets	11,072
Beginning net assets	388,823
Ending net assets	$ 399,895

Condensed Statement of Cash Flows

Net cash provided by (used for):

Operating activities	$ (32)
Non-capital financing activities	13,241
Capital and related financing activities	(43,075)
Investing activities	(97)
Net decrease	(29,963)
Beginning cash and cash equivalents	$ 37,867
Ending cash and cash equivalents	$ 7,904

NOTE 12: INTERFUND TRANSACTIONS

A. Interfund Assets/Liabilities

Interfund Receivables/Payables are used to record transactions between individual funds for goods provided or services rendered:

Receivable fund	Payable fund	Amount
Pima Health Care System	General	$ 177
	Health and Animal Control	9
	Self- Insurance Trust	113
Total Pima Health Care System Fund interfund receivable		$ 299

Due From/Due To Other Funds are used to record loans or unpaid operating transfers between funds:

Due from fund	Due to fund	Amount
Major Fund:		
General	Transportation	$ 19
	Health and Animal Control	1
	Flood Control District	1
	Employment & Training	2,412
	Stadium District	6,103
	Other Special Revenue Grants	29
	Environmental Quality	1
	Debt Service	1
	Pima Health Care System	1,736
	Development Services	2
	Wastewater Management	10,843
	Other Internal Service	1
Total General Fund due from		$ 21,149
Capital Projects	Other Special Revenue	$ 1,597
	Wastewater Management	56
Total Capital Projects Fund due from		$ 1,653

Due from fund	Due to fund	Amount
Pima Health Care System	General	$ 2,000
	Health and Animal Control	2
Total Pima Health Care System Fund due from		$ 2,002
Wastewater Management	Transportation	$ 2
Total Wastewater Management Fund due from		$ 2
Nonmajor Governmental Funds:		
Transportation	General	$ 52
	Flood Control District	20
	Wastewater Management	24
	Other Internal Service	1
Health and Animal Control	General	1
	Wastewater Management	1
Employment & Training	General	12
Other Special Revenue	General	3
	Capital Projects	21
Stadium District	General	217
Other Special Revenue Grants	General	119
	Employment and Training	2
	Library District	975
Environmental Quality	Wastewater Management	43
Total Nonmajor Governmental Funds due from		$ 1,491
Nonmajor Enterprise Funds:		
Parking Garages	General	$ 197
Total Nonmajor Enterprise Funds due from		$ 197

The information in the table above includes the formal internal borrowings by the Stadium District Special Revenue Fund from the Capital Projects, Parking Garages and Other Internal Service Funds. These borrowings were instituted by the County to meet its short-term cash flow needs. Interest will be paid at a rate paid to investments of the County in the State Treasurer's Local Government Investment Pool.

B. Transfers

Transfers are used to record transactions between individual funds to subsidize their operations:

Transfers in fund	Transfers out fund	Amount
Major Funds:		
General	Transportation	$ 151
	Flood Control District	35
	Other Special Revenue	6
	Stadium District	2,527
	Debt Service	110
	Pima Health Care System	7,993
Total General Fund transfers in		$ 10,822
Capital Projects	General	$ 2,197
	Transportation	19,926
	Flood Control District	9,835
	Other Special Revenue	4,233
	Library District	1,875
	Parking Garages	134
Total Capital Projects Fund transfers in		$ 38,200
Pima Health Care System	General	$ 23,065
Total Pima Health Care System transfers in		$ 23,065
Nonmajor Governmental Funds:		
Health and Animal Control	General	$ 6,674
Flood Control	Capital Projects	309
Employment & Training	General	295
Other Special Revenue	General	3,701
	Other Special Revenue - Grants	216
	Capital Projects	21
Stadium District	General	1,324
Other Special Revenue - Grants	General	45
	Employment & Training	2
	Other Special Revenue	992
	Capital Projects	37
Environmental Quality	General	350

Transfers in fund	Transfers out fund	Amount
Debt Service	General	768
	Transportation	13,655
	Flood Control District	1,006
	Municipal Property Corporation	15
	Capital Projects	25
Total Nonmajor Governmental Funds transfers in		$ 29,435
Internal Service Funds:		
Other Internal Service	General	$ 202
Total Internal Service Funds transfers in		$ 202
Transfers of general capital assets reported on the fund-based statements as capital contributions and on the government-wide statements as transfers:		
Pima Health Care System		$ 1,813
Wastewater Management Fund		1,229
		$ 3,042

NOTE 13: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2003, Pima County had the following major contractual commitments related to various projects. Commitments have been grouped into four major categories: Transportation Projects, Flood Control Projects, General Government Projects and Wastewater Management Projects.

Transportation Projects

At June 30, 2003, the Pima County Transportation Department had contractual commitments of $78,813. Funding for these expenditures will be primarily provided from Transportation Revenue Bonds and Highway User Tax Revenue, the primary source of revenue for the Transportation Department.

Flood Control Projects

At June 30, 2003, the Pima County Flood Control District had contractual commitments of $13,394. Funding for these expenditures will be primarily provided from general obligation bonds and the Flood Control District's tax levy of property within Pima County, the primary source of revenue for the Flood Control District.

General Government Projects

At June 30, 2003, Pima County had contractual commitments related to various Facilities Management Projects of $18,444 and Parks and Recreation Projects of $52,950. Funding for these expenditures will be primarily provided from general obligation bonds.

Wastewater Management Projects

At June 30, 2003, the Wastewater Management Enterprise fund had commitments under construction contracts that totaled $40,370.

Operating Leases

The County enters into operating leases for various equipment and office space. These leases are entered into with the provision that they may be canceled at the end of each fiscal year if future funding is not provided. Accordingly, these leases totaled $3,377 for the year ended June 30, 2003.

NOTE 14: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (DEFICIT FUND BALANCES)

The Stadium District Special Revenue Fund (a non-major governmental fund) had a deficit fund balance at June 30, 2003, of $6,036. Management plans to eliminate the deficit by refinancing debt and operating the Baseball Complex profitably in the future.

The Other Special Revenue Grants Fund (a non-major governmental fund) had a deficit fund balance at June 30, 2003, of $257. Included in this amount is a deficit unreserved fund balance of $312, and a reserved fund balance for prepaid expenditures of $55. This deficit can be eliminated in the future through normal operations or by operating transfers from the General Fund.

Wastewater Management Fund (a major business-type activities fund) had a deficit unrestricted net asset balance at June 30, 2003, of $35,477. This deficit can be eliminated in the future through normal operations and increases in usage and connection fees.

NOTE 15: SUBSEQUENT EVENTS

On October 1, 2003, Pima County amended the lease-purchase agreement for the jail facilities. The amendment extended the lease term to 2018 and reduced the interest rates. Concurrent with this amendment, Refunding Certificates of Participation, Series 2003, in the amount of $27,525, were issued to third-party investors to refund portions of the principal and interest on Certificates of Participation, Series 1997, and on the Refunding Certificates of Participation, Series 1999. The outstanding Certificates of Participation and the outstanding Refunding Certificates of Participation, evidence participation interest in the lease-purchase agreement for the jail facilities.

APPENDIX G

SUMMARY OF RESOLUTION NO. 1991-138 (AS AMENDED AND SUPPLEMENTED) AUTHORIZING THE ISSUANCE OF SEWER REVENUE BONDS

The following is a summary of certain provisions of Resolution No. 1991-138, authorizing the issuance of the Sewer Bonds, which was adopted by the County Board of Supervisors on June 18, 1991 and amended on August 6, 1991 and as supplemented by the adoption of the authorizing resolution for the Sewer Revenue Refunding Bonds, Series 2004. The summary does not purport to be a full statement of the terms of the Authorizing Resolution and, accordingly, is qualified by reference hereto and is subject to the full text thereof.

Authority. The Bonds authorized herein are issued pursuant to A.R.S. Section 11-264.01. The Sewer Resolution will stay in full force and effect until all Bonds are fully paid or provided for and all Policy Costs have been paid.

Definitions; Interpretation.

A. Definitions.

"Accreted Value" - with respect to Parity Bonds which are Capital Appreciation Bonds, as of the calculation date, the initial principal amount plus interest then accrued thereon compounded at the interest rate thereof on the stated dates set forth in the resolution authorizing such Capital Appreciation Bonds.

"Agreement" - any Reserve Fund Guaranty Agreement.

"Assumed Interest Rate" - with respect to Variable Rate Obligations only, an interest rate at the computation date computed to be the lesser of (i) the maximum rate which Bonds of such series may bear under their terms or (ii) the rate of interest then established for long-term bonds by the 30-year revenue bond index published by The Bond Buyer immediately prior to the computation date.

"Average Annual Debt Service" - at computation, the average of each Bond Year's aggregate scheduled Bond principal (including mandatory redemptions) and interest requirements (with Variable Rate Obligations bearing interest at the Assumed Interest Rate).

"Board" - the County's Board of Supervisors.

"Bond Insurer" - an issuer of a Municipal Bond Insurance Policy pertaining to any of the Bonds.

"Bonds" - the Series 1991 Bonds and all Parity Bonds (including the Series 2004 Bonds).

"Bond Year" - the one-year period commencing each July 2 and ending on the next forthcoming July 1. A Bond Year shall correspond to the Fiscal Year beginning on July 1 of the same year and ending on June 30 of the next year.

"Capital Appreciation Bond" - a Parity Bond the interest component of which is compounded semiannually on stated dates until maturity or until such Capital Appreciation Bond is converted to a Bond paying interest semiannually, if so permitted or required.

"Deficiency" - the difference between (i) the total amount due on any of the Bonds' principal or interest payment dates and (ii) the amount then in the Bond Fund (which amount shall not include payments made pursuant to a Municipal Bond Insurance Policy or a Reserve Fund Guaranty but shall include all moneys transferred from the Reserve Fund to the Bond Fund or available in the Reserve Fund for such transfer).

"Drawdown" - any amount drawn by the Paying Agent under any Reserve Fund Guaranty.

"Drawdown Date" - the date of any Drawdown.

"DTC" - the Depository Trust Company, the depository for the Book-Entry Bonds.

"Finance Director" - the person or persons employed by the County who is responsible for the management or supervision of the County's financial matters, including bond transactions.

"Fiscal Year" - the twelve month period beginning each July 1 and ending on the next June 30.

"Maximum Annual Debt Service" - at the time of computation, the greatest scheduled Bond principal (including mandatory redemptions) and interest requirements (with Variable Rate Obligations bearing interest at the Assumed Interest Rate) occurring in the then-current, or any subsequent, Bond Year.

"Municipal Bond Insurance Policy" - any insurance policy insuring the payment of principal of and interest on any Bonds.

"Net Revenues" - those Revenues remaining after deducting Operating Expenses.

"Operating Expenses" - the costs of System operation, maintenance, and repair but excluding depreciation and payments into the Bond, Reserve, Reimbursement and Rebate Funds.

"Owner" - any person registered as the owner of any Bond (for Book-Entry Bonds - DTC or any successor depository).

"Parity Bonds" - any additional Bonds (including the Series of 1992, the Series of 1993, the Series 1994A, the Series 1994B Bonds, the Series 1998 Bonds, the Loan Agreements with the Water Infrastructure Finance Authority of Arizona dated February 1, 1996, June 1, 1997, and October 27, 2000, the Series 2001 Bonds and the Series 2004 Bonds) issued on a parity with the Series 1991 Bonds.

"Policy Costs" - the amount necessary to reimburse a Reserve Fund Guarantor for any Drawdown pursuant to an Agreement including the Drawdown amount (and the Reserve Fund Guarantor's expenses) plus interest at the Reimbursement Rate until paid.

"Reimbursement Period" - for any Drawdown, the period from the Drawdown Date to the first anniversary of such Drawdown Date.

"Reimbursement Rate" - the rate of interest to be paid by the County pursuant to the respective Agreement to pay a Reserve Fund Guarantor after a Drawdown.

"Reserve Fund Guarantor" - with respect to any series of Bonds, the issuer of a surety bond, letter of credit, line of credit or insurance policy used as a Reserve Fund Guaranty, if issued by an entity whose Guaranty will not adversely affect the Bonds' then-current rating.

"Reserve Fund Guaranty" - any irrevocable surety bond, letter of credit or line of credit or insurance policy issued by a Reserve Fund Guarantor and used as a reserve fund guaranty hereunder.

"Reserve Fund Value" - the value of moneys and investments credited to the Reserve Fund plus the aggregate penal sum of all Reserve Fund Guaranties.

"Reserve Requirement" - initially, Average Annual Debt Service on all Outstanding Bonds, which amount shall be adjusted upon the issuance of Parity Bonds to equal Average Annual Debt Service immediately after such issuance or the maximum amount the Reserve Fund is then permitted to increase under Section 148 of the Internal Revenue Code.

"Revenues" - all income, moneys and receipts derived from System ownership, use and operation; however, the term Revenues shall not include Bond proceeds or the interest received on any Bond proceeds placed in trust to pay any Bonds or Bonds Being Refunded or retained in either the Construction or System Development Funds, nor any amounts received by the County for which it is contractually obligated to pay out as reimbursement for acquisition, construction or installation of system facilities.

"System" - the County's entire sewer system and all acquisitions, improvements and extensions added thereto while any Bonds are Outstanding.

"Variable Rate Obligations" - any Parity Bonds which may, in the future, bear interest at rates which cannot be determined with specificity on their original issue date.

Source of Payment and Pledge of Revenues.

A. The Bonds shall be payable solely from the Net Revenues. The Bonds shall be equally and ratably secured by a pledge thereof and lien thereon without priority one over the other.

B. The Bonds are special obligations payable solely from the Net Revenues and secured in accordance with this resolution. The Net Revenues are pledged as security for the Bonds. All Net Revenues shall be immediately subject to the pledge of this resolution and the lien of this pledge shall be valid and binding. Nothing contained in this section shall limit the authority granted herein to issue Parity Bonds.

Rate Covenant. The County covenants and agrees with the Owners that it will establish and maintain System charges sufficient to pay all Operating Expenses and produce aggregate Net Revenues in each Fiscal Year equal to at least 120% of the principal and interest requirements on all Outstanding Bonds for the corresponding Bond Year (treating Variable Rate Obligations as bearing interest at the Assumed Interest Rate and Bonds subject to mandatory redemption as maturing on their respective mandatory redemption dates) and said rates, fees and other charges shall also be established and maintained at rates sufficient to provide an amount of Net Revenues for the then current fiscal year which, net of the aggregate amounts required to be deposited to the Bond Fund during such fiscal year, will be sufficient to provide at least one hundred percent (100%) of the County's Policy Costs due and owing in such Fiscal Year.

Creation of Funds; Application of Revenues.

A. The County Treasurer shall create the following special funds and accounts:

1. The Revenue Fund.

2. The Operation and Maintenance Fund.

3. The Bond Fund.

4. The Reimbursement Fund.

5. The Reserve Fund containing separate accounts: the Capitalized Reserve Account and the Contributed Reserve Account.

6. The Rebate Fund.

7. The System Development Fund.

8. The Construction Fund.

B. All Revenues shall be deposited in the Revenue Fund and disbursed only as follows:

1. Operation and Maintenance Fund. First, to the Operation and Maintenance Fund, by the tenth day of each month, an amount sufficient to pay the month's Operating Expenses; such Fund shall be used only to pay Operating Expenses. The County may accumulate therein equitable allowances for accruals and accumulations to cover periodic Operating Expenses, including insurance premiums and expenditures for renewals, replacements and repairs normally classified as Operating Expenses. Where the County purchases items such as insurance, gasoline and electrical energy at large, it may allocate to the System only its share of such expenditure.

2. Bond Fund. Second, to the Bond Fund:

(a) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 or December 10, as applicable, such amount necessary to allocate equally among such months, the interest due (net of accrued interest on the Series 2004 Bonds) on the next July 1 or January 1, as applicable, and thereafter on the tenth day of each month one-sixth (1/6) of the interest becoming due on the next interest payment date on all Bonds Outstanding; and

(b) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2004 Bonds through the next June 10 such amount necessary to allocate equally among such months the principal due on the next July 1, and thereafter on the tenth day of each month one-twelfth (1/12) of the principal amount becoming due on the next principal payment date on all Bonds Outstanding.

The Bond Fund shall be a trust fund used solely to pay Bond principal and interest.

When Parity Bonds are issued, Bond Fund deposits shall be expanded to satisfy all additional or modified debt service requirements.

3. Reimbursement Fund. Third, if a Drawdown occurs, deposit to the Reimbursement Fund commencing the tenth day of the first month following a Drawdown and each month thereafter for the next succeeding 11 months, or until the Reimbursement Fund contains amounts sufficient to reimburse all Policy Costs, an amount equal to at least one-twelfth (1/12) of such Policy Costs. The Reimbursement Fund shall be used only to pay Reserve Fund Guarantors' Policy Costs.

If the County fails to pay any Policy Costs, the Reserve Fund Guarantor(s) may exercise all remedies available to the Owners at law or under this resolution or to any Reserve Fund Guarantor under any Agreement other than (i) acceleration of the Bonds or (ii) remedies adversely affecting the Owners' rights.

All Reserve Fund Guaranties shall be held by the Paying Agent as the Owners' fiduciary. Reserve Fund Guaranties shall expire no earlier than the final maturity date of the series for which said Guaranty applies.

4. Reserve Fund. Fourth, by the tenth day of each month, to the Reserve Fund the amounts required by Section 13(A)(4)(ii) of Resolution No. 1991-138, if applicable, or one-twelfth (1/12) of the amount required to restore the Reserve Fund to the Reserve Requirement after a Reserve Fund withdrawal.

If, on any principal or interest payment date, a Deficiency exists, then:

(a) If there are investments or cash in the Reserve Fund, such investments shall be liquidated and the cash and investment proceeds transferred to the Bond Fund; and

(b) If the Deficiency is not then cured, the Paying Agent shall deliver a Drawdown request to each Reserve Fund Guarantor.

Drawdowns and Reserve Fund proceeds shall be used solely to pay Bond principal and interest then due.

Reserve Fund moneys used to pay such principal and interest shall be replaced from the first Revenue Fund moneys thereafter received which are not required to be transferred to the Operation and Maintenance, Bond or Reimbursement Funds.

The two Reserve Fund accounts are created to segregate Reserve Fund moneys and investments for arbitrage rebate purposes. All Reserve Fund deposits made from Net Revenues or other available moneys of the County shall be deposited in the Contributed Reserve Account. All Bond proceeds deposited to the Reserve Fund shall be deposited in the Capitalized Reserve Account.

If, after a Reserve Fund withdrawal, the Reserve Requirement exceeds the Reserve Fund Value such deficiency shall be made up over a twelve month period by deposit of twelve (12) substantially equal payments to the Contributed Reserve Account.

5. Rebate Fund. Fifth, to the Rebate Fund the balance remaining in the Revenue Fund until the amount in the Rebate Fund equals the amount to be deposited therein during such Bond Year as determined by the Finance Director.

6. System Development Fund. Sixth, any Revenue Fund moneys exceeding those necessary to meet the above requirements shall be deposited in the System Development Fund. The System Development Fund may be used (without priority): (1) for System extensions and betterments; (2) for unbudgeted maintenance and operation expenses; (3) to redeem Bonds subject to optional redemption or to purchase Bonds in the open market; (4) to pay general obligation bonds issued by the County for System purposes; (5) to make loans to the County under equitable terms prescribed by the Board; or (6) any lawful System purpose.

7. Deficiencies. If in any month the Revenue Fund is insufficient to make the required deposits to any Fund in any month, the insufficiency shall be made up in the following month or months after payment into all Funds enjoying a prior claim to the Revenues have been met in full.

8. Investment of Funds. Money on deposit in the Revenue, Operation and Maintenance, Bond, Reserve, Reimbursement and Rebate Funds may be invested in Permitted Investments. All income derived therefrom shall be Revenues and shall be deposited in the Revenue Fund. Such investments shall be liquidated as needed and applied to the purpose for which the respective Fund was created. Moneys in the Construction and System Development Funds may be invested in any lawful investment. At the option of the Finance Director, income derived from Construction Fund investments shall be either retained in the Construction Fund or deposited to the Revenue Fund.

Covenants Regarding the System. The County covenants and agrees with each Owner that it will:

A. Permit no free sewer services to be furnished to any consumer or user;

B. Maintain the System in good condition and operate the same in an efficient manner and at reasonable cost;

C. Maintain insurance on all System properties (which may include an adequately-funded self-insurance program) with the coverage normally carried by municipalities or private companies engaged in a similar business. Self-insurance may be maintained either separately or with a County-wide program if (i) such program is in writing and (ii) an independent consultant annually reviews the program and certifies that such program is adequate and actuarially sound. The proceeds of any insurance covering the System, except public liability insurance, received by the County shall be pledged as security for the Bonds until used to replace the System parts damaged or destroyed, or if not so used, shall be placed in the Revenue Fund;

D. Keep proper books and accounts for the System, which shall be audited after each Fiscal Year in accordance with generally accepted governmental accounting practices; the County will furnish copies of such audits to any Owner upon request, no later than one hundred eighty (180) days after the end of each Fiscal Year;

E. Faithfully and punctually perform all its legal duties concerning the System;

F. Not sell, lease, mortgage or in any manner dispose of the System or any part thereof until all Bonds have been paid or provided for in full. This covenant shall not prevent the disposition of inexpedient property. All proceeds from such disposition shall be deposited in the Revenue Fund;

G. Prior to each Fiscal Year, prepare and adopt a budget showing the estimated System Revenues and Operating Expenses for the ensuing Fiscal Year, and will operate the System within such budget to the best of its ability. Copies of such budgets will be available to any Owner on request;

H. To the extent allowed by law, discontinue the service to any premises for which the owner or occupant thereof shall be delinquent in the payment of System charges beyond the period allowed by County policy and not resume service until all delinquent charges, with interest and penalties, shall have been paid;

I. Duly pay and discharge all taxes, assessments or other governmental charges lawfully imposed upon the System, or upon any Revenues when due, as well as any lawful claims for labor, materials and supplies which might by law become a lien on the System, or the Revenues, or impair the security of the Bonds;

J. Deposit the net proceeds realized from any eminent domain proceeding concerning the System in the Revenue Fund;

K. To the extent allowed by law, refuse to grant any franchise or permit for any competing sewer system operation in the County.

L. Not cause or permit the moneys in the Bond Fund, the Reimbursement Fund, the Reserve Fund or the Construction Fund to be invested in any investments except Permitted Investments.

M. Not violate the terms of any Agreement and will give all notices and perform all acts and abide by all promises contained in such Agreement or Agreements.

Remedies of Owners. Any Owner may by suit, in any court of competent jurisdiction protect the lien on the Net Revenues, enforce performance of all duties imposed hereby or for the appointment of a receiver. Except the giving of notice of default to bondholders, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

If any default occurs in the payment of principal of or interest on any Bonds, a court may appoint a receiver to administer the System and charge and collect sufficient fees to pay Operating Expenses and make all payments to the Bond, Reimbursement and Reserve Funds required hereunder.

For all purposes in exercising remedies, except the giving of notice of default to Bondholders, the Bond Insurer of each series of Bonds shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

Equality of Lien; Parity Bonds.

The Bonds shall each enjoy complete parity of lien on the Net Revenues.

A. Parity Bonds may be issued on a parity with the Bonds herein authorized only if all the following conditions are met:

1. The Net Revenues for the completed Fiscal Year immediately preceding the Parity Bonds' issuance must have been at least equal to one hundred twenty percent (120%) of Maximum Annual

Debt Service immediately after such issuance and said Net Revenues must also have been sufficient to provide an amount of Net Revenues for the then current fiscal year which, net of the aggregate amounts required to be deposited to the Bond Fund during such fiscal year, will be sufficient to provide at least one hundred percent (100%) of the County's Policy Costs due and owing in such Fiscal Year as shown by a Finance Director's certificate. The computation of Net Revenues may additionally include: (i) if Parity Bond proceeds are to be expended to acquire existing sewer properties, the net revenues which would have been derived from such properties during the entire immediately preceding Fiscal Year; (ii) if during such preceding Fiscal Year the County has acquired existing sewer properties, the net revenues which would have been derived from the operation of such sewer properties during such Fiscal Year had such sewer properties been acquired and operating throughout such Fiscal Year; and (iii) if any System rate increase occurred during such preceding Fiscal Year, the increased Net Revenues which would have been received if such increase had been in effect throughout such Fiscal Year; in each case such additions to Net Revenues must be estimated by an engineer or engineering firm having a wide and favorable reputation in respect to such matters;

2. The payments into the various Funds must be current at such Parity Bonds' issuance;

3. The Parity Bond proceeds must be used solely for System extensions, renewals, improvements, or replacements or to refund Outstanding Bonds; and

4. The Reserve Fund Value shall be increased at the Board's option, by: (i) the immediate deposit of Parity Bond proceeds or available moneys to the Reserve Fund or the immediate delivery of a Reserve Fund Guaranty, or any combination thereof in order for the Reserve Fund Value to equal or exceed the Reserve Requirement immediately after such Parity Bonds' issuance or (ii) deposits of Net Revenues to the Reserve Fund in approximately equal monthly installments so that the Reserve Fund Value will equal or exceed the increased Reserve Requirement not later than five years following such Parity Bonds' issuance; or (iii) any combination of such methods.

Resolution Incorporated Into the Bonds. The provisions of this resolution are deemed incorporated into the Bonds themselves and no change, variation or alteration of any kind in the provisions hereof shall be made in any manner, except as provided hereafter.

Resolution Modification.

A. Without the consent of or notice to any Owner, this resolution may be modified for one or more of the following purposes:

(1) To cure any ambiguity, formal defect, omission or inconsistency;

(2) To grant to the Owners additional rights, remedies, powers or authority;

(3) To secure additional Revenues or provide additional security or reserves for Bond payment;

(4) To comply with any federal securities laws or the Trust Indenture Act of 1939, if and to the extent applicable to the Bonds;

(5) To permit, preserve or continue (in the event of a change in federal income tax laws (the "Code") which requires a Supplement in order to continue such exclusion) the exclusion of the interest income borne on the Bonds from gross income or the exemption from State income taxes and to preserve the power of the County to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized under the Sewer Resolution) the interest income on which is likewise excluded from gross income and exempt from State income taxes.

B. Except as provided in (A) above, the Owners of fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding (treating Capital Appreciation Bonds at their then Accreted Value) shall have the right to consent to and approve modifications to any terms or provisions herein but no such modification may:

1. Change the maturity of any Outstanding Bond.

2. Change the interest rate on any Outstanding Bond.

3. Reduce the principal or redemption premium payable on any Bond.

4. Modify the principal, interest or redemption premium payment terms on any Bond or impose any adverse conditions on such payments.

5. Adversely affect the rights of the Owners of less than all Bonds then Outstanding.

C. Any other provision to the contrary notwithstanding, no amendment to the Sewer Resolution shall become effective unless and until it is approved by all Bond Insurers and Reserve Fund Guarantors applicable to the Bonds.

Rights of Reserve Fund Guarantors; Rights of Bond Insurers.

A. If any Bond's principal or interest shall be paid by a Reserve Fund Guarantor, (i) the pledge of the Net Revenues and all of the County's obligations hereunder shall continue and such Reserve Fund Guarantor shall be fully subrogated to all rights of the Owners of the Bonds so paid.

B. For all purposes hereunder, the County may treat a Bond Insurer's consent as the consent of the Owners of any Bonds then insured by such Insurer, if said Insurer's credit rating is then in one of the two highest grades announced by one of the two most widely recognized rating agencies then rating municipal bond credits.

Method of Valuation; Frequency. In computing the amount in any fund or account, Permitted Investments shall be valued at their market value exclusive of accrued interest. A valuation shall occur annually on the first Business Day of each Bond Year and immediately after a Reserve Fund withdrawal.

Defeasance. Payment of all or any part of the Bonds may be provided for by the irrevocable deposit with a trustee of moneys or Government Obligations, or both. If the moneys and the maturing principal and interest income on such Government Obligations shall be sufficient, as evidenced by a certificate of an expert in the field, to pay when due the principal or redemption price of and interest on such Bonds, such Bonds shall no longer be deemed Outstanding. The Owners of Bonds so provided for shall thereafter be entitled to payment only from the moneys or Government Obligations deposited with such trustee.

APPENDIX H

FORM OF CONTINUING DISCLOSURE UNDERTAKING

$25,770,000
Pima County, Arizona
Sewer Revenue Refunding Bonds
Series 2004

This Continuing Disclosure Undertaking (this "Disclosure Undertaking") is executed and delivered by Pima County, Arizona (the "Obligor"), in connection with the issuance by the Obligor of its $25,770,000 principal amount Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds are being issued pursuant to Resolution No.1991-138, as amended by Resolution No. 1991-183 and supplemented by Resolution 2004-58 (the "Resolution"). Certain terms used herein are defined in Section 10 below.

The Obligor undertakes and agrees as follows:

Section 1 Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Obligor for the benefit of the Bondholders and in order to assist each Participating Underwriter in complying with the Rule.

Section 2 Annual Information and Audited Financial Statements. The Obligor agrees to provide or cause to be provided to each Repository:

(a) Annual Information for the preceding Fiscal Year not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year not later than the later of the Filing Date for each Fiscal Year or promptly after becoming available to the Obligor.

Any or all of the items listed above may be included by specific reference to other documents; provided that if the document included by reference is not a final official statement, it must have been provided previously to each of the Repositories or the Securities and Exchange Commission, and if the document included by reference is a final official statement, it must be available from the MSRB.

Section 3 Notice of Listed Events and Failure to Provide Annual Information. The Obligor agrees to provide or cause to be provided to each National Repository or to the MSRB, and to any State Repository, in a timely manner:

(a) notice of the occurrence of any Listed Events with respect to the Series 2004 Bonds, if material (within the meaning of the Rule); and

(b) notice of its failure to provide or cause to be provided the Annual Information on or before the applicable Filing Date.

Notwithstanding the foregoing, notice of Listed Events consisting of bond calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of affected Series 2004 Bonds pursuant to the Resolution, and notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Series 2004 Bonds will be redeemed in the case of a partial redemption.

Section 4 Termination of Reporting Obligation. The obligations of the Obligor under this Disclosure Undertaking shall terminate at such time as no Series 2004 Bonds remain Outstanding (within the meaning of the Resolution) or all of the Series 2004 Bonds have been legally defeased, redeemed or paid in full.

Section 5 Dissemination Agent. The Obligor may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any dissemination agent, with or without appointing a successor dissemination agent.

Section 6 Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Obligor may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived; provided, however, that no amendment or waiver may take effect unless the following conditions are satisfied:

(a) the amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "obligated person" (within the meaning of the Rule) with respect to the Series 2004 Bonds, or the type of business conducted;

(b) this Disclosure Undertaking, as amended or taking into account such waiver, in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor, would have complied with the requirements of the Rule at the time of the original issuance of the Series 2004 Bonds, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the registered owners of the Series 2004 Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of registered owners of the Series 2004 Bonds, or (ii) does not materially impair the interests of the Bondholders as determined by the opinion of counsel of national reputation experienced in bond or federal securities law unaffiliated with the Obligor but which may be selected by the Obligor, or as determined by another party unaffiliated with the Obligor but which may be selected by the Obligor.

Section 7 Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Obligor from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Obligor chooses to include any information in any Annual Information or notice of occurrence of any Listed Event or any other event, in addition to that which is specifically required by this Disclosure Undertaking, the Obligor shall have no obligation under this Disclosure Undertaking to update the information or include it in any future Annual Information or notice of occurrence of Listed Event.

Section 8 Failure to Perform. Any Bondholder may enforce the Obligor's obligation to provide or cause to be provided information or notice under this Disclosure Undertaking by commencing an action in a court of competent jurisdiction to seek specific performance by court order to compel the Obligor to provide or cause to be provided such information or notice; provided that any Bondholder must first as a condition precedent to commencing the action provide at least 30 day's prior written notice to the Obligor of its failure to perform, giving reasonable detail of such failure, following which notice the Obligor shall have 30 days to perform. Failure by the Obligor to perform under this Disclosure Undertaking shall not be deemed an event of default with respect to the Series 2004 Bonds or under the Resolution or any other document and the sole remedy under this Disclosure Undertaking in the event of any failure of the Obligor to comply with this Disclosure Undertaking shall be an action to compel performance.

Section 9 Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Obligor and the Bondholders from time to time, and shall create no rights in any other person or entity.

Section 10 Definitions. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

"Annual Information" means:

(a) quantitative financial information and operating data concerning the operations of the Obligor of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA, SUMMARY OF WASTEWATER USER FEES," "PIMA COUNTY, ARIZONA, SUMMARY OF USER FEE REVENUES," "PIMA COUNTY, ARIZONA, CONNECTION FEE REVENUES," "PIMA COUNTY, ARIZONA, REVENUES FROM OTHER FEES AND CHARGES" and "PIMA COUNTY WASTEWATER MANAGEMENT DEPARTMENT Comparative Statements of System Revenues, Expenditures and Net Revenues Available for Debt Service;" and

(b) unaudited annual Financial Statements of the Obligor unless Audited Financial Statements are provided at the same time.

In addition to the information described in (a) and (b), (i) if any part of the Annual Information described in (a) can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Obligor will include a statement to that effect as part of the Annual Information for the year in which the change or discontinuation occurs, and (ii) the Annual Information for the year in which any amendment or waiver of a provision of this Disclosure Undertaking occurs shall describe and explain the amendment or waiver, the reason for it and its impact on the type of information being provided, and if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Information for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

"Audited Financial Statements" means audited annual Financial Statements of the Obligor.

"Bondholder" means a beneficial owner of a Bond, with beneficial ownership determined on a basis consistent with the provisions of Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, or, if those provisions do not adequately address the situation in question (in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor) with beneficial ownership determined on the basis of ownership for federal income tax purposes. Any assertion of beneficial ownership must be established by evidence in writing with full documentary support filed with the Obligor.

"Filing Date" means the first business day in February of each Fiscal Year, commencing in February, 2005.

"Financial Statements" means annual financial statements of the Obligor prepared in conformity with generally accepted accounting principles as reflected in the governmental accounting standards promulgated from time to time by the Government Accounting Standards Board.

"Fiscal Year" means each fiscal year of the Obligor commencing with the fiscal year beginning July 1, 2003, and ending June 30, 2004.

"Listed Events" means any of the following events:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"MSRB" means the Municipal Securities Rulemaking Board.

"National Repository" means each Nationally Recognized Municipal Securities Information Repository which is recognized as such for purposes of the Rule at the time any information or notice is to be provided pursuant to this Disclosure Undertaking. The National Repositories at the time of execution and delivery of this Disclosure Undertaking are listed in Exhibit A.

"Official Statement" means the final Official Statement dated May 4, 2004, with respect to the initial offering of the Series 2004 Bonds.

"Participating Underwriter" means each broker, dealer, or municipal securities dealer acting as an underwriter in the primary offering of the Series 2004 Bonds, including, without limitation, RBC Dain Rauscher Inc..

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as applicable to the Series 2004 Bonds.

"State" means the State of Arizona.

"State Repository" means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Undertaking, there is no State Repository.

Section 11 Governing Law; Forum. This Disclosure Undertaking shall be governed by the law of the State. Any action to enforce this Disclosure Undertaking against the Obligor may be brought only in a State court.

Section 12 Budget Requirement. Under the law of the State, no expenditures may be made by the Obligor in any Fiscal Year for a purpose not included in the budget, and no expenditure may be made or obligation or liability incurred or created by the Obligor in any Fiscal Year in excess of the amount specified for each purpose in the budget, for that Fiscal Year, except as otherwise provided by law, and the Obligor's undertaking in this Disclosure Undertaking is subject to this limitation of State law on expenditures by the Obligor for costs of performing its obligations under this Disclosure Undertaking.

Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: _____

Carol Bonchalk
Director of Finance

Exhibit A

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Disclosure Undertaking

The list may change from time to time. The Disclosure Undertaking requires that information and notices be provided to each Repository. The list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: nrmsir@ftid.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

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APPENDIX I

FORM OF MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS,
SERIES 2004

BOND PURCHASE AGREEMENT

May 4, 2004

PIMA COUNTY, ARIZONA
c/o Board of Supervisors
130 West Congress, 11th Floor
Tucson, Arizona 85701

The undersigned, RBC Dain Rauscher Inc. (the "*Underwriter*"), acting on its own behalf, and not acting as fiduciary or agent for you, offers to enter into the following agreement with Pima County, Arizona (the "*Issuer*") which, upon the Issuer's written acceptance of this offer, will be binding upon the Issuer and upon the Underwriter. This offer is made subject to the Issuer's written acceptance hereof on or before 5:00 p.m., Arizona time, on May 4, 2004, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the Issuer at any time prior to the acceptance hereof by the Issuer. Terms not otherwise defined in this Agreement shall have the same meanings set forth in the Bond Resolution (as defined herein) or in the Official Statement (as defined herein).

1. *Purchase and Sale of the Bonds*. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Issuer, and the Issuer hereby agrees to sell and deliver to the Underwriter, all, but not less than all, of the Issuer's Sewer Revenue Refunding Bonds, Series 2004 (the "*Bonds*"). Inasmuch as this purchase and sale represents a negotiated transaction, the Issuer understands, and hereby confirms, that the Underwriter is not acting as a fiduciary of the Issuer, but rather are acting solely in its capacity as Underwriter for its own account. The Underwriter has been duly authorized to execute this Agreement and to act hereunder.

The principal amount of the Bonds to be issued, the dated date and first interest payment date therefor, the maturities, the sinking fund and optional redemption provisions and interest rates per annum and resulting yields are set forth in Schedule I hereto. The Bonds shall be as described in, and shall be issued and secured under and pursuant to the provisions of, Resolution No. 1991-138 adopted on August 6, 1991, as supplemented and amended, including by Resolution No. 2004-58, adopted by the Board of Supervisors of the County (the "*Board*") at a meeting duly called, noticed and held on March 9, 2004.

The purchase price for the Bonds shall be $26,769,868.87 plus interest accrued on the Bonds from the dated date of the Bonds to the Closing Date (as defined herein). The net premium of $999,868.70 represents net premium of $1,257,568.70 less an underwriting discount of $257,700.00. (The payment referred to in Section 5 hereof shall reflect payment by the Underwriter to the Insurer (as defined herein) of $81,768.60 from the proceeds of the sale of the Bonds on behalf of the Issuer for purchase of the Policy (as defined herein).)

2. *Public Offering*. The Underwriter agrees to make a bona fide public offering of all of the Bonds at prices not to exceed the public offering prices set forth on the cover of the Official Statement and may subsequently change such offering prices without any requirement of prior notice. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover of the Official Statement.

3. *The Official Statement*.

(a) Attached hereto as Exhibit A is a copy of the Preliminary Official Statement, dated April 22, 2004 (the "*Preliminary Official Statement*"), including the cover page and Appendices thereto, of the Issuer relating to the Bonds. The Preliminary Official Statement, as to be subsequently amended to reflect the changes resulting from the sale of the Bonds, is hereinafter called the "*Official Statement*."

(b) The Preliminary Official Statement has been prepared for use in connection with the public offering, sale and distribution of the Bonds by the Underwriter. The Issuer hereby deems the Preliminary Official Statement "final" as of its date, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by Section (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "*Rule*").

(c) The Issuer hereby authorizes the Official Statement and the information therein contained to be used by the Underwriter in connection with the public offering and the sale of the Bonds. The Issuer consents to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement in connection with the public offering of the Bonds. The Issuer shall provide, or cause to be provided, to the Underwriter as soon as practicable after the date of the Issuer's acceptance of this Agreement (but, in any event, not later than within seven business days after the Issuer's acceptance of this Agreement and in sufficient time to accompany any confirmation that requests payment from any customer) copies of the Official Statement which is complete as of the date of its delivery to the Underwriter in such quantity as the Underwriter shall request in order for the Underwriter to comply with Section (b)(4) of the Rule and the rules of the Municipal Securities Rulemaking Board.

(d) If, after the date of this Agreement to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized municipal securities repository, but in no case less than 25 days after the "end of the underwriting period" for the Bonds), the Issuer becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the Issuer will notify the Underwriter (and for the purposes of this clause provide the Underwriter with such information as it may from time to time request), and if, in the opinion of the Underwriter, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the Issuer will forthwith prepare and furnish, at the Issuer's own expense (in a form and manner approved by the Under-

writer), a reasonable number of copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or so that the Official Statement will comply with law. If such notification shall be subsequent to the Closing (as defined herein), the Issuer shall furnish such legal opinions, certificates, instruments and other documents as the Underwriter may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(e) The Underwriter hereby agrees to file the Official Statement with a nationally recognized municipal securities information repository. Unless otherwise notified in writing by the Underwriter, the Issuer can assume that the "end of the underwriting period" for purposes of the Rule is the Closing Date.

4. *Representations, Warranties, and Covenants of the Issuer.* The Issuer hereby represents and warrants to and covenants with the Underwriter that:

(a) The Issuer is duly organized and validly existing as a political subdivision of the State of Arizona (the "*State*") with powers specifically required for the purposes of this Agreement, specifically Title 11, Chapter 2, Article 4, Arizona Revised Statute, as amended (the "*Act*"), and has full legal right, power and authority under the Act, and at the Closing Date will have full legal right, power and authority under the Act and the Bond Resolution (i) to enter into, execute and deliver this Agreement, the Bond Resolution, the Depository Trust Agreement described in the Official Statement (the "*Depository Trust Agreement*"), the Bond Registrar and Paying Agent Agreement described in the Bond Resolution and the Undertaking as defined in Section 6(j)(3) hereof and all documents required hereunder and thereunder to be executed and delivered by the Issuer (this Agreement, the Bond Resolution, the Depository Trust Agreement, such Bond Registrar and Paying Agent Agreement and the Undertaking hereinafter referred to as the "*Issuer Documents*"), (ii) to sell, issue and deliver the Bonds to the Underwriter as provided herein, (iii) to carry out and consummate the transactions contemplated by the Issuer Documents and the Official Statement and (iv) to operate the System (as defined in the Official Statement), and the Issuer has complied, and will at the Closing be in compliance in all respects, with the terms of the Act and the Issuer Documents as they pertain to such transactions;

(b) By all necessary official action of the Issuer prior to or concurrently with the acceptance hereof, the Issuer has duly authorized all necessary action to be taken by it for (i) the adoption of the Bond Resolution and the issuance and sale of the Bonds, (ii) the approval, execution and delivery of, and the performance by the Issuer of the obligations on its part contained in, the Bonds and the Issuer Documents and (iii) the consummation by it of all other transactions contemplated by the Official Statement and the Issuer Documents and any and all such other agreements and documents as may be required to be executed, delivered and/or received by the Issuer in order to carry out, give effect to, and consummate the transactions contemplated herein and in the Official Statement;

(c) The Issuer Documents constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and principles of equity relating to or affecting the enforcement of creditors' rights; the Bonds, when issued, delivered and paid for, in accordance with the Bond Resolution and this Agreement, will constitute legal, valid and binding obligations of the Issuer entitled to the benefits of the Bond Resolution and enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and principles of equity relating to or affecting the enforcement of creditors' rights; upon the issuance, authentication and delivery of the Bonds as aforesaid, the Bond Resolution will provide, for the benefit of the holders, from time to time, of the Bonds, the legally valid and binding pledge of and lien it purports to create as set forth in the Bond Resolution;

(d) Except as disclosed in the Official Statement, the Issuer is not in breach of or default in any material respect under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is or any of its property or assets are otherwise subject, and no event has occurred and is continuing which constitutes or with the passage of time or the giving of notice, or both, would constitute a default or event of default by the Issuer under any of the foregoing; and the execution and delivery of the Bonds, the Issuer Documents and the adoption of the Bond Resolution, and compliance with the provisions on the Issuer's part contained therein, will not conflict with or constitute a breach of or default under any constitutional provision, administrative regulation, judgment, decree, loan agreement, indenture, bond,

note, resolution, agreement or other instrument to which the Issuer is a party or to which the Issuer is or to which any of its property or assets are otherwise subject nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer to be pledged to secure the Bonds or under the terms of any such law, regulation or instrument, except as provided by the Bonds and the Bond Resolution;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the Issuer of its obligations under the Issuer Documents, and the Bonds or with respect to the System have been duly obtained, except for such approvals, consents and orders as may be required under the "blue sky" or securities laws of any jurisdiction in connection with the offering and sale of the Bonds;

(f) The Bonds conform to the descriptions thereof contained in the Official Statement under the caption "THE SERIES 2004 BONDS"; the Bond Resolution conforms to the description thereof contained in the Official Statement in Appendix "G" thereto; the proceeds of the sale of the Bonds will be applied generally as described in the Official Statement under the caption "PLAN OF REFUNDING" and the Undertaking conforms to the description thereof contained in the Official Statement under the caption "CONTINUING SECONDARY MARKET DISCLOSURE";

(g) There is no legislation, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the Issuer after due inquiry, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the collection of the Net Revenues (as defined in the Bond Resolution) pursuant to the Bond Resolution or in any way contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents, or contesting the exclusion from gross income of interest on the Bonds for federal income tax purposes or State income tax purposes, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto, or contesting the powers of the Issuer or any authority for the

issuance of the Bonds, the adoption of the Bond Resolution or the execution and delivery of the Issuer Documents, nor, to the best knowledge of the Issuer, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Issuer Documents;

(h) As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) At the time of the Issuer's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to paragraph (d) of Section 3 of this Agreement) at all times subsequent thereto during the period up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(j) If the Official Statement is supplemented or amended pursuant to paragraph (d) of Section 3 of this Agreement, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which made, not misleading;

(k) The Issuer will apply, or cause to be applied, the proceeds from the sale of the Bonds as provided in and subject to all of the terms and provisions of the Bond Resolution and will not take or omit to take any action which action or omission will adversely affect the exclusion from gross income for federal income tax purposes or State income tax purposes of the interest on the Bonds;

(l) The Issuer will furnish such information and execute such instruments and take such action in cooperation with the Underwriter as the Underwriter may reasonably request (A) to (y) qualify the Bonds for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions in the United States as the Underwriter may designate and (z) determine

the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and (B) to continue such qualifications in effect so long as required for the distribution of the Bonds (provided, however, that the Issuer will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any jurisdiction) and will advise the Underwriter immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(m) The financial statements of, and other financial information regarding, the Issuer in the Official Statement fairly present the financial position and results of the Issuer and of the System as of the dates and for the periods therein set forth in accordance with generally accepted governmental accounting principles as applicable to governmental units and have been prepared in accordance with generally accepted governmental accounting principles consistently applied throughout the periods concerned (except as otherwise disclosed in the Official Statement or financial statements); since June 30, 2003, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Issuer that are not described in the Official Statement, whether or not arising from transactions in the ordinary course of business; prior to the Closing, there will be no adverse change of a material nature in such financial position, results of operations or condition, financial or otherwise, of the Issuer or of the System, and the Issuer is not a party to any litigation or other proceeding pending or, to its knowledge, threatened which, if decided adversely to the Issuer, would have a materially adverse effect on the financial condition of the Issuer or of the System;

(n) The Issuer has fully submitted to the Arizona Department of Revenue the information required with respect to previous issuances of bonds, securities and lease-purchase agreements of the Issuer pursuant to Section 35-501(B), Arizona Revised Statutes, as amended, and will file the information relating to the Bonds required to be submitted to the Arizona Department of Revenue pursuant thereto within sixty (60) days of the Closing Date;

(o) The Issuer shall execute and deliver prior to the Closing, and in time for the Closing to occur at its specified time, the documents required to cause the Bonds to be eligible for deposit with DTC (as defined herein) or other securities depositories;

(p) Except as otherwise indicated in the Official Statement, the Issuer has been and is in full compliance with the terms of all continuing disclosure undertakings previously executed by the County pursuant to the Rule;

(q) Prior to the Closing the Issuer will not offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by any of the Net Revenues or assets which will secure the Bonds without the prior approval of the Underwriter; and

(r) Any certificate, signed by any official of the Issuer authorized to do so in connection with the transactions contemplated by this Agreement shall be deemed a representation and warranty by the Issuer to the Underwriter as to the statements made therein.

5. *Closing.*

(a) Before 10:00 a.m., Arizona time, on May 11, 2004 (the "*Closing Date*"), or at such other time and date as shall have been mutually agreed upon by the Issuer and the Underwriter (the "*Closing*"), the Issuer will, subject to the terms and conditions hereof, deliver the Bonds to the Underwriter duly executed and authenticated, together with the other documents hereinafter mentioned, and the Underwriter will, subject to the terms and conditions hereof, accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 of this Agreement by a certified or bank cashier's check or checks or wire transfer payable in immediately available funds to the order of the Issuer. Payment for the Bonds as aforesaid shall be made at the offices of Bond Counsel or such other place as shall have been mutually agreed upon by the Issuer and the Underwriter.

(b) Delivery of the Bonds shall be made through the facilities of The Depository Trust Company, New York, New York ("*DTC*"). The Bonds shall be delivered in definitive fully registered form, bearing CUSIP numbers without coupons, with one Bond for each maturity of the Bonds, registered in the name of Cede & Co., all as provided in the Bond Resolution, and shall be made available to the Underwriter at least one business day before the Closing for purposes of inspection.

6. *Closing Conditions.* The Underwriter has entered into this Agreement in reliance upon the representations, warranties and agreements of the Issuer contained herein, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer of its obligations hereunder, both as of the

date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Issuer of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions, including the delivery by the Issuer of such documents as are enumerated herein, in form and substance reasonably satisfactory to the Underwriter:

(a) The representations and warranties of the Issuer contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

(b) The Issuer shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing;

(c) At the time of the Closing, (i) the Issuer Documents and the Bonds shall be in full force and effect in the form heretofore approved by the Underwriter and shall not have been amended, modified or supplemented, and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Underwriter; and (ii) all actions of the Issuer required to be taken by the Issuer shall be performed in order for Bond Counsel and Counsel to the Underwriter to deliver their respective opinions referred to hereafter;

(d) At the time of the Closing, all official action of the Issuer relating to the Bonds and the Issuer Documents shall be in full force and effect and shall not have been amended, modified or supplemented;

(e) At or prior to the Closing, the Bond Resolution shall have been duly executed and delivered by the Issuer and the Issuer shall have duly executed and delivered and the registrar for the Bonds shall have duly authenticated the Bonds;

(f) At or prior to the Closing, the Insurance Policy (the "Policy") shall have been duly executed, issued and delivered by Financial Security Assurance Inc. (the "Insurer");

(g) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change in the System, in the condition, financial or otherwise, or in the Net Revenues or operations of the Issuer, from that set forth in the Official Statement that, in the judgment of the Underwriter, is material and adverse

and that makes it, in the judgment of the Underwriter, impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement;

(h) The Issuer shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

(i) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions contemplated by this Agreement shall be reasonably satisfactory in legal form and effect to the Underwriter;

(j) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) the Official Statement, and each supplement or amendment thereto, if any, executed on behalf of the Issuer by the Chairman of the Board and the County Administrator, or such other official as may have been agreed to by the Underwriter, and the reports and audits referred to or appearing in the Official Statement;

(2) the Bond Resolution with such supplements or amendments as may have been agreed to by the Underwriter;

(3) the other Issuer Documents including the Undertaking of the Issuer which satisfies the requirements of section (b)(5)(i) of the Rule;

(4) the approving opinion of Bond Counsel, dated the Closing Date, with respect to the Bonds, in substantially the form attached to the Official Statement;

(5) a supplemental opinion of Bond Counsel, dated the Closing Date, addressed to the Underwriter, substantially to the effect that:

(i) the Issuer is duly organized and validly existing as a political subdivision under the laws of the State with powers specifically required for the purpose of this Agreement, specifically the Act, and has full legal right, power and authority under the Act and the Bond Resolution (A) to enter into, execute and deliver the Issuer Documents and all documents required hereunder and thereunder to be executed and delivered by the Issuer, (B) to sell, issue and deliver the Bonds to the Underwriter as provided

herein, (C) to carry out and consummate the transactions contemplated by the Issuer Documents and the Official Statement and (D) to operate the System, and the Issuer has complied in all respects with the terms of the Act;

(ii) by all necessary official action of the Issuer prior to or concurrently with the acceptance hereof, the Issuer has duly authorized all necessary action to be taken by it for (A) the adoption of the Bond Resolution and the issuance and sale of the Bonds, (B) the approval, execution and delivery of, and the performance by the Issuer of the obligations on its part contained in, the Bonds and the Issuer Documents, and (C) the consummation by it of all other transactions contemplated by the Official Statement and the Issuer Documents;

(iii) the Bond Resolution was duly and validly adopted by the Issuer and is in full force and effect and the Bond Resolution has been duly and validly adopted or undertaken in compliance with all applicable procedural requirements of the Issuer and in compliance with the Constitution and laws of the State, including the Act;

(iv) the Issuer Documents have been duly authorized, executed and delivered by the Issuer, and constitute legal, valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their respective terms, except to the extent limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application relating to or affecting the enforcement of creditors' rights and all requirements with respect to the Bonds being "Parity Bonds" pursuant to the Bond Resolution have been satisfied to the fullest extent permitted by applicable law and with respect to the defeasance of the hereinafter described Refunded Bonds have been satisfied to the fullest extent permitted by applicable law;

(v) the distribution of the Preliminary Official Statement and the Official Statement has been duly authorized by the Issuer;

(vi) all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the

matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the Issuer of its obligations under the Issuer Documents and the Bonds or with respect to the System have been obtained;

(vii) the Bonds are exempted securities under the Securities Act of 1933, as amended (the "*1933 Act*"), and the Trust Indenture Act of 1939, as amended (the "*Trust Indenture Act*") and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act or to qualify the Bond Resolution under the Trust Indenture Act; and

(viii) the information contained in the Official Statement on the cover page thereof, under the captions "THE SERIES 2004 BONDS" (except under the subheading "Book-Entry Only System"), "PLAN OF REFUNDING," "TAX EXEMPTION," "ORIGINAL ISSUE DISCOUNT," "BOND PREMIUM," and "CONTINUING SECONDARY MARKET DISCLOSURE" (except the information with respect to the compliance by the Issuer with prior undertakings) therein and in Appendices "D," "G" and "H" thereto insofar as such statements and information summarize certain provisions of the Bonds, the Issuer Documents and certain provisions of Arizona and federal law, including the federal and Arizona income status of interest on the Bonds, fairly present the information purported to be shown and that nothing has come to the attention of such counsel which would lead them to believe that such information contains any untrue statement of a material fact or that such information, taken collectively, omits to state any material fact that is necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading; provided, however, that such information does not purport to summarize all the provisions of, and is qualified in their entirety by, the complete documents which are summarized;

(6) An opinion of Counsel to the Underwriter, dated the Closing Date, addressed to the Underwriter, substantially to the effect that:

(i) the Bonds are exempt securities under the 1933 Act and the Trust Indenture Act and it is not necessary, in connection with the offering

and sale of the Bonds, to register the Bonds under the 1933 Act and the Bond Resolution need not be qualified under the Trust Indenture Act; and

(ii) based upon their participation in the preparation of the Official Statement as counsel for the Underwriter and their participation at conferences at which the Official Statement was discussed, but without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, such counsel has no reason to believe that the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect (except for any financial, forecast, technical and statistical statements and data included in the Official Statement and the information on cover page of, under the captions "THE SERIES 2004 BONDS," "PLAN OF REFUNDING," "MUNICIPAL BOND INSURANCE," "TAX EXEMPTION," "LITIGATION," and "CONTINUING SECONDARY MARKET DISCLOSURE" in and in Appendices "A," "D," "E," "F," "G," "H" and "I" to, the Official Statement, in each case as to which no view need be expressed);

(7) An opinion of the County Attorney, dated the Closing Date, addressed to the Underwriter, to the effect that:

(i) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the Issuer, after due inquiry threatened against the Issuer, affecting the corporate existence of the Issuer or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the collection of the Net Revenues pursuant to the Bond Resolution or in any way contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents, or contesting the exclusion from gross income of interest on the Bonds for federal income tax purposes or State income tax purposes, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any sup-

plement or amendment thereto, or contesting the powers of the Issuer or any authority for the issuance of the Bonds, the adoption of the Bond Resolution or the execution and delivery of the Issuer Documents, nor, to the best knowledge of the Issuer, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Bonds or the Issuer Documents;

(ii) the execution and delivery of the Issuer Documents and compliance by the Issuer with the provisions hereof and thereof, under the circumstances contemplated herein and therein, will not conflict with or constitute on the part of the Issuer a material breach of or a default under any agreement or instrument to which the Issuer is a party, or violate any existing law, administrative regulation, court order, or consent decree to which the Issuer is subject;

(iii) the information contained in the Official Statement under the caption "LITIGATION" is true and correct in all material respects; and

(iv) based on the examination which such counsel has caused to be made and its participation at conferences at which the Preliminary Official Statement and the Official Statement were discussed and except as described in subparagraph (iii) of this subsection, such counsel has no reason to believe that the Official Statement as of its date and as of the date hereof contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect (except for any financial forecast, technical and statistical data included in the Official Statement and except for information under the captions "THE SERIES 2004 BONDS - Book-Entry-Only System" and "MUNICIPAL BOND INSURANCE," in each case as to which no view need be expressed;

(8) A certificate, dated the Closing Date, of the Issuer substantially to the effect that (i) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date; (ii) no litigation or proceeding against it is pending or, to its knowledge, threatened in any

court or administrative body nor is there a basis for litigation which would (a) contest the right of the members or officials of the Issuer to hold and exercise their respective positions, (b) contest the due organization and valid existence of the Issuer, (c) contest the validity, due authorization and execution of the Bonds or the Issuer Documents or (d) attempt to limit, enjoin or otherwise restrict or prevent the Issuer from functioning and collecting Net Revenues, including payments on the Bonds, pursuant to the Bond Resolution, and other income or the anticipated receipt of the Net Revenues; (iii) the resolutions of the Issuer authorizing the execution, delivery and/or performance of the Official Statement, the Bonds and Issuer Documents have been duly adopted by the Issuer, are in full force and effect and have not been modified, amended or repealed, (iv) the financial statements of the Issuer included in the Official Statement were true, correct and complete as of June 30, 2003, and are true, correct and complete as of the date of such certificate, and that any other financial statements and statistical data included in the Official Statement, including with respect to the System, are true and correct as of the date of such certificate, (v) subsequent to June 30, 2003, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Issuer that are not described in the Official Statement, whether or not arising from transactions in the ordinary course of business, and (vi) to the best of its knowledge, no event affecting the Issuer has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in light of the circumstances under which made, not misleading in any respect as of the Closing, and the information contained in the Official Statement is correct in all material respects and, as of the date of the Official Statement did not, and as of the Closing does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading in any material respect;

(9) A certificate of the Issuer in form and substance satisfactory to Bond Counsel and Counsel to the Underwriter (a) setting forth the facts, estimates

and circumstances in existence on the date of the Closing, which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and any applicable regulations (whether final, temporary or proposed), issued pursuant to the Code, and (b) certifying that to the best of the knowledge and belief of the Issuer there are no other facts, estimates or circumstances that would materially change the conclusions, representations and expectations contained in such certificate;

(10) Any other certificates and opinions required by the Bond Resolution for the issuance thereunder of the Bonds;

(11) Evidence satisfactory to the Underwriter that the Bonds have been rated "AAA" and "Aaa" based on issuance of the Policy by, respectively, Standard & Poor's Rating Services, a division of the McGraw Hill Companies, and Moody's Investors Services and that all such ratings are in effect as of the Closing Date;

(12) A copy of the Policy together with an opinion of counsel to the Insurer in form and substance satisfactory to the Underwriter;

(13) A certificate of the Insurer with respect to the accuracy of statements contained in the Official Statement regarding the Policy and the due authorization execution issuance and delivery of the Policy;

(14) A copy of a special report prepared by The Arbitrage Group, Inc., independent certified public accountants, addressed to the Issuer, Bond Counsel and the Underwriter, verifying the arithmetical computations of the adequacy of the maturing principal and interest on the obligations and uninvested cash on hand under the Depository Trust Agreement to pay, when due, the principal of and interest on the bonds which have been refunded with proceeds of the sale of the Bonds (the "*Refunded Bonds*");

(15) A certificate of The Arbitrage Group, Inc. consenting to references to its verification of the mathematical computations described in clause (14) above in the Preliminary Official Statement and the Official Statement;

(16) A certificate of the Depository Trustee to the effect that moneys or obligations sufficient to effectuate the refunding of the Refunded Bonds have been received and that such moneys or obligations have been deposited under the Depository Trust Agreement;

(17) Such other opinions of counsel as are required in connection with the refunding of the Refunded Bonds, including an opinion of Bond Counsel to the effect that such refunding will not have an adverse impact on the federal tax-exempt status of interest on the Refunded Bonds;

(18) The filing copy of the Information Return Form 8038-G (IRS) for the Bonds;

(19) The filing copy of the Report of Bond and Security Issuance for the Arizona Department of Revenue pursuant to Section 35-501(B), Arizona Revised Statutes, as amended; and

(20) Such additional legal opinions, certificates, instruments and other documents as the Underwriter or Counsel to the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing, of the Issuer's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer on or prior to the Closing Date of all the respective agreements then to be performed and conditions then to be satisfied by the Issuer.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Agreement, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Agreement, this Agreement shall terminate and neither the Underwriter nor the Issuer shall be under any further obligation hereunder, except that the respective obligations of the Issuer and the Underwriter set forth in Sections 4 and 8(c) hereof shall continue in full force and effect.

7. *Termination*. The Underwriter shall have the right to cancel its obligation to purchase the Bonds if, between the date of this Agreement and the Closing, the market price or marketability of the Bonds shall be materially adversely affected, in the sole judgment of the Underwriter, by the occurrence of any of the following:

(a) legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or any member of the Congress or the State legislature or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose, directly or indirectly, federal income taxation or State income taxation upon Net Revenues or other income of the general character to be derived by the Issuer pursuant to the Bond Resolution, or upon interest received on obligations of the general character of the Bonds or, with respect to State taxation, of the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences or State income tax consequences of any of the transactions contemplated herein;

(b) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the 1933 Act, or that the Bond Resolution is not exempt from qualification under or other requirements of the Trust Indenture Act, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(c) any state "blue sky" or securities commission or other governmental agency or body shall have withheld registration, exemption or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto;

(d) a general suspension of trading in securities on the New York Stock Exchange or the American Stock Exchange, the establishment of minimum prices on either such exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, a general banking moratorium declared by federal, State of New York, or State officials authorized to do so;

(e) the New York Stock Exchange or other national securities exchange or any governmental authority, shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(f) any amendment to the federal or state Constitution or action by any federal or state court, legislative body, regulatory body, or other authority materially adversely affecting the tax status of the Issuer, its property, income securities (or interest thereon);

(g) any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) there shall have occurred since the date of this Agreement any materially adverse change in the affairs or financial condition of the Issuer;

(i) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other outbreak or escalation of hostilities or a national or international calamity or crisis, financial or otherwise;

(k) any fact or event shall exist or have existed that, in the Underwriter's judgment, requires or has

required an amendment of or supplement to the Official Statement;

(l) there shall have occurred any downgrading, or any notice shall have been given of (A) any intended or potential downgrading or (B) any review or possible change that does not indicate a possible upgrade, in the rating accorded any of the Issuer's obligations (including the rating to be accorded the Bonds);

(m) the purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; and

(n) the debt ceiling of the United States is such that the obligations required to fund the Depository Trust Agreement are not available for delivery on the date of the delivery of the Bonds.

8. *Expenses.*

(a) The Underwriter shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder, including, but not limited to (i) the cost of preparation and printing of the Bonds, (ii) the fees and disbursements of Bond Counsel and Counsel to the Underwriter; (iii) the fees and disbursements of any other engineers, accountants, and other experts, consultants or advisers retained by the Issuer; and (iv) the fees for bond ratings and credit enhancement fees or premiums.

(b) The Underwriter shall pay (i) the cost of preparation and printing of this Agreement; (ii) all advertising expenses in connection with the public offering of the Bonds; and (iii) all other expenses incurred by them in connection with the public offering of the Bonds.

(c) If this Agreement shall be terminated by the Underwriter because of any failure or refusal on the part of the Issuer to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Issuer shall be unable to perform its obligations under this Agreement, the Issuer will reimburse the Underwriter for all "out-of-pocket" expenses (including the fees and disbursements of Counsel to the Underwriter) reasonably incurred by the Underwriter in connection with this Agreement or the offering contemplated hereunder.

9. *Notices.* Any notice or other communication to be given to the Issuer under this Agreement may be given by delivering

the same in writing to the address set forth on the first page of this Agreement, and any notice or other communication to be given to the Underwriter under this Agreement may be given by delivering the same in writing to RBC Dain Rauscher Inc., 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Kurt M. Freund.

10. *Parties in Interest.* This Agreement as heretofore specified shall constitute the entire agreement between us and is made solely for the benefit of the Issuer and the Underwriter (including successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. This Agreement may not be assigned by the Issuer. All of the Issuer's representations, warranties and agreements contained in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of any of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Agreement; and (iii) any termination of this Agreement.

11. *Effectiveness.* This Agreement shall become effective upon the acceptance hereof by the Issuer and shall be valid and enforceable at the time of such acceptance.

12. *Choice of Law.* This Agreement shall be governed by and construed in accordance with the law of the State.

13. *Severability.* If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatever.

14. *Business Day.* For purposes of this Agreement, "business day" means any day on which the New York Stock Exchange is open for trading.

15. *Section Headings.* Section headings have been inserted in this Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Agreement and will not be used in the interpretation of any provisions of this Agreement.

16. *Counterparts.* This Agreement may be executed in several counterparts each of which shall be regarded as an original (with the same effect as if the signatures thereto and hereto were upon the same document) and all of which shall constitute one and the same document.

17. *Notice Concerning Cancellation of Contracts.* To the extent applicable by provision of law, the parties acknowledge that this Agreement is subject to cancellation pursuant to A.R.S. Section 38-511, the provisions of which are incorporated herein by this reference.

If you agree with the foregoing, please sign the enclosed counterpart of this Agreement and return it to the Underwriter. This Agreement shall become a binding agreement between you and the Underwriter when at least the counterpart of this letter shall have been signed by or on behalf of each of the parties hereto.

Very truly yours,

RBC DAIN RAUSCHER INC.

By.....
Authorized Officer

Accepted and agreed to the date indicated on the first page hereof:

PIMA COUNTY, ARIZONA

By.....
Chair, Board of Supervisors

ATTEST:

.....
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Snell & Wilmer L.L.P., Bond Counsel to the County

By.....

1434772.2-4/26/04

If you agree with the foregoing, please sign the enclosed counterpart of this Agreement and return it to the Underwriter. This Agreement shall become a binding agreement between you and the Underwriter when at least the counterpart of this letter shall have been signed by or on behalf of each of the parties hereto.

Very truly yours,

RBC DAIN RAUSCHER INC.

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By.....
Chair, Board of Supervisors

ATTEST:

.....
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Snell & Wilmer L.L.P., Bond Counsel to the County

By.....

1434772.2-4/26/04

SCHEDULE I

$25,770,000 PRINCIPAL AMOUNT
SEWER REVENUE REFUNDING BONDS,
SERIES 2004
DATED DATE: AS OF MAY 1, 2004

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield
2005	$1,425,000	2.000%	1.48%
2006	1,455,000	2.250	1.94
2007	2,335,000	2.625	2.42
2008	2,410,000	3.250	2.81
2009	2,485,000	5.000	3.15
2010	1,575,000	3.500	3.42
2011	1,630,000	5.375	3.65
2012	2,050,000	5.500	3.87
2013	2,975,000	5.000	4.03
2014	3,430,000	5.000	4.15
2015	2,000,000	4.125	4.26
2015	2,000,000	5.000	4.26

First Interest Payment Date is: July 1, 2004

Optional Redemption

The Bonds maturing on or after July 1, 2015, are subject to optional call for redemption prior to maturity, at the option of the County, on or after July 1, 2014, in whole or in part on any date, by the payment of a redemption price equal to the principal amount called for redemption, without premium, plus accrued interest to the date fixed for redemption.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

DEPOSITORY TRUST AGREEMENT

This Depository Trust Agreement (the "Agreement") is dated as of May 1, 2004, and entered into between Pima County, Arizona (the "County") and J.P. Morgan Trust Company, National Association, as successor in interest to Bank One Trust Company, N.A., as trustee (the "Depository Trustee").

W I T N E S S E T H:

WHEREAS, the County has previously issued, and now desires to refund in advance of their respective maturities, the bonds identified in Exhibit 1 hereto (collectively, the "Bonds to be Refunded"); and

WHEREAS, the County, by a Resolution No. 2004-58 adopted on March 9, 2004 (the "Bond Resolution"), has authorized the issuance and sale of the County's Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), and the application of a portion of the proceeds from the sale of such bonds to refund and pay at maturity or redeem in advance of their maturities the Bonds to be Refunded and pay certain costs of issuance and necessary premiums and commissions relating to the Bonds (the "Bond Proceeds"); and

WHEREAS, pursuant to the Bond Resolution, the County has sold and delivered the Bonds to the purchaser thereof against payment therefor and the Bond Proceeds shall be applied (i) to pay the issuance costs of the Bonds, and (ii) to purchase obligations issued or guaranteed by the United States Government (hereinafter referred to as "Government Obligations"), the maturing principal of and investment income from which will be sufficient to pay and redeem the principal of, premium, and interest on the Bonds to be Refunded on July 1, 2004, as specified in Exhibit 1 hereto; and

WHEREAS, the Bond Resolution approves the execution and delivery of this Agreement with the Depository Trustee for the purpose of creating an irrevocable trust for the administration and safekeeping of the Government Obligations and other moneys to be held in trust for, and irrevocably pledged to, the payment of the Bonds to be Refunded; and

WHEREAS, the Depository Trustee agrees to accept and administer the trust for such purpose created hereby,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. The County has caused to be deposited with the Depository Trustee $26,688,100.10 of the Bond Proceeds, in a special trust fund which is hereby created and designated as the "Pima County, Arizona Revenue Refunding Bonds, Series 2004 Depository Trust" (the "Depository Trust").

2. The funds in the Depository Trust shall be allocated and applied as follows:

(a) $84,775.32 of the Bond Proceeds shall not be invested and shall be held as cash in a separate account within the Depository Trust and used to pay issuance costs of the Bonds. Payment for such issuance costs shall be made upon receipt of a statement or invoice therefor and shall not in the aggregate exceed the aggregate of the amounts listed in Exhibit 2. Any moneys remaining in said account on July 1, 2004, or when the County advises that all issuance costs have been paid, shall be remitted to the County.

(b) $26,603,324.78 of the Bond Proceeds shall be immediately invested in the Government Obligations described in Exhibit 3 attached hereto (the "Acquired Obligations"), except for an amount of $0.78 set aside to establish a beginning cash balance. All amounts received upon maturity of the Acquired Obligations shall be used for the purpose of paying interest and the redemption prices on the Bonds to be Refunded on July 1, 2004.

(c) If on the date of delivery of the Bonds and the deposits to the Depository Trust (the "Closing Date"), the Depository Trustee shall not receive from the seller thereof any of the Acquired Obligations ("Failed Escrow Securities"), the Depository Trustee shall accept, as temporary substitutes, at the same purchase price, other Government Obligations and/or cash (collectively, "Substitute Escrow Securities") the payments on which are scheduled to provide, as determined by an independent certified public accountant, at least the same amounts of moneys on or before the same dates as the Failed Escrow Securities for which they are substituted. The Depository Trustee may rely upon the opinion of independent certified public accountants that the condition in the preceding sentence is satisfied. If Substitute Escrow Securities are delivered, thereafter, upon delivery by the seller to the Depository Trustee of Failed Escrow Securities together with any amounts paid thereon subsequent to the Closing Date, the Depository Trustee shall return to the seller an amount of Substitute Escrow Securities, and any amounts paid thereon subsequent to the Closing Date, corresponding to the Failed Escrow Securities which the Substitute Escrow Securities replaced.

3. The Depository Trustee shall remit to the paying agent for the Bonds to be Refunded, in sufficient time to make payments of principal, premium and interest on the Bonds to be Refunded when due or upon redemption on July 1, 2004, the respective amounts due on such payment date for the Bonds to be Refunded in accordance with Exhibit 4 attached hereto. The Depository Trustee is the paying agent for the Bonds to be Refunded as of the date of this Agreement.

4. The Depository Trustee shall maintain the Depository Trust until all amounts payable on the Bonds to be Refunded have become due and the Depository Trustee has on deposit all moneys necessary to pay such amounts. In any event, this trust shall terminate on the business day following the date on which the Bonds to be Refunded are to be redeemed. On such date, the Depository Trustee shall remit any amount remaining in the Depository Trust to the County.

5. The Depository Trustee acknowledges the following:

(a) The provisions hereof are designed to insure that amounts credited to and invested in the Depository Trust comply with any applicable restrictions as of the date hereof under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of exempting the interest on the Bonds and the Bonds to be Refunded from Federal income taxes.

(b) Receipt of that certain Special Report of The Arbitrage Group, Inc., dated May 11, 2004, which demonstrates that the amounts on deposit in the Depository Trust together with investment income therefrom will be sufficient to pay the principal of, premium, if any, and interest on the Bonds to be Refunded as the same become due, at maturity or on prior redemption, as herein provided.

6. The Depository Trustee shall, at all times, hold the Acquired Obligations (or Substitute Obligations, as hereinafter provided) and all moneys in the Depository Trust for the account of the County and for the benefit of the holders of the Bonds to be Refunded, shall maintain the Depository Trust and the separate accounts therein wholly segregated from other funds and securities on deposit with the Depository Trustee, shall never commingle such obligations and other moneys with other funds or obligations of the Depository Trustee, and shall never at any time use, loan or borrow the same in any way.

7. The Depository Trustee may sell or redeem the Acquired Obligations held in the Depository Trust in advance of their maturity dates and invest the proceeds of such sale or redemption or other moneys credited to the Depository Trust in other Government Obligations (the "Substitute Obligations") only upon receipt of written instructions to do so from the County and receipt by the parties hereto of:

(a) An opinion in form and substance satisfactory to them of nationally-recognized bond counsel to the effect that such action will not cause the Bonds to be Refunded or the Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Code, and will not adversely affect the right of the County to issue obligations, the interest on which is excluded from gross income for Federal income tax purposes; and

(b) A report from a nationally-recognized firm of independent certified public accountants verifying the accuracy of the arithmetic computations of the adequacy of the proceeds from the liquidation of the Acquired Obligations, together with any other moneys and the interest on and maturing principal of any Substitute Obligations to be credited to the Depository Trust in accordance with the instructions without any further investment, to pay, when due, the principal of, premium, and interest on the Bonds to be Refunded as the same becomes due at maturity or upon prior redemption.

Upon any such sale or redemption, any amounts not needed in the Depository Trust to provide for payment of the Bonds to be Refunded, as shown by the accountant's report discussed above, shall be withdrawn from the Depository Trust and disbursed to, and applied by, the County to the payment of debt service on the Bonds or other bonds of the County or, if no such bonds are then outstanding, in accordance with applicable law.

8. The Depository Trust shall be irrevocable and the holders of the Bonds to be Refunded shall have an express lien on, and are hereby granted a security interest in, all moneys and obligations, including the interest earned thereon, in the Depository Trust until paid, used and applied in accordance with this Agreement.

9. Except as otherwise expressly provided herein, any moneys in the Depository Trust, including any moneys realized upon the maturity of the Acquired Obligations or Substitute Obligations deposited therein, shall be held as cash and shall at all times be insured by the Federal Deposit Insurance Corporation or be secured by Government Obligations in an amount at all times at least equal to the total amount of said moneys on deposit.

10. The Depository Trustee shall not be liable or responsible for any loss resulting from any investment made pursuant to this Agreement in compliance with the provisions hereof.

11. The County and the Auditor General of the State of Arizona, or their representatives, shall have the right to audit the books, records and accounts of the Depository Trustee insofar as they pertain to the Depository Trust.

12. The Depository Trustee shall be entitled to a fee of $500.00 for its services hereunder due and payable upon the date of the initial deposit of moneys into the Depository Trust. Except for the amounts described in this section, the Depository Trustee shall have no lien or right of setoff on moneys or investments on deposit in the Depository Trust for payment of its fees and expenses.

13. The Depository Trustee hereby acknowledges receipt of notice of the County's irrevocable election to call for redemption, and to redeem on July 1, 2004 the Bonds to be Refunded maturing after July 1, 2004 set forth in Exhibit 1, and agrees to send notice of redemption to the owners of the Bonds to be Refunded at least 30 but not more than 60 days prior to such redemption date, in the form prescribed by the resolution authorizing such Bonds to be Refunded.

14. On or before July 15, 2004, the Depository Trustee shall forward by first class mail to the County a statement with respect to each account within the Depository Trust stating in detail the income, obligations, sales, redemptions and withdrawals of moneys therefrom for the period between the date of issuance of the Bonds through July 15, 2004, and the details regarding any investments made in accordance with the requirements of this Agreement.

15. The parties hereto recognize that the holders of the Bonds to be Refunded have a beneficial interest in the moneys and the Acquired Obligations or Substitute Obligations held in trust hereunder and that the Bonds will be delivered to and accepted by the purchasers thereof in reliance upon the irrevocable character of the Depository Trust. It is therefore expressly recited, understood and agreed by the parties hereto that this Agreement shall not be revoked and shall not be amended in any manner which may adversely affect the rights herein sought to be protected until the provisions of this Agreement have been fully carried out.

16. The Depository Trustee shall be under no obligation to inquire into or otherwise be responsible for the performance or nonperformance by the County of any of its obligations or to protect any of the rights of the County in connection with any of the proceedings with respect

to the Bonds to be Refunded or the Bonds. The Depository Trustee shall not be liable for any action taken or omitted by it in accordance with the terms of this Agreement except for its negligence or misconduct or its default in the performance of any obligation imposed upon it hereunder. In the event the Depository Trustee is required or permitted hereby, or is requested hereunder, to take any action (or refrain from taking any action) as the Depository Trustee, the performance (or nonperformance) or which would, in the Depository Trustee's sole judgment, subject the Depository Trustee to unreasonable risk of liability or expense, the Depository Trustee shall have no duty to take (or refrain from taking) any such action until the Depository Trustee has been furnished with indemnity adequate, in its sole judgment, to protect the Depository Trustee, its directors, officers, employees, agents and attorneys from and against such liability or expense, and all reasonable costs and expenses (including reasonable attorneys' fees) in connection therewith, or until its duty as to any such action (or inaction) shall have been finally adjudicated by a court of competent jurisdiction and all applicable periods in which to appeal or seek appellate review have expired.

17. To the extent permitted by law, the County will indemnify and hold the Depository Trustee, its directors, officers, employees, agents and attorneys harmless for, from and against any loss, liability, judgment or expense (including reasonable attorneys' fees) arising from the Depository Trustee's performance of its obligations hereunder except any such loss, liability, judgment or expense resulting from the successful allegation of the Depository Trustee's negligence or willful misconduct or breach of trust. The rights of the Depository Trustee to such indemnification shall survive the termination of this Agreement.

18. The Depository Trustee may consult with independent counsel, chosen by it with reasonable care, and shall not be liable for action taken or not taken in good faith in reliance upon the written advice or opinion of such counsel. The Depository Trustee shall not be liable for the accuracy of any calculations provided by others to it under this Agreement as to the sufficiency of the monies or Government Obligations deposited with it to pay the principal of and interest and redemption premiums, if any, on the Bonds to be Refunded at the respective maturities or earlier redemption of the Bonds to be Refunded. Furthermore, the Depository Trustee may conclusively rely in good faith as to the truth, accuracy and correctness of, and shall be protected and indemnified in acting or refraining from acting upon, any written opinion, calculation, notice, instruction, request, certificate, document or opinion furnished to the Depository Trustee in accordance with this Agreement and signed or presented by the proper party pursuant to this Agreement, and it need not investigate the truth or accuracy of any fact or matter stated in such opinion, calculation, notice, instruction, request, certificate or opinion.

19. Except as otherwise provided in Section 20 hereof, neither this Agreement nor the Depository Trust created hereunder may be assigned by the Depository Trustee without the prior written consent of the County unless the Depository Trustee is required by law to divest itself of its interest in its trust department or unless the Depository Trustee sells or otherwise assigns all or substantially all of its trust business, in which event the Depository Trust shall be continued by the Depository Trustee's successor in interest. Any bank or trust company into which the Depository Trustee or its successor may be converted, merged or with which it may be consolidated, or to which it may sell or transfer its trust business as a whole shall be the successor of the Depository Trustee under this Agreement with the same rights, powers, duties and obligations and subject to the same restrictions, limitations and liabilities as its predecessor,

all without the execution or filing of any papers or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

20. The Depository Trustee may at any time resign and be discharged of the duties and obligations created by this Agreement. If the Depository Trustee resigns, or is dissolved, liquidated or in the process of being dissolved or liquidated or otherwise becomes incapable of acting hereunder, or is taken under the control of any public officer or officers or of a receiver appointed by a court, a successor Depository Trustee may be appointed. No resignation or removal may become effective until a successor Depository Trustee shall have been appointed. In the event that no appointment of a successor Depository Trustee occurs within sixty days, the holder of any of the Bonds to be Refunded or the retiring Depository Trustee may apply to any court of competent jurisdiction for the appointment of a successor Depository Trustee acceptable to the County, and such court may thereupon, after such notice as it shall deem proper, appoint a successor Depository Trustee acceptable to the County. Any successor Depository Trustee appointed under this Agreement shall execute, acknowledge and deliver to its predecessor and the County an instrument in writing accepting such appointment and, thereupon, such successor Depository Trustee, without any further act, deed or conveyance, shall become fully vested with all rights, estates, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of such successor Depository Trustee, execute, acknowledge and deliver an instrument transferring to such successor Depository Trustee all of the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Depository Trustee shall deliver all securities and monies held by it to the successor Depository Trustee.

21. If any section, paragraph, subdivision, sentence, clause or phrase hereof shall for any reason be held illegal or unenforceable, such decision shall not affect the validity of the remaining portions hereof. The parties hereto declare that they would have executed this agreement and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof, irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases hereof may be held to be illegal, invalid or unenforceable. If any provision hereof contains any ambiguity which may be construed as either valid or invalid, the valid construction shall be adopted.

22. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Arizona. The parties hereby acknowledge receipt of notice regarding Section 38-511 of the Arizona Revised Statutes providing for the County's right to void this Agreement under certain circumstances.

23. Any notices required to be sent hereunder shall be sent to the following:

If to the County: Pima County
130 West Congress Street
Tucson, Arizona 85701
Attention: County Administrator

If to the Depository Trustee: JP Morgan Trust Company, National Association
660 South Mill Avenue, 4th Floor
Tempe, Arizona 85281
Attention: Institutional Trust Services

24. This Agreement expresses the entire understanding and all agreements of the parties hereto with each other with respect to the subject matter hereof and no party hereto has made or shall be bound by any Agreement or any representation to any other party which is not expressly set forth herein. No amendment shall be made to this Agreement without the consent of owners of the Bonds to be Refunded.

25. This Agreement may be executed in several counterparts, each of which shall be an original, all of which together shall constitute but one instrument.

[Remainder of page left blank intentionally]

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the day and year first above written.

JP MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION,
as Depository Trustee

By: _____
Its: Vice President

PIMA COUNTY, ARIZONA

By: Sharon Bronson
Chair, Board of Supervisors

ATTEST:

By: Lori Godoshian
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SNELL & WILMER L.L.P.,
Bond Counsel

By: _____
Timothy E. Pickrell

298104

EXHIBIT 1

BONDS TO BE REFUNDED

Issue Dated	Sewer Revenue Bond Series	Maturities to be Refunded	Principal Amount to be Refunded	Redemption Date	Redemption Price
1-1-1994	1994A	7-1-2004	$1,255,000.00	N.A.	N.A.
1-1-1994	1994A	7-1-2005	1,315,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2006	1,375,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2007	2,290,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2008	2,410,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2009	2,525,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2010	1,620,000.00	7-1-2004	102%
1-1-1994	1994A	7-1-2015	12,730,000.00	7-1-2004	102%

EXHIBIT 2

ESTIMATED COSTS OF ISSUANCE

Bond Counsel	$27,500.00
Official Statement Printing	7,500.00
Rating Agency Fee	22,250.00
Depository Trustee	500.00
Verification Agent	2,500.00
Paying Agent/Registrar	2,000.00
Disclosure/Underwriter's Counsel	20,000.00
DTC	-0-
Miscellaneous	2,525.32
TOTAL EXPENSES:	$84,775.32

EXHIBIT 3

ACQUIRED OBLIGATIONS

Description	Maturity	Principal Amount	Rate	Price	Gross Cost
U.S. Treasury Securities - State and Local Government Series - CI	7-1-2004	$26,603.324.00	0.78%%	100%	$26,603,324.00

EXHIBIT 4

DEBT SERVICE ON THE BONDS TO BE REFUNDED

Date	Principal	Call Premium	Interest	Total
07/01/04	$25,520,000.00	$485,300.00	$627,018.75	$26,632,318.75

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT AGREEMENT

This Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of May 1, 2004 (the "Agreement"), between Pima County, Arizona (the "County"), and J.P. Morgan Trust Company, National Association, as successor in interest to Bank One Trust Company, N.A. (the "Registrar"),

WITNESSETH

WHEREAS, the County proposes to issue its Sewer Revenue Refunding Bonds, Series 2004, in the aggregate principal amount of $25,770,000 (the "Bonds"); and

WHEREAS, the Bonds will be issued in fully registered form; and

WHEREAS, the County desires to employ a bond registrar, a transfer agent and a paying agent to administer the registration, transfer and payment of the Bonds; and

WHEREAS, the Treasurer of the County (the "Treasurer") is charged with the responsibility of maintaining the principal and interest redemption funds for the County; and

WHEREAS, the County desires to enter into an agreement with the Registrar for services as bond registrar, transfer agent and paying agent with respect to the Bonds; and

WHEREAS, the Registrar is willing to act as bond registrar, transfer agent and paying agent with respect to the Bonds,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

Section 1: The Registrar is hereby requested to provide the following services:

(a) Bond registrar services, which shall include, but not be limited to:

(1) initial authentication of the Bonds;

(2) maintenance of registration books sufficient to comply with Section 149(a) of the Internal Revenue Code of 1986, as amended (the "Code");

(3) prompt recording of transfers of ownership and exchanges of the Bonds as such transfers and exchanges occur;

(4) protection against double or overissuance of the Bonds;

(5) authentication of the Bonds prepared for delivery to transferees of original purchasers or subsequent owners, or to owners of the Bonds upon any exchange, of the Bonds;

(6) informing the County of the need for additional printings of the Bonds as needed; and

(7) providing the Treasurer and the County access to specimens of the signatures of the persons authorized from time to time to authenticate the Bonds.

(b) Transfer agent services, which shall include, but not be limited to:

(1) receipt and verification of all Bonds tendered for transfer or exchange;

(2) preparation of new Bonds for delivery to transferees or owners wishing to exchange Bonds and delivery of the same;

(3) destruction of Bonds submitted for transfer or exchange; and

(4) provision of necessary information for recordation in the registration books relating to the Bonds.

(c) Paying agent services, which shall include, but not be limited to:

(1) provision of a billing to the County's chief financial officer at least thirty (30) days prior to each principal and interest payment date with respect to the Bonds setting forth the amount of principal and interest due on the Bonds on such payment date;

(2) preparation, execution and mailing, by first class mail, of checks representing, or, to the extent requested in writing by an owner of $1,000,000 or more in aggregate principal amount of the Bonds not less than ten (10) days prior to an interest payment date, transmission by wire transfer to a bank or trust company in the continental United States of, interest payments due on the Bonds to each registered owner of the Bonds on or prior to each scheduled interest payment date;

(3) verification of all matured Bonds upon their surrender for final payment;

(4) payment of all principal due on the Bonds upon proper surrender thereof to the Registrar or, if so requested in writing by any owner of $1,000,000 or more in aggregate principal amount of the Bonds, and if provision for surrender of the Bonds satisfactory to the Registrar has been made, by wire transfer to a bank or trust company in the continental United States, in the manner provided for therein;

(5) preparation of semiannual reconciliations following each interest payment date showing all principal and interest paid with respect to the Bonds during the preceding six-month period and providing copies thereof to the Treasurer and the Arizona Department of Revenue (the "Department"); and

(6) taking inventory of all canceled checks, or microfilm proof of such checks, showing interest payments on the Bonds.

Section 2. Upon written request of the County, the Registrar will cause its authorized officer(s) to authenticate the Bonds in an aggregate original principal amount not to exceed $25,770,000 at any time except for replacement Bonds.

Section 3. The Registrar shall exchange Bonds of the same aggregate original principal amount, maturity date and interest rate, if any, and of any authorized denomination upon presentation and surrender of such Bonds at the principal corporate trust office of the Registrar together with a request for exchange signed by the registered owner thereof or by a person legally empowered to do so in a form satisfactory to the Registrar.

Section 4. The Registrar shall charge the registered owners of the Bonds that are transferred or exchanged for all of the fees, taxes and costs of such transfer or exchange.

Section 5. With respect to Bonds which are mutilated, lost or destroyed, the Registrar shall cause to be executed and delivered a new Bond of like date and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such Bond lost or destroyed, upon the registered holder's paying the reasonable expenses and charges in connection therewith and, in the case of any Bond destroyed or lost, filing by the registered owner with the Registrar and the Treasurer of evidence satisfactory to the Registrar and the Treasurer that such Bond was lost or destroyed, and furnishing the Registrar and the County with a sufficient indemnity bond as provided in Arizona Revised Statutes, Section 47-8405.

Section 6. The record date (the "Record Date") for the Bonds shall be the close of business of the Registrar on the 15th day, or if such day is a Saturday, Sunday or holiday, on the next preceding business day, of the month preceding each interest payment date. Bonds presented to the Registrar for transfer after the close of business on the Record Date and before the close of business on the next subsequent interest payment date will be registered in the name of the transferee but the interest payment will be payable to and mailed to the registered owner shown on the registration books for the Bonds maintained by the Registrar as of the close of business on the Record Date.

Section 7. The Treasurer will transfer, or cause to be transferred, immediately available funds to the Registrar no later than one (1) business day prior to the date on which the principal, interest, and premium payments, if any, are due on the Bonds. All moneys held by the Registrar as paying agent shall be held in trust for the benefit of the holders of the Bonds.

Section 8. The Bonds shall bear interest at the rates described in Exhibit A attached hereto payable on July 1, 2004, and semiannually thereafter on January 1 and July 1 each year during the term of the Bonds by check drawn on the Registrar and mailed, by first class mail, on or prior to each interest payment date, to the registered owner of the Bonds at the address shown on the registration books of the Registrar on the Record Date, or, as and subject to the conditions provided in Section 1(c) hereof, by wire transfer.

Section 9. The Bonds mature on July 1 in the years and in the amounts as described in Exhibit A attached hereto. Principal of the Bonds, at maturity or on any redemption prior to maturity, will be payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Registrar or, as and subject to the conditions provided in Section 1(c) hereof, by wire transfer.

Section 10. In the event any check for payment of interest on a Bond is returned to the Registrar unendorsed or is not presented for payment within two (2) years from its payment date or any Bond is not presented for payment of principal at the maturity or redemption date, if funds sufficient to pay such interest or principal due upon such Bond shall have been made available to the Registrar for the benefit of the owner thereof, it shall be the duty of the Registrar to hold such funds without liability for interest thereon, for the benefit of the owner of such Bond who shall thereafter be restricted exclusively to such funds for any claim of whatever nature relating to such Bond or amounts due thereunder. The Registrar's obligation to hold such funds shall continue for two (2) years and six (6) months following the date on which such interest or principal payment became due, whether at maturity, or at the date fixed for redemption, or otherwise, at which time the Registrar shall surrender such unclaimed funds so held to the Treasurer, whereupon any claim of whatever nature by the owner of such Bond arising under such Bond shall be made upon the Treasurer.

Section 11. The Registrar shall secure or collateralize the funds on deposit at the Registrar pursuant to this Agreement in the manner provided in Arizona Revised Statutes, Sections 35-323 and 35-491.

Section 12. The Registrar will comply with the seventy-two (72) hour turnaround time required by Securities and Exchange Commission Rule 17(A) (d) - (2) under the Securities and Exchange Act of 1934, as amended, with respect to routine transfer items.

Section 13. Fees for the Registrar's services with respect to the registration, authentication, delivery and payment of the Bonds, shall be paid as set forth on Exhibit B attached hereto. Extraordinary out-of-pocket expenses shall be paid by the County as incurred by the Registrar.

Section 14. The Registrar shall make such reports relating to the issuance of the Bonds as the Department requires pursuant to Sections 35-501 and 35-502 of the Arizona Revised Statutes, or any successor statutes thereto, and shall notify the Department in the manner provided in Section 1(c)(5) hereof of the retirement of any Bonds and of all payments of interest thereon.

Section 15. The Registrar's records relating to the Bonds shall be kept in compliance with the requirements of Section 103 of the Code, and any regulations promulgated thereunder, such standards as have been or may be issued from time to time by the Securities and Exchange Commission or the Municipal Securities Rulemaking Board of the United States, and any other securities industry standard as the County may reasonably direct from time to time.

Section 16. The County or its duly authorized agents may examine the records relating to the Bonds at the office of the Registrar where such records are kept at reasonable times as

agreed upon with the Registrar and such records shall be subject to audit from time to time at the request of the County and or the Treasurer. On request, the Registrar will furnish the County with a list of the names, addresses and other information concerning the registered owners of the Bonds.

Section 17. The Registrar shall indemnify and hold harmless the County, the Treasurer, and all boards, commissions, officials, officers and employees of the County, individually and collectively, from the Registrar's negligence or misconduct in the performance of any of its duties hereunder. Similarly, the County shall, to the extent permitted by law, indemnify and hold harmless the Registrar, its officers, directors, employees, and agents, individually and collectively, from the County's negligence or misconduct in the performance of any of its duties hereunder.

Section 18. When the Registrar deems it necessary or reasonable, it may apply to a law firm or attorney approved by the County for instructions or advice with respect to the Bonds. All fees incurred in obtaining such counsel shall be added to the fees, costs and expenses to be paid to the Registrar pursuant hereto.

Section 19. By signature of its authorized officer below, the Registrar hereby acknowledges receipt of copies of (a) the resolutions of the County authorizing the issuance of the Bonds, (b) the receipt of the Treasurer acknowledging payment of the entire principal amount of the Bonds and any interest due thereon, (c) the opinion of Snell & Wilmer L.L.P. as Bond Counsel to the County, and (d) the debt service payment schedule relating to the Bonds.

Section 20. The County or the Registrar reserve the right to terminate any individual service set forth in this Agreement, or all of the services set forth in this Agreement, upon sixty (60) days prior written notice to the Registrar.

Section 21. In the event the Registrar resigns or is replaced, the County reserves the right to appoint a successor bond registrar, transfer agent and/or paying agent hereunder. In such event, the provisions of this Agreement with respect to payment for expenses hereunder by the County shall remain in full force and effect, but the Treasurer shall then be authorized to use the funds designated for such payment to pay any fees and expenses of any bond registrar, transfer agent and/or paying agent chosen to replace the Registrar or to reimburse the County if the Treasurer acts as bond registrar, transfer agent and/or paying agent. In the event that any corporation or association (i) into which the Registrar may be converted or merged (ii), with which the Registrar may or any successor to it may be consolidated, or (iii) to which the Registrar may sell or transfer all or substantially all of its corporate trust business, or any corporation or association resulting from such conversion, merger, consolidations, sale or transfer, ipso facto, shall be and become successor Registrar without the execution or filing of any paper or any further act on the part of any of the parties hereto, and that corporation or association shall be vested further as was its predecessor.

Section 22. This Agreement shall commence on the date first written above and shall continue until the date that the last payment due under the Bonds has been made.

Section 23. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof, and no waiver, alteration or modification of any of the provisions hereof, or assignment of any rights hereunder, shall be binding unless in writing and signed by a duly authorized representative of all parties hereto.

Section 24. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws, this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision.

Section 25. Any request, demand, authorization, direction, notice, consent, waiver, statement or other document provided or permitted to be given or furnished to the County or the Registrar shall be mailed or delivered to the County or the Registrar, respectively, at the addresses shown herein, or such other address as may have been given by one party to the other by fifteen (15) days written notice.

If to the County:	Pima County, Arizona 130 West Congress Street Tucson, Arizona 85701 Attention: County Administrator
If to the Registrar:	J.P. Morgan Trust Company, National Association 660 South Mill Avenue, 4th Floor Tempe, Arizona 85281 Attention: Institutional Trust Services

Section 26. Arizona law requires that every contract to which the State of Arizona, its political subdivisions or any of the departments or agencies of the State or its political subdivisions is a party include notice that such contract is subject to cancellation, within three (3) years after its execution, by the State, political subdivision, department or agency which is a party to such contract if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, political subdivision, department or agency is, at any time while the contract is in effect, an employee of any other party to the contract or an agent or consultant of any other party to the contract with respect to the subject matter of the contract.

Section 27. This Agreement may be executed in multiple counterparts, all of which shall constitute one and the same Agreement and each of which shall be deemed an original.

Section 28. This Agreement shall be governed by the laws of the State of Arizona.

[Remainder of page left blank intentionally]

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the day and year first above written.

JP MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION,
as Registrar

By:_____
Its: Vice President

PIMA COUNTY, ARIZONA

By:_____
Chair, Board of Supervisors

ATTEST:

By:_____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SNELL & WILMER L.L.P.
Bond Counsel

By:_____
Timothy E. Pickrell

297938

EXHIBIT A

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Maturity Date (July 1)	Principal Amount	Interest Rate
2005	$1,425,000	2.000%
2006	1,455,000	2.250%
2007	2,335,000	2.625%
2008	2,410,000	3.250%
2009	2,485,000	5.000%
2010	1,575,000	3.500%
2011	1,630,000	5.375%
2012	2,050,000	5.500%
2013	2,975,000	5.000%
2014	3,430,000	5.000%
2015	2,000,000	4.125%
2015	2,000,000	5.000%

EXHIBIT B

FEE SCHEDULE

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
Series 2004

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this "Disclosure Undertaking") is executed and delivered by Pima County, Arizona (the "Obligor"), in connection with the issuance by the Obligor of its $25,770,000 principal amount Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds are being issued pursuant to Resolution No.1991-138, as amended by Resolution No. 1991-183 and supplemented by Resolution 2004-58 (the "Resolution"). Certain terms used herein are defined in Section 10 below.

The Obligor undertakes and agrees as follows:

Section 1 Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Obligor for the benefit of the Bondholders and in order to assist each Participating Underwriter in complying with the Rule.

Section 2 Annual Information and Audited Financial Statements. The Obligor agrees to provide or cause to be provided to each Repository:

(a) Annual Information for the preceding Fiscal Year not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year not later than the later of the Filing Date for each Fiscal Year or promptly after becoming available to the Obligor.

Any or all of the items listed above may be included by specific reference to other documents; provided that if the document included by reference is not a final official statement, it must have been provided previously to each of the Repositories or the Securities and Exchange Commission, and if the document included by reference is a final official statement, it must be available from the MSRB.

Section 3 Notice of Listed Events and Failure to Provide Annual Information. The Obligor agrees to provide or cause to be provided to each National Repository or to the MSRB, and to any State Repository, in a timely manner:

(a) notice of the occurrence of any Listed Events with respect to the Series 2004 Bonds, if material (within the meaning of the Rule); and

(b) notice of its failure to provide or cause to be provided the Annual Information on or before the applicable Filing Date.

Notwithstanding the foregoing, notice of Listed Events consisting of bond calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of affected Series 2004 Bonds pursuant to the Resolution, and notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Series 2004 Bonds will be redeemed in the case of a partial redemption.

Section 4 Termination of Reporting Obligation. The obligations of the Obligor under this Disclosure Undertaking shall terminate at such time as no Series 2004 Bonds remain Outstanding (within the meaning of the Resolution) or all of the Series 2004 Bonds have been legally defeased, redeemed or paid in full.

Section 5 Dissemination Agent. The Obligor may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any dissemination agent, with or without appointing a successor dissemination agent.

Section 6 Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Obligor may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived; provided, however, that no amendment or waiver may take effect unless the following conditions are satisfied:

(a) the amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "obligated person" (within the meaning of the Rule) with respect to the Series 2004 Bonds, or the type of business conducted;

(b) this Disclosure Undertaking, as amended or taking into account such waiver, in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor, would have complied with the requirements of the Rule at the time of the original issuance of the Series 2004 Bonds, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the registered owners of the Series 2004 Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of registered owners of the Series 2004 Bonds, or (ii) does not materially impair the interests of the Bondholders as determined by the opinion of counsel of national reputation experienced in bond or federal securities law unaffiliated with the Obligor but which may be selected by the Obligor, or as determined by another party unaffiliated with the Obligor but which may be selected by the Obligor.

Section 7 Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Obligor from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or

including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Obligor chooses to include any information in any Annual Information or notice of occurrence of any Listed Event or any other event, in addition to that which is specifically required by this Disclosure Undertaking, the Obligor shall have no obligation under this Disclosure Undertaking to update the information or include it in any future Annual Information or notice of occurrence of Listed Event.

Section 8 Failure to Perform. Any Bondholder may enforce the Obligor's obligation to provide or cause to be provided information or notice under this Disclosure Undertaking by commencing an action in a court of competent jurisdiction to seek specific performance by court order to compel the Obligor to provide or cause to be provided such information or notice; provided that any Bondholder must first as a condition precedent to commencing the action provide at least 30 day's prior written notice to the Obligor of its failure to perform, giving reasonable detail of such failure, following which notice the Obligor shall have 30 days to perform. Failure by the Obligor to perform under this Disclosure Undertaking shall not be deemed an event of default with respect to the Series 2004 Bonds or under the Resolution or any other document and the sole remedy under this Disclosure Undertaking in the event of any failure of the Obligor to comply with this Disclosure Undertaking shall be an action to compel performance.

Section 9 Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Obligor and the Bondholders from time to time, and shall create no rights in any other person or entity.

Section 10 Definitions. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

"Annual Information" means:

(a) quantitative financial information and operating data concerning the operations of the Obligor of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA, SUMMARY OF WASTEWATER USER FEES," "PIMA COUNTY, ARIZONA, SUMMARY OF USER FEE REVENUES," "PIMA COUNTY, ARIZONA, CONNECTION FEE REVENUES," "PIMA COUNTY, ARIZONA, REVENUES FROM OTHER FEES AND CHARGES" and "PIMA COUNTY WASTEWATER MANAGEMENT DEPARTMENT Comparative Statements of System Revenues, Expenditures and Net Revenues Available for Debt Service;" and

(b) unaudited annual Financial Statements of the Obligor unless Audited Financial Statements are provided at the same time.

In addition to the information described in (a) and (b), (i) if any part of the Annual Information described in (a) can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Obligor will include a statement to that effect as part of the Annual Information for the year in which the change or discontinuation occurs, and

(ii) the Annual Information for the year in which any amendment or waiver of a provision of this Disclosure Undertaking occurs shall describe and explain the amendment or waiver, the reason for it and its impact on the type of information being provided, and if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Information for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

"Audited Financial Statements" means audited annual Financial Statements of the Obligor.

"Bondholder" means a beneficial owner of a Bond, with beneficial ownership determined on a basis consistent with the provisions of Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, or, if those provisions do not adequately address the situation in question (in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the Obligor) with beneficial ownership determined on the basis of ownership for federal income tax purposes. Any assertion of beneficial ownership must be established by evidence in writing with full documentary support filed with the Obligor.

"Filing Date" means the first business day in February of each Fiscal Year, commencing in February, 2005.

"Financial Statements" means annual financial statements of the Obligor prepared in conformity with generally accepted accounting principles as reflected in the governmental accounting standards promulgated from time to time by the Government Accounting Standards Board.

"Fiscal Year" means each fiscal year of the Obligor commencing with the fiscal year beginning July 1, 2003, and ending June 30, 2004.

"Listed Events" means any of the following events:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"MSRB" means the Municipal Securities Rulemaking Board.

"National Repository" means each Nationally Recognized Municipal Securities Information Repository which is recognized as such for purposes of the Rule at the time any information or notice is to be provided pursuant to this Disclosure Undertaking. The National Repositories at the time of execution and delivery of this Disclosure Undertaking are listed in Exhibit A.

"Official Statement" means the final Official Statement dated May 4, 2004, with respect to the initial offering of the Series 2004 Bonds.

"Participating Underwriter" means each broker, dealer, or municipal securities dealer acting as an underwriter in the primary offering of the Series 2004 Bonds, including, without limitation, RBC Dain Rauscher Inc..

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as applicable to the Series 2004 Bonds.

"State" means the State of Arizona.

"State Repository" means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Undertaking, there is no State Repository.

Section 11 Governing Law; Forum. This Disclosure Undertaking shall be governed by the law of the State. Any action to enforce this Disclosure Undertaking against the Obligor may be brought only in a State court.

Section 12 Budget Requirement. Under the law of the State, no expenditures may be made by the Obligor in any Fiscal Year for a purpose not included in the budget, and no expenditure may be made or obligation or liability incurred or created by the Obligor in any Fiscal Year in excess of the amount specified for each purpose in the budget, for that Fiscal Year, except as otherwise provided by law, and the Obligor's undertaking in this Disclosure

Undertaking is subject to this limitation of State law on expenditures by the Obligor for costs of performing its obligations under this Disclosure Undertaking.

Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: _____
Carol Bonchalk
Director of Finance

Exhibit A

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Disclosure Undertaking

The list may change from time to time. The Disclosure Undertaking requires that information and notices be provided to each Repository. The list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: nrmsir@ftid.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

EXECUTION COPY

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

INSURANCE AGREEMENT

This Insurance Agreement, dated as of May 1, 2004 (this "Agreement"), is entered into by and among PIMA COUNTY, ARIZONA (the "Board"), J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION (the "Paying Agent"), as Paying Agent under the 2004 Supplemental Bond Resolution (as hereinafter defined), and FINANCIAL SECURITY ASSURANCE INC. (the "Bond Insurer").

WITNESSETH

WHEREAS, pursuant to the Bond Resolution, the County has from time to time issued its sewer revenue bonds and refunding bonds, including the 2004 Bonds (as hereinafter defined), and may in the future issue other obligations on a parity therewith; and

WHEREAS, the Bond Insurer will issue the Insurance Policy (as hereinafter defined) guaranteeing payment to the Paying Agent of principal of and interest on the 2004 Bonds when due (as hereinafter defined), subject to the terms and limitations therein; and

WHEREAS, the Board understands that the Bond Insurer requires the delivery of this Agreement as part of the consideration for the Bond Insurer's execution and delivery of the Insurance Policy in accordance with the Municipal Bond Insurance Commitment, dated April 16, 2004, and Section 16 of the 2004 Supplemental Bond Resolution;

NOW, THEREFORE, in consideration of the premises and of the agreements herein contained, of the execution and delivery by the Bond Insurer of its Insurance Policy and of the County's payment to the Bond Insurer of the insurance premium for the Insurance Policy, the County, the Paying Agent and the Bond Insurer agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. For the purposes of this Agreement, the following words and phrases shall have the following meanings. All terms that are capitalized herein and not defined below shall have the meaning specified in the Bond Resolution.

"Agreement" means this Agreement.

"County" means Pima County, Arizona.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"Bondholder" means any person in whose name a 2004 Bond is then registered.

"Bond Resolution" means Resolution No. 1991-138, adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended by Resolution No. 1991-182 and as subsequently supplemented and amended through the 2004 Supplemental Bond Resolution, and as thereafter amended or supplemented in accordance with the provisions thereof.

"Insurance Policy" means the insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the 2004 Bonds when due.

"2004 Bonds" means the County's $25,770,000 Sewer Revenue Refunding Bonds, Series 2004.

"Related Documents" means the Bond Resolution, the 2004 Supplemental Bond Resolution, the Depository Trust Agreement, dated as of May 1, 2004, by and between the County and the Paying Agent, as depository trustee thereunder, in connection with the issuance of the 2004 Bonds, and any other transaction documents related to the issuance and delivery of the 2004 Bonds.

"State" means the State of Arizona.

"Paying Agent" means J.P. Morgan Trust Company, National Association, or any successor Paying Agent with respect to the 2004 Bonds.

"2004 Supplemental Bond Resolution" means Resolution No. 2004-58, adopted by the Board of Supervisors of the County on March 9, 2004, authorizing the issuance and sale of the 2004 Bonds.

ARTICLE II
TERM OF AGREEMENT

This Agreement will expire when all amounts due or to become due to the Bond Insurer have been paid in full.

ARTICLE III
INFORMATION AND NOTICES TO BE PROVIDED TO BOND INSURER

Section 3.01 <u>Information to be Provided by the County</u>.

(a) Within the later of one hundred eighty (180) days after the end of each of the County's fiscal years or thirty (30) days after the annual audited financial statements become available, the County shall provide or cause to be provided to the Bond Insurer the annual audited financial statements of the County for the preceding fiscal year.

(b) The County shall provide or cause to be provided to the Bond Insurer the annual budget of the County within thirty (30) days after the approval thereof.

(c) The County shall provide or cause to be provided to the Bond Insurer:

(i) Prior notice of the advance refunding or redemption of any of the 2004 Bonds, which notice shall include the principal amount, maturities and CUSIP numbers thereof;

(ii) Notice of the resignation or removal of the Paying Agent or Bond Registrar of the 2004 Bonds and the appointment of, and acceptance of duties by, any successor thereto;

(iii) Notice of the commencement of any proceeding by or against the County commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(iv) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2004 Bonds;

(v) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Related Documents; and

(vi) All reports, notices and correspondence to be delivered under the terms of the Related Documents.

Section 3.02 **Notice by the Paying Agent.** The Paying Agent shall give notice to the Bond Insurer of any default under the Related Documents which is related to the payment of principal of or interest on the 2004 Bonds and which is known to the Paying Agent, within five (5) Business Days after knowledge thereof.

ARTICLE IV
TERMS OF THE BOND RESOLUTION

Section 4.01 **Additional Provisions.** The County and the Paying Agent agree that, for purposes of the 2004 Supplemental Bond Resolution and the Bond Resolution (to the extent they apply to the 2004 Bonds), the following provisions shall govern, notwithstanding anything to the contrary set forth in the 2004 Supplemental Bond Resolution or the Bond Resolution:

(a) The rights granted to the Bond Insurer under this Agreement to request, consent to or direct any action under the Bond Resolution or any other Related Document are rights granted to the Bond Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

(b) The County shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur in connection with the following:

(i) the administration, enforcement, defense or preservations of any rights or security in any Related Document;

(ii) the pursuit of any remedies under this Agreement, the Bond Resolution or any other Related Document or otherwise afforded by law or equity;

(iii) any amendment waiver or other action with respect to, or related to, this Agreement, the Bond Resolution or any other Related Document whether or not executed or completed;

(iv) the violation by the County of any law, rule or regulation, or any judgment order or decree applicable to them; or

(v) any litigation or other dispute in connection with this Agreement, the Bond Resolution or any other Related Document or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Bond Insurer to honor its obligations under the Insurance Policy.

(c) The Bond Insurer shall be deemed to be the sole holder of the 2004 Bonds for the purpose of exercising any voting right or privilege or giving any consent of direction or taking any other action that the holders of the 2004 Bonds are entitled to take pursuant to the Bond Resolution pertaining to defaults or remedies.

Section 4.02 Supplements or Amendments to Bond Resolution and Related Documents.

(a) Copies of any modification or amendment to the Bond Resolution or any other Related Document shall be sent to Standard & Poor's Ratings Services and Moody's Investors Service, Inc. at least ten (10) days prior to the effective date thereof.

(c) The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Bond Resolution or any other Related Document.

Section 4.03 Defeasance.

(a) To the extent permitted by the Bond Resolution and applicable law, for purposes of the 2004 Supplemental Bond Resolution and Section 20 of the Bond Resolution, the term "Government Obligations" for purposes of defeasing the 2004 Bonds shall be limited to any or all of the following:

(i) cash;

(ii) direct non-callable obligations of the United States of America ("Treasuries");

(iii) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated;

(iv) pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively; or

(v) any other obligation approved by the Bond Insurer.

(b) In the event provision for payment of the 2004 Bonds shall be made pursuant to the Bond Resolution, the County shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the 2004 Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Bond Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the 2004 Bonds are no longer Outstanding under the Bond Resolution. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the County, the Paying Agent and the Bond Insurer. In the event a forward purchase agreement will be employed in the refunding, such agreement shall be subject to the approval of the Bond Insurer and shall be accompanied by such opinions of counsel as may be required by the Bond Insurer The Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

(c) Principal of or interest on the 2004 Bonds paid by the Bond Insurer under the Insurance Policy shall not be deemed paid for purposes of the Bond Resolution, and such 2004 Bonds shall continue to be Outstanding and such amounts shall continue to be due and owing until paid by the County in accordance with the Bond Resolution.

(d) The Bond Resolution shall not be discharged with respect to the 2004 Bonds unless all amounts due or to become to the Bond Insurer have been paid in full or duly provided for.

ARTICLE V
PROVISION FOR PAYMENT UNDER THE INSURANCE POLICY

Section 5.01 <u>Payments Under the Insurance Policy</u>.

(a) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Paying Agent, after making all transfers and deposits required under the Bond Resolution, moneys sufficient to pay

the principal of and interest on the 2004 Bonds due on such Payment Date, the Paying Agent shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the 2004 Bonds due on such Payment Date the Paying Agent shall make a claim under the Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the 2004 Bonds and the amount required to pay principal of the 2004 Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(b) In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Paying Agent shall authenticate and deliver to affected Bondholders who surrender their 2004 Bonds a new 2004 Bond or 2004 Bonds in an aggregate principal amount equal to the unredeemed portion of the 2004 Bond surrendered. The Paying Agent shall designate any portion of payment of principal on 2004 Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption maturity or other advancement of maturity, on its books as a reduction in the principal amount of 2004 Bonds registered to the then current Bondholder, whether The Depository Trust Company or its nominee or otherwise, and shall issue a replacement 2004 Bond to the Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent's failure to so designate any payment or issue any replacement 2004 Bond shall have no effect on the amount of principal or interest payable by the County on any 2004 Bond or the subrogation rights of the Bond Insurer.

(c) The Bond Insurer shall be entitled to pay principal of or interest on the 2004 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy), whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

Section 5.02 <u>Policy Payments Account</u>.

(a) Upon payment of a claim under the Insurance Policy, the Paying Agent shall establish a separate special purpose trust account for the benefit of the Bondholders referred to herein as the "Policy Payments Account" and over which the Paying Agent shall have exclusive control and sole right of withdrawal. The Paying Agent shall receive any amount paid under the Insurance Policy in trust on behalf of the Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent to Bondholders in the same manner as principal and interest payments are to be made with respect to the 2004 Bonds under the sections of the Bond Resolution regarding payment of 2004 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such

payments. Notwithstanding anything to the contrary otherwise set forth in the Bond Resolution, and to the extent permitted by law, in the event amounts paid under the Insurance Policy are applied to claims for payment of principal of principal of or interest on the 2004 Bonds, interest on such principal of and interest on such 2004 Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JP Morgan Chase Bank or its successor at its principal office in the City of New York, as its prime rate or base lending rate plus 3%, and (ii) the then applicable rate of interest on the 2004 Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(b) The Paying Agent shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect of any 2004 Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent.

(c) Funds held in the Policy Payments Account shall not be invested by the Paying Agent and may not be applied to satisfy any costs, expenses or liabilities of the Paying Agent.

(d) Any funds remaining in the Policy Payments Account following a 2004 Bond Payment Date shall promptly be remitted to the Bond Insurer.

Section 5.03 **Effect of Payment.** The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the 2004 Bonds, become subrogated to the rights of the recipients of such payment in accordance with the terms of the Insurance Policy.

ARTICLE VI
MISCELLANEOUS

Section 6.01 **Amendment and Waiver.** This Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the County, the Paying Agent and the Bond Insurer.

Section 6.02 **Successors and Assigns; Descriptive Headings.**

(a) This Agreement shall bind, and the benefits thereof shall inure to the benefit of, the County, the Paying Agent and the Bond Insurer and their respective successors and assigns. None of the parties hereto may transfer or assign any or all of its rights and obligations hereunder without the prior written consents of the other parties, which consents shall not be unreasonably withheld.

(b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 6.03 **Notices, Requests, Demands.** Except as otherwise expressly provided herein, all written notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case

of telex or telecopier notice sent over a telex or a telecopier machine owned or operated by a party hereto, when sent, addressed as specified below or at such other address as either of the parties hereto may hereafter specify in writing to the others:

If to the County:

Pima County, Arizona
130 West Congress, 7th Floor
Tucson, Arizona 85701
Attention: Director of Finance
Phone: (520) 740-8494
Fax: (520) 624-9178

If to the Paying Agent:

J.P. Morgan Trust Company, National Association
660 Mill Avenue, 4th Floor
Tempe, Arizona 85281
Attention: Institutional Trust Services
Phone: (480) 902-6880
Fax: (480) 902-6879

If to the Bond Insurer:

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022
Attention: Managing Director — Surveillance
Re: Policy No. 28508-N
Phone: (212) 826-0100
Fax: (212) 339-3529

and if relating to an event of default, with a copy to:

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022
Attention: General Counsel
"URGENT MATERIAL ENCLOSED"
Phone: (212) 826-0100
Fax: (212) 339-3529

Section 6.04 **Survival of Representations and Warranties**. All representations, warranties and obligations contained herein shall survive the execution and delivery of this Agreement and the Insurance Policy.

Section 6.05 **Governing Law.** This Agreement and the rights and obligations of the parties under this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State.

Section 6.06 **Counterparts.** This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument, and all of which shall constitute but one and the same instrument. Complete counterparts of this Agreement shall be lodged with the County, the Paying Agent and the Bond Insurer.

Section 6.07 **Conflict of Interest.** Section 38-511 of the Arizona Revised Statutes, provides that the State, its political subdivisions, including the County, or any department or agency of either may, within three (3) years after its execution, cancel any contract, without penalty or further obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any of the departments or agencies of either is, while the contract or any extension thereof is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. Each of the parties hereto represents, with respect to itself, as of the date hereof and to the best of its knowledge, no circumstances or conditions exist that would provide a basis for cancellation of this Agreement pursuant to Section 38-511 of the Arizona Revised Statutes.

[Remainder of page left blank intentionally]

Section 6.08 **Severability.** In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

PIMA COUNTY, ARIZONA

By: Sharon Bronson
Chair, Board of Supervisors

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as Paying Agent

By:
Its: Vice President

FINANCIAL SECURITY ASSURANCE INC.

By:
Its: Authorized Officer

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Pima County, Arizona

BONDS: $25,770,000 in aggregate principal amount of Sewer Revenue Refunding Bonds, Series 2004 dated May 1, 2004

Policy No.: 202892-N

Effective Date: May 11, 2004

Premium: $81,768.60

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

NOTICE OF CLAIM AND CERTIFICATE

Financial Security Assurance Inc.
350 Park Avenue
New York, NY 10022

The undersigned, a duly authorized officer of [FULL NAME OF TRUSTEE or PAYING AGENT] (the "Trustee/Paying Agent"), hereby certifies to Financial Security Assurance Inc. ("Financial Security"), with reference to Municipal Bond Insurance Policy No. 202892-N dated May 11, 2004 (the "Policy") issued by Financial Security in respect of the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004 dated May 1, 2004 (the "Bonds"), that:

(i) The Trustee/Paying Agent is the Trustee/Paying Agent under the document authorizing the issuance of the Bonds (the "Resolution") for the Holders.

(ii) The sum of all amounts on deposit (or scheduled to be on deposit) in the [RELEVANT ACCOUNTS] and available for distribution to the Holders pursuant to the Resolution will be $ _ (the "Shortfall") less than the aggregate amount of principal and interest Due for Payment on ("Scheduled Payments").

(iii) The Trustee/Paying Agent is making a claim under the Policy for the Shortfall to be applied to the payment of Scheduled Payments.

(iv) The Trustee/Paying Agent agrees that, following receipt of funds from Financial Security, it shall (a) hold such amounts in trust and apply the same directly to the payment of Scheduled Payments on the Bonds when due; (b) not apply such funds for any other purpose; (c) not commingle such funds with other funds held by the Trustee/Paying Agent and (d) maintain an accurate record of such payments with respect to each Bond and the corresponding claim on the Policy and proceeds thereof, and, if the Bond is required to be [SURRENDERED/PRESENTED] for such payment, shall stamp on each such Bond the legend $"[insert applicable amount] paid by Financial Security and the balance hereof has been canceled and reissued" and then shall deliver such Bond to Financial Security.

(v) The Trustee/Paying Agent, on behalf of the Holders, hereby assigns to Financial Security the rights of the Holders with respect to the Bonds to the extent of any payments under the Policy, including, without limitation, any amounts due to the Holders in respect of securities law violations arising from the offer and sale of the Bonds. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to Financial Security in respect of such payments. Payments to Financial Security in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holders to receive all Scheduled Payments in respect of the Bonds. The Trustee/Paying Agent shall take such action and deliver such instruments as may be reasonably requested or required by Financial Security to effectuate the purpose or provisions of this clause (v).

(vi) The Trustee/Paying Agent, on its behalf and on behalf of the Holders, hereby appoints Financial Security as agent and attorney-in-fact for the Trustee/Paying Agent and each such Holder in any legal proceeding with respect to the Bonds. The Trustee/Paying Agent hereby agrees that, so long as Financial Security shall not be in default in its payment obligations under the Policy, Financial Security may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy,

insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Bonds (a "Preference Claim"), (B) the direction of any appeal of any order relating to any Preference Claim at the expense of Financial Security but subject to reimbursement as provided in the Resolution and (C) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, the Trustee/Paying Agent hereby agrees that Financial Security shall be subrogated to, and the Trustee/Paying Agent on its behalf and on behalf of each Holder, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Trustee/Paying Agent and each Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(vii) Payment should be made by wire transfer directed to [SPECIFY INSURANCE ACCOUNT].

Unless the context otherwise requires, capitalized terms used in this Notice of Claim and Certificate and not defined herein shall have the meanings provided in the Policy.

IN WITNESS WHEREOF, the Trustee/Paying Agent has executed and delivered this Notice of Claim and Certificate as of the _____ day of _____, _____.

By_____

Title_____

For Financial Security or
Fiscal Agent Use Only
Wire transfer sent on _____ By _____
Confirmation Number _____

PROCEDURES FOR PREMIUM PAYMENT TO
FINANCIAL SECURITY ASSURANCE INC.

Financial Security's issuance of its municipal bond insurance policy at bond closing is contingent upon payment and receipt of the premium. NO POLICY MAY BE RELEASED UNTIL PAYMENT OF SUCH AMOUNT HAS BEEN CONFIRMED. Set forth below are the procedures to be followed for confirming the amount of the premium to be paid and for paying such amount:

Confirmation of Amount to be Paid:	**Upon determination of the final debt service schedule, fax such schedule to Financial Security** Attention: Scott Lord, Vice President Phone No. (415) 995-8020 Fax No. (415) 995-8095

Confirm with the individual in our underwriting department that you are in agreement with respect to par and premium on the transaction prior to the closing date.

Payment Date:	Date of Delivery of the insured bonds.
Method of Payment:	Wire transfer of Federal Funds.

Wire Transfer Instructions:

Bank:	The Bank of New York
ABA#:	021 000 018
Acct. Name:	Financial Security Assurance Inc.
Account No.:	8900297263
Policy No.:	202892-N

CONFIRMATION OF PREMIUM WIRE NUMBER AT CLOSING

Financial Security will accept as confirmation of the premium payment a wire transfer number and the name of the sending bank, to be communicated on the closing date to Priscilla H. Lowe, Assistant Vice President, (415) 995-8013.

Blanket Issuer Letter of Representations

[To be Completed by Issuer]

PIMA COUNTY, ARIZONA
[Name of Issuer]

JUNE 11, 1998
[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street; 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

PIMA COUNTY, ARIZONA
(Issuer)

By: C. Buckelberry
(Authorized Officer's Signature)

C. H. BUCKELBERRY, COUNTY ADMINISTRATOR
(Typewrite Name & Title)

130 W. Congress, 10th floor
(Street Address)

Tucson, AZ 85701
(City) (State) (Zip)

(520) 740-8661
(Phone Number)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: Toby Bondor

SCHEDULE A

SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $200 million, one certificate will be issued with respect to each $200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

[6. Redemption notices shall be sent to Cede & Co. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

The Arbitrage Group, Inc.

$25,770,000
Pima County, Arizona
Sewer Revenue Refunding Bonds
Series 2004

The Arbitrage Group, Inc.

3212 Smith Street
Suite 201
Houston, Texas 77006

Telephone 713 522 8527
Facsimile 713 522 8471

www.thearbitragegroup.com

May 11, 2004

Pima County, Arizona
Tucson, Arizona

Snell & Wilmer L.L.P.
Tucson, Arizona

RBC Dain Rauscher Inc.
Phoenix, Arizona

JPMorgan Trust Company
Tempe, Arizona

Financial Security Assurance Inc.
New York, New York

$25,770,000
Pima County, Arizona
Sewer Revenue Refunding Bonds
Series 2004

Pima County, Arizona (the "County") proposes to issue the above referenced bonds (the "Bonds") which are dated May 1, 2004 and will be issued on May 11, 2004. The Bonds consist of $25,770,000 Serial Bonds.

A portion of the proceeds of the Bonds will be used to purchase United States Treasury Securities -- State and Local Government Series (the "Acquired Obligations") which will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund that portion of the County's Sewer Revenue Refunding Bonds Series 1994A (the "Refunded Bonds") described below:

Series	Original Amount Issued	Dated Date	Amount to be Refunded	Maturities and Sinking Fund Dates to be Refunded	Maturities and Sinking Fund Dates to be Optionally Redeemed	Optional Redemption Date and Price
1994A	$28,670,000	01-01-1994	$25,520,000	07-01-2004 - 07-01-2015, Inclusive	07-01-2005 - 07-01-2015, Inclusive	07-01-2004 @ 102%

At your request, we have independently verified the arithmetical accuracy of the computations provided to us by RBC Dain Rauscher Inc. which indicate: (1) the sufficiency of the receipts from the Acquired Obligations together with an initial cash deposit to pay to and at early redemption the principal, interest, and early redemption premium on the Refunded Bonds; and, (2) the "yields" to be considered by bond counsel in its determination that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended. The term "yield," as used herein, means that discount rate which, when used in computing the present value of all payments of principal and interest on an obligation compounded semiannually using a 30/360-day year basis, produces an amount equal to in the case of the Bonds, the Issue Price to the Public less the cost of bond insurance. For purposes of calculating the yield on the Bonds, certain Bonds maturing July 1, 2015 are treated as redeemed on the early redemption date of July 1, 2014 at an early redemption price of 100.0%, which produces the lowest yield on the Bonds.

The original computations, along with certain assumptions and information, were furnished to us by RBC Dain Rauscher Inc. on behalf of the County. We have relied solely on the assumptions and information provided to us and have not made any study or evaluation of them, except as noted below. We express no opinion on the reasonableness of the assumptions, or the likelihood that the debt service requirements of the Refunded Bonds will be paid as described in the accompanying Exhibits.

In the course of our engagement, we were furnished by RBC Dain Rauscher Inc. with excerpts from the Official Statement for the Refunded Bonds, the Official Statement for the Bonds and copies of the initial and final subscription forms for the purchase of the Acquired Obligations. We understand that the initial subscription form was filed on May 4, 2004. We compared the information contained in the schedules provided by RBC Dain Rauscher Inc. with certain information set forth in such documents with respect to prices, principal payment dates and amounts, interest payment dates and rates, yields, and redemption dates and prices. We found that the information contained in such schedules provided to us by RBC Dain Rauscher Inc. was in agreement with the above-mentioned information set forth in such documents. In addition, we have verified that, based upon the table of interest rates payable on United States Treasury Securities -- State and Local Government Series for use on May 4, 2004, the interest rates payable on the Acquired Obligations are at or below the maximum allowable interest rate for each maturity date.

In our opinion, based on the assumptions and information provided by RBC Dain Rauscher Inc. on behalf of the County, the computations in the schedules provided to us are arithmetically accurate. The computations in the accompanying Exhibits prepared by us and the comparable schedules provided to us indicate that:

(1) the receipts from the Acquired Obligations together with an initial cash deposit of $0.78 will be sufficient to pay to and at early redemption the principal, interest, and early redemption premium on the Refunded Bonds; and,

(2) the yield of the Bonds, assuming certain Bonds maturing July 1, 2015 are treated as redeemed on the early redemption date of July 1, 2014 at an early redemption price of 100.0%, is 3.806199%.

The terms of our engagement are such that we have no obligation to update this report or to verify any revised computation because of events and transactions occurring subsequent to the date of this report. This report is issued solely for your information and assistance in connection with the issuance of the Bonds. This report is not to be quoted or referred to without our prior written consent.

Very truly yours,

The Arbitrage Group, Inc.

Exhibits

A. Sources and Uses of Funds
B. Escrow Cash Flow
C-1. Debt Service Requirements of the Refunded Bonds to Maturity
C-2. Debt Service Requirements of the Refunded Bonds to Early Redemption
D. Receipts from Acquired Obligations and Proof of Yield
E. Debt Service Requirements of the Bonds to Maturity
F. Debt Service Requirements and Proof of Yield on the Bonds Assuming Certain Early Redemptions
G. Computation of Net Original Issue Premium

Sources and Uses of Funds

Pima County, Arizona

SOURCES

Principal Amount of the Bonds	$25,770,000.00
Accrued Interest	30,092.88
Net Original Issue Premium	1,257,568.70
	$27,057,661.58

USES

Purchase Price of Acquired Obligations	$26,603,324.00
Initial Cash Deposit	0.78
Costs of Issuance	84,750.00
Underwriter's Discount	257,700.00
Accrued Interest	30,092.88
Bond Insurance	81,768.60
Contingency	25.32
	$27,057,661.58

Escrow Cash Flow

Pima County, Arizona

Date	Beginning Cash Balance	Receipts from Acquired Obligations	Debt Service Requirements of the Refunded Bonds to Early Redemption	Ending Cash Balance
07/01/04	$0.78	$26,632,317.98	$26,632,318.75	$0.01

Debt Service Requirements of the Refunded Bonds to Maturity

Pima County, Arizona

Date	Principal	Coupon Rate	Early Redemption Premium	Interest	Debt Service Requirements of the Refunded Bonds to Maturity
07/01/04	$1,255,000.00	4.500%		$627,018.75	$1,882,018.75
01/01/05				598,781.25	598,781.25
07/01/05	1,315,000.00	4.600%	2.000%	598,781.25	1,913,781.25
01/01/06				568,536.25	568,536.25
07/01/06	1,375,000.00	4.750%	2.000%	568,536.25	1,943,536.25
01/01/07				535,880.00	535,880.00
07/01/07	2,290,000.00	4.800%	2.000%	535,880.00	2,825,880.00
01/01/08				480,920.00	480,920.00
07/01/08	2,410,000.00	4.900%	2.000%	480,920.00	2,890,920.00
01/01/09				421,875.00	421,875.00
07/01/09	2,525,000.00	5.000%	2.000%	421,875.00	2,946,875.00
01/01/10				358,750.00	358,750.00
07/01/10	1,620,000.00	5.000%	2.000%	358,750.00	1,978,750.00
01/01/11				318,250.00	318,250.00
07/01/11	1,700,000.00	5.000%	2.000%	318,250.00	2,018,250.00
01/01/12				275,750.00	275,750.00
07/01/12	2,115,000.00	5.000%	2.000%	275,750.00	2,390,750.00
01/01/13				222,875.00	222,875.00
07/01/13	2,505,000.00	5.000%	2.000%	222,875.00	2,727,875.00
01/01/14				160,250.00	160,250.00
07/01/14	2,935,000.00	5.000%	2.000%	160,250.00	3,095,250.00
01/01/15				86,875.00	86,875.00
07/01/15	3,475,000.00	5.000%	2.000%	86,875.00	3,561,875.00
	$25,520,000.00			$8,684,503.75	$34,204,503.75

Debt Service Requirements of the Refunded Bonds to Early Redemption

Pima County, Arizona

Date	Principal	Coupon Rate	Early Redemption Premium	Interest	Debt Service Requirements of the Refunded Bonds to Early Redemption
07/01/04	$25,520,000.00	*	$485,300.00	$627,018.75	$26,632,318.75

* Coupon rates are as shown in the Debt Service Requirements of the Refunded Bonds to Maturity.

Receipts from Acquired Obligations and Proof of Yield

Pima County, Arizona

Date	Principal	Coupon Rate	Interest	Receipts from Acquired Obligations	Present Value of Future Receipts at 05/11/04 Using a Rate of 0.785814%
07/01/04	$26,603,324.00	0.780%	$28,993.98	$26,632,317.98	$26,603,324.00

Debt Service Requirements of the Bonds to Maturity

Pima County, Arizona

Date	$25,770,000 Serial Bonds Principal	Coupon Rate	Interest	Debt Service Requirements of the Bonds to Maturity
07/01/04			$180,557.29	$180,557.29
01/01/05			541,671.88	541,671.88
07/01/05	$1,425,000.00	2.000%	541,671.88	1,966,671.88
01/01/06			527,421.88	527,421.88
07/01/06	1,455,000.00	2.250%	527,421.88	1,982,421.88
01/01/07			511,053.13	511,053.13
07/01/07	2,335,000.00	2.625%	511,053.13	2,846,053.13
01/01/08			480,406.25	480,406.25
07/01/08	2,410,000.00	3.250%	480,406.25	2,890,406.25
01/01/09			441,243.75	441,243.75
07/01/09	2,485,000.00	5.000%	441,243.75	2,926,243.75
01/01/10			379,118.75	379,118.75
07/01/10	1,575,000.00	3.500%	379,118.75	1,954,118.75
01/01/11			351,556.25	351,556.25
07/01/11	1,630,000.00	5.375%	351,556.25	1,981,556.25
01/01/12			307,750.00	307,750.00
07/01/12	2,050,000.00	5.500%	307,750.00	2,357,750.00
01/01/13			251,375.00	251,375.00
07/01/13	2,975,000.00	5.000%	251,375.00	3,226,375.00
01/01/14			177,000.00	177,000.00
07/01/14	3,430,000.00	5.000%	177,000.00	3,607,000.00
01/01/15			91,250.00	91,250.00
07/01/15	4,000,000.00	*	91,250.00	4,091,250.00
	$25,770,000.00		$8,300,251.07	$34,070,251.07

* Rates are as shown in Exhibit G.

Debt Service Requirements and Proof of Yield on the Bonds Assuming Certain Early Redemptions

Pima County, Arizona

Date	$25,770,000 Serial Bonds Principal	Coupon Rate	Interest	Debt Service Requirements of the Bonds to Early Redemption	Present Value of Future Payments at 05/11/04 Using a Rate of 3.806199%
07/01/04			$180,557.30	$180,557.30	$179,614.24
01/01/05			541,671.88	541,671.88	528,779.51
07/01/05	$1,425,000.00	2.000%	541,671.88	1,966,671.88	1,884,008.44
01/01/06			527,421.88	527,421.88	495,817.31
07/01/06	1,455,000.00	2.250%	527,421.88	1,982,421.88	1,828,825.34
01/01/07			511,053.13	511,053.13	462,652.39
07/01/07	2,335,000.00	2.625%	511,053.13	2,846,053.13	2,528,391.74
01/01/08			480,406.25	480,406.25	418,815.37
07/01/08	2,410,000.00	3.250%	480,406.25	2,890,406.25	2,472,779.89
01/01/09			441,243.75	441,243.75	370,439.89
07/01/09	2,485,000.00	5.000%	441,243.75	2,926,243.75	2,410,806.11
01/01/10			379,118.75	379,118.75	306,506.48
07/01/10	1,575,000.00	3.500%	379,118.75	1,954,118.75	1,550,343.56
01/01/11			351,556.25	351,556.25	273,706.07
07/01/11	1,630,000.00	5.375%	351,556.25	1,981,556.25	1,513,939.83
01/01/12			307,750.00	307,750.00	230,734.68
07/01/12	2,050,000.00	5.500%	307,750.00	2,357,750.00	1,734,703.18
01/01/13			251,375.00	251,375.00	181,493.93
07/01/13	2,975,000.00	5.000%	251,375.00	3,226,375.00	2,285,953.95
01/01/14			177,000.00	177,000.00	123,066.12
07/01/14	5,430,000.00 *	5.000%	177,000.00	5,607,000.00	3,825,677.90
01/01/15			41,250.00	41,250.00	27,619.41
07/01/15	2,000,000.00	4.125%	41,250.00	2,041,250.00	1,341,217.64
	$25,770,000.00		$8,200,251.08	$33,970,251.08	$26,975,892.98

Principal Amount of the Bonds	$25,770,000.00
Accrued Interest	30,092.88
Bond Insurance	(81,768.60)
Net Original Issue Premium	1,257,568.70
	$26,975,892.98

* Includes $2,000,000 principal scheduled to mature on July 1, 2015. It is called on July 1, 2014 at par for arbitrage yield purposes.

Computation of Net Original Issue Premium

Pima County, Arizona

Date	Principal	Coupon Rate	Yield	Price	Purchase Price	Accrued Interest	Original Issue Premium/(Discount)
07/01/05	$1,425,000.00	2.000%	1.480%	100.584%	$1,433,322.00	$791.67	$8,322.00
07/01/06	1,455,000.00	2.250%	1.940%	100.645%	1,464,384.75	909.38	9,384.75
07/01/07	2,335,000.00	2.625%	2.420%	100.614%	2,349,336.90	1,702.60	14,336.90
07/01/08	2,410,000.00	3.250%	2.810%	101.705%	2,451,090.50	2,175.69	41,090.50
07/01/09	2,485,000.00	5.000%	3.150%	108.710%	2,701,443.50	3,451.39	216,443.50
07/01/10	1,575,000.00	3.500%	3.420%	100.436%	1,581,867.00	1,531.25	6,867.00
07/01/11	1,630,000.00	5.375%	3.650%	110.750%	1,805,225.00	2,433.68	175,225.00
07/01/12	2,050,000.00	5.500%	3.870%	111.282%	2,281,281.00	3,131.94	231,281.00
07/01/13	2,975,000.00	5.000%	4.030%	107.349%	3,193,632.75	4,131.94	218,632.75
07/01/14	3,430,000.00	5.000%	4.150%	106.971%	3,669,105.30	4,763.89	239,105.30
07/01/15	2,000,000.00	4.125%	4.260%	98.808%	1,976,160.00	2,291.67	(23,840.00)
07/01/15	2,000,000.00	5.000%	4.260%	106.036%	2,120,720.00	2,777.78	120,720.00
	$25,770,000.00				$27,027,568.70	$30,092.88	$1,257,568.70

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

GENERAL CERTIFICATE OF THE COUNTY

The undersigned, Chair (the "Chair") and Clerk (the "Clerk") of the Board of Supervisors of Pima County, Arizona (the "County"), acting for and on behalf of the County, do hereby certify as follows with respect to the $25,770,000 aggregate principal amount of Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), issued by the County pursuant to Resolution No. 1991-138 adopted by the Board of Supervisors of the County on June 18, 1991, as amended by Resolution No. 1991-183 adopted by the Board of Supervisors of the County on August 6, 1991 (collectively, the "Master Resolution"), as supplemented by Resolution No. 2004-58, passed, adopted and approved by the Board of Supervisors of the County on March 9, 2004 (the "Supplemental Resolution" and, together with the Master Resolution, the "Bond Resolution"), authorizing and providing for the issuance and sale of the Bonds:

1. They are the duly elected or appointed, qualified and acting Chair and Clerk, respectively, of the Board of Supervisors of the County and, as such, are familiar with the matters set forth below and the books, records and proceedings of the County.

2. A regular meeting of the Board of Supervisors of the County was duly called, noticed and held on March 9, 2004, in accordance with the laws of the State of Arizona. Copies of the notice and agenda for such meeting are attached hereto as Exhibit A. The Supplemental Resolution, as executed by the Chair and attested by the Clerk, is in the same form and text as the copy of such Resolution that was before and adopted by the Board of Supervisors of the County at the meeting of March 9, 2004.

3. The persons named below were on March 9, 2004, and are on the date hereof, the duly elected, qualified and acting members and incumbents of the office of the County set opposite their respective names:

Name	Office
Sharon Bronson	Chair and Supervisor
Ann Day	Supervisor
Ramón Valadez	Supervisor
Ray Carroll	Supervisor
Richard Elías	Supervisor

To the best of our knowledge, there is no litigation pending or threatened affecting or questioning in any manner whatsoever the rights of the Chair or the Supervisors of the County to their respective offices or affecting the organization, existence or powers of the County.

4. The County is a political subdivision duly organized and validly existing under the Constitution and laws of the State of Arizona and had, and has, full legal right, power and authority to adopt, execute and deliver, as appropriate, the Supplemental Resolution, the Bonds, the Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between the County and J.P. Morgan Trust Company, National Association (the "Depository Trustee"), the Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of May 1, 2004 (the "Bond Registrar and Paying Agent Agreement"), between the County and J.P. Morgan Trust Company, National Association (the "Registrar"), the Continuing Disclosure Undertaking, dated May 11, 2004 (the "Continuing Disclosure Undertaking"), entered into by the County, and all the other documents, instruments and certificates contemplated therein (all of the foregoing are hereinafter collectively referred to as the "County Documents") and to authorize and issue the Bonds and to carry out the transactions contemplated by the County Documents; and the County Documents have been duly authorized, executed and delivered by the County and are the legal, valid and binding special obligations of the County enforceable against the County in accordance with their respective terms and, in the case of the Resolution, have not been amended, modified or repealed in any respect subsequent to their execution and are in full force and effect on the date hereof.

5. The execution and delivery of the County Documents and compliance with the provisions thereof will not conflict with or constitute a breach of or default under any law, governmental rule or regulation, judgment, order, writ, injunction, consent decree, agreement, ordinance, resolution, or other instrument to which the County is a party or to which it or any of its property is subject, and does not require any consent or approval by any governmental authority, agency or body not already obtained.

6. The Chair and the Clerk hereby authorize, ratify and adopt the facsimile signatures of the Chair and the Clerk executing and attesting, respectively, the Bonds in the aggregate principal amount of $25,770,000 issued under the Supplemental Resolution in the form of fully-registered bonds without coupons, in the denomination of $5,000, or integral multiples thereof and bearing interest from the date of the Bonds to the maturity or earlier redemption of each of the Bonds, as follows:

Maturity Date (July 1)	Principal Amount	Interest Rate
2005	$1,425,000	2.000%
2006	1,455,000	2.250%
2007	2,335,000	2.625%
2008	2,410,000	3.250%
2009	2,485,000	5.000%
2010	1,575,000	3.500%
2011	1,630,000	5.375%
2012	2,050,000	5.500%
2013	2,975,000	5.000%
2014	3,430,000	5.000%
2015	2,000,000	4.125%
2015	2,000,000	5.000%

7. All representations and warranties of the County contained in the County Documents are true, correct and complete in all material respects as of the date hereof and the County has satisfied and performed all of the conditions and agreements required in the County Documents to be satisfied or performed by the County at or prior to this date in connection with the issuance, sale and delivery of the Bonds in the manner and with the effect contemplated in the County Documents and, as of the date hereof, to the best knowledge of the County, no default or event of default has occurred, nor has any event occurred which, with the giving of notice or the passage of time, or both, will constitute a default or an event of default with respect to the County Documents.

8. Except as described in the Official Statement, dated May 4, 2004 (the "Official Statement"), prepared in connection with the sale of the Bonds, there is no action, suit, proceeding, inquiry, or investigation at law or in equity, or before or by any public board or body, pending or, to the knowledge of the undersigned, threatened against the County, which questions its right to set rates and collect Revenues with respect to its sewer system or pledge the Net Revenues as security for payment of the principal of and interest on the Bonds, or questions its right to issue securities, including the Bonds, or to restrain or enjoin the issuance, offer and sale of the Bonds, or in any way affecting or questioning any authority for or the validity of the County Documents, the Bonds or the proceedings for the issuance thereof or the County's right to use the proceeds of the Bonds in the manner contemplated in the Supplemental Resolution, which, if determined adversely to the County or its interests, individually or in the aggregate, would have (a) a material adverse effect upon the financial condition, assets, properties or operations of the County, or (b) a material adverse effect on the transactions contemplated by the Official Statement, dated May 4, 2004 (the "Official Statement"), prepared and distributed in connection with the offer and sale of the Bonds, or (c) an adverse effect on the validity or enforceability of the County Documents, (d) a material adverse effect on the Net Revenues pledged for the payment of the principal of and interest on the Bonds, or (e) impair the County's ability to comply with the requirements set forth in the Supplemental Resolution.

9. The County is not in default with respect to any order or decree of any court or any order, regulation or demand of any Federal, state, municipal or governmental agency, which default would materially and adversely affect the existence or operation of the County or its properties or the execution, delivery, receipt and the performance of the County Documents or the other agreements contemplated thereby.

10. J.P. Morgan Trust Company, National Association, as Registrar, pursuant to the Supplemental Resolution and the Bond Registrar and Paying Agent Agreement, is hereby authorized and directed to authenticate the fully-registered Bonds and to receipt for and deliver said Bonds to RBC Dain Rauscher Inc. (the "Underwriter"), pursuant to The Depository Trust Company's F.A.S.T. closing procedures, after authentication and upon appropriate evidence of payment by the Underwriter therefor of $26,718,192.98, representing (a) $25,770,000.00 principal amount thereof, plus (b) accrued interest of $30,092.88 plus (c) net premium of $1,257,568.70, less (d) an underwriter's discount of $257,700.00 retained by the Underwriter, and less (e) $81,768.60 premium paid to Financial Security Assurance Inc. for the issuance of its municipal bond insurance policy, insuring payment of the Bonds, which was paid by the Underwriter on behalf of the County. The Treasurer of the County and the Depository Trustee will deposit and apply the proceeds of the sale of the Bonds received as provided in Section 7 of the Supplemental Resolution and Section 2 of the Depository Trust Agreement.

11. To the best knowledge, information and belief of the undersigned, (a) the description and statements contained in the Official Statement distributed, and all representations made, by the County and its supervisors, officers and employees in any manner whatsoever in connection with the offer and sale of the Bonds, were, on May 4, 2004, the date of the County's Bond Purchase Agreement with the Underwriter, and are on the date hereof, true, correct and complete in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact which should be included therein for the purposes for which the Official Statement are to be used or which is necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, (b) since the date of the Official Statement, there has been no material adverse change in the powers, properties, results of operations or financial position of the County, other than as set forth in or contemplated by the Official Statement, and (c) since the date of the Official Statement, the County has not entered into any transaction or incurred any liability which will materially adversely affect the ability of the County to carry out and perform its obligations pursuant to the Supplemental Resolution.

12. Except as described in the Official Statement, the County is currently in compliance with its reporting requirements pursuant to all prior Continuing Disclosure Undertakings.

13. To the best of our knowledge, no public officer, supervisor or employee of the County has been compensated or will be compensated for acting as such in connection with the issuance, sale and delivery of the Bonds, except that they may be reimbursed for their actual expenses incurred in the performance of their duties as such officers, supervisors or employees of the County and no officer, supervisor or employee of the County, or relative of such officer, supervisor or employee, has any "substantial interest" (as defined in Section 38-502 of the Arizona Revised Statutes) in any of the transactions contemplated by the County Documents.

14. All of the bonds identified in the Supplemental Resolution as the "Bonds to be Refunded" are outstanding and unpaid on the date hereof and their payment has not been provided for other than through the issuance of the Bonds.

15. The Bonds are payable solely from a pledge of, and are secured by a first lien on, and are on a parity with the County's Sewer Revenue Bonds, Series of 1993, Sewer Revenue Bonds, Series 1994B, Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and certain loan agreements between the Water Infrastructure Finance Authority of Arizona and the County, as borrower, entered into in February 1996, June 1997, October 2000, December 2001, and May 11, 2004 with respect to Net Revenues, and, other than as described in the Bond Resolution, the Net Revenues have not been pledged or hypothecated in any manner or for any purpose, and, except for the above-described parity obligations, there are no bonds, judgments, notes, certificates or indebtedness of any kind or character whatsoever outstanding payable from Net Revenues.

16. Any defined term identified herein by an initial capital letter but not otherwise defined herein shall have the meaning ascribed to it in the Resolution.

Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: Sharon Bronson
Chair, Board of Supervisors

By: Lori Godshian
Clerk, Board of Supervisors

298692

EXHIBIT A

NOTES/ACTION

AGENDA, BOARD OF SUPERVISORS' MEETING

BOARD OF SUPERVISORS HEARING ROOM

130 W. CONGRESS, 1ST FLOOR

MARCH 9, 2004 9:00 A.M.

1. **ROLL CALL**

2. **INVOCATION**

3. **PLEDGE OF ALLEGIANCE**

4. **PAUSE 4 PAWS**

... **EXECUTIVE SESSIONS**

NEW BUSINESS

17. COUNTY ADMINISTRATOR

C. Sewer Revenue Refunding Bonds

RESOLUTION NO. 2004 - 58, providing for the issuance and sale of Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004; providing for the payment of the Bonds; providing terms, covenants and conditions concerning the bonds; confirming the sale of the bonds to the purchaser thereof; authorizing and directing the execution and delivery of documents and the redemption of certain outstanding bonds; appointing an initial bond registrar and paying agent and a depository trustee for the bonds; and declaring an emergency.

18. CALL TO THE PUBLIC

19. ADJOURNMENT

EXHIBIT A

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

CERTIFICATE OF THE COUNTY RESPONSIVE TO BOND PURCHASE AGREEMENT

Responsive to the Bond Purchase Agreement dated May 4, 2004 (the "Bond Purchase Agreement") between Pima County, Arizona (the "Issuer") and RBC Dain Rauscher Inc. (the "Underwriter"), I, the undersigned, do hereby certify as follows:

(i) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date;

(ii) except as described in the Official Statement, no litigation or proceeding against the Issuer is pending or, to my knowledge, threatened in any court or administrative body nor is there a basis for litigation which would (a) contest the right of the members or officials of the Issuer to hold and exercise their respective positions, (b) contest the due organization and valid existence of the Issuer, (c) contest the validity, due authorization and execution of the Bonds or the Issuer Documents or (d) attempt to limit, enjoin or otherwise restrict or prevent the Issuer from functioning and collecting Net Revenues, including payments on the Bonds, pursuant to the Bond Resolution, and other income or the anticipated receipt of the Net Revenues;

(iii) the resolutions of the Issuer authorizing the execution, delivery and/or performance of the Official Statement, the Bonds and Issuer Documents have been duly adopted by the Issuer, are in full force and effect and have not been modified, amended or repealed;

(iv) the financial statements of the Issuer included in the Official Statement were true, correct and complete as of June 30, 2003, and are true, correct and complete as of the date hereof, and any other financial statements and statistical data included in the Official Statement, including with respect to the System, are true and correct as of the date hereof;

(v) subsequent to June 30, 2003, the Issuer has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Issuer that are not described in the Official Statement, whether or not arising from transactions in the ordinary course of business; and

(vi) to the best of my knowledge, no event affecting the Issuer has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in light of the circumstances under which made, not

misleading in any respect as of the Closing, and the information contained in the Official Statement is correct in all material respects and, as of the date of the Official Statement did not, and as of the Closing does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading in any material respect.

All capitalized terms used herein shall have the meanings assigned to such terms in the Bond Purchase Agreement.

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Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: Carol Bonchalk
Carol Bonchalk
Director of Finance

298716

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

TAX CERTIFICATE AND AGREEMENT

THIS TAX CERTIFICATE AND AGREEMENT (the *"Tax Certificate and Agreement"*) is executed as of May 11, 2004, by Pima County, Arizona (the *"County"*), in connection with the execution and delivery on the date hereof of the County's $25,770,000 aggregate principal amount Sewer Revenue Refunding Bonds, Series 2004 (the *"2004 Bonds"*).

The undersigned is an officer of the County who is charged, with others, with responsibility for executing and delivering the 2004 Bonds. The undersigned is an authorized representative of the County and is acting for and on behalf of the County in executing this Tax Certificate and Agreement.

This Tax Certificate and Agreement sets forth various facts regarding the 2004 Bonds and establishes the reasonable expectations of the County as to future events regarding the 2004 Bonds and the use of the sale proceeds and the investment proceeds of the 2004 Bonds. The certifications and representations made herein are intended, and may be relied upon, as a certification described in Section 1.148-2(b)(2) of the Income Tax Regulations.

This Tax Certificate and Agreement also sets forth certain terms and conditions relating to the restrictions on the use and investment of the sale proceeds and the investment proceeds of the 2004 Bonds in order that the interest on the 2004 Bonds will be excluded from gross income for federal income tax purposes.

NOW, THEREFORE, the County hereby certifies, covenants, represents and agrees as follows:

ARTICLE I
GENERAL

Section 1.1 **Authorization**. The 2004 Bonds are being issued under authority of Resolution No. 2004-58, adopted by the Board of Supervisors of the County (the *"Board"*) on March 9, 2004, supplementing Resolution No. 1991-138 adopted by the Board on June 18, 1991, as amended by the Board on August 6, 1991 (collectively, the *"Resolution"*) for the purpose of refunding and redeeming on July 1, 2004, the Bonds to be Refunded, as described in the Depository Trust Agreement, dated as of May 1, 2004 (the *"Depository Trust Agreement"*) between the County and J.P. Morgan Trust Company, National Association, as depository trustee thereunder, and to pay costs of issuance of the 2004 Bonds.

Section 1.2 **Definitions.** Capitalized terms used herein, which are not otherwise defined herein, shall have the respective meanings set forth in the Resolution or, if not defined in

the Resolution, in Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code") and the Income Tax Regulations promulgated pursuant thereto, including those Income Tax Regulations promulgated under Section 103(c) of the Internal Revenue Code of 1954 that are applicable under the Code (collectively, the *"Regulations"*).

Section 1.3 Purpose of the 2004 Bonds and the Bonds to be Refunded.

(a) The 2004 Bonds are being issued for the following purposes:

(i) To refund and redeem on July 1, 2004 all of the $25,520,000 outstanding principal amount of Sewer Revenue Refunding Bonds, Series 1994A of the County (the *"Bonds to be Refunded"*); and

(ii) To pay costs related to the issuance of the 2004 Bonds, including the premium for the municipal bond insurance policy (the *"Policy"*) to be issued by Financial Security Assurance Inc.(the *"Insurer"*), which will insure payment of the principal of and interest on the 2004 Bonds.

(b) The Bonds to be Refunded were issued by the County for the purpose of refunding previously issued bonds, which were issued for the purpose of making various improvements to the sewer system of the County.

Section 1.4 Basis for Certificate and Reliance on Other Parties. This Tax Certificate and Agreement is based on facts, estimates, and circumstances in existence on the date hereof, which is the Closing Date of the 2004 Bonds, and to the best knowledge, information and belief of the undersigned, the expectations set forth in this Tax Certificate and Agreement are reasonable. The expectations of the County concerning certain uses of the proceeds of the 2004 Bonds and other matters set forth in this Tax Certificate and Agreement are based in whole or in part on representations and certifications of other parties set forth in this Tax Certificate and Agreement and accompanying closing certificates (including specifically that certain Verification Report, dated the date hereof, prepared by The Arbitrage Group, Inc. (the *"Verification Report"*). The County is not aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of any representation or certification made in this Tax Certificate and Agreement and accompanying certificates or the Verification Report.

Section 1.5 Pre-Issuance Accrued Interest. The County will receive amounts representing "pre-issuance accrued interest" (as defined in Regulations §1.148-1(b)), which will be applied to the payment of a portion of the interest coming due on the 2004 Bonds on July 1, 2004. Pursuant to the definition of "sale proceeds" in Regulations §1.148-1(b), pre-issuance accrued interest is excluded from sale proceeds and, consequently, does not constitute proceeds of the 2004 Bonds. No portion of the pre-issuance accrued interest will give rise to "investment proceeds" (as defined in Regulations §1.148-1(b)). The amount representing such pre-issuance accrued interest will be deposited by the County in the Revenue Fund established with respect to the 2004 Bonds, and, together with any investment earnings thereon, will be applied and, in accordance with Regulations §1.148-6, allocated to the payment of the interest coming due on the 2004 Bonds on July 1, 2004.

Section 1.6 **Private Activity Bond Representations**. For purposes of establishing that the 2004 Bonds are not private activity bonds, the proceeds of the 2004 Bonds used for refunding purposes are treated in the same manner as the proceeds of the Bonds to be Refunded. On that basis, the County makes the following certifications and representations:

(1) Not more than ten percent (10%) of the payment of principal of or interest on the Bonds to be Refunded and the 2004 Bonds were or will be, directly or indirectly, (i) secured by any interest in (A) property used or to be used for a private business use by any person other than a state or local governmental unit, or (B) payments in respect of such property, or (ii) derived from payments (whether or not to the County), in respect of property, or borrowed money, used or to be used for a private business use by any person other than a state or local governmental unit.

(2) Not more than 5% of the proceeds of the Bonds to be Refunded and the 2004 Bonds were or will be used, directly or indirectly, to make or finance loans to persons other than a state or local governmental unit.

The County has covenanted in the Resolution that it will take or cause to be taken all actions that may be required of it for the interest on the 2004 Bonds to be and remain excluded from gross income for federal income tax purposes. The County understands that included within such covenant is the covenant to prevent the 2004 Bonds from being or becoming "private activity bonds" within the meaning of Section 141 of the Code and Regulations thereunder in a manner which would adversely affect the tax-exempt status of such interest on the 2004 Bonds. The County acknowledges that it has been advised by Bond Counsel regarding certain restrictions and limitations on the amount and types of "private payments" which the County may derive, directly or indirectly, with respect to the property financed with the proceeds of the Bonds to be Refunded to prevent the 2004 Bonds from being or becoming private activity bonds. The County hereby covenants that it will, and reasonably expects that it can, comply with such restrictions and limitations.

Section 1.7 **Single Issue for Arbitrage Purposes.** No obligations other than the 2004 Bonds are (i) being sold at substantially the same time (*i.e.,* within fifteen (15) days) as the 2004 Bonds, (ii) being sold pursuant to the same plan of financing as the 2004 Bonds, and (iii) reasonably expected to be paid from substantially the same source of funds as the 2004 Bonds, determined without regard to guarantees from unrelated parties. The County expects on the date hereof to enter into a direct loan agreement with the Water Infrastructure Finance Infrastructure Authority (*"WIFA"*) to finance or refinance $18,015,219 of improvements to the System (the *"WIFA Loan"*). The WIFA Loan is not financing the same property as the 2004 Bonds; it is a single, private loan from WIFA and is not being publicly offered, as are the 2004 Bonds; and therefore,the WIFA Loan is not secured through the offering of any securities of the County or through any common plan of marketing with the 2004 Bonds. Finally, the interest rate on the WIFA Loan is subsidized by WIFA.

Section 1.8 **Redemption of Bonds Being Refunded.** The Bonds to be Refunded are being redeemed on the first dates that such maturities can be called for redemption. The Bonds to be Refunded will be redeemed within 90 days after the date of issuance of the 2004 Bonds; therefore, the 2004 Bonds will be a current refunding of the Bonds to be Refunded.

Section 1.9 **2004 Bonds not Hedge Bonds.** None of the Gross Proceeds of the 2004 Bonds will be invested in an investment with a substantially guaranteed yield for 4 years or more, and thus not more than fifty percent (50%) of the proceeds of the 2004 Bonds will be invested in investments having a substantially guaranteed yield for four years or more.

Section 1.10 **No Federal Guarantee**. The payment of the principal of and interest on the 2004 Bonds is not directly or indirectly guaranteed by the United States of America or any agency or instrumentality thereof, all within the meaning of the Code Section 149(b).

Section 1.11 **No Sale of Financed Property.** The County does not expect to sell or otherwise dispose of all or a portion of its interest in the property being refinanced by the 2004 Bonds prior to the maturity of the 2004 Bonds, except for minor parts or portions thereof as may be disposed of in the ordinary course of business due to normal wear, obsolescence or depreciation.

Section 1.12 **EIN and Sequence of Issue**. The County's federal employer identification number is 86-6000543. For purposes of filing Form 8038-G, the 2004 Bonds are designated as issue 3 02.

ARTICLE II
ARBITRAGE

Section 2.1 **Initial Offering to the Public.** RBC Dain Rauscher Inc., the underwriter for the 2004 Bonds (the *"Underwriter"*), has certified to the County that the initial offering price of the 2004 Bonds is as set forth in the Underwriter's Certificate of even date herewith, all within the meaning of Code Sections 148(h) and 1273(b)(1).

Section 2.2 **Sale Proceeds**.

(a) Sources of Proceeds. Original proceeds of the 2004 Bonds are as follows and as appear in Exhibit A to this Tax Certificate and Agreement :

Face Amount	$25,770,000.00
Plus Net Bond Premium	$1,257,568.70
Principal Proceeds	$27,027,568.70
Plus Pre-Issuance Accrued Interest	$30,092.88
Less Underwriter's Discount	($257,700.00)
Net Principal Proceeds	$26,799,961.58
Subtotal	$26,799,961.58
Less Insurance Premium	($81,768.60)
Less Costs of Issuance (other than Underwriter's Discount)	($84,775.32)
Original Proceeds	$26,633,417.66

(b) Use of Proceeds. The sale proceeds of the 2004 Bonds are expected to be needed and fully expended as follows:

(i) (i) An amount of $81,768.60 will be wired by the Underwriter on behalf of the County to the Insurer as payment for the premium due for the Insurance Policy;

(ii) An amount of $30,092.88 representing pre-issuance accrued interest will be deposited into the Bond Fund established by the Resolution for payment of the 2004 Bonds and will be applied to the first interest payment to come due on the 2004 Bonds on July 1, 2004;

(iii) An amount of $26,603,324.78 will be deposited in accordance the Depository Trust established pursuant to the Depository Trust Agreement, and will be used to purchase on the date hereof a portfolio of obligations issued or guaranteed by the United States Government, State and Local Government Securities (the *"Government Obligations"*), the maturing principal of and investment income from which will be sufficient to pay the principal of, premium and interest on the Bonds to be Refunded; and

(iv) An amount of $84,775.32 will be deposited in accordance with the Depository Trust established pursuant to the Depository Trust Agreement, and will be used to pay the costs of issuance of the 2004 Bonds.

Section 2.3 No Overissuance. The total proceeds to be received from the sale of the 2004 Bonds and anticipated investment earnings thereon do not exceed the total of the amount necessary to finance the governmental purposes for which the 2004 Bonds are issued as described above.

Section 2.4 Investment of Proceeds. No portion of the 2004 Bonds is being issued solely for the purpose of investing the proceeds at a yield higher than the yield on the 2004 Bonds or to replace funds which were used, directly or indirectly, to acquire investments with a yield higher than the yield on the 2004 Bonds.

Section 2.5 Funds and Accounts.

(a) General. The following funds and accounts are created and established under the Resolution and the Depository Trust Agreement:

(i) The Revenue Fund;

(ii) The Bond Fund;

(iii) The Reimbursement Fund;

(iv) The Reserve Fund;

(v) The Rebate Fund;

(vi) The System Development Fund; and

(vii) The Depository Trust.

The County certifies that the following subsections accurately reflect various matters relating to these funds and accounts.

(b) The Revenue Fund, Operation and Maintenance Expenses and Bond Fund. All Revenues are to be deposited in the Revenue Fund. Amounts in the Revenue Fund are to be disbursed monthly to the Operation and Maintenance Fund to pay Operating Expenses. Then amounts in the Revenue Fund are to be deposited monthly to the Bond Fund to accumulate amounts due to be paid for interest on and principal of all Parity Bonds Outstanding. The Bond Fund will be used primarily to achieve a proper matching of revenues and debt service within each bond year, and is expected to be depleted at least once each year except for a reasonable carryover amount not to exceed the greater of (i) the earnings on investment of the moneys in this fund for the immediately preceding bond year, or (ii) one-twelfth (1/12th) of the debt service on all Parity Bonds for the immediately preceding bond year. Amounts deposited in the Bond Fund will be expended to pay debt service on Parity Bonds within thirteen (13) months from the date of deposit by the County pursuant to the Bond Resolution.

Amounts deposited into the Bond Fund for the purpose of paying current debt service on the Bonds may be invested at an unrestricted yield for a period not exceeding thirteen (13) months from the date of the first deposit of such amounts to such funds and, thereafter, at a yield not materially higher than the yield on the Bonds. For investments of amounts in the Bond Fund, materially higher means one-thousandth of one percentage point (0.001%). Earnings on amounts deposited in the Bond Fund as described in Subsection 2.2(b)(i) may be invested at an unrestricted yield for a one (1) year period from the date of receipt thereof and, thereafter, at a yield not materially higher than the yield on the Bonds. For investments of amounts described in the preceding sentence, materially higher means one-eighth of one percentage point (0.125%). Except as provided in Section 4.8 hereof, amounts in the Bond Fund will be subject to the arbitrage rebate requirements of Section 148(f) of the Code.

(c) Reimbursement Fund. The Reimbursement Fund is to receive deposits of Revenues if necessary due to a Drawdown to accumulate Policy Costs to be paid to a Reserve Fund Guarantor.

(d) Reserve Fund. The Reserve Fund is to receive Revenues if necessary to cause the Reserve Value to equal the Reserve Requirement. The Reserve Fund is a common reserve fund for all of the Parity Bonds, including the 2004 Bonds. Upon issuance of the 2004 Bonds, no proceeds will be used to fund the Reserve Requirement or to pay a premium for a Reserve Fund Guaranty. In addition, the Reserve Fund will not contain cash or investments for any of the Parity Bonds, but rather the Reserve Requirement will be satisfied by existing Reserve Fund Guaranties consisting of surety bonds meeting the requirements of the Resolution.

(e) Rebate Fund. The County has covenanted not to use moneys of any fund or account in connection with the 2004 Bonds in a manner which will cause the 2004 Bonds to be arbitrage bonds within the meaning of Code Section 148. To that end, the Rebate Fund is

created under the Resolution and will be funded to the extent required from transfers from the other funds or from Revenues. The County shall deposit into the Rebate Fund any payments received in accordance with this Tax Certificate and Agreement for purposes of paying rebate to the United States Treasury and so identified. The amount required to be held in the Rebate Fund at any point in time is determined pursuant to the requirements of the Code, including particularly Code Section 148(f) and the Regulations promulgated thereunder. Moneys in the Rebate Fund are neither pledged to nor expected to be used to pay debt service on the 2004 Bonds.

(f) System Development Fund. The System Development Fund is to receive moneys from the Revenue Fund not needed for the requirements listed above, and may be used for System extensions and betterments, for unbudgeted maintenance and operation expenses, to redeem Parity Bonds subject to optional redemption or to purchase and discharge Parity Bonds in the open market, to pay general obligation bonds issued by the County for System purposes, to make loans to the County, or for any lawful System purpose.

(g) Depository Trust. As described above, substantially all of the amounts in the Depository Trust will be used to purchase the Government Obligations, the maturing principal of and investment income from which will be sufficient to pay the principal of, premium and interest on the Bonds to be Refunded as each becomes due, and to redeem the Bonds to be Refunded on July 1, 2004. Proceeds of the 2004 Bonds in the Depository Trust generally may be invested at an unrestricted yield for a period of 90 days from the date hereof and thereafter at a rate not materially higher than the yield on the 2004 Bonds. For investments of amounts in the Depository Trust, materially higher means one-thousandth of one percentage point (0.001%). All such investments in the Depository Trust will be subject to the arbitrage rebate requirements of Code Section 148(f).

Section 2.6 No Replacement. Other than proceeds of the 2004 Bonds, neither the County nor any person related to it within the meaning of Code Section 147(a) (a *"Related Person"*) has on hand any funds which could legally and practically be used for the purposes for which the 2004 Bonds are being issued, and which are not pledged, budgeted, earmarked or otherwise necessary to be used for other purposes. Accordingly, no portion of the proceeds of the 2004 Bonds will be used (i) directly or indirectly to replace funds of the County or any Related Person that could be used for the purposes for which the 2004 Bonds are being issued, or (ii) to replace any proceeds of any prior issuance of obligations by the County or any Related Person.

Section 2.7 No Other Sinking or Pledged Funds. Except for the Bond Fund, no other funds or accounts have been or are expected to be established, and no moneys or property have been or are expected to be available or pledged (no matter where held or the source thereof) which are expected to be used or available to pay, directly or indirectly, principal or interest on the 2004 Bonds, or restricted so as to give reasonable assurance of their availability for such purposes.

Section 2.8 No Abusive Arbitrage Device. The County certifies, warrants and covenants that the 2004 Bonds are not and will not be part of a transaction or series of transactions that (i) attempts to circumvent the provisions of Code Section 148 and related

Regulations, thereby enabling the County to exploit the difference between tax-exempt and taxable interest rates to obtain a material financial advantage, and (ii) overburdens the tax-exempt bond market in any manner, including, without limitation, issuing more bonds, issuing bonds earlier, or allowing them to remain outstanding longer than is otherwise reasonably necessary to accomplish the governmental purpose of the 2004 Bonds.

Section 2.9 **No Reimbursement.** Other than any reimbursement expenditures meeting the requirements of Regulations §1.150-2(d) or (f), no portion of the proceeds from the sale of the 2004 Bonds and the earnings from the investment of such proceeds will be used to reimburse the County for expenditures by the County prior to the date hereof.

Section 2.10 **No Transferred Proceeds.** All of the proceeds of the Bonds to be Refunded were expended for the governmental purposes thereof prior to the issuance of the 2004 Bonds. Therefore, there will be no Transferred Proceeds with respect to the 2004 Bonds.

Section 2.11 **Universal Cap.** Notwithstanding any restrictions on the investment of the proceeds of the 2004 Bonds and Transferred Proceeds (of which there are none), such amounts shall be allocated and remain allocated to the 2004 Bonds, and thus be subject to the restrictions in this Tax Certificate and Agreement, only to the extent that the value of the investments allocated to such proceeds of the 2004 Bonds does not exceed the value of the Outstanding 2004 Bonds. This provision does not apply, however, to amounts on deposit in the Interest Account and the Redemption Account.

ARTICLE III
CALCULATION OF YIELD

Section 3.1 **Yield.** For purposes of this Tax Certificate and Agreement, yield is calculated as set forth in Code Section 148(h) and Regulations §§1.148-4 and 1.148-5. Thus, yield generally means that discount rate which, when used in computing the present value of all unconditionally payable payments of principal and interest with respect to an obligation and the cost of qualified guarantees (if any) paid and to be paid with respect to such obligation, produces an amount equal to the issue price of the obligation. The yield on the 2004 Bonds is computed as of the issue date of the 2004 Bonds and will not be affected by subsequent unexpected events, unless the County enters into a hedging transaction (within the meaning of Regulations §1.148-4(h)), or there occurs a transfer, waiver, modification or similar transaction involving any right that is part of the terms of any of the 2004 Bonds. Any underwriters' discount, issuance costs or costs of carrying or repaying the 2004 Bonds shall not be taken into account in calculating yield on the 2004 Bonds. The County certifies, based upon representations of the Underwriter, that the issue price of the 2004 Bonds is $27,027,568.70, which represents the price at which the 2004 Bonds were sold to the public (excluding bond houses, brokers and other intermediaries), plus accrued interest of $30,092.88. For purposes hereof, yield shall be calculated on a 360-day year basis with interest compounded semiannually. The yield on the 2004 Bonds as computed by the Underwriter, is 3.8061991%.

The yield on the Government Obligations, using the same methodology as described in the previous paragraph, as computed by The Arbitrage Group, Inc., is 0.785814%. Therefore,

the proceeds of the 2004 Bonds in the Depository Trust are not invested at a yield materially higher than the yield on the 2004 Bonds.

Section 3.2 **No Working Capital Expenditures.** The County certifies and represents that none of the proceeds of the 2004 Bonds will be used for working capital expenditures as defined in Regulations § 1.150-1(b).

Section 3.3 **Qualified Guarantee.** Based upon the representations of the Underwriter and the Insurer in the certificates of those parties delivered in connection with the 2004 Bonds, the Policy provided by the Insurer is a qualified guarantee within the meaning of Regulations §1.148 4(f) with respect to the 2004 Bonds. Accordingly, the amount of $81,768.60 paid to the Insurer as the premium for the Policy has been treated as an interest expense with respect to the 2004 Bonds in computing the yield on the 2004 Bonds.

Based upon the representations of the Underwriter in the certificate of the Underwriter delivered in connection with the 2004 Bonds, the present value of the amount paid for the Policy is less than the present value of the interest reasonably expected to be saved as a result of the Policy (using as a discount rate the yield to maturity on the 2004 Bonds computed treating the amount paid for the Policy as interest with respect to the 2004 Bonds).

ARTICLE IV
REBATE

Section 4.1 **Undertakings.** The County has covenanted to comply with certain requirements of the Code and Regulations regarding the payment of any rebate amount that may become due to the United States on the 2004 Bonds and the proper method for computing whether any such rebate amount is due under Code Section 148(f) and Regulations §§1.148-0 through 1.148-11, 1.149(d)-1, 1.149(g)-1, 1.150-1 and 1.150-2. The County covenants that it will undertake to determine (or have determined on its behalf) what is required with respect to the rebate provisions contained in Code Section 148(f) from time to time and will undertake to comply with any requirements that may be applicable to the 2004 Bonds. The County will undertake the methodology described in this Article IV of this Tax Certificate and Agreement, except to the extent inconsistent with any requirements of present or future law, regulations or future guidance issued by the United States Treasury or if the County receives an opinion of Bond Counsel that noncompliance with such methodology will not adversely affect the exclusion of interest on the 2004 Bonds for federal income tax purposes.

Section 4.2 **Rebate Fund**. A special fund designated the "Rebate Fund" has been established pursuant to the Resolution. The County shall keep the Rebate Fund separate and apart from all other funds and moneys held by it.

Section 4.3 **Recordkeeping.** Detailed records with respect to each and every Nonpurpose Investment attributable to Gross Proceeds (within the meaning of Regulations §1.148-1(b)) of the 2004 Bonds must be maintained by the County including: (i) purchase date, (ii) purchase price, (iii) any accrued interest paid, (iv) face amount, (v) coupon rate, (vi) periodicity of interest payments, (vii) disposition price, (viii) any accrued interest received, (ix) disposition date, and (x) broker's fees. Such detailed record keeping is required for the

calculation, if necessary, of the rebate amount (within the meaning of Regulations §1.148-3) which, in part, will require a determination of the difference between the actual aggregate earnings of all Nonpurpose Investments and the amount of such earnings assuming a rate of return equal to the yield on the 2004 Bonds.

Section 4.4 **Rebate Amount Calculation and Payment**.

(a) The County represents, warrants and covenants that it will prepare or cause to be prepared a calculation of the rebate amount with respect to the 2004 Bonds consistent with the rules described in this Section. The County will select a first rebate computation date which is not later than five (5) years after the date of issuance of the 2004 Bonds and will select subsequent rebate computation dates which are not later than five (5) years after the immediately preceding rebate computation date. The County will prepare or cause to be prepared the calculation of the rebate amount (i) within fifty-five (55) days after the first rebate computation date and each subsequent rebate computation date thereafter so long as any 2004 Bonds remain outstanding, and (ii) within fifty-five (55) days after the first date on which there are no outstanding 2004 Bonds.

(b) For purposes of calculating the rebate amount (i) the aggregate amount earned with respect to a Nonpurpose Investment shall be determined by assuming that the Nonpurpose Investment was acquired for an amount equal to its value at the time it becomes a Nonpurpose Investment, and (ii) the aggregate amount earned with respect to any Nonpurpose Investment shall include any unrealized gain or loss with respect to the Nonpurpose Investment on the first date when there are no outstanding 2004 Bonds or when the investment ceases to be a Nonpurpose Investment.

(c) The County shall pay to the United States Treasury, out of designated funds (i) not later than sixty (60) days after each rebate computation date, a payment equal to at least ninety percent (90%) of the rebate amount with respect to the 2004 Bonds, calculated as of the date of such payment, and (ii) not later than sixty (60) days after the first date when there are no outstanding 2004 Bonds, an amount equal to one hundred percent (100%) of the rebate amount (determined as of the first date when there are no outstanding 2004 Bonds) plus any actual or imputed earnings on such rebate amount, all as set forth in Regulations §§1.148-1 through 1.148-11 and as determined by or on behalf of the County.

(d) Each payment required to be made pursuant hereto and relating to the 2004 Bonds shall be filed with the Internal Revenue Service Center designated in the then-applicable Internal Revenue Service forms and instructions on or before the date such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T or successor form. The County must retain records of the calculations required by this Section until six (6) years after the retirement of the last obligation of the 2004 Bonds.

Section 4.5 **Valuation of Investments**.

(a) General Rule. Except as otherwise provided in this Section, for all purposes of Code Section 148, the value of an investment allocated to the 2004 Bonds (including

a payment or receipt on the investment) on a date must be determined using one of the following valuation methods:

(i) Outstanding Principal Amount Method. A plain par investment (as defined in Regulations §1.148-1(b)) may be valued at its outstanding stated principal amount, plus any accrued unpaid interest on that date.

(ii) Present Value Method. An investment whose yield is fixed and determinable on the issue date (a "fixed rate investment") may be valued at its present value on that date. Present value of an investment is computed under the economic accrual method, using the same compounding interval and financial conventions used to compute the yield on the 2004 Bonds (*i.e.,* 360 day year of 30-day months basis with interest compounded semi-annually). The present value of an investment on a date is equal to the present value of all unconditionally payable receipts to be received from and payments to be paid for the investment after that date, using the yield on the investment as the discount rate.

(iii) Fair Market Value Method. An investment may be valued at its fair market value on that date. The fair market value of an investment is the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's-length transaction. Fair market value generally is determined on the date on which a contract to purchase or sell the nonpurpose investment becomes binding (*i.e.,* the trade date rather than the settlement date). Except as otherwise provided in Sections 4.5(e), (f) and (g) hereof, an investment that is not of a type traded on an established securities market, within the meaning of Code Section 1273, is rebuttably presumed to be acquired or disposed of for a price that is not equal to its fair market value.

(b) Mandatory Valuation of Certain Investments at Fair Market Value. Except as provided in Sections 4.5(c) and (d) hereof, an investment must be valued at fair market value on the date that it is first allocated to the 2004 Bonds or first ceases to be allocated to the 2004 Bonds as a consequence of a deemed acquisition or deemed disposition.

(c) Mandatory Valuation of Yield Restricted Investments at Present Value. Any yield restricted investment must be valued at present value.

(d) Allocations from Commingled Funds. Notwithstanding Section 4.5(b) hereof, investments in a commingled fund (other than a bona fide debt service fund) need not be valued at fair market value unless it is a commingled fund described in Regulations §1.148-6(e)(5)(iii).

(e) Certificates of Deposit. The purchase price of a certificate of deposit that has a fixed interest rate, a fixed payment schedule and a substantial penalty for early withdrawal will be treated as its fair market value on the purchase date if:

(i) the yield on the certificate of deposit is not less than the yield on reasonably comparable direct obligations of the United States; and

(ii) the yield on the certificate of deposit is not less than the highest yield that is published or posted by the provider to be currently available from the provider on reasonably comparable certificates of deposit offered to the public.

(f) Guaranteed Investment Contracts. The purchase price of a guaranteed investment contract will be treated as its fair market value on the purchase date if:

(i) the County made (or had made on its behalf) a bona fide solicitation for the purchase of the guaranteed investment contract that satisfied all of the following requirements:

(A) the bid specifications were in writing and were timely forwarded to potential providers;

(B) the bid specifications included all material terms of the bid (i.e., terms that may have directly or indirectly affected the yield or the cost of the guaranteed investment contract);

(C) the bid specifications included a statement notifying potential providers that submission of a bid is a representation (I) that the potential provider did not consult with any other potential provider about its bid, (II) that the bid was determined without regard to any other formal or informal agreement that the potential provider has with the County or any other person (whether or not in connection with the 2004 Bonds), and (III) that the bid is not being submitted solely as a courtesy to the County or any other person for purposes of satisfying the requirements of Regulations §1.148-5(d)(6)(iii)(B)(1) or (2) relating to receipt of at least three bids and at least one bid from a reasonably competitive provider of guaranteed investment contracts;

(D) the terms of the bid specifications were commercially reasonable (i.e., there were a legitimate business purposes for the terms other than to increase the purchase price or reduce the yield of the guaranteed investment contract);

(E) the terms of the solicitation took into account the County's reasonably expected deposit and drawdown schedule for the amounts to be invested;

(F) all potential providers had an equal opportunity to bid (e.g., no potential provider was given the opportunity to review other bids before providing a bid); and

(G) at least three reasonably competitive providers (i.e., providers with an established industry reputation as a competitive provider of guaranteed investment contracts) were solicited for bids;

(ii) the bids received by the County met all of the following requirements:

(A) the County received at least three bids from providers that the County solicited under a bona fide solicitation meeting the requirements of paragraph (f)(i) above and that did not have a material financial interest in the 2004 Bonds (e.g., the lead underwriter in a negotiated underwriting until 15 days after the delivery date of the 1999 Certificates, any financial advisor to the County with respect to the purchase of the guaranteed investment contract at the time the bid specifications are forwarded to potential providers, and any provider that is related to such party);

(B) at least one of the three bids described in paragraph (f)(ii)(A) above was from a reasonably competitive provider of guaranteed investment contracts, within the meaning of Regulations §1.148-5(d)(6)(iii)(A)(7); and

(C) any agent used to conduct the bidding process did not bid to provide the guaranteed investment contract; and

(iii) the winning bid was the highest yielding bona fide bid (determined net of any broker's fees).

The County is not enter into a guaranteed investment contract with respect to any proceeds of the 2004 Bonds.

(g) United States Treasury Obligations. The fair market value of a United States Treasury obligation that is purchased directly from the United States Treasury is its purchase price.

Section 4.6 **Segregation of Proceeds**. In order to perform the calculations required by the Code, it is necessary to track separately all of the Gross Proceeds. To that end, the County hereby agrees to instruct the Trustee to establish separate funds, accounts or subaccounts or take other accounting measures in order to account fully for all Gross Proceeds.

Section 4.7 **Filing Requirements.** The County shall file or cause to be filed such reports or other documents with the Internal Revenue Service as may be required by the Code from time to time (e.g., Form 8038-G and Form 8038-T).

ARTICLE V
OTHER MATTERS

Section 5.1 **Reliance.** The County hereby acknowledges and agrees that the certifications, representations, and warranties set forth in this Tax Certificate and Agreement may be relied upon by Snell & Wilmer L.L.P., Special Counsel, in rendering its opinions with respect to the 2004 Bonds. To the best of the undersigned's knowledge, information and belief,

there are no other facts, estimates or circumstances that would materially change any of the foregoing certifications. The representations in this Tax Certificate and Agreement are made for the benefit of the purchasers of the 2004 Bonds and Snell & Wilmer L.L.P., Special Counsel, and may be relied upon by the purchasers of the 2004 Bonds and said Special Counsel in determining whether or not the 2004 Bonds constitute "arbitrage bonds" within the meaning of Code Section 148 and the Regulations, and whether or not the interest on the 2004 Bonds is excludable from federal income taxes.

Section 5.2 **Amendment and Supplementation**.

(a) Notwithstanding any other provision herein, the parties hereby agree to amend, supplement or modify this Tax Certificate and Agreement to the extent necessary to maintain the exclusion of interest on the 2004 Bonds from gross income for federal tax purposes as required pursuant to an opinion of Bond Counsel.

(b) Notwithstanding any other provision herein, if the parties request an amendment, supplementation or modification hereto, this Tax Certificate and Agreement shall be so amended, supplemented or modified only with an opinion of Bond Counsel that such amendment, supplement or modification will not adversely affect the exclusion of interest on the 2004 Bonds for federal income tax purposes.

Section 5.3 **Multiple Counterparts.** This Tax Certificate and Agreement may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

Section 5.4 **Survival of Defeasance.** Notwithstanding anything in this Tax Certificate and Agreement or any other provisions of the Trust Agreement to the contrary, the obligation to remit the rebate amount to the United States Department of the Treasury and to comply with all other requirements contained in this Tax Certificate and Agreement shall survive the defeasance or payment in full of the 2004 Bonds.

Section 5.5 **Permitted Changes; Opinion of Special Counsel.** The yield restrictions contained in Section 2.5 or any other restriction or covenant contained herein need not be observed or may be changed only if the Trustee and the County receive an opinion of Special Counsel to the effect that such noncompliance or change will not adversely affect the exclusion of interest on the 2004 Bonds for federal income tax purposes.

Section 5.6 **Successors and Assigns**. The terms, provisions, covenants and conditions of this Tax Certificate and Agreement shall bind and inure to the benefit of the respective successors and assigns of the County and the Trustee.

Section 5.7 **Headings.** The headings of this Tax Certificate and Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Tax Certificate and Agreement.

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DATED as of May 11, 2004.

PIMA COUNTY, ARIZONA

By: _____
Carol Bonchalk
Director of Finance

EXHIBIT A

Total Sale Proceeds:

Principal amount of 2004 Bonds		$25,770,000.00
Plus Net of Original Issue Premium over Original Issue Discount		1,257,568.70
	Sale Proceeds:	$27,027,568.70
Plus accrued interest		30,092.88
	Total Sale Proceeds:	$27,057,661.58

Application of Total Sale Proceeds:

Accrued Interest Deposit to Interest Account:	(30,092.88)
Underwriters Discount:	(257,700.00)
Premium Payable to Insurer for Policy	(81,768.60)
Costs of Issuance	(84,775.32)
Deposit to Depository Trust to purchase Government Obligations:	(26,603,324.78)
Balance:	$0.00

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

CERTIFICATE OF UNDERWRITER

The undersigned, on behalf of RBC Dain Rauscher Inc. (the "Underwriter"), hereby certifies in connection with the $25,770,000 Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), issued by Pima County, Arizona (the "County"), as follows:

1. As of May 4, 2004 (the "Sale Date"), the Underwriter reasonably expected to sell all of the Bonds to third parties on or before the date hereof.

2. As to the Bonds of each maturity for which a bona fide public offering has been made, as of the Sale Date, the Underwriter reasonably expected that all of the Bonds of such maturity would be sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at a yield no lower and a price no higher than as shown for that maturity on Schedule A attached, plus accrued interest. As to the Bonds of each maturity for which a bona fide public offering has not been made, either (a) at least 10% of such maturity has actually been sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers), or (b) all Bonds of such maturity have actually been sold, at a yield no lower and a price no higher than as shown for that maturity on Schedule A, plus accrued interest. None of the prices for Bonds shown on Schedule A exceed the fair market value of such Bonds as of the Sale Date.

3. Based upon the foregoing, the issue price of the Bonds in the aggregate is $27,027,568.70 (exclusive of pre-issuance accrued interest), which includes $25,770,000.00 principal amount of the Bonds plus a net reoffering premium of $1,257,568.70 paid to the County and $257,700.00 to be retained by the Underwriter as compensation.

4. The undersigned has paid on behalf of the County a premium of $81,768.60 to Financial Security Assurance Inc. (the "Insurer") for the issuance of the municipal bond insurance policy (the "Policy") to insure the Bonds. The Policy was essential in marketing the Bonds, and the absence of the Policy would have materially affected in an adverse manner the interest rates at which the Bonds were sold. It is our opinion that the total amount paid to the Insurer for the Policy insuring the Bonds is a reasonable charge for the transfer of credit risk.

In our opinion, the present value of the amount paid to the Insurer is less than the present value of interest reasonably expected to be saved as a result of using the Policy to secure the Bonds over their term. In determining the present value for purposes of making such certification, the estimated yield-to-maturity on the Bonds (determined by treating the amount paid to the Insurer for the Policy as interest on the Bonds) was used as the discount rate.

5. The Bonds maturing on July 1, 2015 and bearing interest at a rate of 5.000% per annum are the only Bonds that are (a) subject to optional redemption before maturity (but not within five years of the date of issuance of the Bonds) and have an initial offering price that exceeds their stated redemption price at maturity by more than one-quarter of 1% multiplied by the product of their stated redemption price at maturity and the number of complete years to their first optional redemption date. Accordingly, in computing the yield on the Bonds, such Bonds were treated, pursuant to Treasury Regulations §1.148 4(b)(3), as redeemed on their optional redemption date that would result in the lowest yield on the Bonds.

6. For purposes of completing Form 8038-G to be filed with the Internal Revenue Service, the yield on the Bonds is 3.8061991%, the net interest cost of the Bonds is 3.7034485%, the weighted average maturity of the Bonds is 7.006 years and the remaining weighted average maturity of the Bonds to be Refunded (as defined in Resolution No. 2004-58 passed, adopted and approved by the Board of Supervisors of the County on March 9, 2004) is 6.481 years.

[Remainder of page left blank intentionally]

Dated: May 11, 2004

RBC DAIN RAUSCHER INC.

By: _____
Its: Managing Director and Manager

SCHEDULE A

Maturity (July 1)	Par Amount	Coupon	Yield	Amount Received
2005	$1,425,000.00	2.000%	1.480%	$1,433,322.00
2006	1,455,000.00	2.250%	1.940%	1,464,384.75
2007	2,335,000.00	2.625%	2.420%	2,349,336.90
2008	2,410,000.00	3.250%	2.810%	2,451,090.50
2009	2,485,000.00	5.000%	3.150%	2,701,443.50
2010	1,575,000.00	3.500%	3.420%	1,581,867.00
2011	1,630,000.00	5.375%	3.650%	1,805,225.00
2012	2,050,000.00	5.500%	3.870%	2,281,281.00
2013	2,975,000.00	5.000%	4.030%	3,193,632.75
2014	3,430,000.00	5.000%	4.150%	3,669,105.30
2015	2,000,000.00	4.125%	4.260%	1,976,160.00
2015	2,000,000.00	5.000%	4.260%	2,120,720.00
Total:	$25,770,000.00			$27,027,568.70

The aggregate reoffering price of the Bonds, including $30,092.88 of accrued interest, is $27,057,661.58.

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

CERTIFICATE OF DEPOSITORY TRUSTEE, REGISTRAR AND PAYING AGENT

J.P. Morgan Trust Company, National Association (the "Bank"), as depository trustee (the "Depository Trustee"), pursuant to a Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between Pima County, Arizona (the "County") and the Bank, and as bond registrar (the "Registrar") and paying agent (the "Paying Agent") pursuant to a Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of May 1, 2004 (the "Bond Registrar and Paying Agent Agreement"), between the County and the Bank, entered into in connection with the $25,770,000 Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds") does hereby accept the duties and obligations imposed upon it as Depository Trustee pursuant to the Depository Trust Agreement, does hereby accept the duties and obligations imposed upon it as Bond Registrar and Paying Agent pursuant to the Bond Registrar and Paying Agent Agreement, and does hereby certify as follows:

1. The Bank is duly organized, validly existing and in good standing under the laws of the United States, having full power and authority to exercise corporate trust powers in the State of Arizona and to execute, deliver and perform its obligations under the Depository Trust Agreement and the Bond Registrar and Paying Agent Agreement.

2. The execution and delivery of the Depository Trust Agreement and the Bond Registrar and Paying Agent Agreement and the due performance by the Bank of its obligations thereunder and the taking of any and all other actions required on the part of the Bank to carry out, give effect to, and consummate the transactions contemplated thereby, have been duly authorized by all necessary corporate action on the part of the Bank, and to the best knowledge of the undersigned, under present law do not contravene any provision of any order, decree, writ or injunction known to the Bank or the Bank's Articles of Association or Bylaws, or result in a breach of or default under, or require consent under any material agreement, indenture or other instrument to which the Bank is a party or by which it is bound.

3. The Bank has taken all action necessary for the acceptance of, and has duly accepted the offices of Depository Trustee, Bond Registrar and Paying Agent pursuant to the Depository Trust Agreement and the Bond Registrar and Paying Agent Agreement, and will comply with the requirements of such agreements, and in accordance therewith will not take or omit to take any action which will in any way result in the proceeds from the sale of the Bonds being applied in a manner inconsistent with such documents.

4. The representations of the Bank contained in the Depository Trust Agreement and the Bond Registrar and Paying Agent Agreement are true and correct in all material respects as

of the date hereof and the Bank has complied with all agreements and satisfied all conditions on its part to be performed or satisfied thereunder at or prior to the date hereof.

5. To the knowledge of the undersigned, no litigation is pending or threatened against the Bank before any judicial, quasi-judicial or administrative forum (a) restraining or enjoining the execution or delivery of the Bonds or the application of the proceeds thereof, (b) contesting or affecting any authority for, or the validity of the Bonds, or (c) contesting or affecting the existence or corporate trust powers of the Bank or the Bank's ability to perform and fulfill its duties and obligations under the Depository Trust Agreement or the Bond Registrar and Paying Agent Agreement.

6. The Depository Trust Agreement and the Bond Registrar and Paying Agent Agreement were signed on behalf of the Bank by the person named below, and such person was, at the time of the execution of such agreements, and is now, the duly elected, qualified and acting officer or other authorized representative of the Bank, duly authorized to execute the above-named documents, and that the signature appearing below is a true and correct specimen of such person's genuine signature:

Name	Office	Signature
Mark E. Krietemeyer	Vice President	

7. Pursuant to the Bond Registrar and Paying Agent Agreement and the General Certificate of the County, dated the date hereof, the Bonds were authenticated by an authorized signatory of the Bank.

8. All blanks in each of the Bonds requiring completion by the Registrar have been accurately completed and the Certificate of Authentication appearing on each of the Bonds has been duly executed and dated the date of its authentication, which is the date hereof, by an authorized officer or representative of the Registrar.

9. Attached hereto as Exhibit A is a true, complete and correct copy of a resolution of the Bank which clearly demonstrates the authority of the person named in paragraph 6 above to act on behalf of the Bank and said resolution was in effect on the date or dates said person or persons acted and remains in full force and effect on the date hereof.

[Remainder of page left blank intentionally]

Dated: May 11, 2004.

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

By: _____

Its: Vice President

J. P. Morgan Trust Company, National Association
One Oxford Centre
301 Grant Street, Suite 1100
Pittsburgh, PA 15219

JPMorgan

MEMORANDUM

Date: November 12, 2003

To: Zachary W. Hulsey, Chairperson and CEO J.P. Morgan Trust Company, National Association

From: Bridget M. Schessler - Chief Fiduciary Officer, Corporate Trust

Subject: New Officers of J.P. Morgan Trust Company, National Association

The undersigned, J.P. Morgan Trust Company, National Association ("JPMTC") by its Chief Executive Officer hereby confirms the following authorization:

Attached hereto as Exhibit A is the list of new officers of JPMTC. The officers have been duly appointed to the offices of JPMTC set forth opposite their respective names on Exhibit A.

These officers as signatory for JPMTC are authorized to execute and deliver any and all indentures, trust agreements, deeds of trust, corporate mortgages, agency agreements, custodial agreements, depository agreements, deeds, escrow agreements, assignments, affidavits, certificates, releases, satisfactions, applications, petitions stock and bond powers, authentications and any other documents or instruments in connection with the corporate trust business or operations of JPMTC in any trust, fiduciary, agency, representative or other similar capacity and may affix the seal of JPMTC thereto.

November 15, 2003

J. P. Morgan Trust Company, National Association

By _____
Zachary W. Hulsey
Chief Executive Officer

JPMorgan

JPMorgan Chase Bank

Power of Attorney

The undersigned JPMorgan Chase Bank, a New York banking corporation ("JPMorgan"), by its undersigned Senior Vice President hereby certifies that the undersigned is a Senior Vice President of JPMorgan and as such is authorized by the board of directors of JPMorgan to make this power of attorney and hereby names, appoints and constitutes each of the officers of J. P. Morgan Trust Company, National Association, named on Exhibit A hereto (but only while such person is an officer of J. P. Morgan Trust Company, National Association) as an agent, attorney in fact or authorized officer or signatory for JPMorgan, authorized for and on behalf of JPMorgan to execute and deliver any and all indentures, trust agreements, deeds of trust, corporate mortgages, agency agreements, custodial agreements, depository agreements, deeds, escrow agreements, assignments, affidavits, certificates, releases, satisfactions, applications, petitions, stock and bond powers, authentications, and any other documents or instruments in connection with the corporate trust business or operations of JPMorgan and its affiliates in any trust, fiduciary, agency, representative or other similar capacity and may affix the seal of JPMorgan thereto.

August 14, 2003

JPMorgan Chase Bank

By _____
William H. Berls
Senior Vice President

The undersigned Vice President of JPMorgan Chase Bank ("JPMorgan") hereby certifies that William H. Berls is a Senior Vice President of JPMorgan and that his above signature is his genuine signature.

_____
Ann L. Edmonds
Vice President
JPMorgan Chase Bank

Exhibit A

LAST NAME	FIRST NAME	Department	LOCATION
Fanning	Donna	Institutional Trust Services	AZ
Knox	David	Institutional Trust Services	AZ
Krietemeyer	Mark	Institutional Trust Services	AZ
Nunes	Daniel	Institutional Trust Services	AZ
Rayman	Debra	Institutional Trust Services	CO
Pope	Jane Ellen	Institutional Trust Services	FL
Alexander-Eison	Ella	Institutional Trust Services	IL
Amos	Tamra	Institutional Trust Services	IL
Bahde Jr	Robert	Institutional Trust Services	IL
Blume	Joan	Institutional Trust Services	IL
Charles	Steven	Institutional Trust Services	IL
Clarke	Gregory	Institutional Trust Services	IL
Collins	Mietka	Institutional Trust Services	IL
Conway	Terence	Institutional Trust Services	IL
Dillard	Lawrence	Institutional Trust Services	IL
Fouts	David	Institutional Trust Services	IL
Frye	Mark	Institutional Trust Services	IL
Gorka	Grace	Institutional Trust Services	IL
Graham	Ronald Scott	Institutional Trust Services	IL
Helmer	Somsri	Institutional Trust Services	IL
Holly	Christopher	Institutional Trust Services - Legal	IL
Johnson	Renee	Institutional Trust Services	IL
Kinney	Jeffrey	Institutional Trust Services	IL
Kleschen III	Henry	Institutional Trust Services - Legal	IL
Koenig	Christopher	Institutional Trust Services	IL
Kostecki-Maron	Renee	Institutional Trust Services	IL
Kusch	Lawrence	Institutional Trust Services	IL
Kwasny	Gregory	Institutional Trust Services	IL
Landgren	Dorothy	Institutional Trust Services	IL
Lemke	Karen	Institutional Trust Services	IL
Madura	Joseph	Institutional Trust Services	IL
Martin	Timothy	Institutional Trust Services	IL
Martirano	Patricia	Institutional Trust Services	IL
McCloskey	Patrick	Institutional Trust Services	IL
McKendry	Catherine	Institutional Trust Services	IL
McLaughlin	Charles	Institutional Trust Services	IL
Miller	Walter	Institutional Trust Services	IL
Morand	Joseph	Institutional Trust Services	IL
Nelson	Timothy	Institutional Trust Services	IL
Nowakowski	Rory	Institutional Trust Services	IL
O'Brien	Mary	Institutional Trust Services	IL
Pace	Robert	Institutional Trust Services	IL
Parsons	Catherine	Institutional Trust Services	IL
Patel	Chitra	Institutional Trust Services	IL
Pointer	Benita	Institutional Trust Services	IL
Ramsey	Laura	Institutional Trust Services	IL
Reaves	George	Institutional Trust Services	IL
Richardson	Keith	Institutional Trust Services	IL

Romero	Maria	Institutional Trust Services	IL
Rotunno	Janice	Institutional Trust Services	IL
Ruiz	Maria	Institutional Trust Services	IL
Ryan	Kevin	Institutional Trust Services	IL
Selangowski	Robert	Institutional Trust Services	IL
Tarnas	Richard	Institutional Trust Services	IL
Teipner	Diane	Institutional Trust Services	IL
Wagner	Steven	Institutional Trust Services - Legal	IL
Wallington-Jones	Joyce	Institutional Trust Services	IL
Weidenbach	Joseph	Institutional Trust Services	IL
Gnat	Leonard	Institutional Trust Services	IN
Hanna	Lynda	Institutional Trust Services	IN
Hawkins	Teresa Ann	Institutional Trust Services	IN
Karst	Sharon	Institutional Trust Services	IN
Kocher	Robert	Institutional Trust Services	IN
Ogrizovich	Perette	Institutional Trust Services	IN
Pease	John	Institutional Trust Services	IN
Porzuczek	John	Institutional Trust Services	IN
Rush	Derick	Institutional Trust Services	IN
Short	Donna	Institutional Trust Services	IN
Storms	Nancy	Institutional Trust Services	IN
Bain	Betty	Institutional Trust Services	KY
Killebrew	Deborah	Institutional Trust Services	KY
Baptiste-Franklin	Althenetia	Institutional Trust Services	LA
Barger	Watson	Institutional Trust Services	LA
Carlos	Ty	Institutional Trust Services	LA
Lorio	Jamie	Institutional Trust Services	LA
Milliner	Denis	Institutional Trust Services	LA
Pine	Kathy	Institutional Trust Services	LA
Banas	John	Institutional Trust Services	MI
Davis	Tammy	Institutional Trust Services	MI
Golson	Allen	Institutional Trust Services	MI
Jackson	James	Institutional Trust Services	MI
Johnson	Alexis Marie	Institutional Trust Services	MI
Lach	Kelly Anne	Institutional Trust Services	MI
Packard	Nancy	Institutional Trust Services	MI
McGrath	Sharon	Institutional Trust Services	NE
Aryeetey	Eva	Institutional Trust Services	NY
Fonti	Mary	Institutional Trust Services	NY
Weisman	Melissa	Institutional Trust Services	NY
Wilman	Melissa	Institutional Trust Services	NY
Allen	Sandra	Institutional Trust Services	OH
Andrews	Darla	Institutional Trust Services	OH
Antoncic	Joyce	Institutional Trust Services	OH
Baird	David	Institutional Trust Services	OH
Boyd	Dorothy	Institutional Trust Services	OH
Brown	Ann	Institutional Trust Services	OH
Calame	Janelle	Institutional Trust Services	OH
Comeaux	James	Institutional Trust Services	OH

DISCLOSURE, NO DEFAULT AND TAX CERTIFICATE OF
FINANCIAL SECURITY ASSURANCE INC.

The undersigned hereby certifies on behalf of Financial Security Assurance Inc. ("Financial Security"), in connection with the issuance by Financial Security of its Policy No. 202892-N (the "Policy") in respect of the $25,770,000 in aggregate principal amount of the Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004 dated May 1, 2004 (the "Bonds") that:

(i) the information set forth under the caption "BOND INSURANCE – Financial Security Assurance Inc." in the official statement dated May 4, 2004 relating to the Bonds is true and correct,

(ii) Financial Security is not currently in default nor has Financial Security ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation,

(iii) the Policy is an unconditional and recourse obligation of Financial Security (enforceable by or on behalf of the holders of the Bonds) to pay the scheduled principal of and interest on the Bonds in the event of Nonpayment by the Issuer (as set forth in the Policy),

(iv) the insurance premium of $81,768.60 (the "Premium") is a charge for the transfer of credit risk and was determined in arm's length negotiations and is required to be paid to Financial Security as a condition to the issuance of the Policy,

(v) no portion of such Premium represents an indirect payment of costs of issuance, including rating agency fees, other than fees paid by Financial Security to maintain its ratings, which, together with all other overhead expenses of Financial Security, are taken into account in the formulation of its rate structure, or for the provision of additional services by us, nor the direct or indirect payment for a cost, risk or other element that is not customarily borne by insurers of tax-exempt bonds (in transactions in which the guarantor has no involvement other than as a guarantor),

(vi) Financial Security is not providing any services in connection with the Bonds other than providing the Policy, and except for the Premium, Financial Security will not use any portion of the Bond proceeds,

(vii) except for payments under the Policy in the case of Nonpayment by the Issuer, there is no obligation to pay any amount of principal or interest on the Bonds by Financial Security,

(viii) Financial Security does not expect that a claim will be made on the Policy,

(ix) the Issuer is not entitled to a refund of the premium for the Policy in the event a Bond is retired before the final maturity date, and

(x) for Bonds which are secured by a debt service reserve, Financial Security would not have issued the Policy unless the authorizing or security agreement for the Bonds provided for a debt service reserve account or fund funded and maintained in an amount at least equal to, as of any particular date of computation, the reserve requirement as set forth in such agreement.

Financial Security makes no representation as to the nature of the interest to be paid on the Bonds or the treatment of the Policy under Section 1.148-4(f) of the Income Tax Regulations.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

Dated: May 11, 2004

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

CERTIFICATE AS TO SATISFACTION OF REQUIREMENTS FOR ISSUANCE OF PARITY BONDS

The undersigned Director of Finance and Wastewater Management Director of Pima County, Arizona, acting for and on behalf of the County, do hereby certify as follows with respect to the issuance of the above-referenced Bonds as Parity Bonds within the meaning of Resolution No. 1991-138, adopted on June 18, 1991, as amended by Resolution No. 1991-182, adopted on August 6, 1991, as supplemented, including as supplemented by Resolution No. 2004-58, adopted on March 9, 2004 (collectively, the "Bond Resolution"). Capitalized terms used herein which are not otherwise defined herein shall have the meaning set forth in the Bond Resolution.

1. The Net Revenues of the County sewer system for the most recently completed Fiscal Year have been at least equal to one hundred twenty percent (120%) of Maximum Annual Debt Service on all Bonds to be Outstanding immediately after the issuance of the above-referenced Bonds, and no Policy Costs are due and owing as of this date.

2. As of this date, all payments and deposits required to be made by the Bond Resolution are current.

3. The proceeds of the above-referenced Bonds shall be used solely to make extensions, renewals, improvements, or replacements to the System or to refund bonds previously issued pursuant to the Bond Resolution.

4. Upon the issuance of the above-referenced Bonds, the Reserve Fund Value will be at least equal to the amount of the Reserve Requirement.

[Remainder of page left blank intentionally]

DATED: May 11, 2004.

PIMA COUNTY, ARIZONA

By: _____
Carol Bonchalk
Director of Finance

By: _____
Kathleen M. Chavez, P.E.
Wastewater Management Director

DATED: May 11, 2004.

PIMA COUNTY, ARIZONA

By: _____
Carol Bonchalk
Director of Finance

By: _____
Kathleen M. Chavez, P.E.
Wastewater Management Director

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

COUNTY TREASURER'S RECEIPT FOR BOND PROCEEDS

I, Beth Ford, hereby certify that I am the duly elected and acting Treasurer of Pima County, Arizona (the "County"), and that in connection with the sale and delivery of $25,770,000 in aggregate principal amount of Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), issued by the County pursuant to Resolution No. 1991-138 adopted by the Board of Supervisors of the County on June 18, 1991, as amended by Resolution No. 1991-183 adopted by the Board of Supervisors of the County on August 6, 1991, and as supplemented by Resolution No. 2004-58, passed, adopted and approved by the Board of Supervisors of the County on March 9, 2004 (collectively, the "Resolution"), authorizing and providing for the issuance and ordering the sale of the Bonds, the County has received from RBC Dain Rauscher Inc. (the "Underwriter") the sum of $30,092.88, representing a portion of the total purchase price of the Bonds, as follows:

(a) $25,770,000.00, representing the principal amount of the Bonds;

plus (b) $30,092.88, representing accrued interest on the Bonds;

plus (c) $999,868.70, representing $1,257,568.70 net premium paid on the Bonds, less an Underwriter's discount of $257,700.00;

less (d) $81,768.60, representing the amount wire transferred by the Underwriter, on behalf of the County, to Financial Security Assurance Inc., to pay a bond insurance premium of $81,768.60 in connection with the Bonds; and

less (e) $26,688,100.10, representing the amount deposited with J.P. Morgan Trust Company, National Association, as Depository Trustee under the Depository Trust Agreement, dated as of May 1, 2004, between the County and such Depository Trustee, as directed in the Resolution.

I do further certify that the proceeds from the sale of the Bonds received by the undersigned, representing accrued interest on the Bonds, have been deposited in the Bond Fund established pursuant to the Resolution.

Dated: May 11, 2004

PIMA COUNTY, ARIZONA

By: _____
Beth Ford
County Treasurer

298729

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

DEPOSITORY TRUSTEE'S RECEIPT FOR FUNDS AND SECURITIES

J.P. Morgan Trust Company, National Association, as depository trustee (the "Depository Trustee"), pursuant to that certain Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between Pima County, Arizona and the Depository Trustee, hereby certifies that the Depository Trustee has received moneys identified as a portion of the proceeds from the sale of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), in the amount of $26,688,100.10, and has applied such moneys, as directed in the Depository Trust Agreement, (a) $84,775.32 to pay the costs of issuance of the Bonds, (b) establish a beginning cash balance of $0.78 and (c) to purchase the Acquired Obligations (as defined in the Depository Trust Agreement), the receipt of which is hereby acknowledged.

Dated: May 11, 2004.

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

By: _____
Its: Vice President

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

PAYING AGENT'S RECEIPT FOR INSURANCE POLICY

J.P. Morgan Trust Company, National Association (the "Bank"), in its capacity as paying agent pursuant to that certain Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of May 1, 2004, between the Bank and Pima County, Arizona (the "County"), in connection with the County's issuance and sale of $25,770,000 in aggregate principal amount of its Sewer Revenue Refunding Bonds, Series 2004, hereby acknowledges receipt of Municipal Bond Insurance Policy No. 202892-N issued by Financial Security Assurance Inc.

Dated: May 11, 2004

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

By: _____

Its: Vice President

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

UNDERWRITER'S RECEIPT FOR BONDS

Receipt of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"), in the aggregate principal amount of $25,770,000 is hereby acknowledged as of the date hereof on behalf of the undersigned, RBC Dain Rauscher Inc., as underwriter of the Bonds.

The Bonds are dated May 1, 2004, are in denominations of $5,000 or integral multiples thereof, mature on July 1, in the years 2005 through 2015, and bear interest at the rate per annum from the date of the Bonds to the maturity of each Bond as follows:

Year	Par Amount	Coupon
2005	$1,425,000	2.000%
2006	1,455,000	2.250%
2007	2,335,000	2.625%
2008	2,410,000	3.250%
2009	2,485,000	5.000%
2010	1,575,000	3.500%
2011	1,630,000	5.375%
2012	2,050,000	5.500%
2013	2,975,000	5.000%
2014	3,430,000	5.000%
2015	2,000,000	4.125%
2015	2,000,000	5.000%

[Remainder of page left blank intentionally]

Dated: May 11, 2004

RBC DAIN RAUSCHER INC.

By: Kent M. Treul

Managing Director and Manager

Snell & Wilmer
L.L.P.
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PHOENIX, ARIZONA
IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO
LAS VEGAS, NEVADA

May 11, 2004

Board of Supervisors
Pima County, Arizona

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale, and the initial delivery on the date hereof by Pima County, Arizona (the "County"), of $25,770,000 in aggregate principal amount of its Sewer Revenue Refunding Bonds, Series 2004, dated May 1, 2004 (the "Series 2004 Bonds"), issued pursuant to Title 11, Chapter 2, Article 4, Arizona Revised Statutes (the "Act"), and all amendments thereto.

In connection with our engagement as bond counsel, we have examined the law and such documents and matters as we have deemed necessary to render the opinions expressed herein, including, without limitation, the resolution authorizing the issuance of the Series 2004 Bonds (the "Resolution"), passed and adopted by the Pima County Board of Supervisors of the County on March 9, 2004. As to questions of fact material to our opinions, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, it is our opinion, and we herewith advise you, as follows:

1. The County is duly created and validly existing as a political subdivision of the State of Arizona with power to pass and adopt the Resolution, perform the agreements on its part contained therein and issue the Series 2004 Bonds.

2. The Resolution has been duly passed and adopted by the Board of Supervisors of the County and is valid and binding upon and enforceable against the County.

3. The Series 2004 Bonds have been duly authorized and delivered by the County and are valid and binding limited obligations of the County payable, as to both principal and interest, from the revenues derived by the County from the operation of its sewer system, after provision has been made for the expenses of operation and maintenance of the sewer system, subject to no prior lien granted under the Act. The Series 2004 Bonds are issued on a parity with the County's Sewer Revenue Bonds, Series 1993; Sewer Revenue Bonds, Series 1994B; Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001; and those certain Loan Agreements between the County as Borrower and the Water

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Infrastructure Finance Authority of Arizona dated February 1, 1996, June 1, 1997, October 27, 2000, and December 28, 2001, respectively. Neither the general credit nor any property of the County other than as provided in the Resolution has been pledged or committed to the payment of the Series 2004 Bonds. The Series 2004 Bonds are not secured by an obligation or pledge of any taxing power or monies raised thereby and are not a debt of and do not constitute a pledge of the faith and credit of the County.

4. Interest on the Series 2004 Bonds (a) is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax; and (b) is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. No opinion is expressed regarding any other federal or State of Arizona income tax consequences arising with respect to ownership of the Series 2004 Bonds. The opinion set forth in clause (a) above is subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2004 Bonds in order for the interest thereon not to be included in gross income of the owners for federal income tax purposes. Failure by the County to comply with certain of these requirements could result in the interest on the Series 2004 Bonds being included in gross income for federal income tax purposes retroactive to the date of issuance. The County has covenanted and agreed to comply with all such requirements and our opinion assumes such compliance.

The rights of the owners of the Series 2004 Bonds and the enforceability thereof may be subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws and equitable principles generally affecting the enforcement of creditors' rights.

The opinions expressed in this letter are based upon the law in effect on the date hereof and may be affected by actions taken or omitted or events occurring after the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or otherwise, or to determine or to inform any person whether any such actions are taken or omitted or any such events occur.

Respectfully submitted,

SNELL & WILMER L.L.P.

Snell & Wilmer L.L.P.

Snell & Wilmer
L.L.P.
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IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO
LAS VEGAS, NEVADA

May 11, 2004

RBC Dain Rauscher Inc.
Phoenix, Arizona

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale of by Pima County, Arizona (the "County") of its $25,770,000 Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 2004-58, adopted by the Board of Supervisors of the County on March 9, 2004, supplementing Resolution No. 1991-138, adopted on June 18, 1991, as amended on August 6, 1991 (collectively, the "Bond Resolution") for the purpose of refunding in advance of their maturity or redemption dates certain of the County's Sewer Revenue Refunding Bonds, Series 1994A (the "Bonds to be Refunded") by depositing certain moneys and investments into the trust created pursuant to the Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between the County and J.P. Morgan Trust Company, National Association, as trustee (the "Depository Trustee"). We have delivered to you our approving opinion of even date herewith relating to the Bonds (the "Approving Opinion"). In connection with the issuance and sale of the Bonds, the County caused the preparation of an Official Statement, dated May 4, 2004 (the "Official Statement") and executed and delivered a Continuing Disclosure Undertaking, of even date herewith (the "Continuing Disclosure Undertaking").

The Bonds are being sold pursuant to a Bond Purchase Agreement, dated May 4, 2004 (the "Bond Purchase Agreement" and, together with the Depository Trust Agreement and the Continuing Disclosure Undertaking, the "County Documents"), between the County and RBC Dain Rauscher Inc., as underwriter (the "Underwriter"). All defined terms used herein shall have the same meaning assigned in the Bond Purchase Agreement.

In connection with the legal services provided to date as part of our engagement as bond counsel, we have examined the law and such documents and matters as we have deemed necessary to render this opinion, including, without limitation, the Bond Resolution. We have assumed (i) the genuineness of all signatures, (ii) the authenticity of all documents submitted to us as certified, conformed or photostatic copies, and (iii) the legal capacity of all natural persons executing the documents. As to questions of fact material to our opinions, we have relied upon the documents, certificates and representations furnished to us without undertaking to verify the same by independent investigation.

We hereby supplement the Approving Opinion and further advise you as follows:

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1. The County is a political subdivision of the State of Arizona with full legal right and authority (a) to execute and deliver the County Documents, (b) to sell, issue and deliver the Bonds to the Underwriter, (c) to carry out the transactions contemplated by the County Documents, and (d) to operate the System.

2. By all necessary official action of the County Board of Supervisors, the County has duly authorized (a) the adoption of the Bond Resolution, (b) the issuance and sale of the Bonds, and (c) the approval, execution and delivery of, and the performance by the County of its obligations contained in, the Bonds and the County Documents.

3. The Bond Resolution has been duly and validly adopted by the County Board of Supervisors and is in full force and effect.

4. To the best of our knowledge, after such investigation as we have deemed appropriate, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board or agency or commission having jurisdiction of the matter which are required for the due authorization, execution and delivery of, or performance by the County of its obligations under, the Bonds or the County Documents have been obtained.

5. The County Documents have each been duly authorized, executed and delivered by, and constitute legal, valid and binding agreements of, the County, enforceable against the County in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights and except that the availability of equitable remedies is subject to the discretion of the court before which any proceedings may be brought and further subject to the qualification that the enforcement of the indemnification provisions of the Bond Purchase Agreement may be limited by federal or state securities laws.

6. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Bond Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

7. The information contained in the Official Statement on the cover page thereof, under the captions "THE 2004 BONDS (other than the information contained under the heading "Book-Entry-Only System" as to which we express no opinion)," "PLAN OF REFUNDING," "TAX EXEMPTION," "ORIGINAL ISSUE DISCOUNT," "BOND PREMIUM" and "CONTINUING SECONDARY MARKET DISCLOSURE" (except for information with respect to the compliance by the County with prior undertakings as to which we express no opinion) and "Appendix D-- Form of Bond Counsel Opinion," "Appendix G--Summary of Resolution No. 1991-138, As Amended and Supplemented" and "Appendix H – Form of Continuing Disclosure Undertaking" fairly and accurately summarizes the matters purported to be summarized therein.

8. Based upon our participation as Bond Counsel in the preparation of the Official Statement, and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement (other than those described in paragraph (7) above), as of the date hereof, nothing has come to our attention which would cause us to believe that the Official Statement as of its date contained, or as of the date hereof contains, any untrue statement of a material fact or omitted, or omits, to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except for the statements contained in the Official Statement and the Appendices thereto relating to the Bond Insurer and the Bond Insurance Policy, any discussions contained therein relating to permits, licenses and approvals required for the operation of the System or other facilities of the County and the status thereof, all engineering, financial and statistical data and forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, information about environmental matters and summaries thereof and references thereto, as to all of which we express no opinion).

9. The Underwriter may rely on the Approving Opinion as if the same were addressed to them.

This opinion letter is being furnished to you solely for your benefit and only with respect to the execution and delivery of the documents referred to herein. Accordingly, it may not be relied upon by or quoted to any other person or entity or for any other purpose without, in each instance, our prior written consent. This letter is not intended to and may not be relied upon by owners of the Bonds.

Respectfully submitted,

SNELL & WILMER L.L.P.

Snell & Wilmer L.L.P.

Snell & Wilmer
L.L.P.
LAW OFFICES

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TUCSON, ARIZONA
PHOENIX, ARIZONA
IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO
LAS VEGAS, NEVADA

May 11, 2004

Pima County, Arizona
Tucson, Arizona

Financial Security Assurance Inc.
San Francisco, California

RBC Dain Rauscher Inc.
Phoenix, Arizona

Re: Pima County, Arizona
Sewer Revenue Refunding Bonds, Series 2004;
Defeasance of Bonds to be Refunded

Ladies and Gentlemen:

We have served as bond counsel for Pima County, Arizona (the "County") in connection with the issuance of the above-referenced bonds (the "Bonds"). The Bonds are authorized, issued, sold and delivered pursuant to Resolution No. 2004-58, passed, adopted and approved by the Board of Supervisors of the County on March 9, 2004, supplementing Resolution No. 1991-138, adopted on June 18, 1991, as amended by the Board on August 6, 1991 (collectively, the "Bond Resolution"), for the purpose, among others, of refunding in advance of their maturity or redemption dates certain of the County's Sewer Revenue Refunding Bonds, Series 1994A (the "Bonds to be Refunded") by depositing certain moneys and investments into the trust created pursuant to the Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between the County and J.P. Morgan Trust Company, National Association, as trustee (the "Depository Trustee"). The Arbitrage Group, Inc. has issued its report (the "Verification Report") as to the sufficiency of the moneys and investments deposited to provide for payment of amounts to come due on the Bonds to be Refunded.

In our capacity as bond counsel, and for purposes of this opinion letter, we have examined such matters of law and fact as we have deemed necessary or appropriate, and have examined the Bond Resolution, an executed counterpart of the Depository Trust Agreement and the Verification Report.

Based upon the foregoing, and based upon the assumptions and subject to the qualifications and limitations set forth below, we are of the opinion and hereby advise you that upon the deposit of moneys and investments described in the Depository Trust Agreement and the Verification Report with the Depository Trustee in accordance with the provisions of the Depository Trust Agreement, the Bonds to be Refunded will no longer be deemed to be

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Outstanding within the meaning of the Bond Resolution and will be entitled to payment only from the moneys and investments deposited with the Depository Trustee.

We are qualified to practice law in the State of Arizona, and we do not purport to be experts on, or to express any opinion concerning, any law other than the law of the State of Arizona and the United States of America.

The opinions expressed in this letter are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion or to notify you or any other person or entity should such law be changed by legislative action, judicial decision, or otherwise.

This opinion letter is rendered solely to you and solely in connection with the delivery of the Bonds. It may not be relied upon by any other person or entity for any purpose whatsoever without, in each instance, our prior written consent.

Respectfully submitted,

SNELL & WILMER L.L.P.

Snell & Wilmer L.L.P

OFFICE OF THE
Pima County Attorney
Civil Division
32 N. STONE
SUITE 2100
Tucson, Arizona 85701-1412
(520) 740-5750
FAX (520) 620-6556

Barbara LaWall
PIMA COUNTY ATTORNEY

May 11, 2004

Financial Security Assurance Inc.
San Francisco, California

RBC Dain Rauscher Inc.
Phoenix, Arizona

Snell & Wilmer L.L.P.
Tucson, Arizona

Ladies and Gentlemen:

This opinion is rendered in connection with the issuance and sale of by Pima County, Arizona (the "County") of its $25,770,000 Sewer Revenue Refunding Bonds, Series 2004 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 2004-58, adopted by the Board of Supervisors of the County on March 9, 2004, supplementing Resolution No. 1991-138, adopted on June 18, 1991, as amended on August 6, 1991 (collectively, the "Bond Resolution") for the purpose of refunding in advance of their maturity or redemption dates certain of the County's Sewer Revenue Refunding Bonds, Series 1994A (the "Bonds to be Refunded") by depositing certain moneys and investments into the trust created pursuant to the Depository Trust Agreement, dated as of May 1, 2004 (the "Depository Trust Agreement"), between the County and J.P. Morgan Trust Company, N.A., as trustee (the "Depository Trustee"). In connection with the issuance and sale of the Bonds, the County caused the preparation of an Official Statement, dated May 4, 2004 (the "Official Statement") and executed and delivered a Continuing Disclosure Undertaking, of even date herewith (the "Continuing Disclosure Undertaking").

The Bonds are being sold pursuant to a Bond Purchase Agreement, dated May 4, 2004 (the "Bond Purchase Agreement" and, together with the Depository Trust Agreement and the Continuing Disclosure Undertaking, the "County Documents"), between the County and RBC Dain Rauscher Inc., as underwriter (the "Underwriter"). All defined terms used herein shall have the same meaning assigned in the Bond Purchase Agreement.

We have examined the documents relating to the execution and delivery of the County Documents and such other documents as we considered necessary to our opinion.

As to questions of fact material to our opinion we have relied upon and assumed due and continuing compliance with the provisions of the above-mentioned proceedings and other documents, and have relied upon certificates, covenants and representations furnished to us by the County without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, as of this date, which is the date of delivery of the Documents that, to the best of our knowledge:

1. The authorization, approval and execution of the County Documents, the adoption of the Bond Resolution and all other proceedings of the County relating to the authorization, approval and execution of the County Documents have been carried out in conformance with the applicable open meeting and other laws of the State of Arizona.

2. The authorization, execution and delivery of the County Documents and compliance with the provisions thereof under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the County a breach of or default under any agreement or other instrument to which the County is a party or of any existing law, administrative regulation, court order or consent decree to which the County is subject.

3. There are no lawsuits or administrative proceedings pending or, to the best of our knowledge, threatened, against the County (i) which in any way question (a) the validity and the proper authorization, approval and execution of the County Documents or the issuance or payment of the Bonds, (b) the authority of the County or its officials to enter into the County Documents or to issue and sell the Bonds or the ability of the County otherwise to perform its obligations under the County Documents and to carry out the transactions contemplated thereby or (ii) wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the County Documents or the financial condition of the County.

4. The statements in the Official Statement under the heading "Litigation" are true and correct in all material respects and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The foregoing opinion is qualified to the extent that the enforceability of the County Documents may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and enforcement of those rights may be subject to the exercise of judicial discretion in accordance with general principles

Very truly yours,

By: Katharina Richter

Katharina Richter, Chief Civil Deputy
Pima County Attorney's Office

GREENBERG
ATTORNEYS AT LAW
TRAURIG

May 11, 2004

RBC Dain Rauscher Inc.
Suite 700
2398 East Camelback Road,
Phoenix, Arizona 85016

Re: $25,770,000 Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004

We have acted as counsel for you in connection with the purchase by you of the captioned Bonds (the "Bonds"). As your counsel, we have examined the Official Statement, dated May 4, 2004 (the "Official Statement"), relating to the Bonds as well as the Sewer Resolution (as such term is defined in the Official Statement). In addition, we have examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and other documents.

Based on the examination described above, we are of the opinion that, under the law existing on the date of this opinion the Bonds are exempt securities under the federal Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "1939 Act"), and it is not necessary, in connection with the offering and sale of the Bonds, to register the Bonds under the 1933 Act or to qualify the Sewer Resolution under the 1939 Act. Based upon our participation in the preparation of the Official Statement as your counsel, our participation at conferences at which the Official Statement was discussed and the examination described hereinabove, but without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and except as otherwise indicated herein, we have no reason to believe that the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make

the statements therein, in light of the circumstances under which they were made, not misleading in any material respect (except for any financial, forecast, technical and statistical statements and data included in the Official Statement and the information on the cover page of, under the captions "THE SERIES 2004 BONDS," "PLAN OF REFUNDING," "MATHEMATICAL VERIFICATION," "BOND INSURANCE," "TAX EXEMPTION," "ORIGINAL ISSUE DISCOUNT," "BOND PREMIUM," "LITIGATION" and "CONTINUING SECONDARY MARKET DISCOUNT" in and in Appendices "A," "C," "D," "E," "F," "G," "H" and "I" to, the Official Statement, in each case as to which we express no view.

This opinion is furnished by us as your counsel in connection with the issuance and delivery of the Bonds and is intended solely for your benefit.

Respectfully submitted,

Greenberg Traurig, LLP

FSA

A Dexia Company

May 11, 2004

Municipal Bond Insurance Policy No. 202892-N With Respect to
$25,770,000 In Aggregate Principal Amount of
Pima County, Arizona
Sewer Revenue Refunding Bonds, Series 2004 dated May 1, 2004

Ladies and Gentlemen:

I am Associate General Counsel of Financial Security Assurance Inc., a New York stock insurance company ("Financial Security"). You have requested my opinion in such capacity as to the matters set forth below in connection with the issuance by Financial Security of its above-referenced policy (the "Policy"). In that regard, and for purposes of this opinion, I have examined such corporate records, documents and proceedings as I have deemed necessary and appropriate.

Based upon the foregoing, I am of the opinion that:

1. Financial Security is a stock insurance company duly organized and validly existing under the laws of the State of New York and authorized to transact financial guaranty insurance business therein.

2. The Policy has been duly authorized, executed and delivered by Financial Security.

3. The Policy constitutes the valid and binding obligation of Financial Security, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to bankruptcy, insolvency, reorganization, rehabilitation, moratorium and other similar laws affecting the enforceability of creditors' rights generally applicable in the event of the bankruptcy or insolvency of Financial Security and to the application of general principles of equity.

In addition, please be advised that I have reviewed the description of the Policy under the caption "BOND INSURANCE – Municipal Bond Insurance Policy" in the official statement relating to the above-referenced Bonds dated May 4, 2004 (the "Official Statement"). There has not come to my attention any information which would cause me to believe that the description of the Policy referred to above, as of the date of the Official Statement or as of the date of this opinion, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Please be advised that I express no opinion with respect to any information contained in, referred to or omitted from under the caption "BOND INSURANCE – Financial Security Assurance Inc."

I am a member of the Bar of the State of California, and do not express any opinion as to the law of any other state except for the matters expressly set forth in the foregoing opinion.

Very truly yours,

Barry A. Scott
Associate General Counsel

Pima County Finance Department,
130 West Congress, 7th Floor,
Tucson, Arizona 85701.

RBC Dain Rauscher Inc.,
2398 East Camelback Road, Suite 700,
Phoenix, Arizona 85016.

Form **8038-G** (Rev. November 2000) Department of the Treasury Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)

▶ See separate Instructions.

Caution: *If the issue price is under $100,000, use Form 8038-GC.*

OMB No. 1545-0720

Part I Reporting Authority

If Amended Return, check here ▶ ☐

1 Issuer's name: Pima County, Arizona		2 Issuer's employer identification number: 86 : 6000543	
3 Number and street (or P.O. box if mail is not delivered to street address): 130 West Congress	Room/suite: 5th Floor	4 Report number: 3 2004-S1	
5 City, town, or post office, state, and ZIP code: Tucson, Arizona 85701		6 Date of issue: 05/11/2004	
7 Name of issue: Sewer Revenue Refunding Bonds, Series 2004		8 CUSIP number: 721876 LR 9	
9 Name and title of officer or legal representative whom the IRS may call for more information: Carol Bonchalk, Director of Finance		10 Telephone number of officer or legal representative: (520) 740-8494	

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11	☐ Education	11	
12	☐ Health and hospital	12	
13	☐ Transportation	13	
14	☐ Public safety	14	
15	☑ Environment (including sewage bonds)	15	27,027,568.70
16	☐ Housing	16	
17	☐ Utilities	17	
18	☐ Other. Describe ▶	18	
19	If obligations are TANs or RANs, check box ▶ ☐ If obligations are BANs, check box ▶ ☐		
20	If obligations are in the form of a lease or installment sale, check box ▶ ☐		

RECEIVED MAY 21 2004 214 IRS-OSC OGDEN, UT

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	07/01/2015	$ 27,027,568.70	$ 25,770,00.00	7.006 years	3.8061991 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22	30,092.88
23	Issue price of entire issue (enter amount from line 21, column (b))			23	27,027,568.70
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	342,475.32		
25	Proceeds used for credit enhancement	25	81,768.60		
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0		
27	Proceeds used to currently refund prior issues	27	26,603,324.78		
28	Proceeds used to advance refund prior issues	28	0		
29	Total (add lines 24 through 28)			29	27,027,568.70
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	0

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31	Enter the remaining weighted average maturity of the bonds to be currently refunded ▶	6.481 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded ▶	years
33	Enter the last date on which the refunded bonds will be called ▶	07/01/2004
34	Enter the date(s) the refunded bonds were issued ▶	02/09/1994

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	0
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a	0
b	Enter the final maturity date of the guaranteed investment contract ▶		
37	Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a	N/A

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ ☐ and enter the name of the issuer ▶ _____ and the date of the issue ▶ _____

38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ▶ ☐

39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ▶ ☐

40 If the issuer has identified a hedge, check box ▶ ☐

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Carol Bonchalk 5/11/04

▶ Signature of issuer's authorized representative — Date ▶ Carol Bonchalk, Director of Finance — Type or print name and title

For Paperwork Reduction Act Notice, see page 2 of the Instructions.

Cat. No. 63773S Form **8038-G** (Rev. 11-2000)

Snell & Wilmer
L.L.P.
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TUCSON, ARIZONA
PHOENIX, ARIZONA
IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO
LAS VEGAS, NEVADA

May 14, 2004

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Internal Revenue Service Center
Ogden, Utah 84201

Re: $25,770,000 Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004

Dear Sir or Madam:

On behalf of Pima County, Arizona, enclosed is the original and one copy of Form 8038-G, Information Return for Tax-Exempt Governmental Obligations, regarding the sale of the above-referenced bonds. I would appreciate it if you would please date stamp or otherwise mark the enclosed copy of the form as received and return it to me. A pre-addressed, postage-paid envelope is also enclosed for your convenience. Thank you.

Very truly yours,

SNELL & WILMER L.L.P.

Timothy E. Pickrell /jer

Timothy E. Pickrell

TEP/jer
enclosure

311530

Snell & Wilmer is a member of LEX MUNDI, a leading association of independent law firms.

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

INTERNAL REVENUE SERVICE
CENTER
OGDEN UT 84201

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) | B. Date of Delivery

C. Signature
X
☐ Agent
☐ Addressee

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number (Copy from service label)
7000 1670 0001 8422 9463

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

Postage	$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	$

Postmark Here

Sent To
INTERNAL REVENUE SERVICE
Street, Apt. No.; or PO Box No. CENTER
City, State, ZIP+4 OGDEN UT 84201

PS Form 3800, May 2000 See Reverse for Instructions

7000 1670 0001 8422 9463

CERTIFIED MAIL

To:

BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Internal Revenue Service Center
Ogden, Utah 84201

Form 8038-G Enclosed

(TEP) 23131.0483

Report of Bond and Security Issuance
Pursuant to A.R.S. § 35-501B

This information is due to the Department of Revenue within 60 days of the issue.

1. Jurisdiction: Pima County, Arizona	
2. Issue name/title: Sewer Revenue Refunding Bonds, Series 2004	
3. Dated Date: 5/1/04 Closing Date: 5/11/04	4. Par Amount: $25,770,000
5. Overall Interest rate (NIC): 3.7034485%	6. Type of Bond or Security: Sewer Revenue
7. Repayment sources: Sewer Revenue	
8. Total amount outstanding: $139,593,383	9. Total amount outstanding of senior or subordinate bonds: $ 139,593,383
10. Original issue price: Attach Schedule 1 a. Par Amount (Principal Amount) $25,770,000.00	11. Total limitations (Constitutional or Statutory) on the type of bonds/securities issued: N/A **For general obligation Bonds:**
b. Original issue Discount (-) 23,840.00	a. Secondary net assessed value: $
c. Premium Amount (+) 1,281,408.70	b. Debt limit percentage:
d. Original Issue Price (=) $27,027,568.70	c. Total debt limit: $
e. Underwriter Compensation (Discount) (-) 257,700.00	12. Available debt limit: $
f. Net Proceeds (=) 26,769,868.70	13. Total amount authorized:
14. Remaining authorized amount: $ 23,910,000	15. If voter authorized, Election dates: May 20, 1997

16 - 19 Please attached 1) a schedule providing a detailed listing of Issue Costs: 2) the Debt Service Schedule; 3) Form 8038, and 4) the Final Official Statement. Please refer to instructions on back of form.

Signature

May 11, 2004
Date

Title, address and phone number

Carol Bonchalk
Director of Finance
130 West Congress Street, 7th Floor
Tucson, Arizona 85701`
(520) 740-8494

Trustee name, address and phone number

Political Subdivision Contact name, address, phone number
Carol Bonchalk
Director of Finance
130 West Congress Street, 7th Floor
Tucson, Arizona 85701
(520) 740-8494

Submit this form with attachments within 60 days of issuance to:
Arizona Department of Revenue
Attention: Econometrics Section
1600 W. Monroe
Phoenix, Arizona 85007

310463

Arizona Department of Revenue
Report of Bond and Security Issuance
Schedule 1

For each maturity date, list the Original Issue Discount or the Premium Amount. The total of these figures should equal the amounts listed on 10b and 10c on the form. In all cases, 10a - 10b + 10e = 10f.

Name of Issue: Pima County, Arizona Sewer Revenue Refunding Bonds, Series 2004

Par Amount: $25,770,000 Date Closed: May 11, 2004

Maturity Date (July 1)	Par Amount (Principal Amount) 10a	Coupon Rate	Yield	Original Issue Price	Premium or Discount 10b or 10c
2005	$1,425,000.00	2.000%	1.480%	$1,433,322.00	$8,322.00
2006	1,455,000.00	2.250%	1.940%	1,464,384.75	9,384.75
2007	2,335,000.00	2.625%	2.420%	2,349,336.90	14,336.90
2008	2,410,000.00	3.250%	2.810%	2,451,090.50	41,090.50
2009	2,485,000.00	5.000%	3.150%	2,701,443.50	216,443.50
2010	1,575,000.00	3.500%	3.420%	1,581,867.00	6,867.00
2011	1,630,000.00	5.375%	3.650%	1,805,225.00	175,225.00
2012	2,050,000.00	5.500%	3.870%	2,281,281.00	231,281.00
2013	2,975,000.00	5.000%	4.030%	3,193,632.75	218,632.75
2014	3,430,000.00	5.000%	4.150%	3,669,105.30	239,105.30
2015	2,000,000.00	4.125%	4.260%	1,976,160.00	(23,840.00)
2015	2,000,000.00	5.000%	4.260%	2,120,720.00	120,720.00
TOTAL				$27,027,568.70	$1,257,568.70
10e Underwriter's Compensation and/or Placement Agent Fee, if any				$257,700.00	
10f Net Proceeds (as shown on issuance form)				$26,769,868.70	

16. Costs of Issuance

Service	Cost
Bond Counsel	$27,500.00
Registrar/Paying Agent	2,500.00
Disclosure Counsel	20,000.00
Moody's	10,250.00
Standard & Poor's	12,000.00
OS Printing	7,500.00
Verification Agent	2,500.00
Miscellaneous	2,525.32
TOTAL	$84,775.23

17. Debt Service Schedule – See attached Exhibit A

18. Form 8038G – See attached copy

19. Official Statement – See attached copy

EXHIBIT A

Final

$25,770,000.00

Pima County, Arizona

Sewer Revenue Refunding Bonds

Series 2004

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
07/01/2004	-	-	180,557.29	180,557.29
07/01/2005	1,425,000.00	2.000%	1,083,343.76	2,508,343.76
07/01/2006	1,455,000.00	2.250%	1,054,843.76	2,509,843.76
07/01/2007	2,335,000.00	2.625%	1,022,106.26	3,357,106.26
07/01/2008	2,410,000.00	3.250%	960,812.50	3,370,812.50
07/01/2009	2,485,000.00	5.000%	882,487.50	3,367,487.50
07/01/2010	1,575,000.00	3.500%	758,237.50	2,333,237.50
07/01/2011	1,630,000.00	5.375%	703,112.50	2,333,112.50
07/01/2012	2,050,000.00	5.500%	615,500.00	2,665,500.00
07/01/2013	2,975,000.00	5.000%	502,750.00	3,477,750.00
07/01/2014	3,430,000.00	5.000%	354,000.00	3,784,000.00
07/01/2015	4,000,000.00	4.563%	182,500.00	4,182,500.00
Total	**$25,770,000.00**	-	**$8,300,251.07**	**$34,070,251.07**

Yield Statistics

Accrued Interest from 05/01/2004 to 05/11/2004	30,092.88
Bond Year Dollars	$180,035.00
Average Life	6.986 Years
Average Coupon	4.6103541%
Net Interest Cost (NIC)	4.0549795%
True Interest Cost (TIC)	3.9280283%
Bond Yield for Arbitrage Purposes	3.8061991%
All Inclusive Cost (AIC)	4.0348026%

IRS Form 8038

Net Interest Cost	3.7034485%
Weighted Average Maturity	7.006 Years

EXHIBIT A

OFFICIAL STATEMENT

NEW ISSUE - BOOK ENTRY ONLY **RATINGS: (See "Ratings" herein)**

In the opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, Bond Counsel, under existing laws and assuming compliance with certain covenants by the County as described under "TAX EXEMPTION" herein, interest on the Series 2004 Bonds is not included in the gross income of the owners of the Series 2004 Bonds for federal income tax purposes and is not an item of preference to be included in the alternative minimum tax of individuals or corporations. Interest on the Series 2004 Bonds is not included in the taxable income of the owners of the Series 2004 Bonds for State of Arizona income tax purposes. See "TAX EXEMPTION" "ORIGINAL ISSUE DISCOUNT" and "BOND PREMIUM" herein.

$25,770,000
PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BONDS
SERIES 2004

Dated: May 1, 2004 **Due: July 1, as shown on next page**

The Sewer Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds") are being issued by Pima County, Arizona (the "County") in accordance with applicable State law. The Series 2004 Bonds are issued in the form of fully-registered bonds in denominations of $5,000 and integral multiples thereof. Interest on the Series 2004 Bonds is payable semiannually on July 1 and January 1 (each an "Interest Payment Date"). The first interest payment on the Series 2004 Bonds will be July 1, 2004. Interest will be paid on each Interest Payment Date by check mailed by the paying agent to each registered owner of the Series 2004 Bonds at the address shown on the registration books (the "Bond Register") at the close of business on the fifteenth day of the month preceding each Interest Payment Date or if such day is a Saturday, Sunday or holiday on the next preceding business day; or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States, to any registered owner owning an aggregate principal amount of Series 2004 Bonds of at least $1,000,000. Principal of and any premium on the Series 2004 Bonds will be payable at the designated corporate trust office of J.P. Morgan Trust Company, National Association, or successor, as registrar and paying agent.

The Series 2004 Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2004 Bonds. Purchases of beneficial interests in such Series 2004 Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership of interest in the Series 2004 Bonds purchased by them. So long as the Series 2004 Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 2004 Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2004 BONDS – Book-Entry-Only System" herein.

The Series 2004 Bonds are subject to redemption prior to their stated maturities, as described herein.

The Series 2004 Bonds are being issued for the purpose of providing funds to (i) refund in advance of maturity certain maturities of outstanding sewer revenue bonds of the County, and (ii) pay costs relating to the issuance of the Series 2004 Bonds.

Principal of, premium, if any, and interest on the Series 2004 Bonds are payable solely from and secured by a pledge of the Net Revenues of the System on parity of lien with certain outstanding sewer revenue debt and additional parity debt that may be issued in the future under the herein-described Sewer Bond Resolution. THE SERIES 2004 BONDS ARE NOT GENERAL OBLIGATIONS OF THE COUNTY OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE COUNTY. THE COUNTY IS NOT LIABLE FOR THE PAYMENT OF THE SERIES 2004 BONDS FROM ANY SOURCES OF FUNDS EXCEPT THE SOURCES AND FUNDS DESCRIBED HEREIN. See "THE SERIES 2004 BONDS - Security and Source of Payment" herein.

The scheduled payment of principal of and interest on the Series 2004 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2004 Bonds by FINANCIAL SECURITY ASSURANCE INC.

This cover page contains only a brief description of the Series 2004 Bonds and the security therefor. It is not intended to be a summary of material information with respect to the Series 2004 Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2004 Bonds are offered when, as and if issued by the County and received by the Underwriter, subject to the approving opinion of Snell & Wilmer L.L.P., Bond Counsel, Tucson, Arizona, as to validity and tax exemption. Certain matters will be passed upon for the Underwriter by its counsel, Greenberg Traurig, LLP, Phoenix, Arizona. It is expected that the Series 2004 Bonds will be available for delivery through the facilities of DTC, on or about May 11, 2004.

RBC DAIN RAUSCHER

May 4, 2004

Form **8038-G**
(Rev. November 2000)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)
▶ See separate Instructions.
Caution: *If the issue price is under $100,000, use Form 8038-GC.*

OMB No. 1545-0720

Part I Reporting Authority — If Amended Return, check here ▶ ☐

1	Issuer's name **Pima County, Arizona**	2	Issuer's employer identification number **86 : 6000543**
3	Number and street (or P.O. box if mail is not delivered to street address) **130 West Congress**	Room/suite **5th Floor**	4 Report number **3 2004-S1**
5	City, town, or post office, state, and ZIP code **Tucson, Arizona 85701**	6	Date of issue **05/11/2004**
7	Name of issue **Sewer Revenue Refunding Bonds, Series 2004**	8	CUSIP number **721876 LR 9**
9	Name and title of officer or legal representative whom the IRS may call for more information **Carol Bonchalk, Director of Finance**	10	Telephone number of officer or legal representative **(520) 740-8494**

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11	☐ Education	11	
12	☐ Health and hospital	12	
13	☐ Transportation	13	
14	☐ Public safety	14	
15	☑ Environment (including sewage bonds)	15	27,027,568.70
16	☐ Housing	16	
17	☐ Utilities	17	
18	☐ Other. Describe ▶	18	
19	If obligations are TANs or RANs, check box ▶ ☐ If obligations are BANs, check box ▶ ☐		
20	If obligations are in the form of a lease or installment sale, check box ▶ ☐		

RECEIVED
214 MAY 21 2004 IRS-OSC
OGDEN, UT

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	07/01/2015	$ 27,027,568.70	$ 25,770,00.00	7.006 years	3.8061991 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22	30,092.88
23	Issue price of entire issue (enter amount from line 21, column (b))			23	27,027,568.70
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	342,475.32		
25	Proceeds used for credit enhancement	25	81,768.60		
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0		
27	Proceeds used to currently refund prior issues	27	26,603,324.78		
28	Proceeds used to advance refund prior issues	28	0		
29	Total (add lines 24 through 28)			29	27,027,568.70
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	0

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31	Enter the remaining weighted average maturity of the bonds to be currently refunded ▶	6.481 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded ▶	years
33	Enter the last date on which the refunded bonds will be called ▶	07/01/2004
34	Enter the date(s) the refunded bonds were issued ▶	02/09/1994

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	0
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a	0
b	Enter the final maturity date of the guaranteed investment contract ▶		
37	Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a	N/A

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ ☐ and enter the name of the issuer ▶ _____ and the date of the issue ▶ _____

38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ▶ ☐
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ▶ ☐
40 If the issuer has identified a hedge, check box ▶ ☐

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Carol Bonchalk 5/11/04
▶ Signature of issuer's authorized representative — Date

▶ Carol Bonchalk, Director of Finance
Type or print name and title

For Paperwork Reduction Act Notice, see page 2 of the Instructions.

Cat. No. 63773S Form **8038-G** (Rev. 11-2000)

Snell & Wilmer
L.L.P.
LAW OFFICES

One South Church Avenue
Suite 1500
Tucson, Arizona 85701-1630
(520) 882-1200
Fax: (520) 884-1294
www.swlaw.com
Timothy E. Pickrell
Partner
520-882-1264
tpickrell@swlaw.com

TUCSON, ARIZONA
PHOENIX, ARIZONA
IRVINE, CALIFORNIA
SALT LAKE CITY, UTAH
DENVER, COLORADO
LAS VEGAS, NEVADA

May 14, 2004

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Arizona Department of Revenue
Attention: Econometrics Section
1600 West Monroe
Phoenix, Arizona 85007

Re: $25,770,000 Pima County, Arizona Sewer Revenue Refunding Bonds
Series 2004

Dear Sir or Madam:

Enclosed is a completed Report of Bond and Security Issuance for the above described Bonds. Please call me if you have any questions.

Very truly yours,

SNELL & WILMER L.L.P.

Timothy E. Pickrell/jer

Timothy E. Pickrell

TEP/jer
enclosure

311526

Snell & Wilmer is a member of LEX MUNDI, a leading association of independent law firms.

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Arizona Depart. of Revenue
Attention: Econometrics Section
1600 West Monroe
Phoenix, Arizona 85007

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) | B. Date of Delivery

C. Signature
X ☐ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number (Copy from service label)
7000 1670 0001 8422 9456

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

CERTIFIED MAIL

7000 1670 0001 8422 9456

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

Postage	$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	$

Postmark Here

Sent To
Arizona Depart. of Revenue
Attention: Econometrics Section
Street, Apt. No.; 1600 West Monroe
City, State, ZIP+ Phoenix, Arizona 85007

PS Form 3800, M

Pima Sewer Rebate Coy

To:

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Arizona Department of Revenue
Attention: Econometrics Section
1600 West Monroe
Phoenix, Arizona 85007

(TEP) 23131.0483

FIRST • CLASS

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:			Denomination:
R-1			$1,425,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
2.000%	July 1, 2005	May 1, 2004	721876 LS 7

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION FOUR HUNDRED TWENTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County") for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number: R-2

Denomination: $1,455,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
2.250%	July 1, 2006	May 1, 2004	721876 LT 5

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION FOUR HUNDRED FIFTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number: R-3

Denomination: $2,335,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
2.625%	July 1, 2007	May 1, 2004	721876 LU 2

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION THREE HUNDRED THIRTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number: R-4

Denomination: $2,410,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
3.250%	July 1, 2008	May 1, 2004	721876 LV 0

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION FOUR HUNDRED TEN THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-5

Denomination:
$2,485,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2009	May 1, 2004	721876 LW 8

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION FOUR HUNDRED EIGHTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-6

Denomination:
$1,575,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
3.500%	July 1, 2010	May 1, 2004	721876 LX 6

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION FIVE HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number: R-7

Denomination: $1,630,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.375%	July 1, 2011	May 1, 2004	721876 LY 4

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION SIX HUNDRED THIRTY THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-8

Denomination:
$2,050,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.500%	July 1, 2012	May 1, 2004	721876 LZ 1

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION FIFTY THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-9

Denomination:
$2,975,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2013	May 1, 2004	721876 MA 5

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION NINE HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number: R-10

Denomination: $3,430,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2014	May 1, 2004	721876 MB 3

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION FOUR HUNDRED THIRTY THOUSAND AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-11

Denomination:
$2,000,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.125%	July 1, 2015	May 1, 2004	721876 MC 1

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE BOND REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PIMA COUNTY, ARIZONA
SEWER REVENUE REFUNDING BOND
SERIES 2004

Number:
R-12

Denomination:
$2,000,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2015	May 1, 2004	721876 LR 9

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION AND NO/100 DOLLARS

SPECIMEN

PIMA COUNTY, ARIZONA (the "County"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

Certain Bonds of the issue of which this Bond is one are subject to call for redemption prior to maturity in accordance with the terms set forth within this Bond.

Interest is payable on January 1 and July 1 of each year commencing July 1, 2004, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original issue date set forth above. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Principal, interest and any premium are payable in lawful money of the United States of America. Interest prior to maturity will be paid by check payable in such money drawn on the Paying Agent and payable to the order of and mailed by the Paying Agent to the registered owner at the address shown on the registration books maintained by the Bond Registrar at the close of business on the record date, or by wire transfer, as explained herein. The principal and any premium will be paid when due to the registered owner upon surrender of this Bond for payment at the designated office of the Paying Agent, which on the original issue date is the principal corporate trust office of J.P. Morgan Trust Company, National Association.

This Bond is one of an issue of $25,770,000 principal amount of Bonds of like date, tenor and effect except as to rate of interest, number and maturity date, issued pursuant to the Constitution and laws of the State of Arizona including particularly Title 11, Chapter 2, Article 4, Arizona Revised Statutes, as amended, and Resolutions No. 1991-138, 1991-182 and No. 2004-58 adopted by the Board of Supervisors of Pima County on June 18, 1991, August 6, 1991 and March 9, 2004, respectively (collectively, the "Bond Resolution"), for the purpose of refunding and redeeming certain outstanding Sewer Revenue Refunding Bonds, Series 1994A, and to paying the costs of issuance therefor and necessary premiums and commissions in connection therewith.

This Bond and the issue of which it is a part are payable as to both principal and interest solely from the net revenues to be derived by the County from the sewer system of the County. For a more complete statement of the provisions made to secure payment of the Bonds, the revenues from which and conditions under which this Bond is payable, statements of the terms under which the Bond Resolution may be modified, and the general covenants and provisions pursuant to which this Bond is issued, reference is made to the Bond Resolution.

This Bond and the interest hereon are enforceable exclusively from the revenues pledged thereto in the Bond Resolution and no owner hereof shall have the right to compel any exercise of the taxing power of the County to pay this Bond or the interest hereon. This Bond does not constitute an indebtedness or pledge of the general credit of the County within the meaning of any constitutional, charter or statutory provisions relating to the incurring of indebtedness.

SPECIMEN

Interest on the Bonds will be paid on each interest payment date by check mailed by the Paying Agent to each registered owner of the Bonds at the address shown on the registration book of the Bond Registrar on the record date (as described below), or by wire transfer to any securities depository or, upon two days prior written request delivered to the paying agent specifying a wire transfer address in the continental United States by any registered owner of at least $1,000,000 aggregate principal amount of Bonds.

The Bonds maturing on or before July 1, 2014 are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, 2015 are subject to call for redemption on and after July 1, 2014 at the election of the County, in whole or in part on any date, by the payment of a redemption price equal to the principal amount of each Bond called for redemption, without premium, plus accrued interest to the date fixed for redemption.

Notice of redemption of any Bond will be mailed to the registered holder of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the Bond Registrar not less than 30 days nor more than 60 days prior to the specified redemption date.

The Bond Registrar and Paying Agent is J.P. Morgan Trust Company, National Association. The Bond Registrar or Paying Agent may be changed without notice.

This Bond is transferable by the registered owner in person or by attorney duly authorized in writing at the designated office of the Bond Registrar upon surrender and cancellation of this Bond, but only in the manner and subject to the limitation and upon payment

of the charges provided in the Bond Resolution. Upon such transfer a new bond or bonds of the same aggregate principal amount, maturity and interest rate will be issued to the transferee in exchange. The Bond Registrar may require an owner, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Bond Resolution. The County has chosen the 15th day of the month preceding an interest payment date as the record date for this series of Bonds, unless such date is a Saturday, Sunday or holiday, in which case the record date will be deemed to be the previous business day. Should this Bond be submitted to the Bond Registrar for transfer during the period commencing after the close of business on the record date and continuing to and including the next subsequent interest payment date, ownership will be transferred in the normal manner but the interest payment will be made payable to and mailed to the registered owner as shown on the Bond Registrar's books at the close of business on the record date.

The Bond Registrar may but need not register the transfer of a Bond which has been selected for redemption and need not register the transfer of any Bond for a period of 15 days before a selection of Bonds to be redeemed. If the transfer of any Bond which has been called or selected for call for redemption in whole or in part is registered, any notice of redemption which has been given to the transferor will be binding upon the transferee and a copy of the notice of redemption will be delivered to the transferee along with the Bond or Bonds.

Bonds of this issue are issuable only in fully registered form in the denomination of $5,000 each or integral multiples of $5,000. This Bond may be exchanged at the designated office of the Bond Registrar for a like aggregate principal amount of Bonds of the same maturity in authorized denominations upon the terms set forth in the Bond Resolution.

The County, the Bond Registrar and the Paying Agent may treat the registered owner of this Bond as the absolute owner for the purpose of receiving principal, interest and any premium and for all other purposes and none of them shall be affected by any notice to the contrary.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and laws of the State of Arizona to exist, to occur and to be performed precedent to and in the issuance of this Bond exist, have occurred and have been performed and that the series of Bonds of which this is one, together with all other indebtedness of the County, is within every debt and other limit prescribed by the Constitution and laws of the State of Arizona.

The County has caused this Bond to be executed by the Chair of its Board of Supervisors and attested by its Clerk of the Board of Supervisors, which signatures may be facsimile signatures. This Bond is not valid or binding upon the County without the manually affixed signature of an authorized representative of the Bond Registrar.

PIMA COUNTY, ARIZONA

By: _____
Chair, Board of Supervisors

ATTEST:

By: _____
Clerk, Board of Supervisors

SPECIMEN

AUTHENTICATION CERTIFICATE

This Bond is one of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004, described in the Bond Resolution mentioned herein.

Date of Authentication: May 11, 2004

J.P. Morgan Trust Company, National Association, as Registrar

SPECIMEN

By: _____
Authorized Representative

STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to J.P. Morgan Trust Company, National Association, Phoenix, Arizona, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.

SPECIMEN

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common

TEN ENT -- as tenants by the entireties

JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT --

_____ Custodian _____

(Cust) (Minor)

Under Uniform Gifts to Minor Act

_____

(State)

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

_____

(Name and Address of Transferee)

_____

(Social Security or other Federal Tax Identification Number of Transferee)

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

SPECIMEN

Dated: _____

_____

Note: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within registered bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

_____

Note: Signature(s) must be guaranteed by an eligible guarantor institution pursuant to Securities and Exchange Commission Rule 17Ad-15 that is a participant in a signature guarantor program recognized by the Trustee.

Moody's Investors Service

99 Church Street
New York, New York 10007

May 10, 2004

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022

To Whom It May Concern:

Moody's Investors Service has assigned the rating of Aaa (Financial Security Assurance Inc. Insured - Policy No. **202892-N**) to the **$25,770,000.00 , Pima County, Arizona---Sewer Revenue Refunding Bonds, Series 2004** , dated May 11, 2004 which sold through negotiation on May 4, 2004. The rating is based upon an insurance policy provided by Financial Security Assurance Inc..

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Margaret Kessler at (212) 553-7884.

Sincerely yours,

Margaret Kessler

Margaret L. Kessler
Vice President/Senior Analyst

MK:SY

The McGraw-Hill Companies

STANDARD
&POOR'S

Vincent S. Orgo
Administrative Officer
55 Water Street, 38th Floor
New York, NY 10041-0003
tel 212 438-2074
vincent_orgo@standardandpoors.com

reference no.: 667205

Steven G. Zimmermann
Managing Director
One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5004
steve_zimmermann@standardandpoors.com

May 10, 2004

Financial Security Assurance Inc.
1550 Spear Tower
One Market
San Francisco, CA 94105
Attention: Ms. Sheelagh Flanagan, Managing Director

Re: ***$25,770,000 Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2004, dated: May 1, 2004, due: July 1, 2005-2015, (POLICY #202892-N)***

Dear Ms. Flanagan:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions,* have assigned a rating of "AAA". The rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing. Therefore, rating adjustments may result from changes in the financial position of your company or from alterations in the documents governing the issue.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

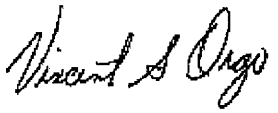
This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's must receive complete documentation relating to this issue no later than 90 days after the date of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Standard & Poor's is pleased to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.



By: Vincent S. Orgo
Administrative Officer

aw
enclosure

STANDARD
&POOR'S

Standard & Poor's Ratings Services
Terms and Conditions
Applicable To
U.S. Public Finance Ratings

Request for a rating. Standard & Poor's issues public finance ratings for a fee upon request from an issuer, or from an underwriter, financial advisor, investor, insurance company, or other entity, provided that the obligor and issuer (if different from the obligor) each has knowledge of the request. The term "issuer/obligor" in these Terms and Conditions means the issuer and the obligor if the obligor is different from the issuer.

Agreement to Accept Terms and Conditions. Standard & Poor's assigns Public Finance ratings subject to the terms and conditions stated herein and in the rating letter. The issuer/obligor's use of a Standard & Poor's public finance rating constitutes agreement to comply in all respects with the terms and conditions contained herein and in the rating letter and acknowledges the issuer/obligor's understanding of the scope and limitations of the Standard & Poor's rating as stated herein and in the rating letter.

Fees and expenses. In consideration of our analytic review and issuance of the rating, the issuer/obligor agrees to pay Standard & Poor's a rating fee. Payment of the fee is not conditioned on Standard & Poor's issuance of any particular rating. In most cases an annual surveillance fee will be charged for so long as we maintain the rating. The issuer/obligor will reimburse Standard & Poor's for reasonable travel and legal expenses if such expenses are not included in the fee. Should the rating not be issued, the issuer/obligor agrees to compensate Standard & Poor's based on the time, effort, and charges incurred through the date upon which it is determined that the rating will not be issued.

Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the issuer/obligor specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the issuer/obligor or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Issuer/obligor. The issuer/obligor shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The issuer/obligor also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the issuer/obligor or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of

information provided by the issuer/obligor or its agents. Standard & Poor's reserves the right to withdraw the rating if the issuer/obligor or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The issuer/obligor understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the issuer/obligor and that the issuer/obligor should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the issuer/obligor or between Standard & Poor's and recipients of the rating. The issuer/obligor understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The issuer/obligor agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the issuer/obligor or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the issuer/obligor or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The issuer/obligor acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Standard & Poor's Not an Advisor, Fiduciary, or Expert" and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

Final

$25,770,000.00

Pima County, Arizona

Sewer Revenue Refunding Bonds

Series 2004

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
07/01/2004	-	-	180,557.29	180,557.29
07/01/2005	1,425,000.00	2.000%	1,083,343.76	2,508,343.76
07/01/2006	1,455,000.00	2.250%	1,054,843.76	2,509,843.76
07/01/2007	2,335,000.00	2.625%	1,022,106.26	3,357,106.26
07/01/2008	2,410,000.00	3.250%	960,812.50	3,370,812.50
07/01/2009	2,485,000.00	5.000%	882,487.50	3,367,487.50
07/01/2010	1,575,000.00	3.500%	758,237.50	2,333,237.50
07/01/2011	1,630,000.00	5.375%	703,112.50	2,333,112.50
07/01/2012	2,050,000.00	5.500%	615,500.00	2,665,500.00
07/01/2013	2,975,000.00	5.000%	502,750.00	3,477,750.00
07/01/2014	3,430,000.00	5.000%	354,000.00	3,784,000.00
07/01/2015	4,000,000.00	4.563%	182,500.00	4,182,500.00
Total	**$25,770,000.00**	-	**$8,300,251.07**	**$34,070,251.07**

Yield Statistics

Accrued Interest from 05/01/2004 to 05/11/2004	30,092.88
Bond Year Dollars	$180,035.00
Average Life	6.986 Years
Average Coupon	4.6103541%
Net Interest Cost (NIC)	4.0549795%
True Interest Cost (TIC)	3.9280283%
Bond Yield for Arbitrage Purposes	3.8061991%
All Inclusive Cost (AIC)	4.0348026%

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Net Interest Cost	3.7034485%
Weighted Average Maturity	7.006 Years